

Pre Delinquency Arrears Management

Presentation by

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For CCR-i

Version 1.0

Introduction & Contents

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Co-operative Financial Services

- Established a pre-delinquency unit in 2007
- What made us do it
- How we did it, what we needed in place
- Explain the process
- Look at the benefits
- Tell you where we are going from here

Drivers & Enablers

- Theoretically thought possible to prevent arrears
- Part of a major investment programme to reduce bad debt
- Aimed at reducing the risk of an account entering collections, or the balance at risk should it enter collections
- Additional bureaux information was available
- We felt we had the analytic capability – ability to proactively identify customers who may be in financial difficulty
- Sits operationally within our arrears management function

Regulatory Fit

- TCF
 - If we have reason to believe a customer may be in difficulty, shouldn't we try to help?
- Lending Code
 - Subscribers should be sympathetic and positive when considering a customer's financial difficulties. The first step should be to try to contact the customer to discuss the matter.

Foundations

- Segmentation
- Process
- Tailored solutions
- Scripts / desired call outcomes
- Measures of success
- Agent KPI's, targets and incentives

Segmentation

- Segmentation based on customer level risk scores, driven by internal and external information
- External information includes adverse bureau such as CCJ's, defaults and indebtedness indicators
- Internal information includes spending patterns, previous early delinquency and high outstanding balances

Segmentation – Internal Behaviours

- Credit Card Customers
 - High or increased cash usage
 - Consecutive low payments
 - Decreasing payment amounts
 - Over limit, highly utilised or increasing balance
- Current Account Customers
 - In excess of limit in last 3 months
 - Highly utilised overdraft
 - Reducing credit turnover
 - Fewer days in credit than debit in the last 3 months
- We ensure consistency with marketing and customer management actions being taken on accounts

Process

- Automated outbound dialling campaign
 - Shift patterns
 - Training
- System to record outcomes
- Inclusion Rules
 - Customer agreed to take action
 - Customer complained about contact
 - Customer not interested

Tailored Solutions

- Consolidation Loan
- Direct Debit
- Temporary block of card
- Credit or overdraft limit reduction
- Gradually reducing limit
- Change payment date
- Increased regular payment

Scripts / Desired Call Outcomes

- Translating account behaviour into a conversation can be difficult.
 - The challenge of this type of call is getting the customer to open up to explore if there are any issues, and
 - Tailoring the solution to customer circumstance

Scripts / Desired Call Outcomes

- Examples

-I'm calling today about the credit card you hold with us. We are reviewing visa accounts based on recent activity. I can see there has been a high cash usage on your account in the last 6 months. Are you experiencing any financial difficulties that are causing you to need cash advances at present? Are you aware that you are charged every time you make a cash advance?

Or

-I can see you consistently just make the minimum payment to your card. Are you aware you can make additional payments to your account? Are you aware of your current APR? Increasing your payments would lower your interest and reduce the balance quicker. Is this an option for you?

Measures of Success

- Reduction in delinquency?
 - We currently have little evidence that less accounts are entering collections.
 - However there are so many other factors affecting this measure such as recession that it is difficult to judge.
- Reduction in balance and therefore balance at risk?
 - We have, however, seen a clear reduction in balances. Customers eligible for pre-delinquency contact show a greater reduction in balances over a 6 month period than those held in the control group.
- Accelerate bad debt?
 - We have seen no evidence at all that pre-delinquency activity causes customers to go bad faster.

Targets & KPI's

- Overall call handling time 7 minutes for a right party (although we don't target this)
- Right party contact rates are typically much higher than collections lists (less avoidance?)
- Positive outcomes are the focus of adviser KPI's and incentives
 - Initially 25-30% of right party contacts resulted in a positive outcome
 - Now around 75% of right party contacts result in a positive outcome

Customer Reaction

- Positive feedback
 - Most customers welcome the Bank's proactivity in taking an interest in their finances and what we can do to help
- Complaints
 - A small number of complaints are received, steady at 2% of contacts

Future Plans

- Customer rather than product level
- Extend range of solutions
- Pre-delinquency management system
- Other contact channels
- Referrals from branch network and customer service centre
- Extend to mortgage portfolio