



Credit Risk Programme

Module 9 Collections Management

Learning Objectives

At the end of this session, you will understand:

- The various stages of delinquency
- How delinquency is computed and the importance of tracking these indicators.
- The infrastructure and tools used by collections at various stages of delinquency and how they drive efficiency and effectiveness.
- The five pillars of collections and how they drive transformation.
- The Target Operating Model within collections and the reason for such a structure.
- The operational dynamics that govern collections performance – the input and output metrics.
- How frontline collections staff are incentivized and how scorecards drive the right behaviour.
- The key risks in collections and how the bank ensures oversight.
- The commonly used ‘jargon’ within collections.

Purpose of Collection

1. Guidelines

- Most people want to repay their debts . They may need some help in making payments
- Some people get into temporary financial trouble
- Most people modify their behaviour during periods of hardship by reducing their spending
- Most lenders extend credit in a responsible and prudent manner

2. The purpose of collections is to enable the bank to profitably market to a wider customer base in a very competitive market place

3. Collections need to be carried out in compliance to TCF (Treating Customer Fairly) guidelines, local regulations and SCB policies and process standards

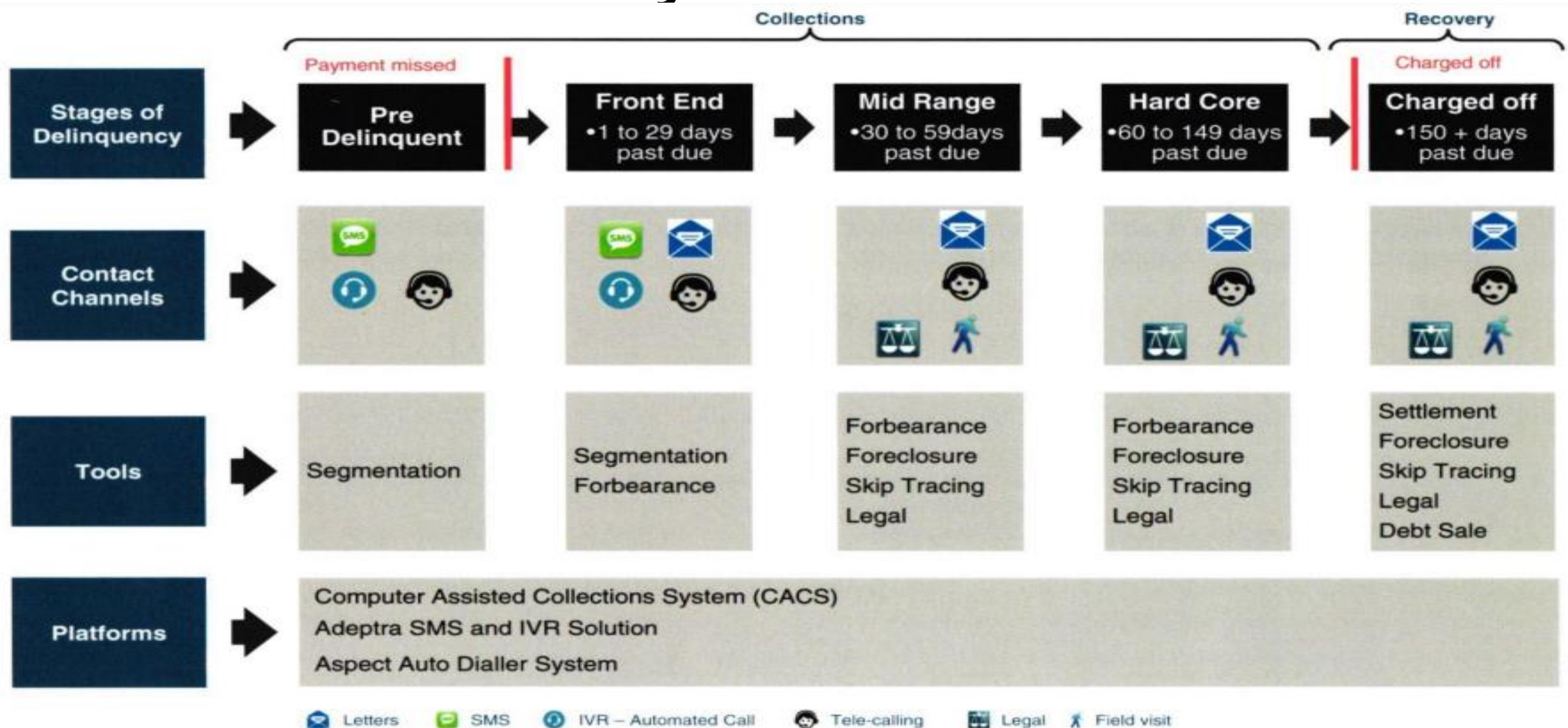
Collection of Lifecycle

The portfolio of \$ 1,000 assumes 1,000 accounts with each having a balance of \$ 1

	T0	T1	T2	T3	T4	T5	T6	Arrear amount
ENR	\$ 1,000	\$ 1,000	\$ 1,000	\$1,000	\$ 1,000	\$ 1,000		
Current	\$ 1,000	\$ 900	\$ 950	\$954	\$ 956	\$ 958		None
X DPD		\$ 100	\$ 10	\$ 11	\$ 13	\$ 15		1 Instalment
30 DPD			\$ 40	\$ 5	\$ 6	\$ 7		2 Instalments
60 DPD				\$ 30	\$ 5	\$ 6		3 Instalments
90 DPD					\$ 20	\$ 4		4 Instalments
120 DPD						\$10		5 Instalments
GCO				Charge off at 150 DPD			\$5	Full Outstanding
Recovery				Payment from Charged off a/c			\$ 1	
IIP				Net off GCO and Recovery			\$ 4	

The process of loss recognition (Gross Charge Off) is formulaic and system driven

Collection of Lifecycle



Collection Tools

Forbearance

- The purpose is to assist customers who are in financial distress.
- The principle is to reduce the customer's debt burden through reduced payments via discount settlements or restructuring

Legal

- Used where the customer may have ability but limited intent to pay.
- Used extensively in asset backed lending to take possession of / liquidate the asset.

