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A fresh perspectiveCollections strategies for the digital age



Contents

Introduction	5
Strategy, appetite and policy	8
Risk governance and organisation	10
Data and definitions	11
Process management	13
Information technology	14
Analytics	16
Communication and management information	18
Skills and resources	19
Validation and assurance	21
Contacts	26



Introduction

Consumer indebtedness

Consumer indebtedness within the South African market poses a serious challenge for lenders trying to grow their portfolios organically. With the unbanked population of adults in South Africa currently at 13%, firms may struggle to identify those pockets of the market in which they could safely expand. With consumers battling petrol prices and food inflation fuelled by a weakening Rand the flexibility to increase spending has been strained. Tighter underwriting criteria have been instituted over the past few years as firms have closed off the taps, but as a result, those customers who now fall into arrears may well be the toughest and most idiosyncratic cases, which are significantly harder to recover.

Macroeconomic concerns

With impending fears of a credit rating downgrade coupled with increasing interest rates, the South African economic outlook growth currently at its lowest since the 2008/2009 recession. Unsurprisingly, the unemployment rate is at its highest in ten years and investor confidence is significantly lagging. Policymakers now have fewer tools and much less scope to help us out should another big shock hit the global economy. The previous engines of economic growth have begun to falter as Chinese growth slows down, world GDP forecasts are being trimmed and productivity gains from new technology begin to peter out. The GDP growth outlook places the economy on the edge of a recession while many believe we are already there.

Changing attitudes towards debt

There was a time when debt had a stigma and bank managers were figures of authority.

Bankruptcy was reserved for the desperate. Customers nowadays may

associate banks with reckless lending or Forex manipulation rather than their friendly local bank manager. And research suggests that what some people prioritise when the cash flow runs low are their cell phone and their credit card. To be disconnected is to be disenfranchised. Meanwhile, since owning your own home has become a distant dream for more and more people, there is less motivation to maintain a perfect credit score.

Reinforcing these trends, social media have revolutionised the range of information available to people in debt. A swift online search returns details of debt forums where people share hints, tips and – sometimes – debt avoidance strategies. Customers can easily research the different processes used by debt collection agencies, including what type of letter to expect, in what order, and how best to respond. While much of the advice may be bogus or misleading, it still creates work for a collections team.

Changing attitudes towards debtors

Given the choice, lenders generally prefer their customers not to have been in collections elsewhere. After all, a spell in arrears does nothing for one's credit score. However, banks are increasingly realising that many people nowadays have experience of being in collections, and that they can't afford to turn away all such clients. As a result, they no longer see customers in collections as irredeemably bad credits and they have greater incentives to maintain brand loyalty so that when the customer is in better financial health, they will consider returning to that lender.

The signs are that now could be a good time to invest in collections – which is also an admission that things could be about to get worse.

The regulator's focus on conduct and consumer protection

With the impending creation of the Financial Service Conduct Authority under the Twin Peaks Bill, recent focus within the industry has been to prioritise protecting consumers and managing conduct risk. Market conduct regulation will require higher standards than general consumer protection laws. The previous lighttouch approach to regulation has been replaced with a more hands-on attitude that focuses on culture, strategy and remuneration - and how they lead to good or bad outcomes for customers. Developments in the recent past from regulators include: regulation which prohibits the re-collection or re-activation of debt that has been extinguished by prescription; regulation which required all credit bureaus to remove adverse credit information on all customers held within their databases as at 1 April 2014 (credit information amnesty) and increased scrutiny surrounding the issuance of unsecured lending due to the recent 'reckless lending' debacle experienced by the industry. This regulatory focus is expected to continue and possibly even intensify going forward.

Technology

Can your dialler send an SMS to a customer the moment it recognises an engaged tone? Would your collections platform allow that same customer to go from your email reminder to a direct debit instruction on your website within a couple of clicks? Do all your call centre staff have access to intuitive dashboards with a single customer view with all the relevant information? Is your collections platform flexible enough to enable your analytics team to test and adapt strategies within a few hours? And does your technology in general automate

the mundane, low-value activities while improving transparency and auditability? If not, then somebody somewhere – most likely at a rival – will have a satisfied smile on their face.

Integrated analytics

We live in a knowledge economy. Admittedly that's a cliché. But not every firm in the industry seems to realise that clichés are based on truth. A collections function that can get the better of its rivals in terms of modelling the cost to collect, likelihood of recovery and most efficient strategy will be betterplaced to buy or sell debt at the right price. It will also be able to collect on more accounts, more quickly and more profitably.

The richness of data feeds now available only enhances the potential returns of smart analytics. By integrating analytics into strategy setting, collections teams can not only improve expected margins, they can flag up early trends that may call for a change in the strategy. Ask not just what you can do for your collections function, ask what your collections function can do for you.

More debt than ever has become collectable at an affordable price...

IFRS



The new accounting standard for the calculation of impairment results, replacing IAS 39,

comes into force in January 2018. Just securing compliance is proving enough of a headache for many firms. Few will have thought about the consequences for their early arrears management, collections and recoveries teams – and the possible contribution those teams could make towards lower impairment balances and better returns on capital.

To put the new rules simply, all accounts fall into one of three buckets or 'stages'. Stage 1 accounts comprise all those loans performing in-line with expectations when the loan was originated (typically not in collections). Accounts move to Stage 2 when they have shown 'significant credit deterioration', while Stage 3 accounts are those in default. For Stage 1 accounts, the impairment calculation is based on a 12-month expected loss (what you'd expect to lose on that account over the remaining lifetime using the probability of defaulting over the next year; typically very little). But as soon as an account enters Stage 2, the impairment requirement becomes the expected loss for the entire lifetime of the loan (typically a lot more).

The incentives to set up pre-arrears functions will become more striking. Collection teams who successfully manage customers back from the edge of Stage 2 will be saving their firms a substantial amount of impairment. The P&L and balance sheet benefits of curing an account from Stage 2 to Stage 1 will also be greater. The value and benefits of a good collections outfit will therefore become easier to measure – and the focus on collections effectiveness will rise.

Deloitte's Tier Structure Model

With so many interlocking trends and market dynamics, firms should look at how incremental changes across the whole of their operations can contribute towards greater business success. It can be hard to secure investment and harder still to know where to prioritise your spend. Our Tier Structure Model (see page 24) has helped firms target improvements throughout their businesses, often without significant outlay. A hundred modest improvements can achieve remarkable shifts in relative performance.

In the remainder of this review, we analyse the nine elements of the TSM, and share our experience on what the industry's leading firms are doing in each area, why they're doing it and how they've got there.

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Strategy, appetite and policy

Let's start at the top

If your collections staff don't understand how your risk appetite framework relates to them, then you don't have a very good risk appetite framework. Why? Because one of the primary goals of such a framework is to connect the day-to-day activities of your staff with the Board-approved risk appetite. Step one is to explain your desired risk profile. Step two is explaining to individuals what they can do to keep the firm on track and what it means to them in their day to day role.

