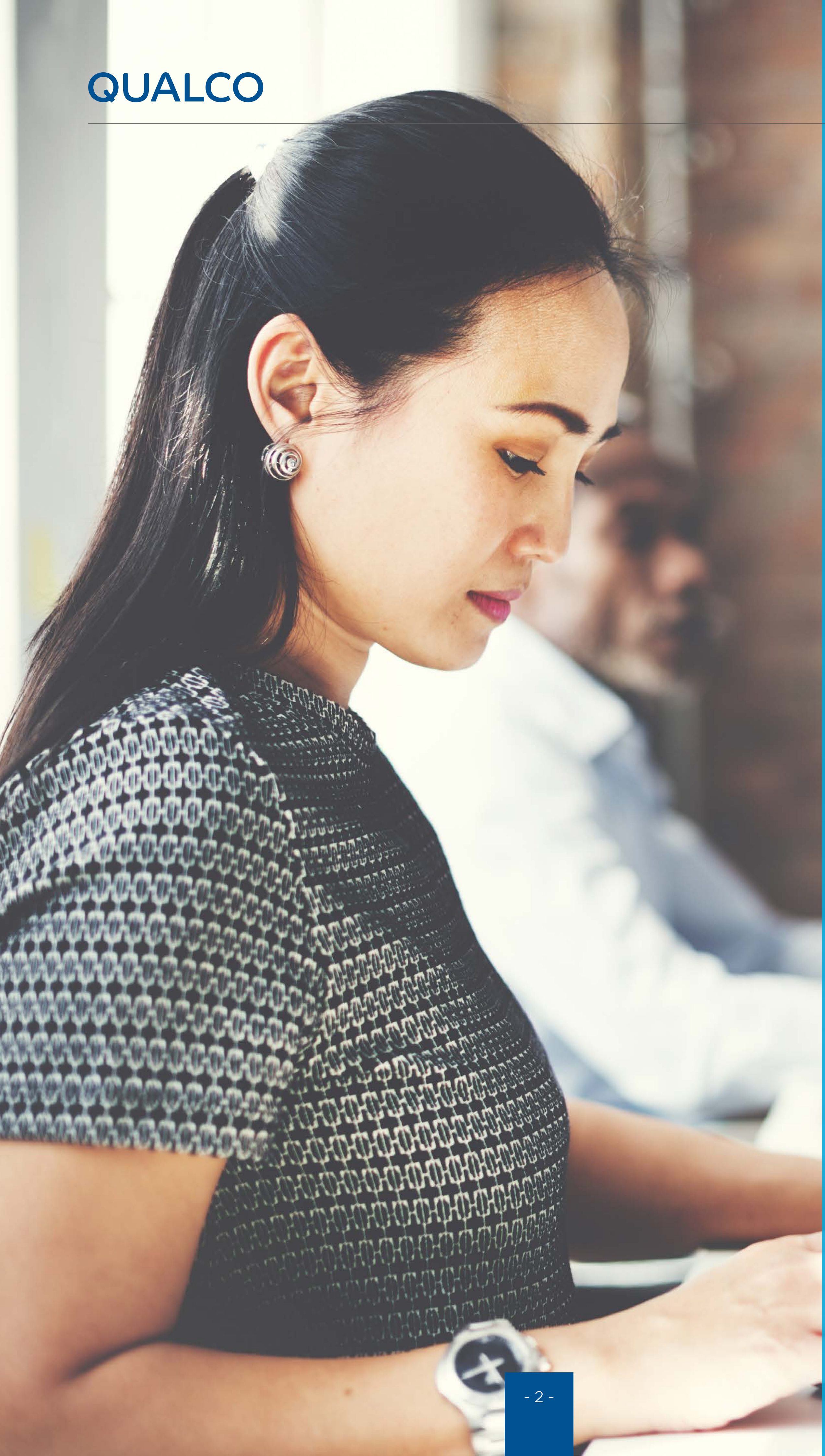
QUALCO

THE DEBT PORTFOLIO BLUEPRINT

How to build a managed service model to improve collections and recoveries.

A managed service model can help you to put customers first, obtain the best possible result, and improve your collections and recoveries.

QUALCO.EU



CONTENTS

FOREWORD

"Creditors and debt purchasers are becoming increasingly focused on customer rehabilitation and retention... Outsourcing services can result in significant gains in this area"

Creditors and debt purchasers are finding themselves in a very different space than they were in a few years ago. The financial crisis has resulted in major change.