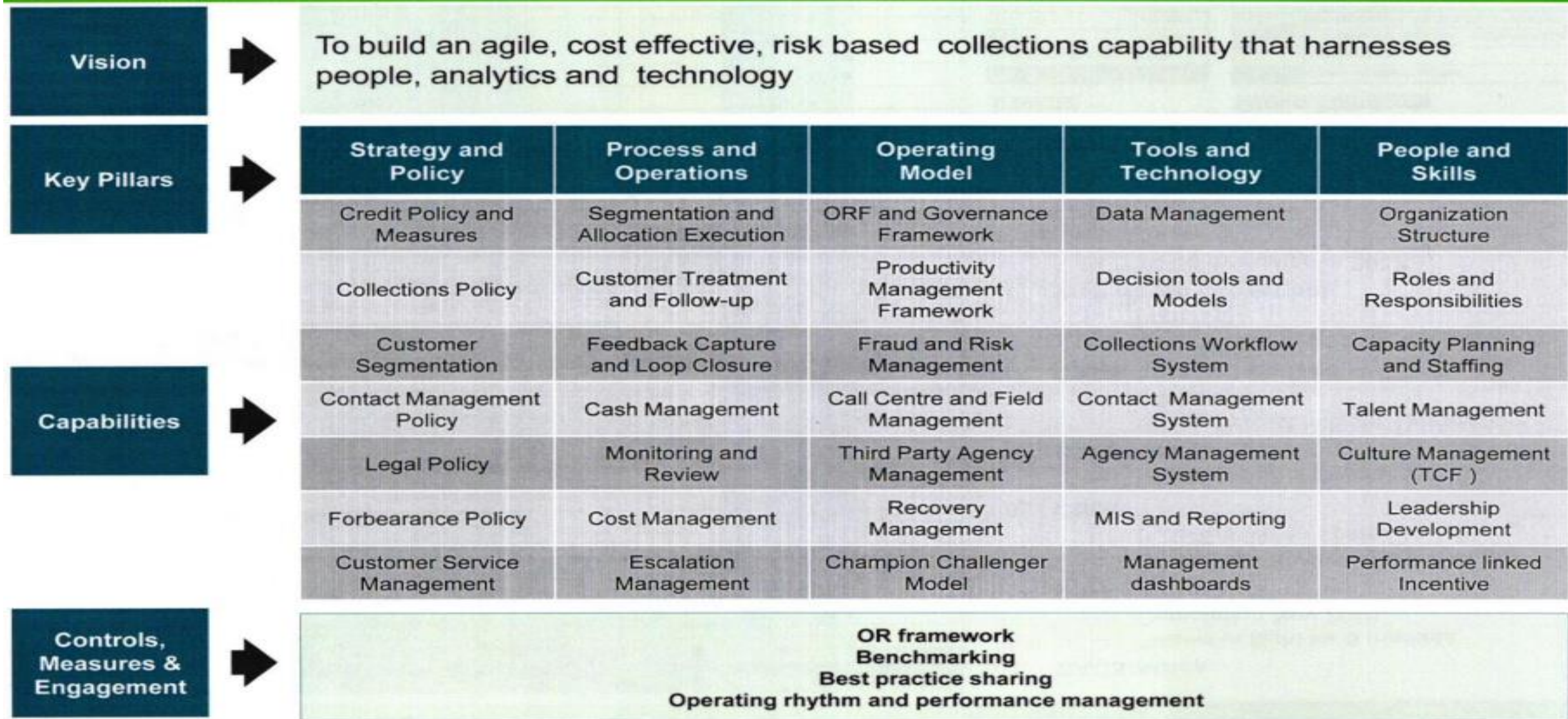
External Agency

- Used to collect from customers who are uncontactable, are avoiding contact or are not honouring their obligations
- Due to the heightened risk around conduct and data confidentiality, the reliance on external agencies and third party collectors is being progressively reduced

Skip Tracing

- Used to trace new customer coordinates in instances where the customer is not contactable at the given address
- Done by internal field agents or external agencies
- In some markets, the tool is also used to trace customers who may have left the country

Strategic Framework Driving Transformation



Retail Collection Infrastructure Landscape

Region	Country	CACS Pre Charge Off	CACS Post Charge Off	Dialler	SMS/ IVR	CACS For Agency Mgmt	Web Collections	
ASEAN and South Asia	MY					WIP Solution Developed. PAR Approval to be Sought		
	SG							
	ID							
	TH							
	VN							
	BN							
	PH	Outsourced to Genpact						
	BD			WIP				
	IN							
	LK							
	NP							
North East Asia	KR					WIP Solution Developed. PAR Approval to be Sought		
	HK							
	TW							
	CN	PL, BIL, Mortgage: CACS Cards: CUPD						
MEPA and Africa	AE					WIP Solution Developed. PAR Approval to be Sought		
	BH							
	QA							
	JO							
	OM							
	PK							
	NG	WIP	WIP					
	GH							
	KE							
	TZ							
	UG							
	ZM							
	ZW							

1. CACS Africa

- Project in flight for 8 markets. Completion Nov 2016

2. Korea

- Collections System: Debt Manager (CACS to be evaluated)