To take a simple example, a collections team without strategic awareness may focus on collecting promises rather than sustainable reductions in arrears; they may not understand that each R100 removed from arrears may save R2 000 from the firm's impairment stocks. Simply by understanding that link, the more advanced firms are able to motivate better behaviours, boost staff engagement and most importantly lead to higher numbers of good customer outcomes. When risk appetite is expressed in only simple terms, though, it can often focus on broad lending metrics which may not mean very much to a collections team.

The more sophisticated firms articulate and communicate their risk appetite in both financial and non-financial terms, giving clear direction on how to manage conduct and reputational risk as well. Done well, it helps firms monitor performance against their strategy in both financial terms and the impact on customers.

The well-established risk appetite frameworks use both lower and upper trigger points for their metrics to signal where they need to reduce risk and also where they can comfortably take on additional risk. And they use that knowledge to prioritise activities within their collections teams. For instance, they redirect staff from product to product or segment to segment to help the firm keep within its overall desired risk profile.

Within the overarching risk management strategy of these firms, the collections strategy is both clear and detailed: the desired outcomes are specified in a variety of consistent ways and not just in terms of rands collected. We see the most advanced firms breaking down the desired outcomes of their strategies by segment and also by customer outcomes. Done properly, your collections staff will understand how they contribute to the firm's overall risk appetite objectives. Moreover, your Board and management will be able to adequately review and challenge the collections team's performance in a balanced way by measuring not just the amount collected but also the outcomes that customers are receiving.

Strategies for arrears management will have multiple objectives, ranging from generating sufficient profitability to maintaining good relations with the regulator and upholding a good reputation with the public. Under the Twin Peaks Bill, firms that fail to devise and demonstrate appropriate treatment strategies for customers in arrears could face hefty and painfully public fines.

Whether in defining an overall strategy or the process of trialling strategies for particular risk segments, the most sophisticated firms in the industry have been smart in linking their strategies to incentives and remuneration plans, training, IT and organisational design.

The focus by regulators on good customer outcomes has put the onus on individual firms to put in place not just strategies but also policies. And not only policies, but a culture of adhering to policies – and being able to demonstrate compliance to senior management, internal audit and the regulator.

The more sophisticated firms articulate and communicate their risk appetite in both financial and nonfinancial terms, giving clear direction on how to manage conduct and reputational risk as well.

The best-placed firms can show that a clear, appropriately detailed policy is in place, that is understood and followed by the relevant staff. Doing it well saves time and money, encourages loyalty and contributes to brand reputation.

Like all of the most interesting problems in business, there is no perfect solution when writing a policy for your collections function. If you are too general you won't have given your staff the guidance they need to keep your firm both competitive and compliant. However, if you are too prescriptive you will fail to take into account your customers' particular situations.

For example, a generation of unsecured lending customers may be about to feed through to your collections team – and each of them are likely to have different circumstances. What policy rules would apply to them all? An individualised approach that follows clearly articulated principles is the best defence against problems down the line.

Showing too much forbearance can be a bad thing too. Accepting too low a payment and extending the time of repayment is deemed to be an unfair way to treat customers. The more successful kinds of policies tend to balance the need to: (i) challenge the customer on their repayments and on their ability to repay; and (ii) ensure the debt is repaid as quickly as possible with affordable repayments.

The solutions we've seen work well enable firms to demonstrate how they identify what good outcomes look like for their customers and how their treatment strategies have achieved them. Just as importantly, though, they also have a clear picture of what constitutes a bad outcome and have MI in place to monitor performance against expectations – alongside documented policy provision that stipulates governance and appropriate responses.



Risk governance and organisation

The thorniest issue of all when designing the target operating model for a collections function is how to coordinate the activities and incentives of disparate teams with very different specialisms. A balance needs to be struck between giving your collectors the flexibility to use their knowledge effectively while remaining aware of how their actions impact other parts of the business. And that feedback loop has to work in the other direction too.

The challenge, then, lies in calibrating organisational design so to embed a creative tension between the risk analytics team (in charge of segmentation, forecasting and modelling) and the operations team (who need to ensure that right numbers of the right people are available at the right time). Both need a strong voice, yet neither should be dominant.

The risk mentality will view people as belonging to one segment or another while the operations perspective sees them as individuals. It is one of the jobs of the collections strategy to bridge that divide. In the less sophisticated firms, collections is run along operational lines, with relatively little input from risk analytics. Firms run this way tend to assign calls to staff based on their product knowledge rather than on any insights on account types or coherent strategy.

For all but the smallest firms, the core teams of collectors and analytics staff need to be joined by teams dedicated to:

- Compliance (normally with a dotted reporting line to the central compliance function).
- Quality Assurance (because it's easier to spot trends early and react, than fix).
- IT (because when systems or data

quality go wrong they typically need mending sooner than a centralised IT service could manage).

A firm's risk governance and organisational design must assign responsibilities and define roles so as to optimise the quality, speed of revision, implementation and governance controls over a range of evolving strategies.

Done well, the operational areas receive accounts based on a combination of strategy and capacity. Collections area decisions are only made after a thorough evaluation of their impact on other areas, with support from capacity and resource modelling.

In the other direction, a huge variety of business decisions taken upstream can affect collections performance. One recent example we saw was a firm that speeded up its process of setting up direct debits. An improvement of just a few days was enough to knock the collections team off its targets because it had not been told of the change. As a result, it was expecting to deal with the usual volumes of late payers whose direct debits had not yet been processed. Without the expected numbers of 'easy' cases, targets were missed and resources misallocated. Time was wasted (and precious goodwill was eroded) researching the cause of the 'poor performance'. All that was needed was an established channel of communication between the collections team and those business areas whose actions affect it (see page 18 for 'Communications and Management Information').

A well-designed system of governance joins the separate areas of expertise and enables strategy and policy to be deployed efficiently. It also creates

transparency within the organisation that is increasingly important now that the regulator has made clear its expectations around customer outcomes. Internal audit, as the third line of defence, is likely to maintain a close interest in collections departments for some time to come. In our experience, internal audits typically focus on the following: external providers' performance, forbearance, reconciliations of data and cash reporting, customer communications, compliance record keeping and the identification and treatment of vulnerable customers.

Some firms in the industry are struggling with old-fashioned operating models that arose out of tactical solutions to regulatory or business changes. Their organisational design is often cumbersome as a result. Others have clearly defined roles and responsibilities, smooth online portals for policy dissemination and a clearly defined three lines of defence model but still fail to run smoothly. The cause can sometimes be a sensitive one to manage: tenure and title do not always correspond to experience. Collections team managers may have been in the exact same role for too long, and grown a little stale in their thinking - showing that skills and training need careful consideration as well (see page 19).

Data and definitions

Some business problems solve themselves because given enough time, the problem just goes away. Data quality isn't one of them. In fact the whole area of data management seldom improves spontaneously of its own accord.