Creditors are concerned about the scale of the provisions they must hold against bad debts, about the cost of acquiring new customers in a highly competitive market place and achieving higher levels of cost control and profitability.

Meanwhile, in the UK, the Financial Conduct Authority's (FCA's) requirements around systems and controls (SYSC) have forced organisations to take a long hard look at what's in place and whether it's fit for purpose.

Many creditors are looking to rationalise their supplier base to retain sufficient oversight and reduce risk in this area.

Most original creditors have a long wish list of development work they want to undertake but may lack either the technical ability or resources to do it. Managed service providers (MSPs) can help bring these ideas to life, testing existing models and forecasts to select the best solution for the creditor's overdue accounts.

Often MSPs find that because they have been through this process many times with banks, utilities, retailers and debt investors, they can expedite processes faster than clients are able to do on their own and come up with a broader range of potential options.

In addition, original creditors are becoming increasingly focused on customer rehabilitation and retention.

Outsourcing services can result in significant gains in this area.

Some debt collection partners in the UK are now receiving accreditations such as Investors in Customers, and achieving net promoter scores (NPS) of high 30s through to mid 40s.

This is exceptional and points to the new reality that the debt collection and recovery industry is no longer delivering minimum brand protection for clients, but is ensuring a positive journey for customers in the collections process.

This provides benefits to debt providers, regulators and customers and demonstrates that the managed service model is a very effective way of helping customers whose accounts fall into arrears.

—

Christian Jacob
Managing Director
Qualco UK

SPEED READ: THE CASE FOR MANAGED SERVICE COLLECTIONS AND RECOVERIES

The expansion of credit and stringent regulatory compliance around the treatment of customer dictate that collections and recoveries and achievements must be taken to new heights.

→

For many credit providers collections and recoveries are laborious, time-consuming aspect of the business that hampers ROI. They may prefer to employ a managed service model that harnesses technology, skills and experience that they do not have in-house.

→

Due diligence to vet managed service providers is understandably often more rigorous than the internal processes that organisations would adopt to audit their in-house capabilities. Using MSPs is an opportunity to upgrade collection and recoveries, rather than match internal processes.

→

Managed service providers enrich the data that creditors provide to them by using powerful external data of their own and their DCA partners. Furthermore, their powerful and specialised technology tools harness such data to identify the best way to locate and communicate with the customer and ensure the best outcomes for all.

→

A managed service enables the credit provider to monitor and measure the progress and results achieved on a real time basis.

→

Success will be measured in terms of improved collection performance, efficient compliance procedures, cost savings and customer rehabilitation.

"THE WORK OF MANAGED SERVICE PROVIDERS IS CENTRED UPON CUSTOMERS AND OBTAINING THE BEST POSSIBLE RESULT FOR THEM AS WELL AS FOR THE CREDIT PROVIDER"

Original creditors and debt purchasers typically have three primary goals:

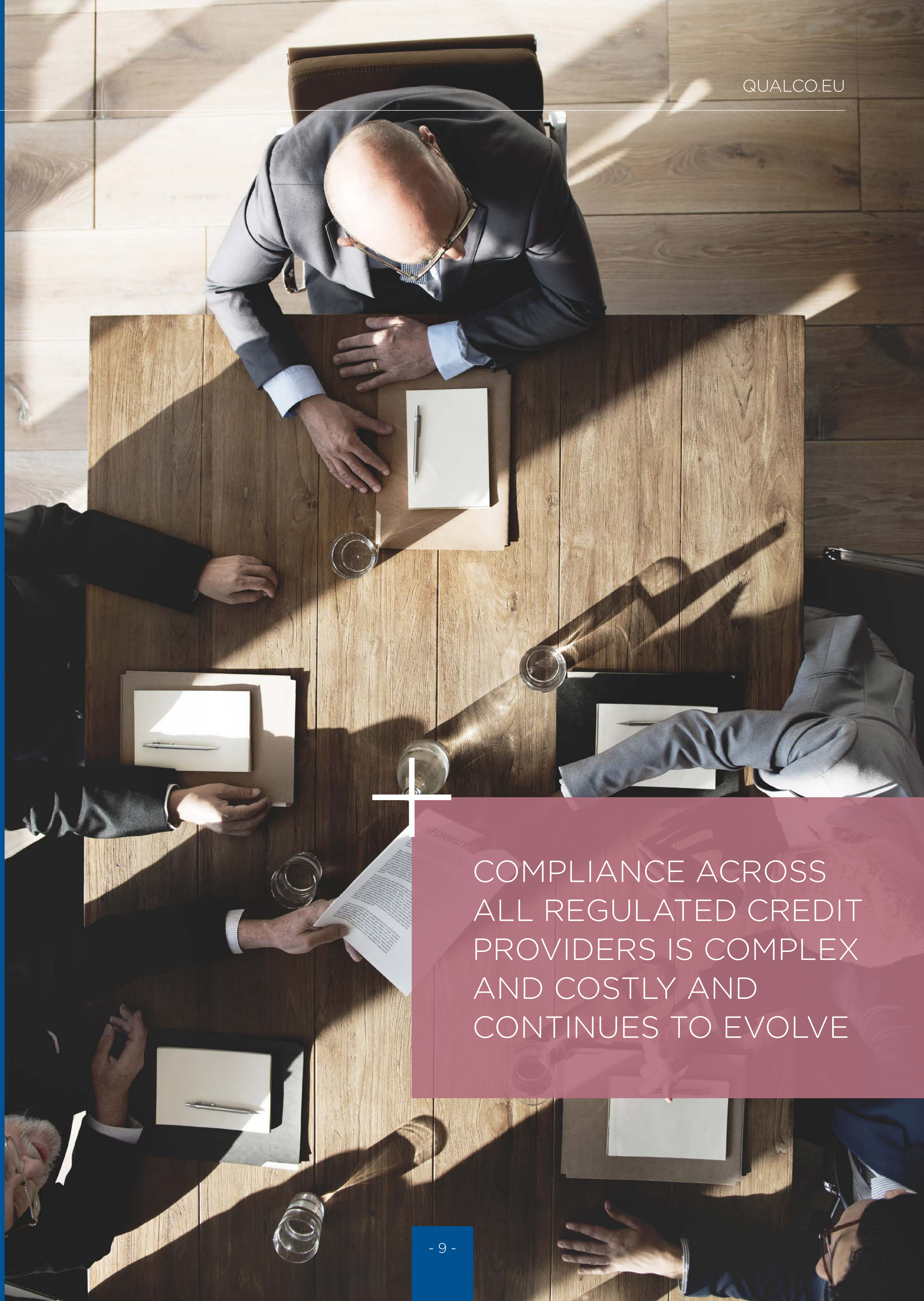
- To improve their rates of collection and recoveries of overdue accounts.
- To achieve strong compliance outcomes with a high quality of customer service.
- To save collection and recoveries costs.

These are three pillars that underpin their strategy and their choice of a managed service collection and recovery model. For many organisations, these can be challenging because they may not have up-to-date systems to achieve this.

In large organisations, there may be a variety of legacy systems holding incompatible data, which is difficult to coordinate.

Compliance across all regulated credit providers is complex and costly and continues to evolve. Failure to comply is a serious risk to reputation and could lead to high financial penalties from regulators.

The managed service model should be appraised on its ability to meet these three demands. It does, however, have several additional advantages.



COMPLIANCE ACROSS ALL REGULATED CREDIT PROVIDERS IS COMPLEX AND COSTLY AND CONTINUES TO EVOLVE

Firstly, managed service providers bring experience to collection and recoveries having provided similar services to other creditors. They therefore have a wealth of rich data available to them that individual credit providers may not have.

