

Intelligent
Assessment
and
Collection
Techniques

Credit management techniques start with good planning and end with constant review.

Latest developments

A spike in bad debts cast a shadow over higher profit and lending at Standard Bank Group

- Reuters 16 August 2013.

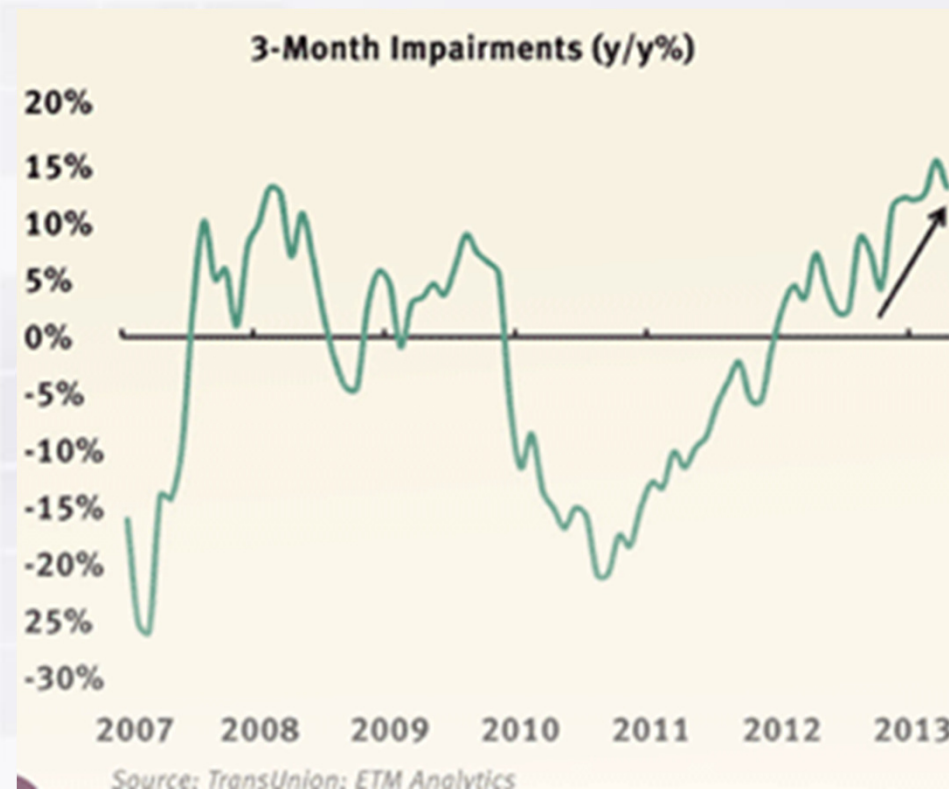
You are seeing a number of companies giving signs that the consumer is under pressure.

- Viv Govender, senior analyst at Vunani Private Clients

DTI aims to implement credit record amnesty for 1.6m consumers where amounts are less than R10 000 by November 2013. Also proposed to remove all records where the consumer has paid.

Credit bureau impaired records

Change in consumers that are 3 month in arrears



Credit bubble?

In their book, *This Time is Different*, on banking panics, Reinhart and Rogoff document not dozens but hundreds of similar crises throughout history.

Their point? It is never different. Credit markets fool themselves time after time.

Gabriel Davel: Is there any way for financial sector participants, happily tipsy from an expansion of credit, to recognise when they need to slow down? Does it take a restrictive set of credit rules? What are the secrets to responsible credit?

Davel divides crises into five stages:

- 1) Preconditions – new form of credit in virgin market
- 2) commercialisation and expansion
- 3) debt build-up with low default
- 4) default and contraction
- 5) institutional failure and potential contagion

Davel's advice for preventing a credit market from running rampant is for regulators and providers to join in agreeing on practicing responsible habits.

Credit bubble?

