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WHITE PAPER

Transforming Default Management into a Strategic Asset

A holistic approach to an old challenge can produce new business value and reduce the cost of data.

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EXECUTIVE SUMMARY

As companies look to increase productivity in every facet of their operations, default management functions—such as collections, recovery and loss mitigation—offer real potential for gains. Effective strategies supported by the right processes and advanced technology can help companies recover more revenue, better manage risk and boost customer retention, all while improving compliance and reducing costs. This white paper presents the market context and challenges of default management, the benefits of a holistic approach, and a framework for assessing performance to identify gaps to maximizing efficiency and effectiveness.

RETHINKING DEFAULT MANAGEMENT

All too often, default management is viewed as a cost of doing business, a management distraction, or a last-ditch financial salvage operation. In such environments, the function receives only modest investment, operates with parochial—even ad hoc—business rules, and relies on few useful metrics for evaluating or improving performance.

Yet, default management can and should be a strategic asset for revenue recovery, risk mitigation, customer retention and cost reduction. In fact, properly designed programs, supported by sound practices and advanced technology can make companies more customer-focused and competitive, whether in financial services, insurance, telecommunications, utilities or other industries.

Impact of market trends

In an economy highly reliant on the availability of consumer credit, business executives must deal with a wide range of market factors affecting their default management programs. These factors include:

- **Consumer debt habits—** Household debt as a percentage of gross disposable income remains high in Organisation for Economic Co-operation and Development (OECD) economies four years after the start of the global financial crisis, but signs of deleveraging have started to appear in the United States, the United Kingdom, Spain and Portugal.[1]

- **Pervasive delinquencies—**Approximately 30 million Americans are subject to debt collection.[2] In the Eurozone this year, based on Oxford Economics research, total non-performing loans including real estate will reach a euro-era high of 932 billion, amounting to 7.6 percent of total loans of 12.2 trillion.[3]

[1] *OECD Financial Dashboard, August 2012,* Household Debt

[2] U.S. Consumer Financial Protection Bureau Fact Sheet

[3] *Flocking to Europe,* Ernst & Young 2013 non-performing loan report

- **Changing credit standards—**After many years, the U.S. market is starting to see some loosening of consumer credit standards for mortgages, car loans and credit cards. And the European Central Bank "confirmed the ongoing stabilization in credit conditions for firms and households in the context of still weak loan demand," based on its October 2013 survey.[4]

- **Legal and regulatory scrutiny—**Improper practices for credit card debt collection and home loan foreclosures have called increased attention to how lenders manage delinquent accounts. Greater scrutiny by regulatory and consumer advocacy organizations leaves little room for error (whether accidental or intentional):
  - In the U.S, the Office of the Comptroller of the Currency has been investigating banking practices around the collection of credit card debt
  - The Consumer Financial Protection Bureau also has asserted its authority to oversee debt collection practices of banks
  - The Federal Trade Commission receives more complaints about debt collectors than about any other industry, and has taken action to shut down agencies for a variety of violations.[5]

Evolving requirements

From achieving regulatory compliance to reducing risk, companies have multiple reasons to revisit and, if necessary, reinvent the processes and technology used to support their default management programs. Credit markets expand and contract. Strategic business decisions about entering new, potentially higher-risk markets must be supported by flexible capabilities. Default management programs need to be customer centric, cost efficient, platform independent and high performance. This requires having processes and technology that can support a host of variables, such as:

- New types of accounts and creditors
- Customer expectations for comprehensive service
- New types of activity conducted over new contact channels
- Changing demands for reliable, safe and secure information access
- New agents, agencies and related stakeholders
- Changes in legislation or regulation
- Changing management expectations and marketplace realities.

THE DRIVE TO CUSTOMER CENTRICITY

In a survey by CGI, executives at more than 20 leading financial institutions and communications firms identified the following reasons for moving to customer-centric default management:[6]

- **Retention—**improving the customer experience to build loyalty
- **Efficiency—**treating all accounts at once to reduce costs
- **Effectiveness—**collecting a bigger share of available dollars, sooner, to reduce write-offs
- **Compliance—**making it easier to comply with call limits.

[4] *The Euro Area Bank Lending Survey, 3rd Quarter of 2013,* European Central Bank, October 2013

[5] *CFPB Annual Report 2013 Fair Debt Collection Practices Act,* Consumer Financial Protection Bureau, March 20, 2013

[6] *It's time to move forward with customer-centric default management,* CGI survey report, May 2012

A HOLISTIC APPROACH TO DEFAULT MANAGEMENT

High-performing default management programs are made possible with a cohesive strategy, the right processes and technology, and a well-coordinated operation that collapses silos and deploys resources based on a holistic view of the entire environment. The key components of such a strategy include:

1. **Customer-centric approach** that begins with understanding that not all delinquent accounts are the same, so should not receive "cookie cutter" treatments. Customers must be accurately identified, scored and segmented, with appropriate treatment strategies devised accordingly to retain valued customers.