It's not that the incentives are weak. Miss out a signature, date of birth or full first name and your debt can become unenforceable. Yet the skills to master data and harmonise definitions are often lacking in collections teams. And when they are available within the wider firm, they may not have much free time to help their colleagues in arrears management. This is a shame since top-class data management generates substantial (and sustainable) business advantages.

Single-customer-view

A rich, single-customer-view, that aggregates data from multiple sources is the foundation stone for understanding your customers, ensuring good customer outcomes and helping you demonstrate that to others. Customer information should be verified and updated as necessary to facilitate seamless contact with the client throughout the process. Yet the quality of data is often worse the further downstream it travels. By the time it has passed through several systems to the collections team, the greater the chances of data 'pollution'. Mistakes endure and gaps only grow. As anyone who has worked in a collections call centre can tell you, without a clear and accurate picture of the customer's profile, you start each call at a grave disadvantage.

The analytics arms race

Risk analytics is a data-thirsty endeavour and the top prizes generally go to the firms who can best translate the largest amount of pertinent, correct data into the best strategies. It's also an arms race that rewards innovation and flexibility. If your database refreshes with information that your customer has just bought a new car, moved in with someone possessing a far higher credit rating and paid off a personal loan, that could suggest now is the time to get back in touch. Conversely, some firms exploit the predictive power of pay-day lending data (now reported to credit bureaus) to flag up signs of early stress within their credit risk models.

You can set your analytics teams to work on a huge variety of data sources, and the potential to become lost in big data is palpable. For example, credit card transaction data (when permissions and systems allow), can help prepare your callers for the conversations that are to come. An upsurge in spending on petrol, beer and cash withdrawals up to the maximum limit of the account paints a very different picture from a customer who's stopped shopping at Checkers and begun to use Woolworths. A greater focus on smarter analytics would help spot customers at risk of sliding into arrears.

Data protection

It is harder to comply with the Protection of Personal Information Act (POPI) if you haven't kept good records. Checking the right permissions are in place to use data for internal modelling, controlling access rights and demonstrating audit trails are all simpler with strong data managers in place. Some bank accounts are so old that they were set up long before credit cards or ATMs had been invented, and they will probably lack the necessary permissions on usage of account data. Conversely, if you capture email details, make sure they are approved for collections contact purposes. Even knowing how customers navigate your website is helpful. Did they look at the FAQs and then contact details? Or did they go straight to the online payments option?

Miss out a signature, date of birth or full first name and your debt can become unenforceable. Yet the skills to master data and harmonise definitions are often lacking in collections teams.

Even the definition of 'arrears' is up for discussion: is it one day past due or one day past cycle date?

Extract, transform & load

Your data architecture can either facilitate or hinder the smooth flow of information within the organisation or - just as importantly - back and forth from one organisation to another. The best firms can transport data to a credit bureau, wait for it to be enriched by multiple data sources and then transport it back into home systems with very little needed by way of manual intervention. The worst firms hobble their collections teams from the beginning by making them work with a data architecture that cannot handle the richness of data held within their front end systems. Valuable data is lost - be it file notes, full address or payments history – because it cannot be easily transferred from one colleague or system to another.

Data dictionaries

When is a default not a default? The answer depends on the definition of default, of course, and there are good reasons why people in different parts of the firm will have varying perspectives, not least the variation in regulatory guidance on the subject across jurisdictions. The Finance and Risk functions may focus on Basel III or IFRS9 but it can make sense for collections teams to have a functional understanding as well. For example, a self-employed customer who habitually pays late - and has done for years should not be treated in the same way as a customer who arrives in arrears with a plummeting credit score.

Even the definition of 'arrears' is up for discussion: is it one day past due or one day past cycle date? Highly regular data is needed for firms to make the most of bureau reporting and to feed into their behaviour scoring models. And balances can cause confusion too. Without a clear common understanding, it's all too easy to contact a customer with an incorrect view of their total debt. Does the credit card balance include the latest payments or default charge? Has the mortgage total been updated to include interest accrued? Was the latest version of fees and commissions applied? Customers may argue they are within their rights to withhold repayment of wrongly calculated amounts. Poor data quality erodes the credibility of your collections and weakens the incentives of customers to cooperate. We have also seen problems arise in the industry from the definition of operational and performance metrics. Take 'contact attempts'. A weak and inconsistent definition of 'contact attempt' may include calls made but met with an engaged or unavailable tone, calls made that go straight to voice mail or calls made where the intended person actually picks up. Robust performance and operation data is vital when assessing the success or champion and challenger strategies.

IFRS 9

The increased expectations of IFRS 9 for firms to measure a lifetime expected loss more accurately will put increasing pressure on collections and recoveries departments to accurately and consistently collect data after a customer has defaulted. The difference between changes resulting from operational choices and impacts resulting from the wider macroeconomy will need to be better understood. In the absence of this information, firms will be expected to make some broad assumptions, potentially resulting in inaccurate impairment and poor back testing results.

BCBS239

Supervisors expect ever higher standards of data within financial institution and the collections function is no exception. The BCBS239 standard published in 2013 (also known as the 'Principles for effective risk data aggregation and risk reporting') sets out the expectations for the completion, accuracy, timeliness, materiality and usefulness of risk data as used in the world's most significant financial institutions. Increasingly, though, the same sort of expectations are being applied to smaller firms. After all, it should be easier for smaller, less complex firms to be compliant.

Process management

Suppose you have your collections strategy in place and your risk appetite fully quantified and calibrated. You have a clear sense of what you're prepared to do and what you're not prepared to do. The crucial next step is spelling that out in terms of clear processes.

In the most advanced firms we've worked with, the end-to-end process is captured in a visual workflow map that records all the decision points, criteria and if/then gates needed to convert a strategy into a transparent set of rules to be followed.

For example, the first step for customers in early collections may be segmentation in order to identify the 'forgetful' customers. The next step may be to send out an SMS to those customers to remind them of their payment date using specific and pre-agreed wording. For the 'non-forgetful' customers, different process steps, scripts and treatment paths will be needed.

Being able to see what the process is helps enormously in training, designing controls, assessing and demonstrating compliance, generating MI and performing quality assurance. Decision engine software has been around for a few years now that enables users to click and drag components of this map using an intuitive graphical interface and by so doing reprogram the underlying decision engines. And that helps firms to amend processes to reflect new regulations, learn from mistakes or quickly try out new strategies.

With their processes fully mapped, firms can productionise their processes to ensure that customers in similar circumstances are treated similarly. If the regulator ever enquires into your treatment of customers in distress, the first thing they will want to see is the process that you have designed to

screen for such customers. A transparent process enables you to demonstrate where the key control points are placed, which scripts are used when, and who in your team takes responsibility for dealing with distressed customers.

The numbers of accounts flowing through different process routes can be tracked and reported and quality assurance teams can conduct risk based assessments.

It becomes easier to train your staff and to allocate calls to callers based on the skills needed to handle particular accounts. In general, calls requiring little subjectivity are best routed to your more junior staff, leaving your experienced staff to handle the more complicated cases, potentially involving a full income and expense assessment (I&E). No one would disagree with that in theory; but only sound process management can deliver it.

