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KPMG Debt Collection Solution: Bringing concept to reality

Webinar

Tuesday 15 December 2020 | 2:00pm to 3:00pm (BKK)

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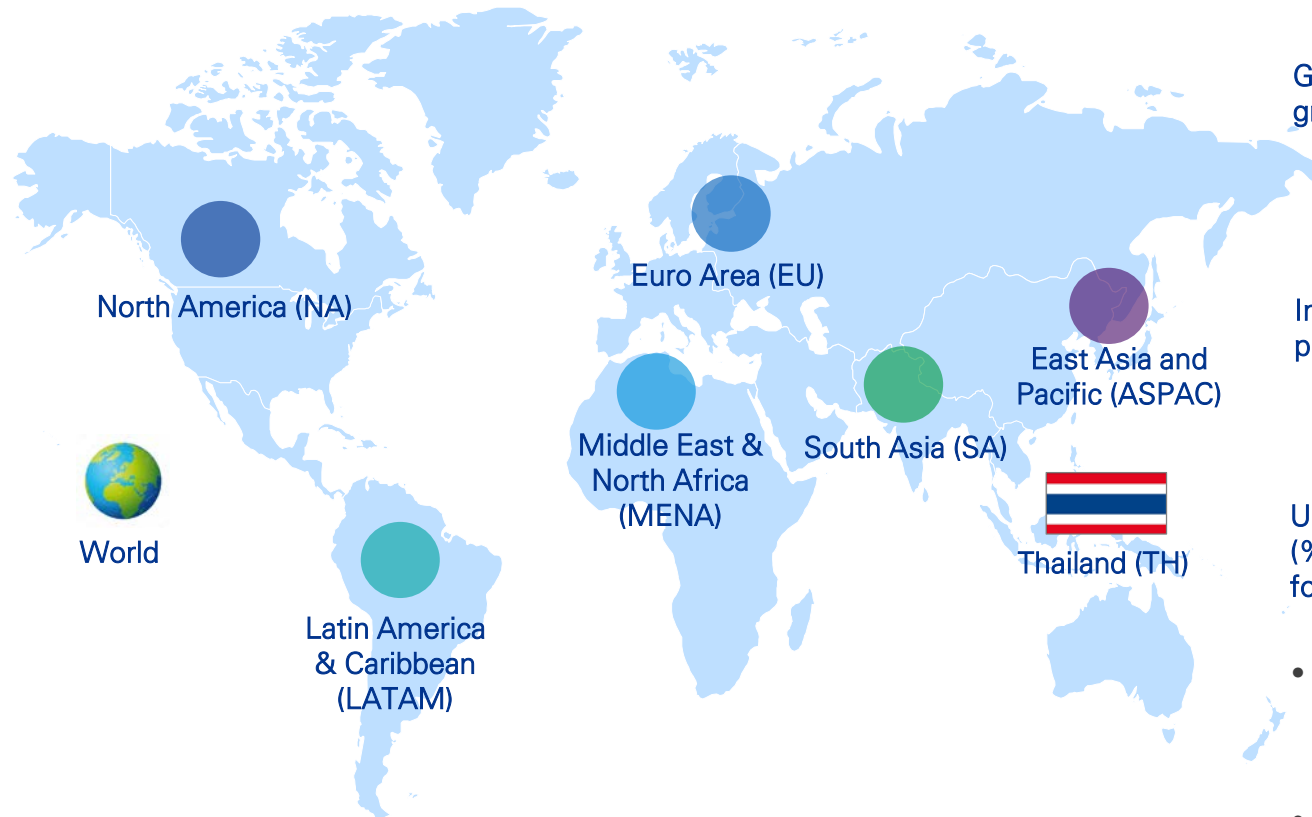# KPMG Debt Collection Solution: Bringing concept to reality