3. China

- Dialler: Under evaluation

4. Bangladesh

- Dialler: Project in flight. Completion June 2016

5. CACS Agency Interface

- Solution developed. To seek approval from PRC

6. Web Based Collections

- To be evaluated in 2017

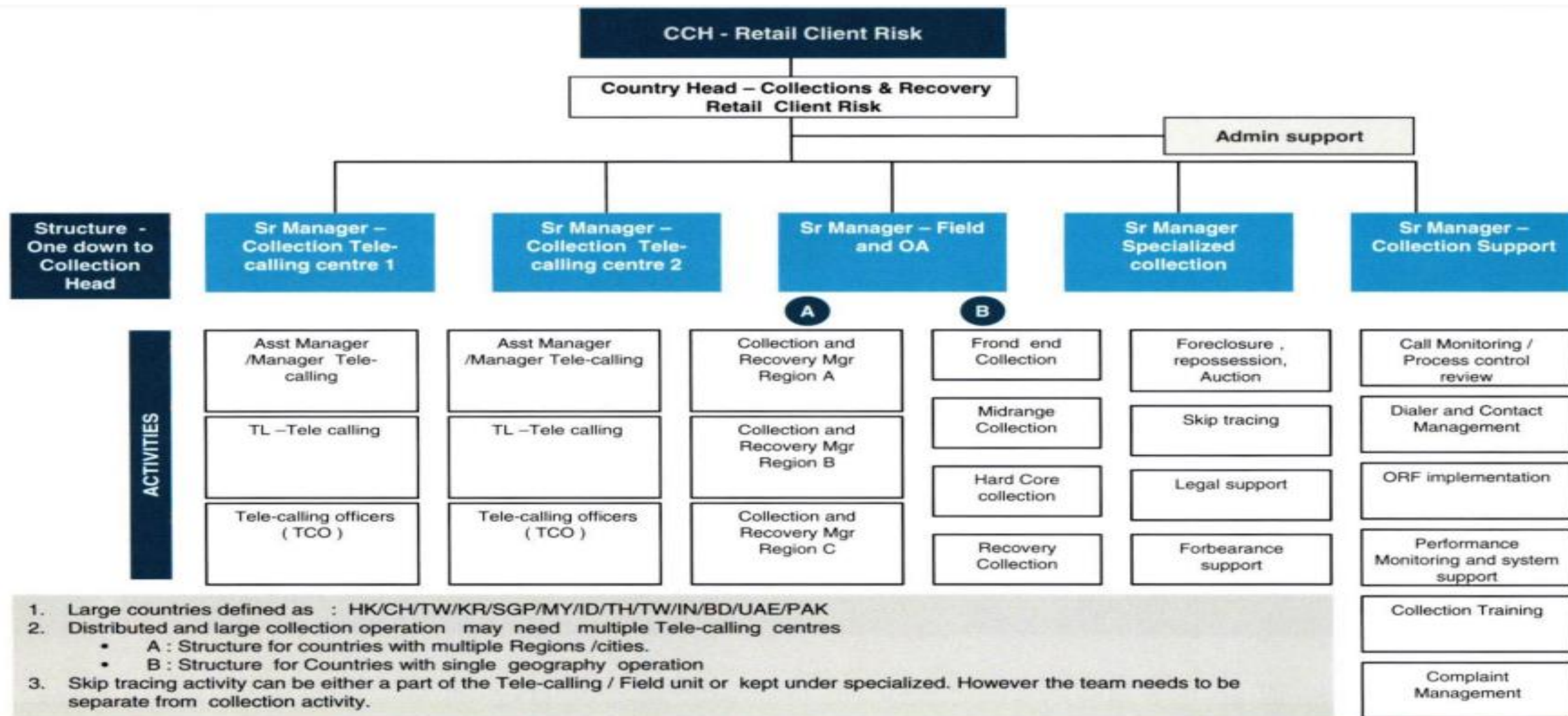
Legend