Without clearly defined process maps, firms sometimes find their processes become invisible, even to themselves. A number of firms across the industry have suffered from 'lost processes' because their policies were hard-coded into their IT systems. Over time, the policies changed and the IT system was upgraded. But the processes implied by these policies were never made explicit or transparent. The upshot can be: illogical (inconsistent treatment); impractical (tiny clusters of accounts in over-stratified segments, sometimes left untouched for years); and insensitive (belated attempts to collect from the deceased because of unforeseen effects of a change in one piece of coding).

Feedback processes

The best firms in the industry can not only visualise and reprogram their processes within seconds, they have also established feedback processes between collections, credit risk, compliance and marketing.

For example, collections need to be kept in the loop when the marketing teams launch a major new initiative. They need to understand very quickly whether customers in arrears on their personal loans are going to be offered a credit card on top. Feedback loops from collections to the rest of the business are also vital. Suppose they discover a high number of accounts have failed to make their first two direct debits. That suggests a glitch in some upstream process rather than a sudden deterioration in credit quality.

Because collections teams interact with customers, they are likely to spot genuine shifts in credit or fraud trends. A spike in the number of customers classified as 'hard to deal with' may reflect a greater number of customers who are vulnerable due to their health, age or language abilities.

Early trends here need to be fed back into the credit application process. They may count as clear evidence that the firm isn't spotting front-end vulnerability among its customers, or that fraud controls are not working effectively. Unless the collections team knows the value of this kind of information it will generally fail to pass it on to their colleagues in other parts of the business who could really benefit. The firms that are good at categorising fraud within their collections balances may have a higher loss due to financial crime, but they will have correspondingly lower bad debt balances, which can have profound impacts on credit risk appetite and allow firms to underwrite more loans and earn a better return on risk.

In our experience, though, very few firms have thought through how to optimise an end to end feedback process to link up the insights and info needs of their collections functions with their wider business.

Information technology

Within the IT budget of a typical collections functions, the 'I' still tends to feature more highly than the 'T'. There is, in other words, more emphasis on data management than gadgetry. For many years, the beating heart of a collections function has been the core IT platform used to aggregate data, organise workflows and process payments.

Beyond the core platform, though, the industry has begun to experiment with self-service models, automated analytics and field agent telemetry. That said, platforms remain the place to start.

Top-notch platforms

Three features tend to differentiate the feeble from the fantastic. First is the ease with which you can integrate that platform with the rest of the business. Are there robust and intuitive links to your payments platform? Does your digital banking website offer seamless connectivity? Do your collectors have a single-customer view at their fingertips? Have you even thought about how your platform would cope if you tried to link it to cashless payments or smart watches?

The second feature is speed. Not the raw speed of processing but the speed with which you can adapt, experiment, evolve and refine. The most sophisticated firms know that the true beauty of analytics is only revealed when you can act quickly on those insights. The last thing you need is a cumbersome change request process that takes weeks to come through because it requires the say-so of multiple teams, third-party permissions and a raft of expensive recoding and this highlights the third essential feature: flexibility.

The firms who have designed their core collections platforms with integration, speed and flexibility in mind have built themselves an enduring advantage. A

specialist DCA can quickly branch out in new directions (say student loans or peer-to-peer lending) because its core IT is adaptable enough to work with non-standard data fields. It can also work out which segments are likely to prove profitable before its rivals, and so can leave the less attractive debt for others.

A bank with the same quality of platform will be able to quickly integrate a new source of data (let's say on customers' employability) and factor that into its segmentation strategy – with rapid knock-on effects for treatment paths and collections strategy. In the most sophisticated firms, staff-generated suggestions for process improvements can be actioned by the staff themselves. In the least sophisticated, such suggestions would be so expensive and time-consuming to roll out that people just don't bother.

The ability to integrate different systems and feeds rapidly is what underpins strategic flexibility. When firms fail to get it right, some of the problems are obvious: the lack of single-customerview means that the same person is called twice in one day by different people from the same company about different products. We have seen cases where a bank has advised a customer to make a mortgage payment by going beyond their agreed overdraft. This is poor practice in any circumstances but particularly clueless when the customer's mortgage and overdraft facility are with the same bank.

However, if your firm fails to embed speedy integration as a principle of its IT there is less of an incentive for your analytics team to deploy their best ideas because time delays mean they won't be feasible. Your risk analytics is therefore blunted. The scalability of your operations may be considerable less

than at your rivals, meaning you cannot respond as quickly to new opportunities and cannot clear backlogs when business conditions take a turn for the worse.

Innovation in IT has helped the best firms keep ahead of their peers through a lower cost to collect and better quality customer interactions. In some cases that is best done through semi-automated online webchats that answer the basic questions using a bank of key phrases and themes. In other cases, IT has helped monitor individual call quality through voice recognition software that can scan, transcribe and flag the presence and frequency of desired or undesired language.

Dialler technology has also evolved to diagnose trends in what kinds of conversations customers are having and can assess the ratio of positive to negative calls, as well as highlighting particular calls to examine in more depth. The voice recognition software can be set to score points for particular phrases such as "Are you sure this is affordable given your other commitments?" or "We would like to work with you..." Points would be deducted for a phrase such as "You must pay..."

Rich data on this can highlight problems with particular strategies, or segments of individual call-centre staff. Firms expecting a quick return on investment have been disappointed, though, since configuration can be lengthy and complex.

Collections is becoming ever more a volumes business given the tight margins available once a firm has conducted an Income & Expenditure assessment, decided on a strategy and made initial contact. The overhead in managing this margin requires either: large volume of accounts and economies of scale (which puts the emphasis on automation and operational efficiency); or market-leading analytics that enable you to price better and specialise. Both options require flexibility in your IT.

The most obvious returns on IT investment spend typically come from better analytics, a more effective collections platform and improved productivity from a better user interface. Over a sustained period of time, firms should see the cost to collect coming down and a lowering in the cost of demonstrating compliance (at least, relative to rivals). Within your analytics—and call—centre staff, the goal has to be to reduce low-skilled manual effort and automate mundane processing to free up the human capital in these teams.

The goals of collections platforms ten

Self-service models

years ago were to empower the collector and automate processes. The goal of some current systems is to automate negotiations and embed self-service at the heart of the process. Two-way SMS technology allows customers to text the collections agency and be 'understood' by a decision engine that has been programmed to send out replies automatically. The customer can make suggestions and receive feedback on those suggestions until they agree on a payment plan that meets policy, commercial and compliance requirements. The software on the other end of the SMS 'conversation' can then process the request and turn it into a direct debit instruction. This kind of

self-service approach can be useful for customers who attach stigma to being in collections and would rather not speak to anyone about their situation.

The self-service model also enables 'frequent forgetters' to pay by SMS instruction wherever they happen to be in the world, helping people who travel frequently or who are always online but seldom at home.

Automated analytics

Self-learning software is already up and running in some firms which can monitor the key strokes typed out by their data analysts and work out what process that implies. This kind of software can almost entirely replace the manual process of creating MI by downloading data from several source systems, creating charts in Excel and formatting PowerPoint slides.

