

CONSUMER DEBT

LEASE/LOAN PORTFOLIOS

Empowering the Financial World
FISGLOBAL.COM



PREDICTIVE METRICS

FOR LEASE/LOAN PORTFOLIOS

The competitive landscapes of leasing, banking and finance are littered with the casualties of tight capital markets, unprecedented delinquencies and write-offs, and severe resource constraints. For many, the use of statistical-based portfolio scores for the management of the lease/loan portfolio can have a positive impact on profitability.

Cash at risk: Protecting the remaining balance

The risk complexion of a lease/loan portfolio is changing every day. As new accounts are added and others mature, the inherent risk will change. Understanding the absolute risk of the portfolio is essential in order to prioritize revenue recovery efforts.

Statistical scoring can quickly and accurately predict the likelihood that an existing customer will become severely delinquent, go to loss, or file for bankruptcy within 6 months of the date the customer was scored for collections. As a result, leasing companies and banks will often leverage these models to understand the risk across the portfolio.

By using customer behavior modeling, these organizations can determine the likelihood of delinquency then map that to the remaining balance of a lease or loan to identify high risk accounts. The outcome of these models can help collection departments facilitate the prioritization of collection activities using risk in conjunction with aging as the primary driver of a risk-based collection strategy. Furthermore, credit departments can use this information to help extend credit and manage credit lines.

Behavior scoring predicts delinquency before it happens

As more customers struggle to pay their bills, creditors are competing for a share of the customer's shrinking wallet, while sustaining a balance between customer service, customer satisfaction and consistent recoveries. Increased credit losses and human resource constraints, have driven a demand for new risk scoring services such as statistical modeling.

Statistical modeling of portfolio risk can help predict the likelihood of delinquency, the likelihood of a direct debit payment not going through and balance this risk against remaining balances.

The models evaluate the risk associated with each customer based on previous behavior in order to proactively identify non-payments. Once the models detect an issue, the company can then initiate the most optimal collections strategy.

Adjust collections priorities as customer behavior changes

By identifying late payment behavior proactively, organizations can then implement a stringent collections plan. The scoring models help to accurately prioritize dunning strategies, outbound Interactive Voice Response (IVR) dialing strategies, field visits, and repeat transaction strategies based on risk rather than how much money is owed and the age of the account.

The models will identify which consumer or commercial accounts are going to pay on a timely basis or self-cure, even if past due, and which accounts are likely to become seriously delinquent. Knowing and using the probability and odds of the occurrence of serious delinquency or write-off enables organizations to develop a risk-based collections strategy to work the right accounts. By using this methodology, the use of final notices, field visits, collection calls and letters can be more productive.

Reduce spend on bureau data

The models used for lease/loan portfolios are empirically derived multivariate statistical models that leverage internal A/R and collection performance data, as well as other predictive information. Internal performance data, especially for telecom and utilities is proven to be a much more powerful predictor of payment risk than a model based merely on external bureau data. These scoring models are designed to predict risk over ongoing relationships with the customer and to balance their propensity to pay against the remaining balance.

Most portfolio scoring models assess risk by delivering only two data variables as an output of the model—a score and a risk segment. However, FIS models offer a more sophisticated view by delivering five data variables each month on each scored customer. This helps determine the risk of the customer, the dollar value of your risk and the reason behind why the customer scored the way it did.



Prioritizing collection activities

By leveraging statistical modeling, organizations can realize a significant improvement in cash flow, and a dramatic reduction in delinquencies, losses and operational costs, while expending their limited resources and personnel more effectively.

Predictive Metrics for the Lease/Loan Portfolios are empirically derived multivariate statistical models based primarily on internal A/R, master file and payment performance data. This internal data has proven to be the most predictive data in this type of model and is available at no cost. Models built using internal data only are typically a much more powerful predictor of future delinquency than a model built using only external bureau data.

Combining internal payment history with external variables

The scoring models can be run in various capacities: Standard; Leverage the predictive power of only the internal data, Enhanced; Apply external commercial bureau data such as trade, public record and demographic data with the internal data, or Custom; Develop multiple models that blend internal data with the most applicable external data sources for optimum performance in unique situations where our Standard and Enhanced Models do not meet your business requirements. Data types used:

- Monthly aging dollars
- Equipment type (optional)
- Monthly balances
- Lease or loan type
- Indicator of loss / bankruptcy
- Other internal data

Score output

The score output is typically delivered in a monthly scoring process, or daily based on cycles and the data outputs are available in both granular and report format. These details can then be interfaced into various A/R, ERP and leasing and loan systems to help drive collections management.