System	Standard
Collections System	CACS
Dialler	Aspect
SMS/ VR	Adepta

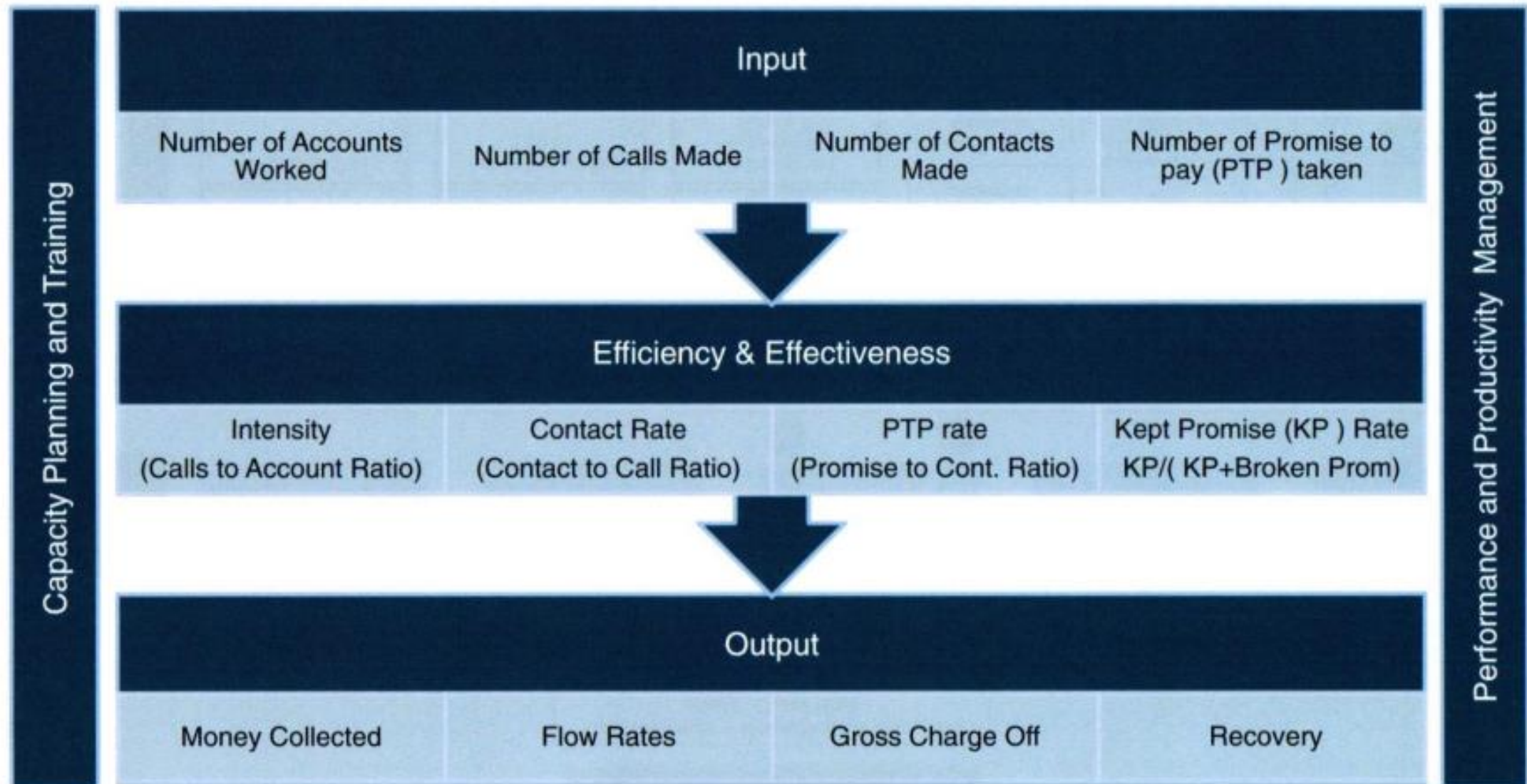
Group Standards

	Group standard system
	Local system
WIP	Project under approval/ implementation
	Not applicable due to small portfolio
	Infrastructure not available