The same principle can be applied across a collections function, including the process that investigates correlations between variables and assigns accounts to collections strategies. The routine aspects of modelling customer behaviour can be automated and performed overnight, leaving your analytics team with more time to research the toughest issues. And software can even work out how to translate freshly drafted policies or regulations into suggested control points. Deloitte has already developed a tool that can do this by integrating its ProAct regulation package with Watston (IBM's neural learning software). The result of the joint venture is RCA - or Risk and Control Assessment.

Field agent telemetry

Many firms have steered clear of deploying field agents to collect debt because of the difficulties in monitoring their behaviour. The incentives to claim performance bonuses to the detriment of compliance goals were considered simply unmanageable. A combination of readily available technologies is now encouraging a rethink. Digital cameras worn on the lapel, GPS monitoring, realtime listening and voice transcription software enables effective oversight of the field agents. And further controls can be built in: if a potentially rogue collector covers the camera or microphone during a visit, the contact details can be blanked to prevent any money from being collected. Any banknotes paid by the customer can be scanned in to ensure full transparency and validation.

Once the compliance risk of field agents can be managed to the same standard as their desk-based colleagues, they can pursue strategies unavailable from a call centre. We may live in a digital world, but call screening and email blocks mean people can readily avoid electronic contact. Field agents can sometimes be the only remaining option for a hard core of accounts.

Analytics

Some firms in the industry have a very clear understanding that they stand or fall on the quality of their analytics. These are the firms that live and breathe the stuff. They have invested in both people and systems to ensure they exploit the business potential. The pricing is sharp. The strategies are honed and frequently refreshed. Segmentation is good. Governance is good. Monitoring of strategy is good. Feedback loops are well established.

It's not the only possible strategy, of course, and other firms devote more resources to training up call-centre staff or the latest collections platform. A dedicated analytics function within the collections departments of banks is still a rarity. In the medium to long term, though, we think it is hard to see firms surviving long without a capacity to exploit analytics.

Why? Because the room for error in the debt market is small and unforgiving. Firms need to understand the profile of each tranche or assignment. What's the expected cost of collecting the debt? What's the expected amount you might liquidate? At what servicing rate would you be willing to perform the work for a high street bank? Would you be willing, for example, to accept a 12 percent servicing fee where the cost to collect is 12.5 per cent?

Analytics not only helps you work out costs to collect, but also to adjust your approach to fit the money on the table: if the market will only pay 12c in the Rand in servicing costs, what kind of strategy is feasible? And what might that kind of strategy deliver, if applied to sufficiently large volumes?

The best analytics teams can help you get a better understanding (than your rivals) of a whole raft of vital business

questions:

What would it cost to collect?

How much effort would it take?

Which customers are likely to respond to collections activity? In response to what? And over what time period?

What is the best time to call? And the best number? Or the best channel? Email? SMS?

What's the propensity of a customer being contactable? And of their responding? Split by strategy?

Analytics within collections frequently calls upon modellers to reverse their habitual patterns of thinking. These are the accounts that you didn't think would go bad but did. So they are already an exceptions population. And then within that population, you are looking for the propensity of accounts that have gone bad and then recovered. Although the same techniques are applicable, the logic and the thinking are very different from standard credit-risk modelling: the question at hand now is how likely are things to go well? It may depend heavily on what other debts the customer has and how important it is to pay them off first. So it takes a special kind of modeller to excel – with a feel not just for the data but also for the particular circumstances of arrears management.

Done poorly, analytics can result in naïve strategies. The perfect time to dial may be first thing in the morning or last thing at night. But that is neither a terribly large surprise nor particularly practical advice. What analytics needs to give you is the best sequence or segments based on the availability of resources. Similarly, a naïve approach to analytics can sometimes lead modellers to focus too much on past payment behaviour as a predictor of future behaviour. If the past were that prescient about the future, we wouldn't see customers in collections

in the first place. We've also seen firms make an effort to collect contact preferences from customers only to disregard such information when trying to speak, write or text them, showing that it's not enough to have analytical insights; you also need to act on them.

The returns from good analytics feed through every step of the arrears management process. A higher contact rate yields a high promise rate, from which you can expect a higher payment rate (although contact rates alone can also drive payment rates). Firms can establish a better sense of the costs and returns and assign their staff more efficiently: not to the people who are in arrears but who are going to pay anyway, regardless of whether you contact them or not; nor to the people who have promised and failed to pay seven times already and have patiently settled down to wait for times eight, nine and ten.

Done well, analytics can assign your staff to the people whose behaviour is most likely to be positively influenced by a phone call, email, SMS or letter from one of your collections team. Done poorly, analytics can result in naïve strategies. The perfect time to dial may be first thing in the morning or last thing at night. But that is neither a terribly large surprise nor particularly practical advice.

Segmentation strategies can also be beefed up through analytics by using 'nearest neighbour' analysis, which define customers via a series of parametric scales rather than assessing them on their own behaviour. Such an approach is especially useful for customers who are new to you or about whom you know very little. The basic idea is that if Customer A walks, talks and shops like Customers B, C and D, then they will probably behave as they do when in arrears. The more data you receive on Customer A's age, spending habits, other debts, utilisation patterns and payment levels, the better you can align them to a nearest neighbour category.

The skill is knowing where to look for subgroups within the whole. For example, overpayment on loans can predict two contrary things: (1) a higher than average credit quality because the customer has excess cash, and wants to pay back early (these customers are likely to take out more loans in the future because of their positive experience with credit): or (2) a lower than average credit quality because overpayment betrays a nervousness about the loan and a desire to pay it down in anticipation of harder times to come.

Treating the 'overpayers' as one category would yield little analytical benefit because the clump as a whole has no consistent characteristics. However, splitting it into two using secondary characteristics allows you to create highly distinct segments that call for totally different treatments.

The central enabler of a top-notch analytics function is excellent IT support, which involves good data transfer, sound data structuring, and an easily accessible data warehouse that makes reporting and extraction a doddle.

Don't have your analytics function tied up producing reams of MI, be it scheduled or ad hoc. Big data can sometimes lead to relatively futile cottage industries of 'what if' analysis, in which your analytics team process hunch after hunch from their curious colleagues. The more data there is, the more blips and noise you can expect. So don't allow your analytics function to become distracted. They should be following a rational research agenda of their own devising, adequately overseen, reviewed and challenged by relevant stakeholders.

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Communication and management information

The time when collections teams could function on the occasional report has well and truly passed. An industry that abounds in data faces the opposite threat: too much MI, taking up too much time to produce and decipher, while adding too little to the decision-making process.

A small number of principles can help tame this paper wilderness:

Pull not push. The most sophisticated operators allow remote access of data and user configuration of reports. You pull from the system the reports you need. You do not have to wade through reports that are pushed at you, regardless of your decision-making scope. Some DCAs grant access rights to their clients so that they can check in real time how many accounts within a placement have been serviced and what the results are of different strategies. Being able to pull off your own reports also prevents your analytics resource from becoming sidetracked as producers of MI. Pull not push systems also tend to be much better at letting users drill down into the data to the extent - and at the time - that it suits them. Pretty close to real time is a realistic goal.