Collection Management Strategy

15 December 2020
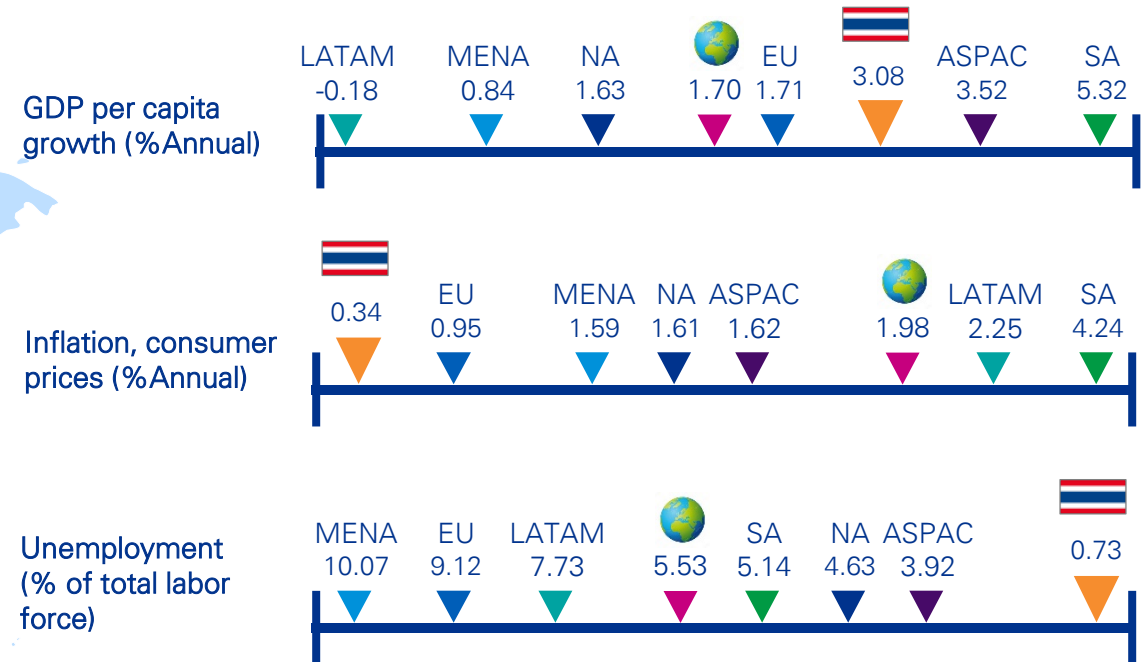
Today's agenda

1 Overview of Thailand's consumer credit growth

2 Credit life cycle and debt collection strategy

3 Our proposed solution

4 Industry trend and way forward

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Global state of play: Thailand's economy

Global and Thailand's economic indicators
(Five-year average from 2015 to 2019)

GDP per capita growth (%Annual)

LATAM	MENA	NA	World	EU	TH	ASPAC	SA
-0.18	0.84	1.63	1.70	1.71	3.08	3.52	5.32

Inflation, consumer prices (%Annual)

TH	EU	MENA	NA	ASPAC	World	LATAM	SA
0.34	0.95	1.59	1.61	1.62	1.98	2.25	4.24

Unemployment (% of total labor force)

MENA	EU	LATAM	World	SA	NA	ASPAC	TH
10.07	9.12	7.73	5.53	5.14	4.63	3.92	0.73

- Thailand's economy, along with Asia Pacific, has shown strong growths in GDP and maintained the very low unemployment rates compared to the rest of the world.

- After being subdued, as a result of low commodity prices and THB appreciation in 2015, Thailand's inflation rebounded and continued to recover going into 2019.

- These recent trends indicate expansion in Thai economy, which should support growths in domestic spending and consumption in various sectors.

