

Sponsored by



The Five Mistakes Collections Organizations Make



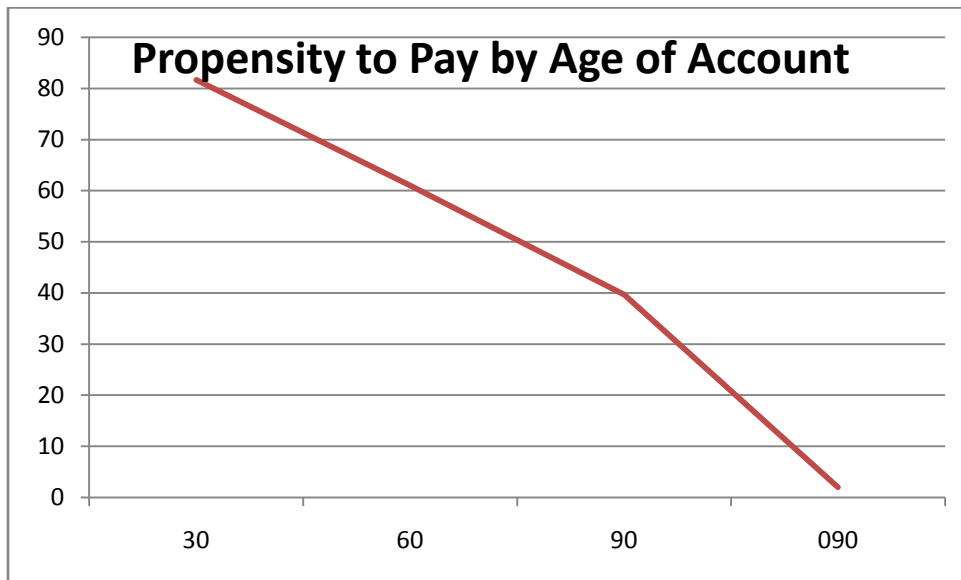
SeeWind Design
info@seewind.com
(416) 801-7025

Introduction

In our experience collections agencies make five common mistakes. These mistakes hold true across a range of industries, reflecting consistent behaviours of customers and, perhaps more importantly, consistent behaviours of collections organizations. These mistakes are:

1. Targeting treatment of active arrears too late in the time-line:

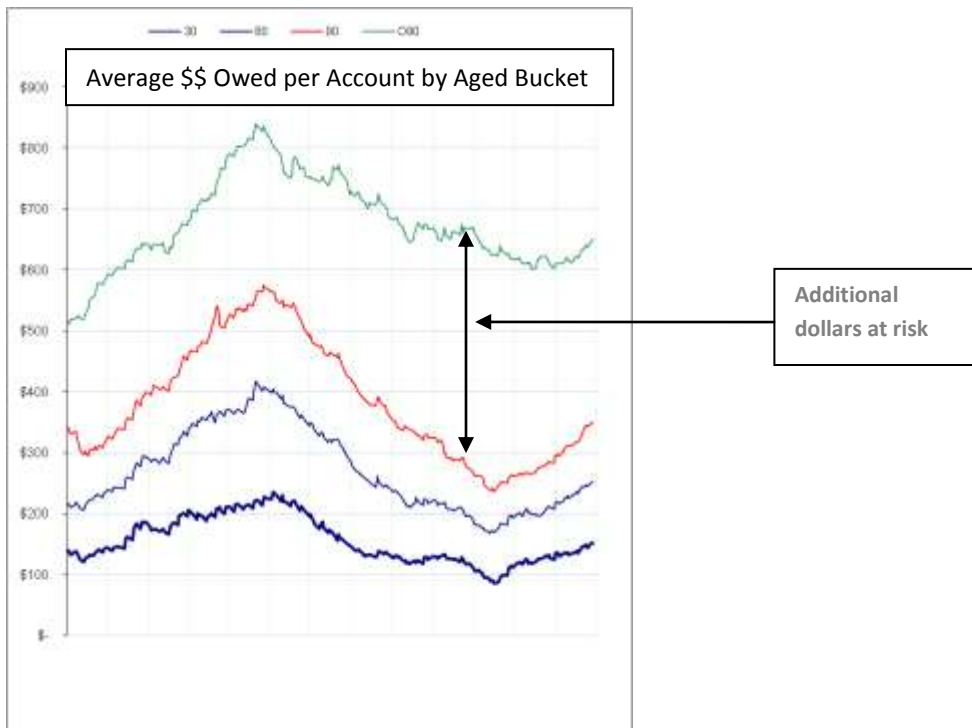
Typically collections organizations begin to target accounts when they are significantly in arrears. In our experience they wait too long to begin treatment. They do this for two reasons: it is inefficient and expensive to treat large numbers of accounts earlier in the time-line, and the prevailing assumption is that persistently bad customers become exposed at three months delinquency. In reality most collection organizations do not have the analytical power to identify the risky accounts early enough in the timeline. The key choke point for targeting volume reduction comes earlier than you might think. By the time 90 days has rolled over it is too late to have much impact on curing those marginal accounts who hover on the brink of paying or not paying. The following graph demonstrates the propensity to pay – by three months the accounts in arrears have boiled down to the hard-core non-payers who are traditionally more resistant to treatment. The likelihood of paying breaks the 50% line between 60 and 90 days. The following graph demonstrates overall propensity to pay by age of account if untreated:



To be more effective the treatments need to be targeted earlier in the process in order to reduce the accounts that roll over into hard-core territory. Automated processes such as FORCE will increase the volume of accounts in arrears that are treated while keeping costs per treatment affordable.

2. Allowing risky accounts to continue to consume your product:

The old saying “Fool me once, shame on you, Fool me twice, shame on me” could have been written for Collections organizations. Long after an account has demonstrated behaviours that signal a non-intention to pay, organizations continue to extend them credit, patience, and more product. The biggest portion of your eventual write-off is formed of dollars put at risk long after the account should be flagged and put on hold. The following graph outlines the typical progression from 90 to 120 plus days and the growth in arrears. The increase between each aged bucket represents, on average, one month’s worth of charges, until 090, where the increase is marked (the average 090 accounts owes between 1.5 and 3 times the 90 day account). These customers are using your product with your approval, and their propensity to pay, if untreated, is less than 10%. These accounts form a disproportionate number of your accounts that are on hold or in dispute. The inability to resolve these issues and deal with these accounts has the largest impact on your write-off of any other single factor.



Hardened non-payers are often adept at playing the system. Your organization spends a great deal of time and energy with these customers, negotiating payment arrangements of which a significant number are broken. On average 40% of payment arrangements are not kept whether by Active or Final accounts. To be more effective Collections organizations need to identify these risky accounts sooner and ensure that good money is not thrown after bad.

3. Losing track of good customers when they move:

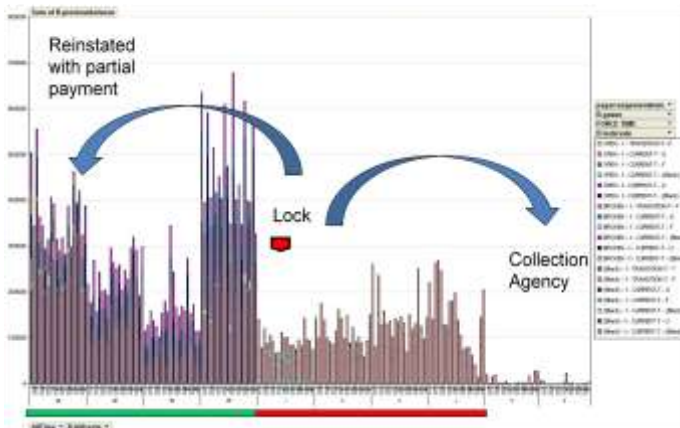
Collections organizations are reluctant to harass good customers who are in the process of moving. But most collections organizations are unaware of the typical impact that these customers go on to have on their write-off. Contact details are lost in the transition between residences and without early intervention these accounts end up with collection agencies and/or in write-off. Upwards of 25% of your Final accounts in arrears are previously good customers that have been lost in the shuffle. They go on to form over 35% of your accounts in collections agencies. The dollar impact is not as large as the persistently bad customers in Finals and in Delinquent, but these are dollars that would probably have been paid had good practices been in place early in the Final Account process. The typical proportion of \$\$ at risk from “good movers” is 10% in Finals and 25% of Delinquent.