Use the latest view to look forward. Recipients of MI should ask themselves: what could I conceivably do differently as a result of learning what this MI has told me? If the answer is 'nothing much' then the MI can be neither forward-looking nor action-driven. Projected performance relative to plan should be constantly under review. What's the latest picture? What's driving it? How are you performing relative to expectations? How can you use tolerances either side of performance metrics to avoid knee-jerk reactions?

If 1 000 customers made a promise to pay an average of R1000 on working day 10 of the month, with an average propensity to keep such promises of 80 percent, then you can work out on day 11 whether you are ahead or behind plan. Context is everything in MI, vintage analysis can reveal outliers, the distribution of balances is more important than the average. You cannot assess whether your current strategy or outsourcing to a DCA is really the champion strategy unless you can compare it with a challenger.

Being forward looking means examining emerging trends, comparing profile with risk appetite and (for some firms) dedicating collections staff to overseeing 'pre-arrears' cases in the performing book.

Use your forward-looking insights to adjust strategy. Set tolerances around your metrics and react to the unexpected – whether it be an upside or downside surprise. Suppose, for example, you are well ahead of your plan for credit cards on working day 11: use the MI to make decisions on resources. Perhaps you should switch some of your staff to the mortgage portfolio. The best MI suites in the business are designed to help decision makers decide quickly and enable effective oversight by a range of readers in different parts of the business.

Tailor the data and rethink the analysis depending on the audience. Your Board is unlikely to want to know the same things and in the same detail as your immediate boss. Performance means different things for different people. And collections MI needs to answer different questions at different levels of a firm. It can be hard for someone in the call centre to understand what's puzzling

the heads of the NEDs. Don't expect them to guess correctly. Instead, design the MI that supports your governance and committee arrangements so as to answer the questions that are appropriate for each level.

Think of internal communications as the natural counterpart to MI. MI flows up the organisation, becoming less focused on data and more focused on summary. In the opposite directions (down and across) should come smooth internal comms. For example:

- a clear articulation of risk appetite that is meaningful for people in their day to day jobs;
- succinct updates of business or marketing strategies; and
- clear advance warning of system, regulatory and IT changes that could impact the collections function.

The better your comms, the better your MI is likely to be.

Remember the value of what you know. Collections teams generate a wealth of potentially valuable insight and data points. Harvest it wisely and pass it on. It's in your self-interest to share. Executive management needs to hear from your collections staff if the average payment value rises or falls, if data quality falls or if there are major changes in the segmentation mix.

Skills and resources

You can have a brilliant dialler and cutting edge analytics but it still won't help you very much without the right number of the right people.

It's not usually a problem of recruitment, since collections personnel usually earn more than their near relatives in customer service. Specialist recruitment agencies are available to help with the screening process while flexible working and strong team camaraderie generally add to the appeal of the job. As a result, attrition rates are often lower than elsewhere in banking.

So, what tends to distinguish the great from the not so great must be something else. And in our experience the key factors are training, remuneration design and capacity planning.

It's worth remembering that in the age of online origination, the only human being in your firm with whom your customers ever speak could be the person who calls to collect a late payment. They are your brand ambassadors.

Training

Asking for money from people you don't know is a skill that takes time to acquire. We have helped turn around teams where fully 85 percent of outward-bound calls did not include a request for cash.

In the best collections departments, initial training typically lasts up to eight weeks and features one-to-one tuition, practice on dummy accounts and a 'nursery' area where beginners can hone their skills. That might seem like a long time, but not when you consider the amount of things a collector must get right: familiarity with scripts, complex IT systems, risk segments, dynamic collections strategies and evolving regulatory requirements.

Add to that list the specifics of both credit and repayment products and you can see why top-notch training is a worthwhile investment.

But it's not just about the onboarding. Although industry accreditation programmes are growing in popularity, collections staff do not need any formal qualifications. And that increases the importance of continuous development. The most successful teams tend to start each day with a five-minute 'huddle' to learn any lessons from the previous day and share information about emerging trends. Even something as simple as getting your staff to share the 'call of the day' can dramatically improve the learning culture.

Extensive online resources are available in the most sophisticated firms that teach collectors about different strategies for each situation, varying the kinds of conversations to have and gauging success relative to expected outcomes. Not all firms get this right, though, since it isn't enough to have a bank of information. Intuitive signposting and navigation is essential to make the most of online learning; a fact that is often overlooked.

Continuous training is also important because the regulatory environment (both rules and their interpretation) is constantly changing. One of the downsides we've seen of low attrition rates is that a team can sometimes become overly familiar with established practice and fail to adapt with the times.

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Remuneration and incentives

Managing your collections staff well is crucially dependent on creating the right incentives. Gone are the days (at least they should be) when a head office hot shot arrived with a R100 000 reward on offer to the individual who could collect the most cash in a year. The best firms make sure that remuneration schemes are balanced and incentivise high-quality team work.

Where rudimentary schemes used to reward staff for Rands collected, the best of today's schemes embed a range of goals, normally including call quality, compliance, cash collected and promises kept. In the same way, team managers should not be rewarded in relation to simple metrics such as number of calls or their length.

The goal is to align incentives to the overall objectives of the firm. Time spent explaining to staff how R100 collected can remove R2 000 from a firm's impairment balances is usually time well spent.

Capacity planning

Even the best collections staff will struggle to operate at full potential unless their colleagues can accurately forecast call volumes and typical length. Secured or litigation calls generally take longer, as do first contact calls. Efficiency savings and boosts to productivity can be substantial once the forecasting process has been optimised.

However, the ambition of the best firms is not simply to plan for capacity as currently understood. It is to maximise the time spent by each kind of skill set performing activities that most contribute towards the success of the firm. These kinds of firms do not ask their skilled analytics staff to spend days and days on routine recoding or data

extraction; instead, they work out how to employ scarce skills on the most valuable problem at hand.

Specialist processes and exceptions teams

Collections teams can be handed a surprisingly wide range of tasks to accomplish, from loading new accounts and working with the probate team to due diligence and responding to recourse queries from buyers of debt. The skills base needs to be flexible and adaptable to handle the variety of tasks.

It also has to include a small number of highly skilled staff to work in your Exceptions Team, investigating and resolving cases that slip between all your conventional categories. We typically see that such teams work best when they combine knowledge of customer behaviour, credit products, regulation and the systems and processes that the bank's customers might have used and which might have affected timing and balances.

Managing your collections staff well is crucially dependent on creating the right incentives. Gone are the days (at least they should be) when a head office hot shot arrived with a R100 000 cheque on offer to the individual who could collect the most cash in a year.