Map labels:
North America (NA)
Euro Area (EU)
East Asia and Pacific (ASPAC)
Middle East & North Africa (MENA)
South Asia (SA)
World
Thailand (TH)
Latin America & Caribbean (LATAM)

Source: The World Bank, *World Development Indicators*, <https://databank.worldbank.org/source/world-development-indicators/preview/on>

Global state of play: Thailand's consumer credit growth and non-performing loan

Thailand Consumer Credit Value (Q1/2015 to Q3/2020)

Thailand Household Debt-to-GDP (Q1/2015 to Q2/2020)
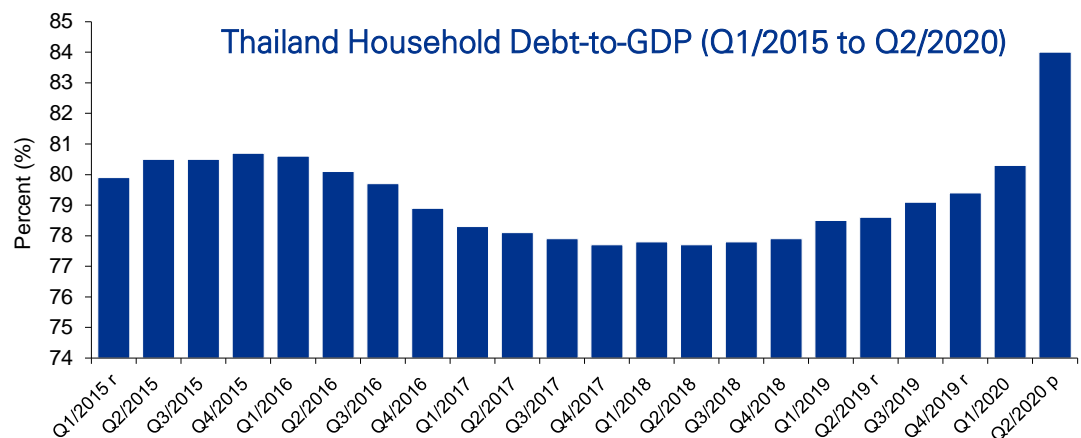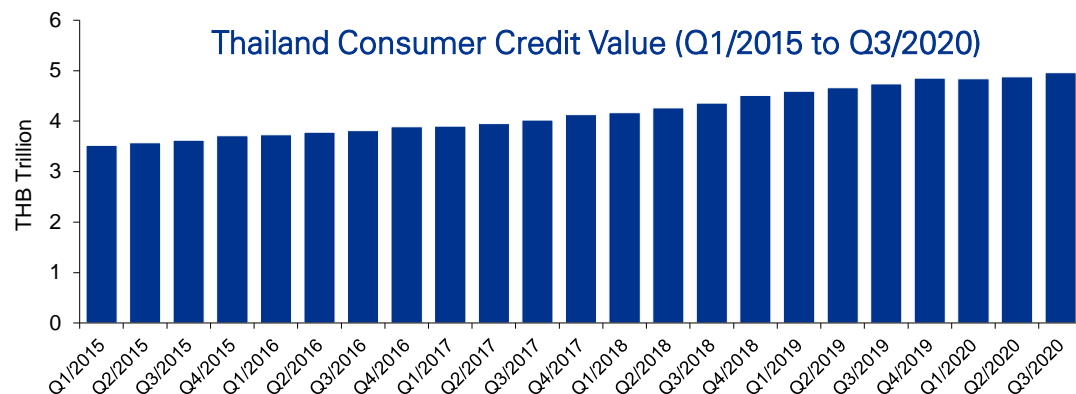
/ Remark: "p" is projection and "r" is revision

Source: Bank of Thailand, *Key Economic Indicators*,
<https://www.bot.or.th/App/BTWS_STAT/statistics/ReportPage.aspx?reportID
=775&language=eng>

Bank's Non-Performing Loans to Total Gross Loans (%)
(Five-year average from 2015 to 2019)

