As today’s collection environment becomes more complex, the need is arising for integrated solutions in order to improve collection and recovery rates. An integrated collections and recovery system must apply automation and predictive analytics to help address business challenges and add value to an organization—value that can be identified and measured at all phases of collections and recovery operations in terms of higher collections and recovery rates and direct increases in the organization’s bottom-line income.

The following five guidelines rely on the integration of collections and recovery systems, networked communications and analytics to improve collections and recovery results.
Integrated collections and recovery systems within an organization, coupled with systems that communicate with external vendors, provide a way to meet today’s more complex collections environment. With integrated solutions, you can see greater bottom-line results sooner because you can bring multiple strategies to bear on collections and recovery efforts.

An integrated solution must include three primary components:

- Integrated systems that automate and streamline workflows
- Analytics deployed within the solution to ensure that decisions are data driven, consistent and measurable
- A network around the system to improve communications and reporting both within the organization and with external vendors

Combining workflow, analytics and partner communications allows credit grantors to move beyond tactical activities to strategic initiatives. As accounts continue through the distressed debt lifecycle—from collections to recovery—an integrated solution can manage the strategy to apply the most effective actions and ensure the greatest results at the lowest cost.

You must also measure progress at each stage of collections and recovery. You must test new tactics and strategies as market conditions change to ensure that your strategies meet current business conditions and the present state of your portfolio.

The following are five key ways to integrate collections and recovery systems with one another, with networked communications and with analytics:

1. Automate workflows
2. Monitor resource performance
3. Integrate collection analytics
4. Improve agency management
5. Integrate recovery analytics

The first three are designed to improve collections, the fourth can be used in both collections and recovery, and the fifth is designed for recovery activities.

**1. Automate Workflows**

Workflow automation can provide the greatest improvement in collections productivity and efficiency. By increasing efficiency, collectors can handle more accounts; by focusing activity on the riskiest accounts and the accounts that are most collectible, automated workflows can reduce roll rates from one delinquency cycle to the next. Modest improvements in roll rates are easily achievable, and that improvement can positively affect charge off amounts significantly.

To perform optimally, automated workflow systems must:

- Maintain flexibility
- Track costs
- Prioritize workloads
- Drive online features and functions
- Create and maintain workflows easily
Maintain Flexibility
Workflow processes must allow for rapid changes in the collections environment. Changes due to acquisitions, expanding markets, new products and regulatory issues should be made quickly to maximize resources and remain in compliance. The current unemployment rates are a case in point. Worldwide, unemployment rates in several countries have reached levels not seen since the Great Depression. Workflow management must be flexible and agile enough to handle this type of situation in order to meet the needs of the organization and its customers.

Track Costs
It is important to track overall costs and benefits resulting from changes in workflow activity. Effective measures of process improvement need to include the level of productivity, increased money collected or decreased write-off benefits (benefits associated with either a change or the costs associated with the process changes). The automated workflow system must also be able to test alternate scenarios.

Workflow must:
- Track costs at the strategy or process level
- Track costs at the individual activity level
- Track costs for manual collector activities and automated activities

Assigning costs to every workflow activity an account passes through helps define specific activity costs and tests new process flows and workflows. This type of activity-based costing enables a collections organization to measure performance from a dollars-collected perspective as well as from a cost perspective.

Prioritize Workloads
Collection environments are constantly changing. Prioritization rules must be flexible enough to accommodate changes and allow an organization to use any data associated with an account, such as scores, other customer relationships, best time to contact or other information unique to the organization.

Workflow applications should also provide the ability to link multiple accounts together under a customer so workload prioritization can take place on a customer level. This helps an organization define its treatment strategy based on its business goals within the workflow application.

In addition to internal work queue functionality, workflow management must include the ability to prioritize contact channels, such as auto-dialer, email or SMS campaigns. Automated systems can also manage decisions regarding vendor and third-party placements, including agencies, attorneys and skip vendors, among others.