4. Persisting with Persistent non-Payers

Bad customers have a tendency to repeat the same behaviours. Our analysis indicates that 25% of those accounts that pay only when their service has been cut off will be back in arrears within six months. Worse they tend to owe more six months later – their total debt grows to 120% of what they owed when they were cut off. One of the contributors to this growth in debt is the collections organization’s

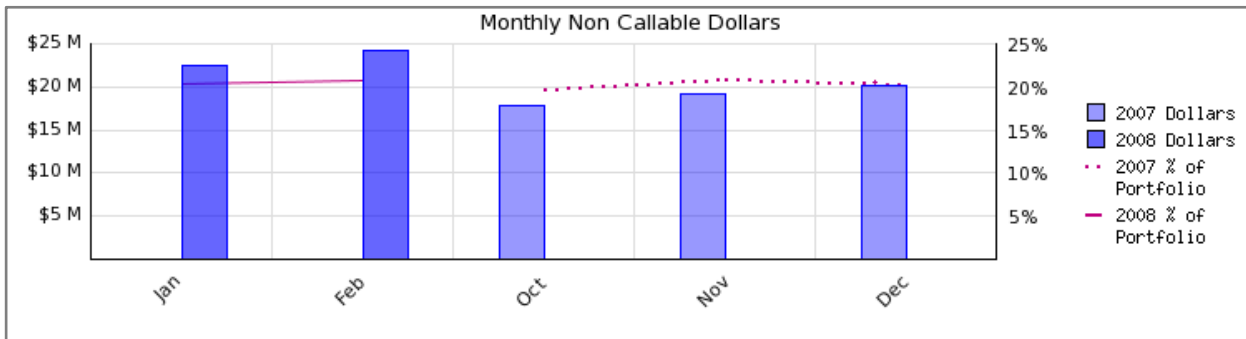
Custom Behavioral Treatment with Account Level Visibility



own policies. Negotiations with discontinued customers result in partial payment of what is owed and a transfer of the remaining debt to the re-established account which continues to grow once service is reinstated. Such accounts usually only have their service cut off once a year.

5. Not taking bad numbers seriously

All collection organizations know they have a problem with bad numbers. Up to 30% of the accounts in arrears have no number, bad numbers or 'dumbed out' numbers. What most organizations don't realize is how much of a risk these bad numbers represent in overall debt and final write-off. We have found this one factor is the single largest risk predictor – more effective than credit ratings or other scores used by collections organizations. On average over 20% of your write-off comes from bad number accounts. In order to reduce this impact Collections needs to identify these accounts early and pursue effective contact details through a variety of approaches, including technology and scrubbing.



Summary

These five mistakes are commonly committed across most collections organizations. We have found that reversing these tendencies has the largest positive impact on outcomes than any other strategy. However the correction of these mistakes is dependent on treating the entire arrears portfolio. Early detection of bad numbers, risky accounts, and movers is vital to the outcome. But most organizations treat too late in the process and too few accounts. This is an inevitable approach if one is dependent on legacy systems and agents – it is too expensive to collect and analyze the information through such systems, and too expensive to use your trained staff to pursue large volumes of accounts. An automated solution that is designed to track customer accounts so that collection actions are based on risky behaviours will reduce your resource costs and make your entire collection procedure more efficient and effective.

About SeeWind Design

SeeWind Design provide solutions that operate inside your business and in partnership with your Customer Care and Billing organization to help you automate and optimize your efforts for collecting overdue accounts. We have over 20 years experience in revenue assurance and debt recovery problem solving and know how important and how challenging it is to get just-in-time analytics from multiple disparate systems.

Our solutions help our clients see their customers' payment behaviours, along with the impacts of their own business policies to foster better teamwork both internally and externally. Our solution's leading

edge ability tracks behaviour and results providing the hard evidence at the account, product and portfolio level, both from operational and financial perspectives.

For more information about our solutions visit us at www.forcecentral.com or contact our Sales and Marketing team at (416) - 801-7025