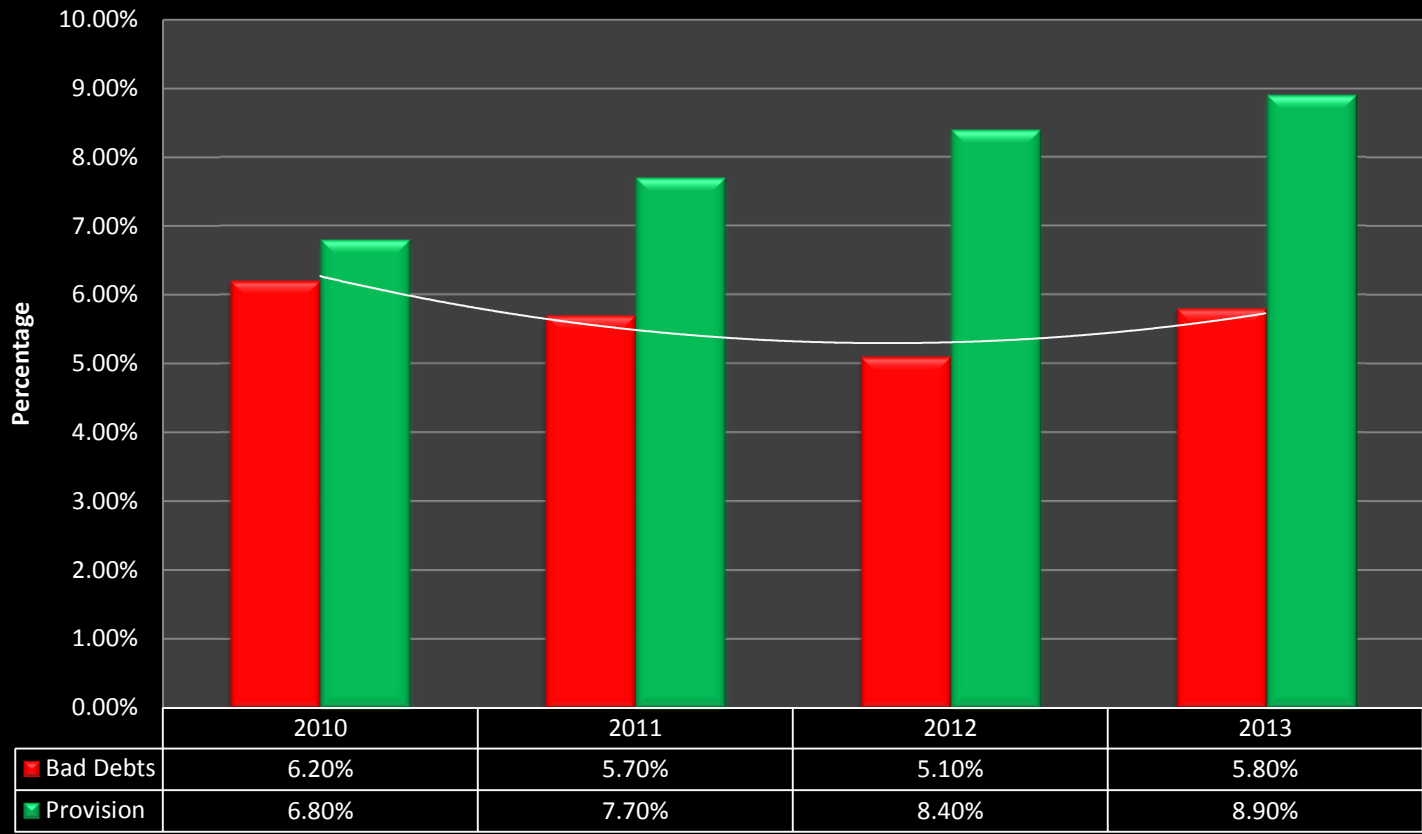
Referring to bad debt, Matthew Warren warned that Capitec's "way of dealing with a problem is to put it off and make it bigger".