Target Operating Model – Large Country



How Accounts Are Worked – The Operating Dynamics



Collections and Recovery Performance Scorecard

Key Design Elements

- Focus on Conduct:
 - Weight age for Conduct and Behaviour (increased from 10% to 30%).
 - Any staff getting less than 90% on conduct would not be eligible for any incentive for the month.
- Simplification: Reduced the no of parameters to be evaluated – easy to understand which is expected to result in improved effective performance management by a collector
- Alignment of target to budget
- Cap on maximum incentive for a collector

Weightage

	Old	Revised
Performance	90%	70%
Conduct	10%	30%
Total	100%	100%

Applicable for Tele-Collector, Field-Collector, Team Leader and Agency Supervisor

Approved by

- CCO, Retail Clients
- Head, PRB, Retail, Commercial and PvB clients.

Governance framework

- Country Incentive Forum (CIF) to monitor the performance and incentive at country level and decide country level campaigns.
- Group Incentive Forum (GIF) to review the global performance and strategic changes to the scorecard.

Operational Risk Framework

Collection Universe: 15 Activities → 23 Failure points → 25 Controls
 High Risk: 4 Failure points → 9 Controls

Potential failure: Risk of inappropriate collections activities leading to reputational damage

4 Causes

Inability to provide and update client and account status accurately to internal and external parties

Failure to safeguard clients information when transferring data to collections agencies

Unfair treatment of clients during client interaction

Lack of safety for collections staff



9 Controls

1. Independent weekly reconciliation between transaction processing and collections systems

2. Independent quality assurance checks on timely update of special status (example: bankruptcy, deceased) in transaction processing and collections systems

3. Independent reconciliation between SCB collections systems and external agencies at the time of allocation of accounts

4. Independent reconciliation between SCB collections systems and external agencies on daily payment updates

5. Certification of all collectors prior to commencement of collections activities

6. Call monitoring of tele collectors and feedback on visits made by field collectors

7. Agency assessment and due diligence checks as per global sourcing standards

8. Performance and SLA adherence audit of third party agencies conducted monthly and semi annually

9. Ensuring staff safety through security guidelines and registration of incidents of inappropriate confrontation with clients