Country	%NPL	Country	%NPL
Thailand	2.99	Singapore	1.23
Indonesia	2.52	Australia	0.92
Philippines	1.77	Hong Kong SAR	0.67
China (*)	1.75	South Korea (**)	0.43
Malaysia	1.56	Macao SAR	0.20

(*) Four-year average from 2015-18   (**) Three-year average from 2015-17
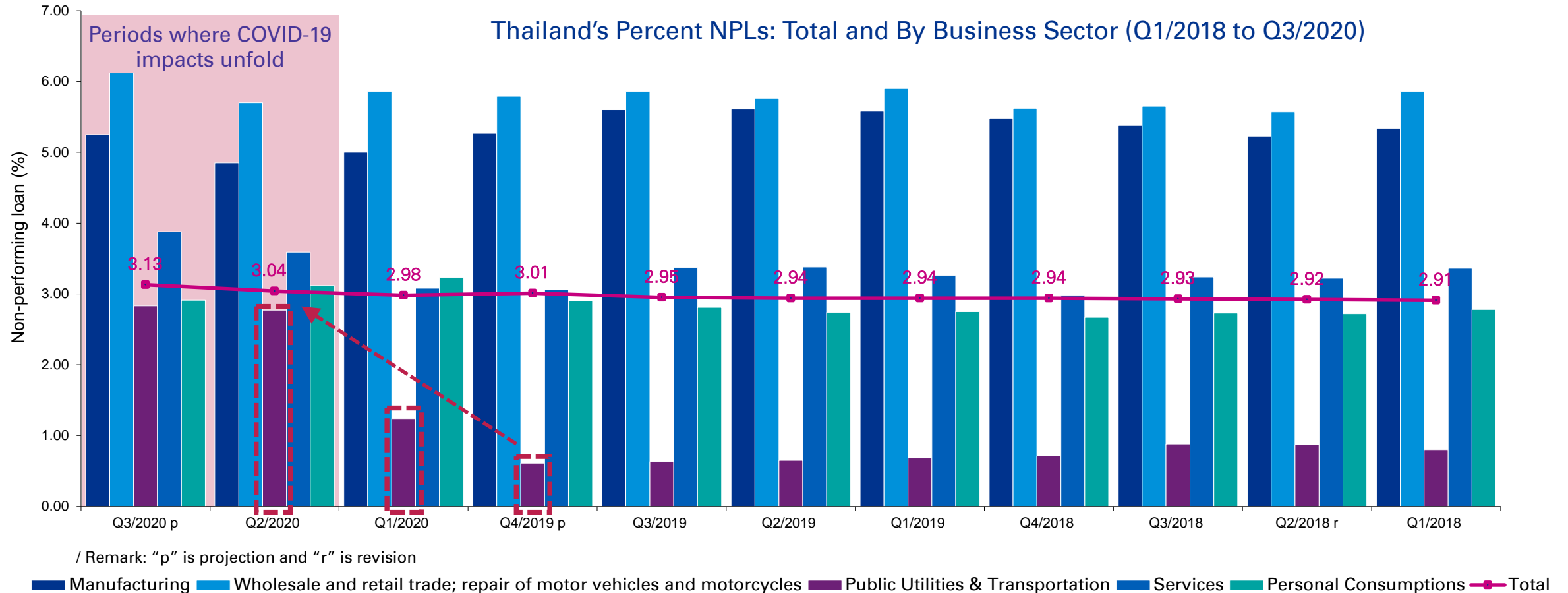
Source: The World Bank, *IMF's Global Financial Stability Report*,
<https://databank.worldbank.org/source/world-development-indicators/preview/on>

- Consumer credit in Thailand has increased steadily from THB 3.52 Trillion in Q1 of 2015 to THB 4.96 Trillion in Q3 of 2020.

- But Thailand also has a high credit loss level compared to other countries. The five-year average of Bank's %NPL from 2015 to 2019 is the highest in Asia Pacific.