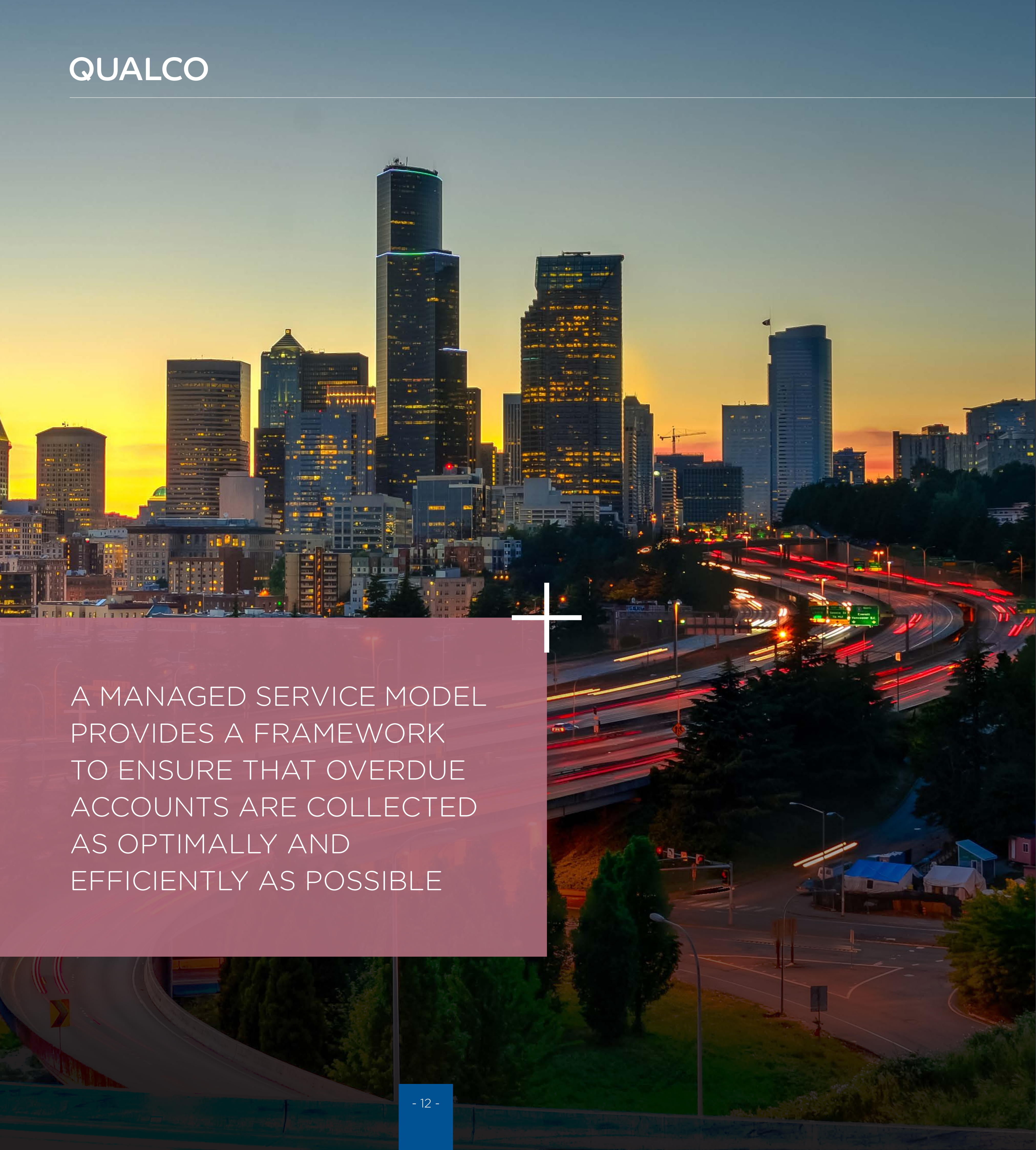
Because they are highly specialised in collections and recoveries, managed service providers have already invested in the systems needed to carry out efficient big data handling and debt collection operations. They continue to reinvest and enhance these systems. This saves creditor organisations having to do so.

Their experience, knowledge and practice of compliance are likely to exceed that of credit providers, who can therefore supplement their internal compliance procedures by working with them.

Lastly, the work of managed service providers is centred upon customers and obtaining the best possible result for them as well as for the credit provider. Consequently, they bring credit providers the benefit of maintaining good relations with overdue customers who can be rehabilitated. This saves credit providers considerable cost in terms of new customer acquisition.

A total external debt collection framework brings credit providers a scope and level of service that far exceeds what is achievable in-house. Therefore, an MSP has an important role to play in an organisation's end-to-end debt management strategy.

THE WORK OF MANAGED SERVICE PROVIDERS IS CENTRED UPON CUSTOMERS AND OBTAINING THE BEST POSSIBLE RESULT FOR THEM AS WELL AS FOR THE CREDIT PROVIDER



A MANAGED SERVICE MODEL PROVIDES A FRAMEWORK TO ENSURE THAT OVERDUE ACCOUNTS ARE COLLECTED AS OPTIMALLY AND EFFICIENTLY AS POSSIBLE

THE GROWTH OF CREDIT

Recently, the growth of credit has been something of a European phenomenon. M3, the ECB's broad monetary aggregate, has been steadily growing at a rate of around 5% since mid-2015 and looks set to do so for the foreseeable future.

