

Keys to Card Collections

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What are the metrics to watch and the best practices to boost collections effectiveness?

U.S. card issuers faced tough challenges in 2001 and the first quarter of 2002. Delinquencies rose sharply during the 4th quarter in 2001, eventually producing some of the highest-ever industry chargeoff rates in March through May 2002.

Delinquency roll rates are among the most closely watched metrics. The percentage of current receivables flowing delinquent, and the subsequent flow of delinquent receivables out of the 1-29 day into the 30-59 day delinquency bucket, speak volumes when assessing present risk exposure. March 2002 roll rates were discouraging, but April results were much better, with gradual improvement continuing in May and June.

Net credit losses peaked in March at 7.0%, but dropped to 6.7% in June. Bankruptcy losses were the key driver when the card industry set record chargeoff rates back in 1997-1998, but this time around contractual chargeoffs, which rose significantly, are the culprit.

Issuers are working delinquent accounts harder than ever thanks to excellent technology and strong credit risk strategies. However, these delinquent accounts are much tougher to cure. Present economic conditions haven't helped on this front.

There are a variety of reasons for cardholders becoming delinquent. The key is for collectors to ascertain the "why." That happens only when collectors listen diligently when they speak with delinquent cardholders, who are not all alike. To be successful, the collector must also counsel the debtor and either elicit a payment over the phone or establish a realistic payment schedule. If the collector determines that the cardholder is unlikely to be able to make a payment, there must be alternatives to present. For example:

- Refer the cardholder to consumer credit counseling services, which put clients on a three-to-five-year debt management plan.
- Offer the option of participating in an internal hardship plan, which generally lasts for 12 months.
- Make a settlement offer.

Issuers who are beating industry-average results employ the above strategies intelligently. They have developed systems that allow them to identify the proper strategy to take.

They are calling sooner than ever now and following up very aggressively when promises made are not kept. Intensity levels are up, with issuers queuing accounts and working them during prime collection hours. Technology, especially for predictive dialers, is extremely sophisticated and enables issuers to be very strategic in their approach to contacting delinquent cardholders. Collectors' screens must be very proactive, allowing collectors to use everything at their disposal to get that overdue payment made. The screens must also be easy to use or risk hampering collector productivity.

In post-chargeoff collections, the trend to working accounts internally or placing them with collections agencies rather than selling them continues. Before selling, performing significant segmentation ensures that accounts with a higher probability of eventually paying are retained or, if sold, priced appropriately.

What does the future hold? The second quarter of 2002 brought much-needed relief, with the percentage of current receivables flowing delinquent dropping sharply – 200 basis points from



March to June. Bucket one and two roll rates also improved. Account-per-collector ratios pointed to a greater intensity in working delinquent accounts. Significant investment has been made in credit risk management strategies to manage existing cardholder risk and control the flow of receivables into delinquency. Strategies and tools that have proved very effective are being put to the test in the present economic climate.

Early in 2002, bankruptcy losses (as a percent of outstandings) stabilized at 2% but started to rise gradually and in June reached 2.4%. At press time, the fate of bankruptcy reform legislation was unknown, but if it passes, expect a sharp increase in filings in the following six months – the window for filing under the old law. Contractual losses, at historical highs, hopefully have peaked.

Still, hurdles remain to be cleared, and now more than ever, issuers need to employ best-in-class practices.

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