Validation and assurance

At the height of the PPI era in the UK, banks were paying out over £700m a month to customers who perceived that they had been miss-sold payment protection insurance. The total bill for the UK banking industry stands at over £22bn. Similarly in South Africa, millions of Rands have been refunded to borrowers for the miss-selling of unemployment insurance.

It's not a state of affairs financial institution would ever want to see repeated. Collections functions should bear these figures in mind when their colleagues from Internal Audit next come calling. This is not to suggest that a huge new problem lies skulking around the corner. The point is that regulators have shown they are prepared to take a stand, based on principles of good conduct, and to wait and see what the financial impact turns out to be.

Validation and assurance are, then, central considerations when designing the target operating model of a collections function or investing in new generation technology. How can you help your internal audit function to be assured that the control framework is designed and operating as planned? Are the accounts flowing into the dialler as anticipated? Does the dialler contain the right account information? Would anyone be able to tell if the dialler mistakenly loaded the same batch of accounts to be processed the next day for 30 days in a row? It sounds far-fetched, but it has happened. And every day for a month a team of collectors worked the same bunch of accounts, oblivious to the fact that their collective actions arguably amounted to harassment.

The collections management framework needs to be well documented and with an agreed suite of key performance and risk indicators. Internal audit should help the Board gain assurance that the right framework and culture are in place to underpin compliance and

business effectiveness. The framework should evidence good understanding of the risks to the delivery of the firm's collections strategy and the controls or mitigation plans in place to manage those risks.

The ability to provide reassurance over collections activities is crucially dependent on the insight and understanding of the internal audit staff. With many firms now turning to co-source arrangements, the success of any audit will turn on the specialist knowledge of the auditors.

External audit should sign off on the most material models, the input parameters and associated assumptions, that could include collection models.

The latest generation of core collections platforms now come with in-built controls and tools, designed to make it easier to demonstrate compliance. The focus by supervisors on conduct risk and a good risk culture means firms need to demonstrate the quality of customer outcomes and 'appropriateness of culture'. The feedback from collections is sometimes the way to spot conduct risk in other areas of the firm.

For example, the collections team is likely to be among the first to pick up customer unease over obscure terms and conditions or misleading initial offers. The standard way of collating complaint statistics excludes complaints that are settled on the same day, and without the need for escalation. But done properly, aggregation of these complaints can reveal patterns that would not be visible from the monthly complaint stats. Qualitative assessments of culture need to start modestly and sensibly:

- Is there any evidence that reward and remuneration are explicitly linked to delivery of good customer outcomes?
- Do documents and policies refer to 'customers' rather than products or

- cases? How frequently do people talk of 'arrears management' relative to 'collections'?
- How clearly communicated, understood and followed is the definition of a 'good customer outcome'? And what's the evidence that this definition is consistently supported throughout onboarding, training, policies and workflows?

Properly understanding the linkage between collections and stress testing can help to validate the arrears management framework – and improve the quality of the stress test itself.

Collections staff need to understand what each of the major stress scenarios would mean for them. How would their contingency planning need to respond? How quickly could they lift capacity? What is it they need to ramp up for? And how would the mitigating management actions contained within the full stress scenario impact them?

Contingency planning, in particular, needs to be clearly articulated, reviewed and challenged. What happens if the payment portal fails? Who would do what? How quickly would disaster recovery planning kick in? Could your business survive a three-day total outage? What are the knock-on implications? The fewer the people who work in your call centre and the greater the amount of automation, then the heavier the reliance on technology. Contingency planning needs to evolve at least as quickly as this reliance.

Looking at stress testing from the other direction, though, it's also clear that involving your collections function in the stress test exercise can yield significant benefits. They may well have a better perspective on early warning indicators, evolving customer attitudes to debt and likely behaviours in arrears. They can also help assess the likely efficacy and costs of planned mitigating actions.

Deloitte's London-based collections team has helped firms all over the world improve their collections including coverage of the South African market with assistance from the local Deloitte team. As well as end-to-end reviews of your target operating model, we can also help you deploy specific tools, models or technologies.

Operational assessment

Deloitte's proprietary Tier Structure Model (TSM) assesses your collections operation against relevant peers, using nine key parameters to gauge what the collections function does well, and where you should prioritise your improvement efforts. The TSM can also be used to assess the entire range of collections operations, from risk appetite setting and strategy to regulatory compliance, IT architecture and how you select third parties and monitor their performance.

Capability assessment

Our Capability Assessment builds on the TSM, showing how capable your operation is at applying the collections strategies, policies and controls with the existing systems, data flows and IT architecture. We can help you identify bottle-necks and calculate what changes would give you the highest returns on your investment. We also have extensive experience helping internal audit teams deliver robust, risk-based assessment and assurance reports.

Trends and future readiness

Deloitte analytics can show the longterm trends in your delinquent book, which then links back to the operational and capability assessments. How aligned are the current strategies and development roadmaps to the changes in the book? How will the operation perform in the future? What must change now to meet the evolving dynamics of the book?

Pro-active management

Deloitte can enable your collections team to pro-actively manage resources and schedules, giving you greater visibility around your month-end results. This provides considerable operational savings as it ensures that resources are used efficiently but for more maximum effectiveness.

Modelling and scoring

Deloitte can work with any third party data or bureau and even assess and recommend the most suitable external data to use. We have helped collections clients with a depth of collections models: from propensity to pay, through to optimal repayment levels and daily behavioural scores.

The Deloitte team are also expert at Debt Pricing and can provide methodologies for the accurate pricing of debt for both sellers and purchasers alike, including due diligence on strategic book purchases.

Systems selection and implementation

We have helped many firms select the most appropriate system for their particular needs with thorough and easily understood benchmarking reports that use our in-depth understanding of core collections platforms and the latest analytics techniques. We have also helped our clients undertake collection sytem upgrades or more fundamental re-platforming.

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Deloitte's collections Tier Structure Model

This is a simple, high-level view of a collections function which in turn is fed by over 200 questions regarding your relative collections capabilities.

Improving practices

		Tier 5	Tier 4
AK AK	Strategy, appetite and policy	There is no formal collections-risk strategy.	Collections strategy is communicated but this is generally not reinforced by communications by business unit management. There can be some inconsistencies in the communication due to the different levels of buy-in between business unit management.
	Risk governance and organisation	Collections is run as an operationally driven area.	There are significant specialist treatments of accounts but expertise is based on product rather than account types.
(4)	Data and definitions	No formal definition of different risk classes exists.	An account risk classification exists for some but not all business units in the organisation.
(Process management	No additional collections and recoveries data stored other than transaction and account information.	Basic customer contact information stored in free text fields. Aggregated collection, and balance information stored.
	Information technology	Ad hoc collections and recoveries processes used with little or no control or standardisation.	Standard collections and recoveries process exists arranged around delinquency status of the account.
	Analytics	Measurement is based on self assessments and simple relative measures (Low/Medium/ High) using basic indicators as a proxy for risk e.g. balance	Measurement based on simple relative measures (such as low, medium, high).
Q	Communication and management information	Ad hoc management reports.	Regular management reporting at business level, although it does not contain complete information from all of the business units. Reporting is conducted more on an information basis than as an assistance to decision-making.
ĤÅ	Skills & Resources	Limited skills in collections. No collections and recoveries competency model exists.	Reliance on a small number of specialist resource within the collections and recoveries function. A simplistic competency model exists that all collections and recoveries individuals meet.
	Validation and assurance	No formal internal or external validation of the collections management framework occurs. No stress testing takes place.	Stress tests take place but don't recognise that in the event of a stress scenario management action could materially impact the likely outcome.