At the beginning of the year, the growth of credit extended to European residents increased exponentially - January's annual rate of 2.6% had increased to 3.2% no less than a month later.

A managed service model provides a framework to ensure that overdue accounts are collected as optimally and efficiently as possible.

This means applying the best debt collection strategy and outsourcing to partners that have specialised skills, knowledge and experience that enable them to be more effective than the institution could be itself.

In addition, the MSP closely monitors the performance of debt collection agencies (DCAs) on behalf of creditors, who can then view the work done quickly and transparently at all times.

COMPLIANCE

While the expansion of credit has bred higher levels of non-performance among customers, compliance demands placed upon credit providers has ratcheted up considerably since the financial crisis.

The rules are clear. Using the United Kingdom as an example, the Financial Conduct Authority deliberately repeats its Principles for Businesses (PRIN) in the preamble to its Consumer Credit Sourcebook (CONC). It says:

Principle 1

"a firm must conduct its business with integrity""

Principle 2

"a firm must conduct its business with due skill, care and diligence"

Principle 3

"a firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems"

Principle 6

"a firm must pay due regard to the interests of its customers and treat them fairly"

CONC chapter 7 covers "Arrears, default and recovery (including repossessions)" and includes specific instructions on how credit providers must set "clear, effective and appropriate arrears policies and procedures" for dealing with customers whose accounts fall into arrears".

This includes how to approach and treat their customers, as well as how not to.

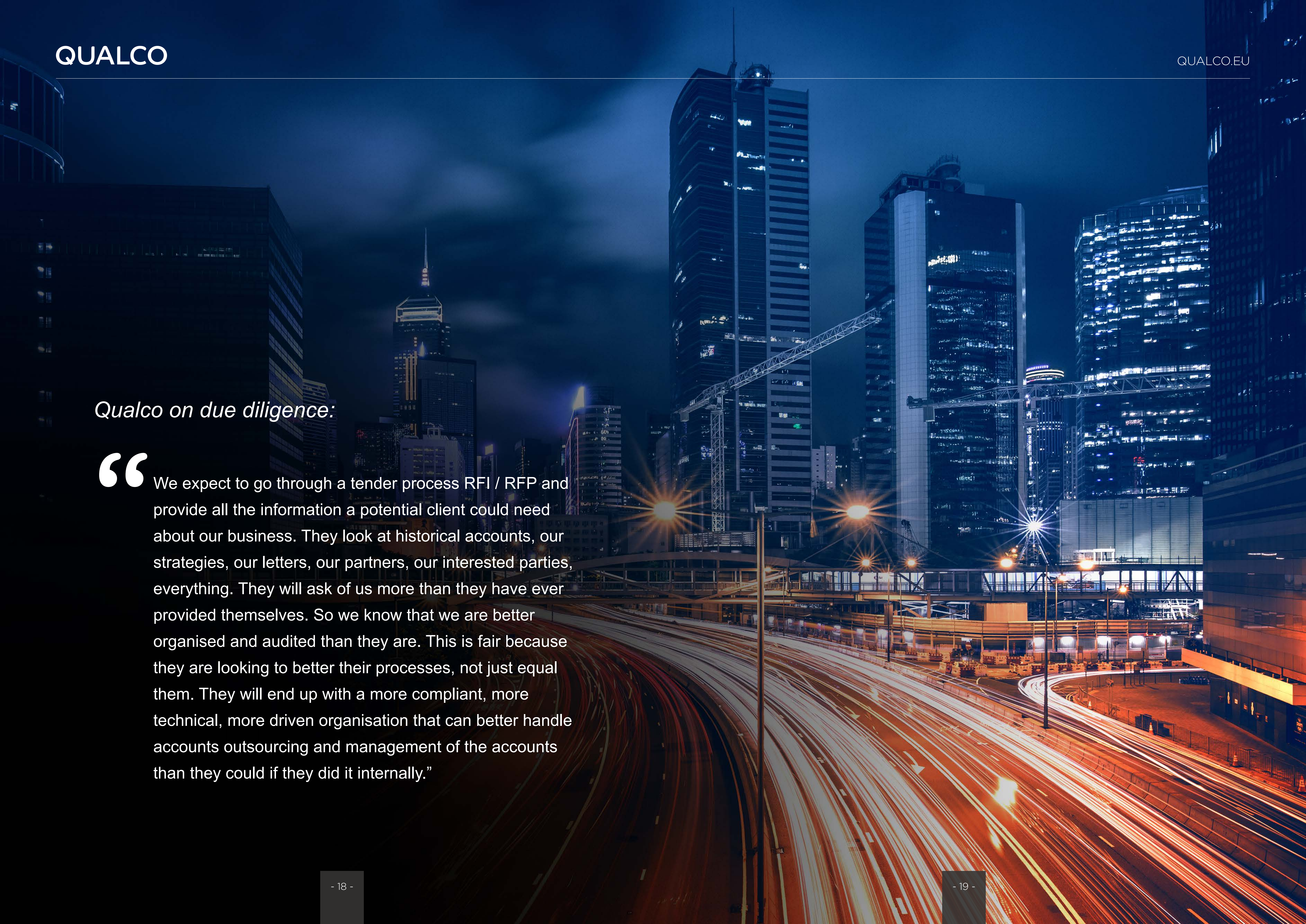
UK collections professionals must work to the FCA handbook and show that they have the systems and controls (SYSC) to reflect what is in the handbook.

