

## Maximizing the Recovery of Delinquent Receivables



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## Maximizing Recoveries of Delinquent A/R



Topics :

- Overview of the Generic Credit to Cash Cycle
- The Need to effectively review current environment
- Pre-default/pre-delinquency collection activity
  - Internal/External/Combination
- Post Delinquency Collection Activity
  - Internal/External/Combination
- Specialty Post Delinquency Collection Activity
  - Legal Involvement/Bankruptcy Processing/Deceased Processing/Etc.
- Can/How Much can technology help?
- Sale of Delinquent A/R

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## The Generic Credit to Cash Cycle

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## Review of Current Environment



- There is no one-size-fits-all answer to maximizing recoveries
- Need for thoughtful analysis of people/processes/technology
- Are the people (including vendors) working on the project "best in class"?
  - How do you know?
    - What are the indicators of poor/good/great performance?
    - What tools are utilized to measure the indicators?
    - How often are indicators measured
- Are you utilizing all available means to maximize liquidations?
  - How do you know? (Industry events such as NASACT)
- Are you utilizing latest/greatest technology tools
  - How do you know?



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	<b>Pre-default Pre-delinquency Activity</b>



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## Pre-Default, Pre-delinquency Activity



- Often, maximizing recoveries is best handled by activities to prevent default or delinquency in the first place
- Internal collection efforts focused on default prevention
- Creative calling and lettering campaigns
  - Increase "prime-time" calling activity
- Automated Inbound IVR and outbound messaging
- Internal efforts vs. outsourcing
- Settlement campaigns
- Use of web based payment portals



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Post-Default, Delinquency Activity



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Post-Default, Delinquency Activity



- Internal Efforts? External Efforts? Both?
- At what point should internal efforts be supplemented by use of external resources?
- Define selection process for outside vendors
- Determine how many outside vendors are needed
- Define criteria for selection process
  - Size
  - Prior experience
  - Reputation
  - Technology (security and privacy concerns)
  - Price (base price or netback return)
  - Location (should work be performed in your state?)
- Define service level expectations



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Specialty Collections



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## Specialty Collections



- There are generally always accounts that will liquidate better through special collection activity and/or special expertise
  - Accounts that should have legal involvement
  - Bankruptcy Accounts
  - Deceased Accounts
  - Corporate Accounts
  - CCCS Accounts
  - Fraud/Restitution Accounts or other special accounts
- Does expertise exist internally?
- Define selection process for outside vendors
- Determine how many outside vendors are needed
- Define criteria for selection process
- Define service level expectations



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## Can Technology Help?



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## Can Technology Help?



- Evolution of technology enhancements in collections arena
  - Collection software packages
  - Electronic interfaces with clients
  - Dialer Technology
  - Skip Tracing databases
  - IVR Technology
  - Web bases payment settlement portals
  - Law Firm automation/Legal Networks
- Technology is always helpful, but technology alone doesn't collect money
- Technology improvements have also hurt collections
  - Caller ID, Cell Phones, Privacy directors, etc.



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## Sale of Delinquent Receivables

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Sale of Delinquent Receivables

- The private sector has begun to accept debt sales as a viable new “arrow in the quiver” to maximize liquidations on A/R
  - Credit Cards are the largest and most active market
  - Telecoms & Utilities have aggressively sold portfolios in last 2 years
  - Other Financial debt such as installment loans and automobile deficiencies have recently begun selling
  - Healthcare A/R is an emerging market
  - To date, there have been minimal sales of public bad debt
- Benefits
  - Immediate cash
- Risks
  - Loss of control of the customer relationship

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Portfolio Purchasing - Portfolio Acquisitions