2. **Multi-channel integration** that delivers the right message to the right customer at the right time and over the right channel. Customer interactions are changing. Higher-performance, lower-risk results can be achieved with communications that are private, secure and reliable, and reflect the customer's lifestyle choices and channel preferences. Such channels can include traditional letters, mobile texts, emails, self-service web portals, interactive voice recognition, and outbound dialers.

3. **Best practice collection processes** that are based on an accurate assessment of a company's state of practice and a realistic view of the desired performance improvements. To be sustainable over time, enhanced, repeatable processes and methods must be developed, rigorously managed and measured.

4. **Business intelligence** that captures data to improve understanding of customer risk profiles to develop effective treatment strategies, and optimize channels, staffing management and workflow. Sophisticated analytics, data engines and data-driven rules reduce ad hoc decision making and increase the accuracy and predictability of results. Insights also inform how to work with third-party agencies, skip trace and repo companies, and litigators. In short, data is transformed into operational insight, providing a single view across multiple platforms, activities, contact points and stakeholders.

5. **Third-party management** that brings discipline to working with multiple types of companies and agencies that may be involved when accounts reach the point of default. Companies need to be able to map collection strategies to account categories, carefully weigh the trade-offs of using various types of collection expertise, and continually challenge results.

6. **Innovative applications and hosting** services that support a wide variety of activities, from risk scoring to correspondence generation and effectiveness reporting.

7. **Compliance and risk mitigation** capabilities that recognize sensitive consumer rights and a constantly changing regulatory environment. Companies must be able to quickly reflect regulatory changes in processes and systems as needed.

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EVALUATING CURRENT OPERATIONS

A holistic default management solution can easily pay for itself while setting the path for repeatable, reliable operations for years to come. While the prospect for such a solution may seem large and unwieldy, a high-level analysis of current operations, based on established benchmarks and performance indicators, can help companies begin the transition to strong and cohesive programs.

It is important, when performing a high-level operations assessment, to understand industry standards and best practices, and then compare them to your current practice state to define areas of opportunity. Drawing from CGI's years of experience, we have created a framework that provides organizations an understanding of how they can benefit from this transformation. Our high-level operational assessment brings greater clarity to the current state of the collections practice, and enables the understanding of opportunity value.

Following are a few real-life results of high-level operations assessments using CGI's process:

Type of client	Annual recoveries	Annual losses	Annual operating expenses	Opportunities over 5 years
Major telco	$289 million	$1.2 billion	$826 million	$30-62 million
Major retailer	$6 million	$60 million	$16 million	$18-24 million
Major bank		$1 billion	$70 million	$150-200 million
Major bank		$600 million	$60 million	$80-$120 million
Mid-range bank		$200 million	$50 million	$40-55 million

Type of client	Annual Collections	Outstanding A/R	Increased revenue – 90 days	Increased revenue – 2.5 years
U.S. State Government Tax Board	$2.1 billion	$8 billion	$1 million	$657 million

CONCLUSION

Properly designed collection, recovery and loss mitigation operations can contribute substantially to strategic company goals. In some cases, even small improvements can recover millions in otherwise lost revenue. A decision to rethink, and potentially reinvent, default management is more than cost justified.

The opportunity to take default management operations from good to great is available now. Best-of-breed processes and methods are available now, as are powerful tools and technology. Third-party IT providers can bring the domain expertise and technology sophistication to make it happen. Seizing the opportunity to move forward begins with evaluating current approaches and identifying gaps to becoming a high-performance program. The right consultant knows the right questions to ask. Take the first step by contacting CGI at banking.solutions@cgi.com.

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ABOUT CGI COLLECTIONS360®

CGI offers leading organizations the strategic vision, seasoned experts and flexible solutions needed to transform today's accounts into tomorrow's loyal customers. In addition to consulting and systems integration services, we offer our CGI Collections360 end-to-end default management solution which:

- Combines the leading case management technology of CACS® with workflow and treatment capabilities, Strata® for decision support, and best practices to create a strategic view of the customer
- Supports fully functional, cost-efficient, cost-effective collection interactions, regardless of channel
- Includes capabilities for in-depth business rule design and experimentation, customer-level dashboards, scoring, segmentation, testing and decision support
- Provides customer-level information to deliver effective treatment strategies.

CGI's world-class credit management solutions have been implemented by more than 350 leading financial services, telecom, utility and government organizations. When it comes to truly customer-centric default management, our proven approach combines the right people, processes and technology to deliver both short-term and long-term results.

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About CGI

At CGI, we're in the business of satisfying clients by helping them succeed. Since our founding in 1976, we've operated upon the principles of sharing in clients' challenges and delivering quality services to address them. As the world's fifth largest independent IT and business process services provider, CGI has a strong base of 68,000+ professionals operating in more than 400 offices world-wide. Through these offices, we offer local partnerships and a balanced blend of global delivery options to ensure clients receive the optimal combination of value and expertise required for their success. We define success by helping our clients achieve superior performance and gain competitive advantage.

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