

CoreCard Software White Paper Series

Redefining Collection Strategies

*Using Champion/Challenger Techniques to Reduce
Delinquency*



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Introduction

Keeping the delinquencies down by applying the right collections strategies has always been a major priority for companies. With the availability of several analytical tools the art of collections has become a science and its practitioners and observers have revealed several methods and strategies from time to time.

In this paper we will take a look at just one of those ideas and detail how companies can use the concept to improve their own collection practices, allowing them to lower their delinquency in a proven way. The concept is known as the Champion – Challenger technique.

Over the years, collection systems have become very sophisticated. The statistics they track, the ability to balance workloads, change campaigns from day to day, etc., are all powerful tools. But the Champion – Challenger technique allows companies to take collections to a new level of sophistication.

In the simplest terms, the collection campaign in use today would be known as the Champion. This is how business done at the company it works, and it is proven. The Challenger would be a campaign that is unproven, and has never been tried.

Using a system capable of running two different campaigns at once allows the testing of new ideas and ways of designing collection campaigns. This is what we plan on examining in this white paper -- fine tuning collection techniques using Champion – Challenger strategies.

Using Tried and True Methods

Not too many years ago a collection manager would learn a set of techniques and use them effectively on a portfolio. Good solid fundamentals in collections do remain the same; bills get prioritized due to needs. Convincing debtors to pay on delinquent accounts is a matter of learning how to handle a convincing “talk off”.

Using Information That is Available

What has changed is the amount of information we now gather on who pays, when and why. Using this information to select the accounts for the proper collection sequence -- either a dunning letter or directly by a collector -- can increase collector efficiency and reduce delinquency.

Finding New Ways to Combat Delinquencies

With an emphasis on keeping delinquencies down companies have to ask themselves what can they do to increase productivity? They need to examine their credit department, their collectors and the way they select accounts for collection campaigns. If the organization has not changed the selection criteria in months and years then maybe they need to look at how they can incrementally improve their efficiency by using a Champion

– Challenger technique. This technique allows them to test their assumptions and tweak their setups to improve their results over time without completely redoing their processes.

The rules in use right now become known as the Champion; these rules are tried and true, and everyone knows, understands and accepts them. The Challenger may start with these rules but it creates new rules or modifies old rules and tests them against the Champion to see if they work better.

In a true Champion – Challenger situation, the test is conducted in the live system and only on a small sample of accounts. The results are monitored and measured against the Champion results.

Managing Customer Behavior

Leveraging Adaptive Control

An interesting term, “Adaptive Control,” has been used to describe how someone makes changes to their own behavior in order to influence the behavior of someone else. For instance, if a company’s customers start saying they paid late because they didn’t know the due date for the invoice, they might change the invoice format so the date is highlighted and in bold letters. They have not created a new invoice; they have changed/improved the old one in an attempt to get the customers to pay on time.

So with adaptive control applied to a company’s collection strategies, they don’t necessarily change everything, they build on what works and try new techniques in an incremental fashion. With each change made be sure to can measure how customers react to the new techniques. The changes that work are kept, those that don’t are discarded. By continuing to monitor these small changes it allows the company to adapt to the new realities they face while influencing customer behavior in a positive way.

Leveraging Best Practices

The lesson, not only come from monitoring customer’s reactions, but by also looking at what works best with competitors and others in the business of managing their receivables. These best practices can be found published in industry journals and discussed at industry events. They should be reviewed and those that make sense tested and monitored to see if they work for.

Not all best practices will work for everyone; some will fail due to the nature of the industry and the types of customers. However, as with many new ideas, you never know until you try them. This is where using the Champion – Challenger technique of testing on a small sample of a portfolio comes in.

Setting up a Challenger Campaign

Just like any well designed and executed project it is important that to follow six basic steps. Keep in mind that when building a Challenger it must have one or more very distinguishable differences that can point to and measured.

Plan

In the planning phase gather all of the current information about current collection strategy. This will include all of the metrics currently monitored. If no measurements are being taken now is the time to decide what is important needs to be monitored and start getting some solid data. Without this data it is impossible to draw any conclusions regarding the results of the Challenger campaign.

During the planning phase new targets will need to be set for the areas where an increase in productivity is desired. These targets should include all financial and non-financial items that are important to the organization.

Review

Once all information has been gathered and all goals and targets review them with all interested parties. There are times when priorities change and it is best to catch those before you move into the design phase.

Design

At this time look at the parameters that the system allows to set to making sure the planned changes can be implemented. Sometimes more than one parameter within the system will have to be changed to achieve one goal. Also, be sure to determine the correct sample size based on the amount of risk the company wishes to take with this new strategy. The sample needs to be large enough to provide good statistical results and not too large that it puts the overall results at risk.

Implement

This is where the rubber meets the road, time to test the Champion with the Challenger. It is best to make sure everyone involved is aware of the new plan. There are times the results can be impacted through lack of communication. Be cautious of over selling the Challenger plan to avoid experiencing the “Hawthorne Effect¹.” Be sure to run the Challenger long enough to be able to gather meaningful results.

¹ The effect where subjects improve an aspect of their behavior being measured simply in response to the fact that they are being studied, not in response to any particular experimental manipulation.