**Debt Purchasing Process**

Data Gathering	Due Diligence Pricing & Analysis	Negotiation	Transaction Closing
<ul style="list-style-type: none"> <li>• Placement history                             <ul style="list-style-type: none"> <li>– Size &amp; timing</li> <li>– Fee rates</li> </ul> </li> <li>• Liquigation history</li> <li>• Prior collections practices                             <ul style="list-style-type: none"> <li>– Charge-off schedules</li> <li>– Internal collections</li> <li>– Outside agency practices</li> </ul> </li> <li>• Portfolio details                             <ul style="list-style-type: none"> <li>– Current account data</li> <li>– Debtor detail</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Interviews</li> <li>• Systems &amp; account review</li> <li>• Loan committee review</li> <li>• Analysis of bankrupt and deceased statistics</li> <li>• Analysis of potential for liquidation improvement</li> <li>• Calculation of indifference price using liquidation curves (internal or agency), cost to collect information, and hurdle rates</li> </ul>	<ul style="list-style-type: none"> <li>• Data and analysis sharing</li> <li>• Analysis of potential sales points                             <ul style="list-style-type: none"> <li>– Primary</li> <li>– Secondary</li> </ul> </li> <li>• Seller and buyer negotiate terms                             <ul style="list-style-type: none"> <li>– Basic price</li> <li>– Incentives</li> <li>– Ownership &amp; title issues</li> </ul> </li> <li>• Basic contract terms outlined</li> </ul>	<ul style="list-style-type: none"> <li>• Contract terms finalized including representations and warranties</li> <li>• Final accounts disk reviewed                             <ul style="list-style-type: none"> <li>– Conformity with initial portfolio</li> <li>– Put-backs sent to seller</li> </ul> </li> </ul>

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<b>Case Studies</b>

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**1<sup>ST</sup> Party Outsourcing Case Study** 

- A State issued an RFP seeking a professional accounts receivable management firm to enter a working partnership involving collection activities and establish a collections unit within their facility.
- All State agency debts including Court liabilities for 99 District Courts were to be centralized through the State's tax agency.
- Vendor's personnel were to be responsible for all facets of the Stage 1 (Day 1 to Day 120) collection activities for accounts entering the State's system.
- Vendor activities included:
  - Initial and follow-up telephone calls to obligors
  - Reviewing obligors financial condition to engage in payment plans, setting up those plans and then monitoring those plans
  - Requesting and monitoring legal action on accounts
  - Documenting and reviewing Offers of Compromise submitted by obligors
- This project is currently collecting more than \$3 million per month for the State and in the past five years has collected more than \$127 million.

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**3<sup>rd</sup> Party Outsourcing Case Study** 

- A State issued an RFP seeking a professional accounts receivable management firm to handle collection activities for the State.
- Prior to this project most State agencies had minimal collection efforts.
- All State agency debts were centralized through the Controller's Office for control and auditing purposes then submitted to the vendor for collections.
- Vendor was to be responsible for all facets of collection activities for accounts previously processed through internal State agency collection efforts.
- Vendor activities included:
  - Skip-tracing for new address location and contact information
  - Sending various collection notices to obligors
  - Initial and follow-up telephone calls to obligors
  - Reviewing obligors financial condition to engage in payment plans, setting up those plans and then monitoring those plans
- This project has collected over \$5 million for the State.

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<b>Keys to Success</b>

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**1st and 3rd Party Outsourcing Key's to Success** 

**1st Party Outsourcing**

- Voice and Data Connectivity
- Outstanding Project Planning to move from concept to "live"
- Training Program for vendor with active client involvement
- Well defined Service Level Agreements (SLA's)
- Scheduled and frequent Communication
- Outsourcing Partner participation in client meetings

**Third Party Outsourcing**

- Vendor Experience in area
- Vendor selection process
- Well defined Service Level Agreements
- Reporting (From vendors and from client)
- Well defined liquidation and performance goals
- Vendor management process

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**Debt Purchasing Key's to Success** 

**Debt Purchasing**

- Integrity of Data
- Account selection criteria
- Data scrubs prior to sale
- Buyer selection process
- Balance between price and future collection efforts
- Well defined Purchase and sale agreement
- Post sale communication process between buyer and seller
- Well defined information request process and availability of account information

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
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	Q & A / Wrap Up
	
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