Drive Online Features and Functions
Data displayed to the user has traditionally been driven by the user’s job function. To improve this, tailor the workflow application to meet the individual user’s needs, including:

- Industry
- Product type
- User type
When used in conjunction with the user interface, workflow-driven screen data can provide end users (as appropriate for their organizational role) with the needed data for the specific customer, account, and its position within workflow.

In addition to developing a tailored, flexible screen data display, users may benefit from the functionality of workflow scripting. Workflow-driven scripts direct the user to the specific steps required to process the account according to the organization’s rules and compliance requirements. These scripts are based on a number of factors related to the account, such as:

- Customer data
- Account data
- Collateral data
- User profile
- Workflow position

The workflow management system must have the ability to tailor and control the parameters of the end result. End-user activities such as installment plans, promises and settlements should be based on the type of account, process point it is in, and the strategy of the operation.

Create and Maintain Workflows

Workflows must be easy to build and modify in order to react quickly to changes in the marketplace or economic environment. They must provide online, intuitive tools to allow for and provide a method to translate and explain these rapid changes to the broader organization; from the dialer collector to senior managers.

Workflow management systems place the ability to make these changes in the hands of the business user rather than an IT programmer. This provides users with the tools to rapidly adjust based on the changing needs of the organization.

2. Monitor Resource Performance

The key to improving collection and recovery results is to ensure all resources are used efficiently and effectively. In this context, resources include traditional internal collection associates, external vendors, as well as letters, SMS and dialers. In short, a resource is anything used within an organization to facilitate the collections of past due accounts. By monitoring these resources, organizations can collect more with less. It is important to track each activity carefully using:

- Productivity metrics
- Effectiveness metrics
- Cost metrics

This ensures that the most effective, cost-efficient actions are deployed. Any actions that don’t produce desired results are eliminated to reduce costs.

For example, a collection letter may generate money or trash. How can an organization decide when and how to use letters to produce optimal results? By testing resource performance. Set up a test under which one segment of customers gets the usual collection letter at five days past due and another set does not.
Tests at some companies have shown that not sending a letter at five days past due has no affect on collections results. Changing the collection process to eliminate the “five-days past due letter” can save you money without sacrificing the amount collected.

Once a change is put in place, it, too, must be tested. Automated workflow applications can help collectors test and implement strategies that increase performance and effectiveness while decreasing resource requirements and cost.

3. Use Collection Analytics

Use collection analytics to make sure you run the most efficient collections process with the resources you have. Increasingly, success in collections depends on the same fundamental principles as success in account management—delivering an accurate, timely and relevant offer to the consumer while maintaining the valued customer relationship and producing a profit for the lender.

Models can be used for the following objectives:

- Probability of event
- Dollars at risk
- Expected roll amount
- Expected collection amount

Collection analytics can then drive decisions and provide a means for segmenting accounts by risk. Once segmented, an organization can determine the actions and timing of collections activity. By using collection analytics to evaluate workflow activities, collectors can increase profit contribution by performing the activities that either produce more collection results with the same effort or the same collection results with less effort. Collections analytics also allow companies to make better decisions with regard to assigning accounts to third party agencies. Analytics help organizations determine at which point an account’s likelihood of payment is low enough that it makes more sense to send to an outside agency.
Five Ways to Improve Your Collections and Recovery Rates

Analytics can help determine whether collections Model 1 or Model 2 will produce the best results. Both models determine:

- The top 15% of accounts that should be left alone and not called (because they are likely to self-cure)
- The bottom 15% of accounts that should receive the most intensive effort (because they are the riskiest accounts, the ones most likely to get worse)

The dotted line shows performance if these decisions are made at random. If you select the top 15% of good accounts at random, half of them end up being bad accounts, and if you select the bottom 15% of riskiest accounts at random, half of them will pay.