- Household Debt-to-GDP is projected to reach 84% in Q2 of 2020, highest in the last 18 years, reflecting impacts from the COVID-19.

- Managing the bad loan problem has been a long-standing priority for most lending institutions!

Impacts from the COVID-19 to default risk

As a result of the COVID-19, the percent NPL within Thailand's economy has increased in the 2nd and 3rd quarter of 2020. The increase is more significant in sectors that are more directly impacted by the pandemic – like public utilities and transportation.

Thailand's Percent NPLs: Total and By Business Sector (Q1/2018 to Q3/2020)

Periods where COVID-19 impacts unfold

Non-performing loan (%)

3.13   3.04   2.98   3.01   2.95   2.94   2.94   2.94   2.93   2.92   2.91

Q3/2020 p   Q2/2020   Q1/2020   Q4/2019 p   Q3/2019   Q2/2019   Q1/2019   Q4/2018   Q3/2018   Q2/2018 r   Q1/2018

/ Remark: "p" is projection and "r" is revision

■ Manufacturing   ■ Wholesale and retail trade; repair of motor vehicles and motorcycles   ■ Public Utilities & Transportation   ■ Services   ■ Personal Consumptions   ━ Total

Source: Bank of Thailand, *Key Economic Indicators*,
<https://www.bot.or.th/English/Statistics/FinancialInstitutions/Pages/StatNPLsOutstanding.aspx>

Credit life cycle

Collection is part of the credit life cycle that helps lending institutions grow and continue to provide the credit services.

Loan Repayment

Borrowers who have been approved a loan or credit line will make repayments to the lending institutions. With technologies, borrowers have more choices on how to service their obligations.

Acquisition

Credit Risk Assessment (CRA) is a critical process in acquiring new businesses. By choosing the right borrowers, institutions can reduce the credit loss and achieve the target profit.