When questioned about activities they undertake that are covered by the handbook, they must provide evidence that they are dealing with this in a compliant manner. As the handbook provides principles rather than rules, many feel there are difficulties in interpreting what is required.

Compliance is an area where managed services bring definite benefits. Managed service providers deal day-in-day-out with compliance issues around debt collection and customer handling.

Consequently, their level of experience is greater than that of any single credit provider. They exercise rigorous due diligence for all potential financial services clients, which means they have examined regulatory requirements from many different angles.

COMPLIANCE IS AN AREA WHERE MANAGED SERVICES BRING DEFINITE BENEFITS



Qualco on due diligence:

"We expect to go through a tender process RFI / RFP and provide all the information a potential client could need about our business. They look at historical accounts, our strategies, our letters, our partners, our interested parties, everything. They will ask of us more than they have ever provided themselves. So we know that we are better organised and audited than they are. This is fair because they are looking to better their processes, not just equal them. They will end up with a more compliant, more technical, more driven organisation that can better handle accounts outsourcing and management of the accounts than they could if they did it internally."

SETTING PARAMETERS IN THE FORM OF GOALS AND TARGETS ENABLES THE SERVICE PROVIDER TO MANAGE THE USE OF SPECIALIST DCAS

STRATEGY AND IMPLEMENTATION

Setting a strategy that makes use of a managed service model is straightforward, once the compliance and due diligence aspects of appraising a service provider have been fulfilled.

In essence, the collection strategy is a matter of steering the managed service provider in the way that best suits the client.

Setting parameters in the form of goals and targets enables the service provider to manage the use of specialist DCAs. A DCA's performance can be measured, tracked and adjusted and DCAs replaced or supplemented if necessary, should the strategy be changed or refined.

One key aspect of implementation that typically concerns clients is the security of the data they supply to the managed service provider and through it, to the DCA partners. Therefore the managed service provider will need to demonstrate the security and integrity of its systems and those of the DCAs, ensuring that they are ISO 27001 compliant.