By using analytics, you can create models that may tell you with more accuracy which accounts are good and which are bad. The example in the chart shows one cycle, where one of the most important tasks is to segment the risky accounts early. Model 1 picks up 56% of bad accounts on the bottom 15% of all accounts, and Model 2 picks 46% of the bad accounts on the bottom 15% of accounts, as shown in the highlighted area. That 10% difference means you are missing bad accounts and applying intense efforts on accounts that do not need that level of work, ultimately translating to charge off savings if you used Model 1.

Models can be built to measure any number of collection measures. Analytical models can predict with a high degree of accuracy whether the account is likely to pay, as above. Analytical models can also add how much a delinquent account is likely to pay over a given time period and how likely the account is to self-cure or roll. Based on those analytics, you can:

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FIGURE 1: THE GRAY AREA INDICATES THAT MODEL 1 SHOWS A 10% IMPROVEMENT IN IDENTIFYING BAD ACCOUNTS.
Five Ways to Improve Your Collections and Recovery Rates

- Identify self-cures and save collection expense and possible customer attrition
- Manage roll rate and reduce your compound roll rate with minimum effort
- Maximize trade-off between late fees and compound roll rates at fixed effort
- Identify accounts for early placement with agencies so you can focus your internal collection efforts on the accounts most likely to bring results

A sophisticated analytics program will involve matrixing of results from several models so that the results of multiple models to drive actions and optimize strategies. As a result, analytics and metrics drive consistent collections decisions, while driving down costs and improving results.

How good your models are makes a difference in your bottom line. Significant improvements can be achieved in your collection results using analytics to improve collections practices by conservative percentages.

4. Improve Agency Management

No matter how much you improve your collections process—no matter how much you automate and improve your workflow, how tightly you manage resources and employ analytics—you’ll still have accounts you can’t collect. You will charge off accounts and move them from collections to recoveries.

As with collections, using analytics and reporting tools to aid decision making can increase your recovery rates, which is important because every dollar increase in recoveries is a dollar brought straight to the bottom line. Recovery rates depend on data-driven strategies for agency management and agency selection. Agency management techniques can enhance performance through:

- Increased visibility and control
- Better segmentation
- Improved management reporting
- Reduced maintenance
- Enhanced exception handling

Increased Visibility and Control

One of the main ways to improve agency performance is to improve the way you manage agencies. You need nearly constant contact with agencies to manage their activity. A management system that increases agency visibility and control can answer the following questions:

- What activities are agencies taking on my accounts?
- Do agencies consistently and accurately report these activities?
- Are we recalling accounts when agencies are not actively working them and when do we recall an account?
- Do agencies comply with negotiated commitments?
- What is the active and inactive inventory of each agency and how old are accounts?

Better Segmentation

Not all accounts have the same behaviors in recovery. Identification and management of these different segments will improve recovery performance. This segmentation can be as simple as by portfolio, or it can involve the identification of a change in the account status that would lead to a
recall from one agency and the placement with another agency more uniquely qualified to collect on this type of debt.

As an example, a debtor account might be identified as difficult to locate. As a creditor, you have added to your recoveries team an agency that is uniquely qualified to locate these types of debtors. If you use a system that can identify this segment of debtors and carry out a strategy of placing those accounts with the appropriate agency, improved overall recover rates result.

**Improved Management Reporting**

Agency reporting should provide insight into the activities those agencies are taking on behalf of the creditor and the results that have been achieved by those agencies. This will allow for the anticipation of “what comes next” in your placed accounts and provide the ability to quickly change accounts if necessary. Reporting will meet the specific needs of multiple line and management groups and enhance recovery. Summary reporting should also allow you to identify “high maintenance agencies.”

**Reduced Maintenance**

When agency management is automated and communication moves over your collections network, it becomes easy to add agencies and remove agencies. It also becomes easy to add accounts to an agency or recall accounts, based on measured performance.

Automated agency management allows you to reconcile agency accounts more frequently and with less effort. This helps measure agency performance and allows you to react to changes in performance and market conditions, all of which improve recovery rates.