5 KCIS and 7 CSTs

ORF rolled out across all 31 markets in 2 phases. Residual Risk Rating: 3B

Collections Vocabulary

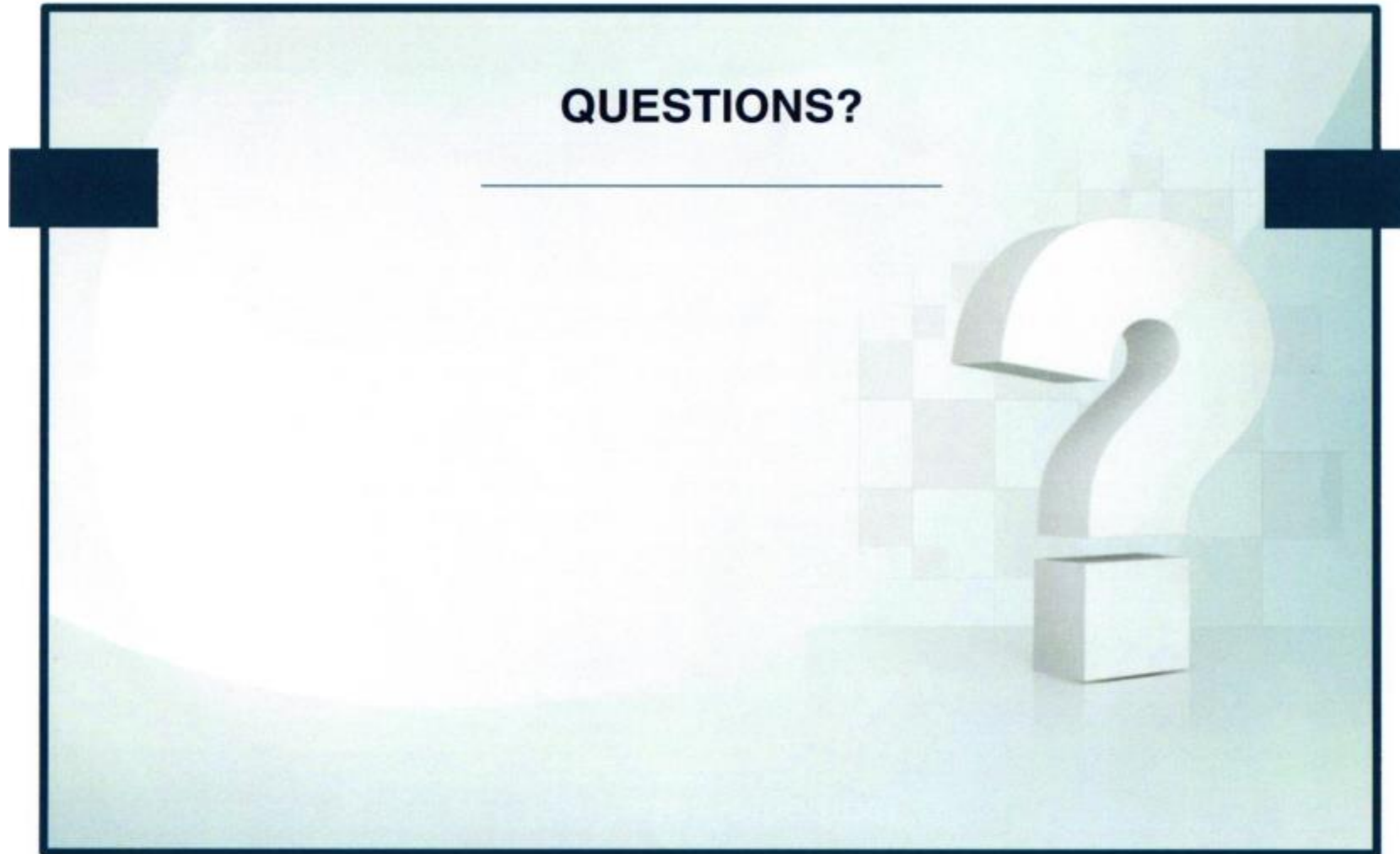
ENR	End of Period Net Receivables
DPD	Days Past Due
GCO	Gross Charge Off
Recovery	Payment from post charged off accounts
PIP	Portfolio Impairment Provision
IIP	Individual Impairment Provision = $GCO - Recovery$
LI	Loan Impairment = $IIP + PIP$
ACR	Account to Collector Ratio This varies by state of delinquency, product and market
CACS	Computer Assisted Collection System
DIALER	Auto-dialer, used to make queued outbound phone calls.
ADEPTRA	Automated SMS and IVR Platform
Skip Tracing	Locating delinquent customers where contact cannot be established
PTP	Promise To Pay Taking a PTP from a customer is the objective of each customer interaction
Forbearance	Process of offering discounted payment options to a client under financial distress

Points to Remember

Let's revisit some of the most important points in this sections

- Collections should be carried out in compliance with Treating the Customer Fairly (TCF) principles.
- Adopting the right technology – be it an automated collections system or contact management infrastructure supported by diversified collection channels – is critical to delivering sustainable collection outcomes.
- Risk-based segmentation, supported by targeted interventions and tools are key to driving optimization.
- The greater the number of contacts, the higher the probability of money collections, on a ceterus paribus basis.
- Collections play a key role in shaping policies through continuous feedback to policy and frontline.
- Collections management has a high gross risk rating of 4 and a residual risk rating of 3B. There are two primary risks in collections: conduct and data security. It is critical that these risks are managed through appropriate controls and culture.

Questions



Notes