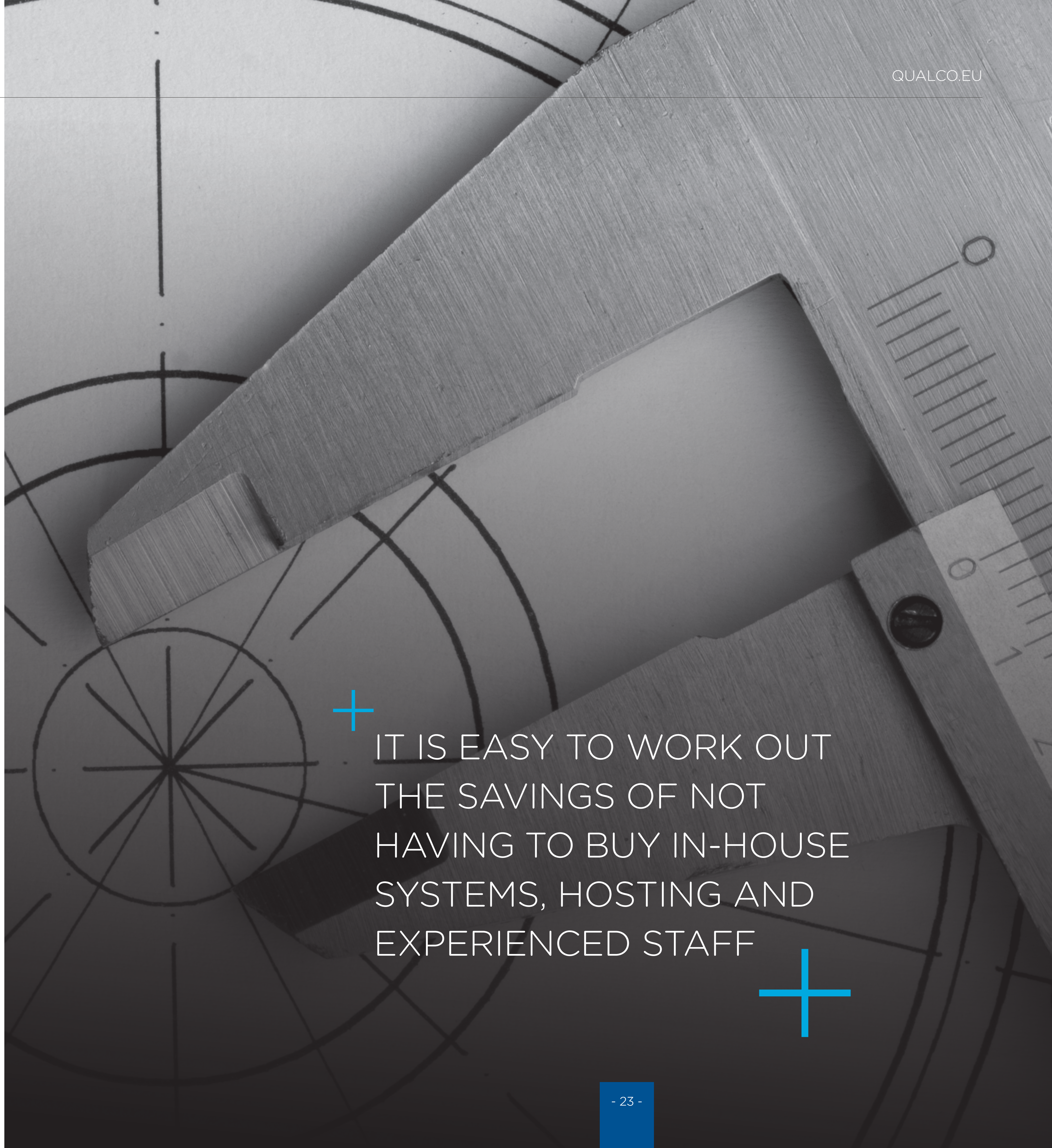
Implementation will involve a clear understanding of the managed service provider's processes and how data is transferred. The service provider will also carry out data audits.

In essence, managed services cut down the work that an originating creditor will have to do on their accounts. The service provider will do the labour-intensive, time consuming technical activities that the client would have previously handled.

HOW TO MEASURE MSP SUCCESS

Clients will typically assess the success of employing a managed service model using three basic criteria.

- The first is an improved rate of collections. This is easily monitored by the client by using the dashboard reporting system supplied as part of the model.
- Compliance is the second measure. While meeting compliance standards comes at a cost, the price of non-compliance can be punitive, so this needs to be considered in an assessment of value for money.
- Thirdly, cost savings. It is easy to work out the savings of not having to buy in-house systems, hosting and experienced staff. It is not as easy to measure the benefit of customer retention and end-to-end customer rehabilitation when future revenues from contented, but once indebted, customers may span years ahead.



SIGMA

THE SIGMA FINANCIAL GROUP

Historically a debt purchaser and debt recovery agency, Sigma is now an innovative business process outsourcer providing a range of 'white label' customer contact solutions for clients within the utilities, financial services and retail sectors.

The firm acquired an amalgamation of sub prime debt portfolios through M&A. The clear business need was to achieve its Purchase Price + Servicing and IIR (Internal Rate of Return). With Sigma increasingly focused on delivering its 'white label' early arrears services to clients, it embarked upon a brief internal collections strategy followed by five or six external DCA placements, by which time it had exhausted liquidation avenues.