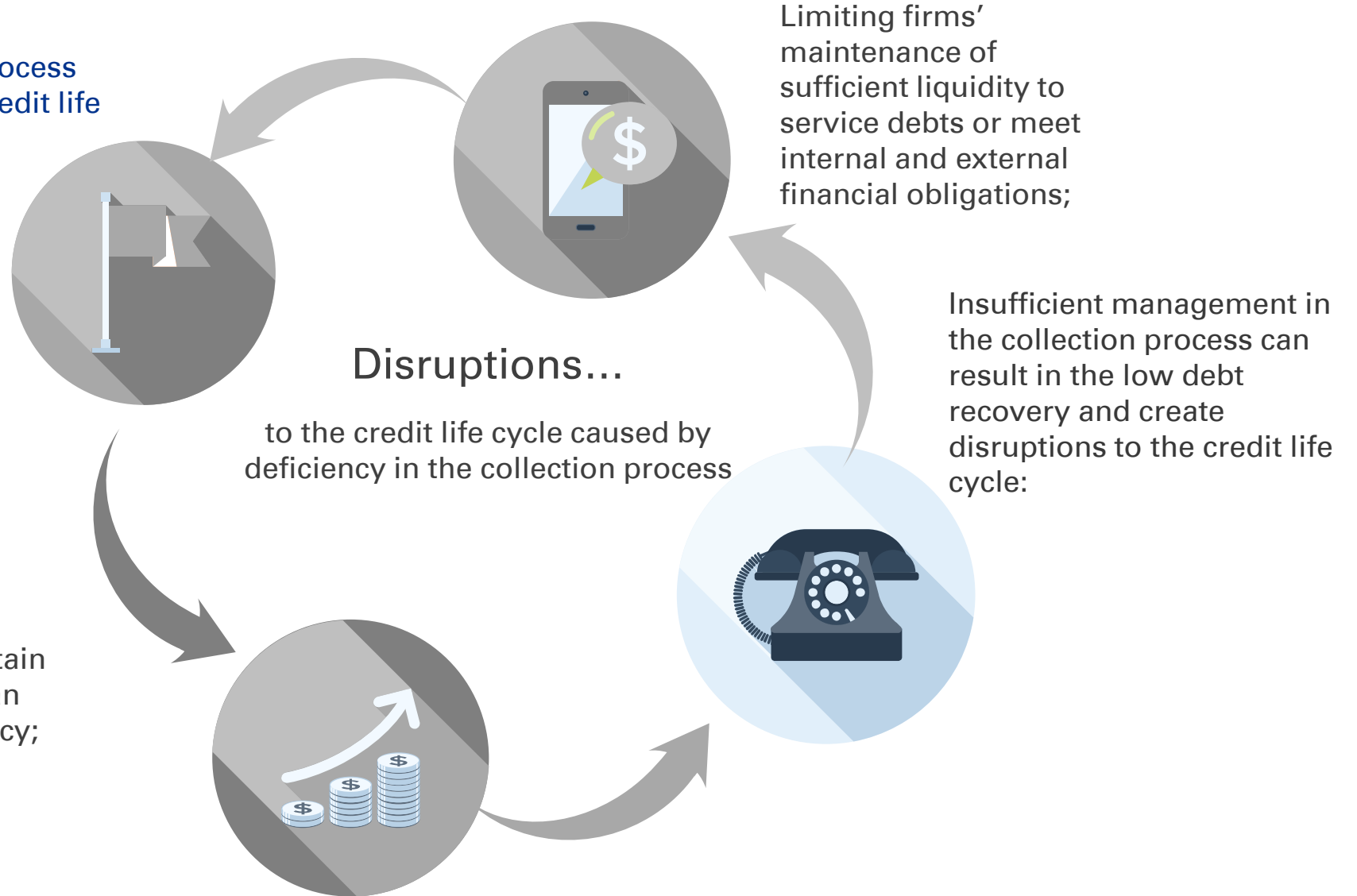# 4 elements
of credit life cycle

Collection

Because creditworthiness of borrowers could change over the course of payment, Collection is the key business unit that helps limit delinquency or default.

Growth

By limiting credit loss, institutions will have sufficient funds to extend more credit lines and achieve portfolio growth – which increases shareholders' value.

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Credit life cycle

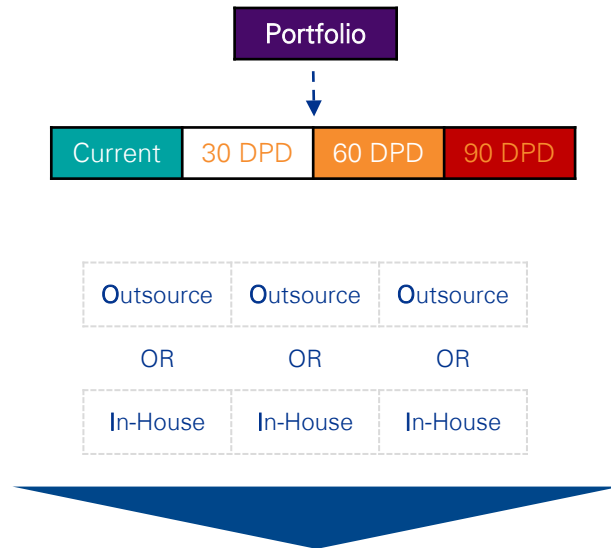Deficiency in the collection process can cause disruption to the credit life cycle.