- First Avenue Asset Management's head of financials and retail - 30 May 2013

Thekiso Lefifi wrote articles in the Business Times in May 2013 with the captions: "*Bloodletting as unsecured loan bubble pops*" and "*Why Capitec should be very, very afraid*"

Responding to this article, Capitec stated their bad debt figures.

Capitec Bad Debts/Gross Loans



Source - Press release provided by Capitec on 28 May 2013

Credit bubble?

Regulators state there is no bubble and they are not worried by the levels of bad debts.

Consolidation loans, when correctly applied, is good for the client. It consolidates multiple loans into one jumbo loan, extends the term and lowers the interest rate, effectively making the monthly payment easier.

Neville Chester – Coronation Fund Managers

Advanced techniques

There are a number of advanced techniques that could be employed by the consumer credit provider i.t.o. credit risk assessment and the collection of debtor funds.

The use of the latest methods and technology will result in a reduction of expenditure and elevate earnings.

Advanced credit risk assessment

Take calculated risks in accordance to your credit policy

Clear and precise terms of credit

Use all available Sources in the automated credit assessment stage:

- scoring models
- all credit bureaux
- own database
- shared group and industry information
- constant monitoring service

Log all disputes and queries and alter systems to minimise them

Bad debts cannot be avoided when granting credit, but can be controlled

The goal of the credit approval process should be to maximise sales and minimise risks

On-going measurement and adjustment

Best possible chance to recoup funds

Reduce capital and operational costs and drive productivity improvements.

When a business sets out to secure payment of outstanding debts using its own resources, the likelihood of payment being finalised is not always good. Specific procedures are required and, unless this occurs, successful payment can be quite unlikely.

The good news is that professional debt collectors specialise in chasing payment and working with your debtors. Agencies have the skills, experience, expertise, knowledge and resources required to give the best possible chance of payment.

Professional debt collectors

Characteristics of professional debt collectors

Advanced IT systems

Accounting experts

Regular and accurate reporting to clients

Clear and concise reconciliations

Statistical analysis

Highly trained telephone collectors

Knowledge and compliance with legislation
i.t.o.



- recovery of debt
- debtor rights
- client rights
- responsibilities of collector
- keeps abreast

Experienced agencies

Utilise latest communication technology

- State of the art ERP systems
- API interface with information sources
- Fail-over backup with systems and telephony
- Behavioural Intelligence Adjustment
- Power Dialling
- Record Keeping and Call recording
- Voice messaging
- AEDO and NAEDO debit order systems
- Credit Card and Cellphone banking
- Automated cost & interest calculations

Significant contribution to profit

Of all the commodities that affect a business' activities and level of success, time is one of the most significant and precious and one that a business rarely has in plentiful supply. When your time or that of your staff is consumed with trying to recover debt, you have significantly less time to devote to key business activities and those that will generate revenue for your business in the future.

The follow up required to recoup funds from debtors can be time consuming and quite demanding if done properly. There is often little point in contacting customers and reminding them of the need to finalise their account if there is no commitment to on-going follow up. In many cases, regular and frequent contact needs to be made if payment is to be received and few businesses have the resources or human capital to devote to this task as diligently as a professional debt collector would.

Outsourcing debt collection contributes significantly to profits.

More bad debt can mean an improvement to profits

Are goals for the credit and collection department to find ways to reject new customers and drive away old ones, based on the traditional DSO (days sales outstanding) and bad debt performance measurements?

Credit is the selling of a product or service based on payment at a later date. It is a lubricant of commerce that allows for the expanded movement of products and services. It is a sales function.

Are you too tight on credit approval?

Do you have unused capacity?

Could you take on more business without having to hire any new people or take on any more fixed expenses?

In conclusion, fail to take into consideration "product value" at the time of sale and you may well be passing up some of your most profitable sales.

Credit management is a value chain – if any element of the credit extension process is defective, the entire process could (and usually does) collapse.