Monitor

Make sure all of the necessary comparative data on both the Champion and Challenger strategies is monitored throughout the test. Continue to monitor this on a regular basis making sure that the Challenger group is doing as well or better than the Champion. If significantly less productivity is seen, then consider ending this Challenger test early.

Assess

At the predetermined end of the test take a long hard look at the results and assess what worked and what didn't. Not every Challenger scenario is going to work better and there may be parts of the Challenger sample that performed better than others. Take this information and be prepared to begin again.

Not every Challenger test becomes a new Champion. Some parts may have worked, but overall the test may have not produced the desired results. This is why running new Challenger scenarios on a regular basis helps fine tune any collection campaign.

Not All Collection Systems Are Created Equal

Many collections systems in use today are very robust allowing for the set up unlimited queues with a very large variety of rules. What many are lacking is the ability to setup and run effective Champion – Challenger campaigns. Sure many items may be able to be changed, but are the parameters set up in a way that allows true segment of a unique section of the portfolio and subject the portfolio to a completely separate set of rules? If not, then implementing Champion – Challenger testing becomes very difficult.

Some systems, such as CoreCOLLECT[®], come ready to allow for the set up of unique and individual collection campaigns that rely solely on the rules and parameters needed to establish separate campaigns. This type of systems is needed in order to run true Champion – Challenger campaigns.

Summary

Success as defined by Webster's as a favorable or desired outcome. Success at times can seem elusive at best. Those things that made us successful in the past may not work as well today. That is why the concept of adaptive control, where we work to change behavior by using Champion – Challenger strategies effectively and correctly, can be beneficial to gaining and maintaining success in our collection activities.

Let's make sure we don't confuse this with the idea of abandoning the basics and starting over. Just as no football game in the U.S. can be won without well executed blocking and tackling, in the business world we need to make sure we maintain our discipline and not abandon the fundamentals. Only when the fundamentals are established can we begin to use any "trick plays".

Knowing what works and having the data to back it up is critical to achieve success. Being able to measure those incremental changes a sample selection of accounts or the actions taken on those accounts will help to refine collection practices, resulting in higher rate of collections, lower delinquency and better portfolio yields.

About CoreCard Products

CoreISSUE

CoreISSUE[®] is CoreCard's browser-based solution for managing credit accounts and transaction processing for the card issuing (including prepaid cards) side of the credit business. CoreISSUE provides intuitive information organization, easy navigation, and the ultimate flexibility in cardholder management. CoreISSUE provides cardholder management in a client-server environment, creating working screens that have a familiar look and feel to users accustomed to accessing the Internet.

CoreCOLLECT

CoreCOLLECT[®] is CoreCard's browser-based solution for managing and working delinquent credit accounts. CoreCOLLECT is a rules-driven collections system that offers customizable workflows to handle and route accounts that are delinquent to the appropriate personnel within an internal or external collections department. CoreCOLLECT's case management capabilities and workflows automatically monitor the payment schedules. CoreCOLLECT enables collectors to set an individual Promise to Pay, or a series of recurring PTPs, on an account.

CoreACQUIRE

CoreACQUIRE[®] is CoreCard's merchant processing application, supporting authorization processing from an acquirer's perspective. CoreACQUIRE provides the ability to receive authorization requests from a network switch (or gateway) and routes authorization requests back to a switch (or gateway). The application also provides the ability to verify the merchant as part of an authorization request, to identify and process an authorization request for a merchant, cardholder, or for merchants and cardholders.

CoreDASHBOARD

CoreDASHBOARD[®] offers Operations staff members the ability to monitor and control all the servers where CoreCard applications such as CoreISSUE are running. Dashboard can be used to monitor individual computers and groups of computers, establish alarms that are generated if certain conditions arise in a single computer or a group of computers, send notifications via email when certain conditions and alarms are generated, run live queries against the database, and more.

CoreSALES

CoreSALES[®] is CoreCard's application for acquirers and issuers who want to pay commissions to sales agents. Interface output transactions and files are received from CoreISSUE, CoreACQUIRE and CoreCOLLECT for posting to CoreSALES. Activity from sales agents, sales managers, and related account activity is tracked, settled and reported accordingly. Commissions are settled at both the sales representative and sales manager level based on many types of activity, such as cardholder and merchant monetary activity. A commission notification (much like a cardholder statement) is available on the Internet.

About CoreCard Software, Inc.

CoreCard Software, Inc. (www.corecard.com) licenses transaction processing and account management software and offers boutique processing services as well.

CoreCard's solutions provide easy to use parameter-driven controls, real-time transaction processing, built-in fault-tolerance, and a fully scalable architecture. CoreCard's software provides the market's most feature-rich platform for processing and managing accounts receivables and a full range of card products including prepaid/stored-value, fleet, credit, debit, commercial, government, healthcare and private-label cards.

CoreCard's server-based architecture provides the speed, flexibility and control to effectively manage electronic and card-based payment products. CoreCard's software is ideally suited for program managers to create and manage card programs, merchant acquiring and authorization.

As a custom processor, CoreCard processes card programs with a built-in option for the customer to license the software and become its own processor in the future.

Headquartered in Norcross, GA, CoreCard is a subsidiary of Intelligent Systems Corporation [NYSE Alternext: INS].

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