**Exception Handling**

Not every account or agency situation will conform to the rules you set for agency management. Agency communication should also include a way to create and fulfill unique account requests for specific agencies. Agency management is an evolving process. It should be based on flexible business rules so that changes in your recovery portfolio can be made as markets change.

You have an outside agency that works well with extremely distressed borrowers and gets results over the long term, but that agency does not adequately apply the collection actions to high volume, low-touch accounts. You have another agency whose training and management practices made them better at working high balance, multiple delinquency accounts.

In short, some agencies are good at collecting particular types of accounts while other agencies are good at collecting others. Understanding these differences ensures that the right agency is sent the right accounts for its expertise. This type of agency management optimizes agency effectiveness, and therefore, improves your collections returns, both in terms of cost and dollars collected.

**Account Placement**

In traditional recovery operations, accounts are typically placed according to limited criteria, based on personal relationships or random criteria, both of which may produce sub-optimal results. Recovery analytics set specific criteria to decide how best to recover an account:

- Keep it in house for recovery to save agency fees
- Place it with an outside agency

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Five Ways to Improve Your Collections and Recovery Rates

- Use a simple long-term auto-dialer strategy for phone payments
- Provide a website referenced in letters

Agency Evaluation

Any of those techniques can work. Recovery analytics allow you to determine which accounts are best for which strategies and which agencies are best for which accounts. Agencies are evaluated not by global recovery rates but by specific performance criteria, which allows you to fine-tune placement.

Using analytics, you can segment by agency, by channel, and by test performance. As a result, recovery rates will improve over time, as you better understand the characteristics of your account segments, the responsiveness to particular segments to specific channels and the performance of your agencies on your account segments.

Conclusion

Improved collections and recovery economics through cost savings, reduced roll rates, lower charge-offs and increased recoveries can be substantial. Using conservative metrics and assumptions, a portfolio of 2 million accounts with an average balance of $2,000 in which 80% of accounts are active can generate savings of more than $625,000 monthly in cost reductions and reduced roll rates. Collections analytics can generate additional savings of more than $560,000. On the recovery side, the same portfolio can expect almost $65,000 in monthly savings through better agency management, and another $70,000 per month through agency optimization. That’s total monthly savings of more than $1.3 million per month.

Summary of Collections and Recovery Improvements

The five techniques explained in this article can lead to dramatic improvements in collections and recoveries. The following results are based on conservative assumptions and for a portfolio with the following characteristics:

<table>
<thead>
<tr>
<th>Portfolio Size—Accounts</th>
<th>2,000,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Balance</td>
<td>$2,000</td>
</tr>
<tr>
<td>Portfolio Value</td>
<td>$4,000,000,000</td>
</tr>
<tr>
<td>Portfolio Size—Active Accounts</td>
<td>1,600,000</td>
</tr>
<tr>
<td>Portfolio Value—Active Accounts</td>
<td>$3,200,000,000</td>
</tr>
<tr>
<td>24 Month Recovery Rate</td>
<td>12%</td>
</tr>
</tbody>
</table>
Results in each of the five areas described above are:

<table>
<thead>
<tr>
<th>Key Areas</th>
<th>Improvement</th>
<th>Monthly Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Automate Workflows</td>
<td>1-2% Reduced Roll Rate</td>
<td>$595,172</td>
</tr>
<tr>
<td>2. Monitor Resource Performance</td>
<td>4-7% Reduced Collection Cost</td>
<td>$31,364</td>
</tr>
<tr>
<td>3. Use Collection Analytics</td>
<td>1-2% Reduced Roll Rate</td>
<td>$565,887</td>
</tr>
<tr>
<td>4. Improve Agency Management</td>
<td>5% Increase in Agency Liquidation Rate</td>
<td>$65,610</td>
</tr>
<tr>
<td>5. Use Recovery Analytics</td>
<td>5% Increase in Agency Liquidation Rate</td>
<td>$68,890</td>
</tr>
<tr>
<td><strong>Total Savings</strong></td>
<td></td>
<td><strong>$1,326,922</strong></td>
</tr>
</tbody>
</table>
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