Predicting the likelihood of delinquency

The evaluation of leasing, banking and finance credit and collection risk will take into account internal payment history and optionally can combine external factors. The models will then produce five key outputs:

Risk Score

The scoring models create a series of outputs which include a core output labeled the "Score," which uses a scale of 0 to 100 where 0.01 is the customer with the greatest risk and 100 is the customer with the least amount of risk.

Probability of BAD (PBAD)

The model predicts and provides the specific probability (%) that an existing GOOD paying customer is going to become a delinquent or BAD paying customer at some point during the six to twenty-four months following the score date.

Risk Grade

Based upon the customer's score, the model also assigns a risk class to the account which is used as the basis for applying credit and collection strategies.

Cash at Risk (CAR)

The model will then take these risk scores at the account level and use them to perform further value at risk analysis of the account. By taking into consideration the customer's outstanding balance and the probability of BAD, FIS can calculate the expected Cash at Risk (CAR). CAR helps determine the value of an account's outstanding balance that is actually at risk.

Adverse Reason Codes (ARC)

Up to three ARC's are provided for all customer that score in the higher risk categories. The ARC's provide commentary as to why the model scored the customer they way it did.

Making better decisions by actively monitoring customers

ScoreMiner is AvantGard's web-based credit and collection scoring, data mining, query and reporting tool, offering users the functionality to observe how the credit and collection risk of their accounts changes over time.

Businesses can assess the impact of their risk strategies on their entire portfolio, important segments, or on individual accounts to turn data into actionable business intelligence.

The tool leverages the predictive power of industry/finance specific and custom scores and groups the data for you to develop performance based strategies. All reports are exportable to Adobe Acrobat (PDF) and account lists are then exportable to Excel, text file and CSV. This functionality helps companies to obtain faster turnaround times for reports, particularly when dealing with a larger number of accounts.

Complimentary validation analysis

Another advantage of using statistical-based scoring for credit and collection strategies is that statistical models are evaluated through a validation analysis that documents the model's ability to predict a payment problem. Historical data is used where the result of the customer's payment activity is already known and the model's predictive ability can be accurately determined. This portfolio validation analysis is provided to prospective customers at no cost.

For a validation analysis, a company needs to provide FIS with 18 to 24 months of historical month-end A/R information (aging data plus other internal data elements) on their entire customer portfolio. This data serves as the basis for predicting future customer payment activity. Our statistical model is applied to the data by uncovering past trends, magnitudes and payment patterns and formulating this information to predict future payment performance.

Model results are validated by using actual customer payment activity, subsequent to the time of score, to evaluate the model's ability to differentiate future problem payers from future timely payers. This process quantifies how accurately the model predicted future customer payment behavior.

The validation analysis can also evaluate the output of these models compared with other risk scores currently in place. This will offer the ability to apply a Champion-Challenger Analysis to evaluate how FIS' models perform vs. current solutions.

Predictive Metrics for Lease Management

FEATURES

- Prioritize collection activities
- Loss forecasting
- Monitor repeat transactions
- Leverage internal data for predictive analysis
- Combine internal data with external variables
- Easily integrates with any A/R, ERP or specialty leasing system
- Complimentary validation analysis

BENEFITS

- Protect remaining balances
- Proactively address customers
- Reduce collection costs
- Prevent losses
- Improve productivity
- Decrease spend on bureau data



About FIS

FIS is a global leader in financial services technology, with a focus on retail and institutional banking, payments, asset and wealth management, risk and compliance, consulting and outsourcing solutions. Through the depth and breadth of our solutions portfolio, global capabilities and domain expertise, FIS serves more than 20,000 clients in over 130 countries. Headquartered in Jacksonville, Florida, FIS employs more than 55,000 people worldwide and holds leadership positions in payment processing, financial software and banking solutions. Providing software, services and outsourcing of the technology that empowers the financial world, FIS is a Fortune 500 company and is a member of Standard & Poor's 500® Index. For more information about FIS, visit www.fisglobal.com



www.fisglobal.com



twitter.com/fisglobal



getinfo@fisglobal.com



linkedin.com/company/fisglobal