Limiting firms' capacity to innovate, invest, and offer products that are competitive in the fast-changing environment; and

Limiting firms' ability to sustain profit and growth – which can heighten the risk of insolvency;
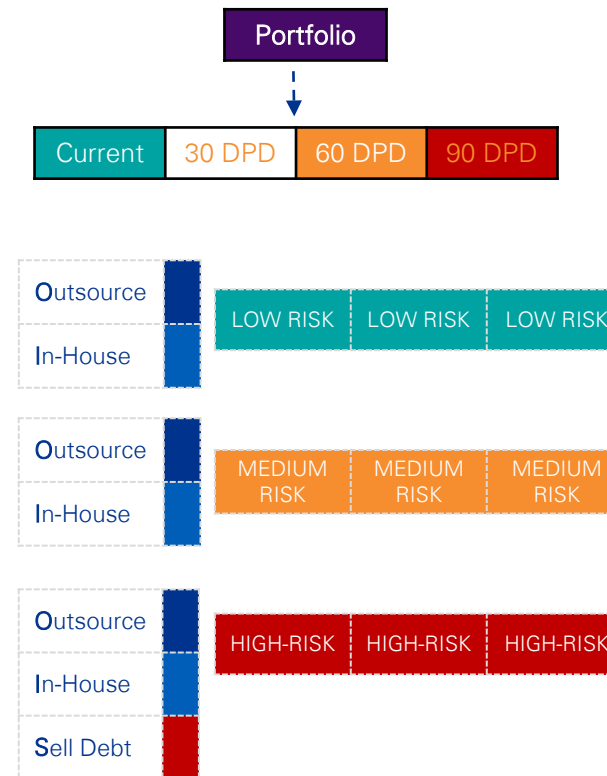
Limiting firms' maintenance of sufficient liquidity to service debts or meet internal and external financial obligations;

Insufficient management in the collection process can result in the low debt recovery and create disruptions to the credit life cycle:

Disruptions…

to the credit life cycle caused by deficiency in the collection process

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How the collection strategy works