"Having exhausted all internal servicing options on the debt book and with Sigma placing increasing focus on its 'white label' BPO business," explains its chief executive officer Gary Gilburd, "we decided to utilise Qualco in order to see if more revenue could be extracted from the portfolio. It was a challenging portfolio to service but Qualco made a convincing proposal to analyse the accounts and apply their strategy."

After careful examination of the portfolio, Qualco employed its Collections and Recoveries technology, supplemented with the optional Qualco Portfolio Management service layer, which manages assets and recoveries processes through external agencies. The offering enabled Sigma to refine and optimise who it outsourced its allocations to, even though some of the same agencies were used from previous collections activity on the portfolio.

Not only did the Collections and Recoveries platform improve key collections metrics on the portfolio for Sigma, it also improved metrics related to customer insight, customer treatment and understanding the full debt lifecycle.

At the stage of the cycle Qualco became involved, the typical industry standard would see collections increase 1%. However, with Qualco's involvement, a further 13% of the gross value of the book was collected in 12 months, adding significant value to the investment for Sigma. If the Qualco solution had been applied at Prime Placement it could have netted returns of more than 50%.

"We have been immensely pleased with the results!" Sigma's CEO continues. "The 13% return far exceeded our expectations and we are continuing to work with Qualco on a number of projects where their enthusiasm and expertise has been hugely impressive."

"Qualco made a convincing proposal to analyse the accounts and apply their strategy," Sigma's MD continues. "I couldn't be more pleased with the results. The 13% return far exceeded our expectations, which in turn led to an internal decision to outsource our entire debt purchase book through Qualco. This included prime placement work along with the more seasoned type accounts we had initially placed."

Efficient implementation and continual monitoring

While the nature of the debt portfolio and timing are significant factors in determining net recovery, choosing an optimal managed service model pays dividends.

A managed solution means exactly that. It involves thorough and careful analysis of the debt portfolio, the choice of the most appropriate strategy, efficient implementation and attentive monitoring of results. Qualco's Collections and Recoveries technology and Qualco's Portfolio Management service layer enables this and the results are evident as Sigma's experience demonstrates.

"A MANAGED SERVICE MODEL OFFERS CREDIT PROVIDERS SUCH AS BANKS, RETAILERS AND UTILITIES A NUMBER OF ADVANTAGES OVER THE DEVELOPMENT OF AN IN-HOUSE COLLECTION AND RECOVERY APPROACH"

The growth of consumer credit has brought with it increased levels of overdue accounts. The technology employed by a managed service model uses powerful technology to store and handle data that will be potentially infinite in its ability to grow with the data demands placed upon it.

Compliance is a challenge. The rigorous regulatory guidance on arrears, default and recovery, demands high levels of conduct by credit providers towards their customers.

Managed service providers bring to credit providers ready-made, high-integrity compliance capabilities that in-house systems and process would be unlikely to match.

Employing a managed service model makes setting a collections and recoveries strategy easier. It brings capabilities tried and tested with a range of clients including banks, debt purchasers, retailers and utilities. A managed service model provides a conduit to reaching, employing and managing a range of DCAs that have specific skills, geographical and sector expertise and experience.

The rich data compiled by the managed service provider brings benefits to the institution. It aids the collections process, but also enhances the longer-term relationship between the credit provider and its customer.

The managed service provider's intense focus on the customer makes rehabilitation a key benefit of the model. Once a debt has been collected and the customer has been fairly and sensitively treated, the relationship between that customer and the credit provider should continue into the future.

This is important because it will be less costly than recruiting new customers.

FIVE STEPS TO STRATEGY SUCCESS

Devote special attention to the growth in customers in arrears, cutting bad debts and ensuring fair treatment for those in financial difficulty. Recognise that expert managed service providers may have levels of technology, skill and experience not available in-house.

\+

Use external partners to help tackle rigorous and detailed compliance requirements.

\+

Secure access to rich, complex, secure data handling that exceeds in-house capabilities- the bedrock of the managed service model.

\+

Ensure customer rehabilitation, based upon successful collection and sensitive, compliant management of customers who are in arrears. This is what a managed service can be expected to deliver.

SHARE THIS BLUEPRINT

Are you ready to take our **Debt Portfolio Maturity Audit** and discover how we can help you build a more cost-effective C&R strategy? Find out now.

FILL OUT THE AUDIT

QUALCO

QUALCO.EU