Tier 3	Tier 2	Tier 1
The organisation's collections & recoveries policies are clearly communicated to staff at appropriate levels in business units. Documentation on the collections & recoveries policies, processes and procedures is easily accessible to all relevant employees.	The policy is distributed and communicated effectively throughout all the business units, together with clear support from the business unit management. There is a formal process for policy distribution as changes arise. It forms part of regular use across the business.	Intranet-based policy, with regular communication of updates. Policy is cross-referred from other relevant policies, procedures and other internal communications. Use and understanding of procedures is apparent.
There are significant specialist treatments of accounts but expertise is based on portfolio rather than account types.	Operational areas receive accounts based on a combination of strategy and capacity.	Collections area decisions are only made after a thorough evaluation of the impact on other areas with support from capacity and resource modelling.
Multiple definitions of risk or out of order accounts exist across the business.	A single definition risk or out of order is used, but this is interpreted and implemented differently across the organisation.	A single definition of risk or out of order is used and applied across the organisation.
Basic customer contact information stored in specific fields available for data analysis and supports limited "Champion versus Challenger" strategies.	Full customer contact information stored in specific fields available for data analysis and supports limited "Champion versus Challenger" strategies. Aggregated collection, recovery and balance information stored with drill-down capability to individual collections and recovery activities.	Data architecture full flexible to support "Champion versus Challenger" strategies, with full customer contact information recorded, including method of contact, time, individual etc. to support full analytical analysis and back-testing of models and strategies.
Standard collections and recoveries process exists, arranged around delinquency status of the customer.	Distinct collections and recoveries processes exist based on output from specific scorecards. Limited strategy and analytical capability remains.	Virtual collections and recoveries processes operated as factories with strategy and analytic capability performed by separate analytical function. Processes consider communication mechanism (SMS, etc.), timing, script etc.
Some quantitative measurement is attempted using scoring models on a product basis. There are standard processes, models and guidelines for assessing and measuring risk across business units.	Collections and recoveries risk is quantified using a customer-level score loaded at inception which uses all internal and external information available.	Collections and recoveries risk is quantified using customer level scores which are kept up to date and use all internal and external information available.
Management reporting tailored to meet roles and responsibilities. Regular reporting of performance to management and Board. Some defined procedures for action and remedial steps according to information, focused largely on material issues and concerns.	Regular management reporting and departmental reporting at least weekly, some standard reports available on demand. Efficiency and effectiveness measures in place.	Regular management reporting and supplementary reporting on demand and at more detailed levels. Efficiency and effectiveness measured. Forecasts driven from reporting to compare to targets and inform decisions.
Pockets of collections and recoveries skills exist within the collections and recoveries function. A competency model exists that provides some degree of differentiation as to the key skills that are required in a collections operation.	Collections and recoveries skills are prevalent throughout business. A comprehensive competency model exists that provides a high degree of differentiation as to the key skills required in a specific product category, brand or call type environment, but this competency model is not reviewed or updated on a regular basis.	Specific skills are prevalent throughout the function with key individuals recognised as industry specialists supported by strong training and succession-planning culture. A comprehensive competency model exists that provides a high degree of differentiation as to the key skills required in specific products or environments; this is reviewed regularly.
Stress testing takes place on an ad hoc basis when risks are identified.	Models and situations are stress tested and early warning triggers are used.	External audit sign-off on the models, the input parameters and relevant assumptions. Stress tests take place and consider a comprehensive range of management actions in the event of a stress scenario, which are then reflected in the stress test results reported. Early warning triggers are integral to reporting.

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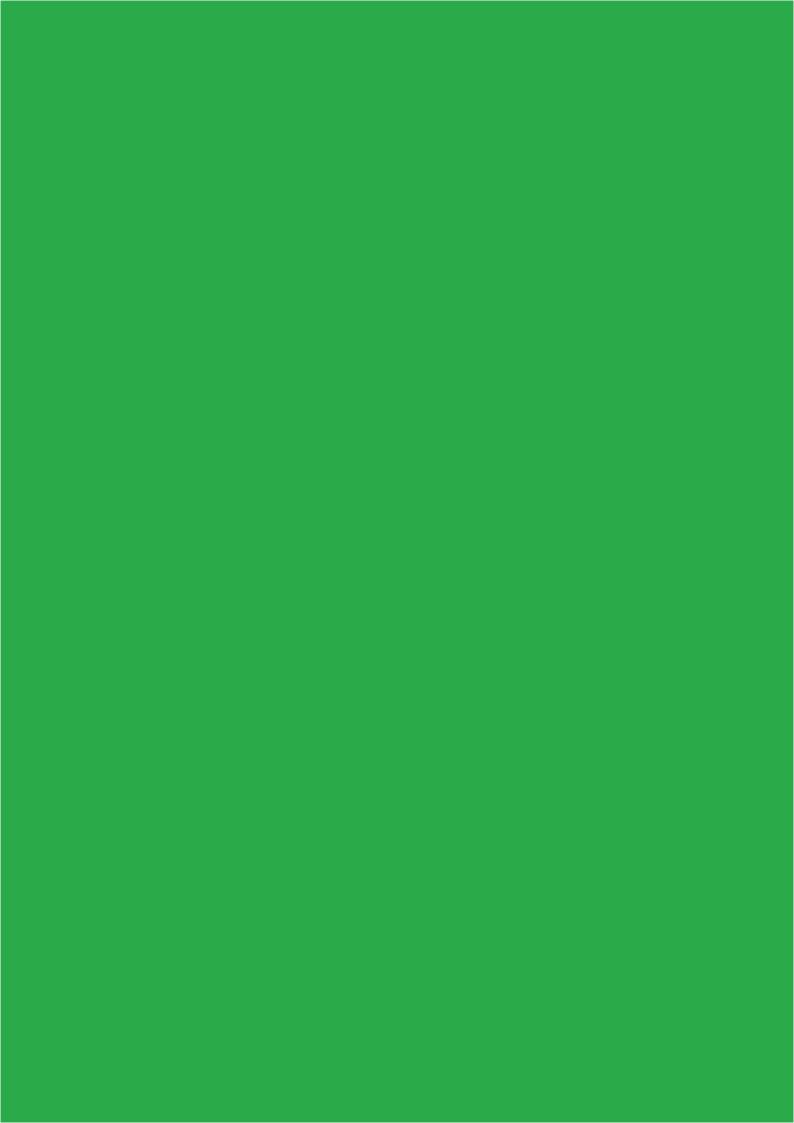
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