General Debt Collection Strategies

Portfolio

Current	30 DPD	60 DPD	90 DPD

Outsource	Outsource	Outsource
OR	OR	OR
In-House	In-House	In-House

Potential Area of Enhancement

☑ Analysis and prioritization of debt collection

☑ Resource allocation strategies for debt collection

Effective Debt Collection Strategies

Portfolio

Current	30 DPD	60 DPD	90 DPD

Outsource
In-House

LOW RISK	LOW RISK	LOW RISK

Outsource
In-House

MEDIUM RISK	MEDIUM RISK	MEDIUM RISK

Outsource
In-House
Sell Debt

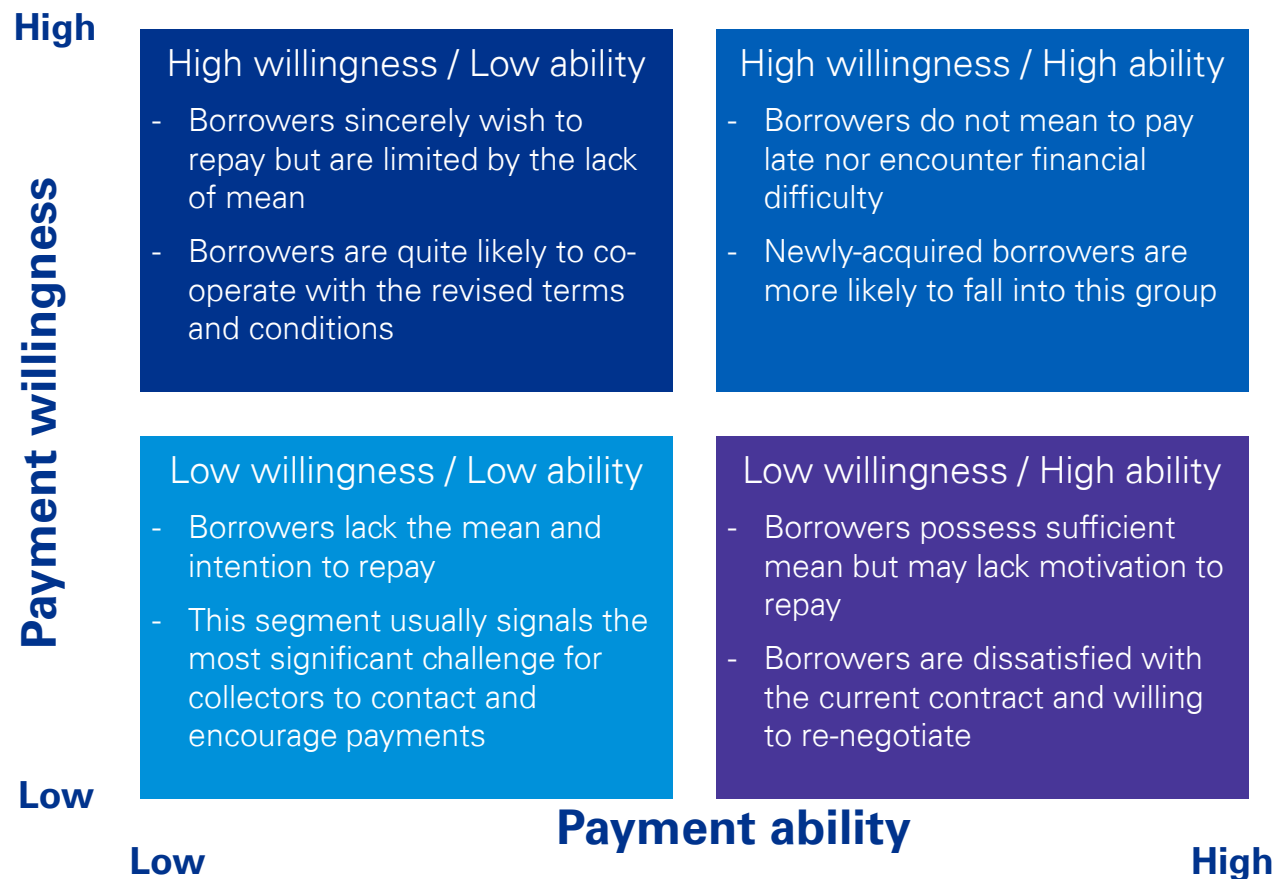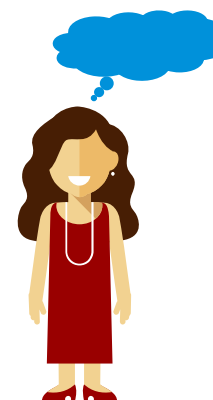| HIGH-RISK	HIGH-RISK	HIGH-RISK

Functional Values

- Enable firms to effectively manage borrowers tracking strategies

- Improve propensity to pay rate by reducing the rate of moving into worse debt levels.

- Prioritize borrowers based on the probability of debt collection first

- Identify accounts where the probability of collection is low and allocate them timely to the post-default processes; such as litigation or sales of obligation.

- Manage loss from credit risk

Borrower assessment:
Payment willingness and ability

Assessment of accounts generally follows the industry practice which classify borrowers according to their (1) willingness and (2) ability to pay.

Payment willingness

High

High willingness / Low ability
- Borrowers sincerely wish to repay but are limited by the lack of mean
- Borrowers are quite likely to co-operate with the revised terms and conditions

High willingness / High ability
- Borrowers do not mean to pay late nor encounter financial difficulty
- Newly-acquired borrowers are more likely to fall into this group

Low willingness / Low ability
- Borrowers lack the mean and intention to repay
- This segment usually signals the most significant challenge for collectors to contact and encourage payments

Low willingness / High ability
- Borrowers possess sufficient mean but may lack motivation to repay
- Borrowers are dissatisfied with the current contract and willing to re-negotiate

Low

Payment ability

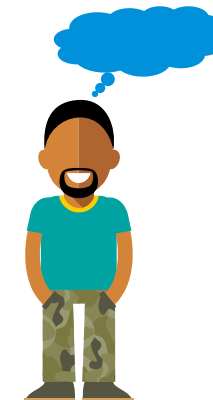Low   High

"I didn't know that the due dates are the 3rd of each month"

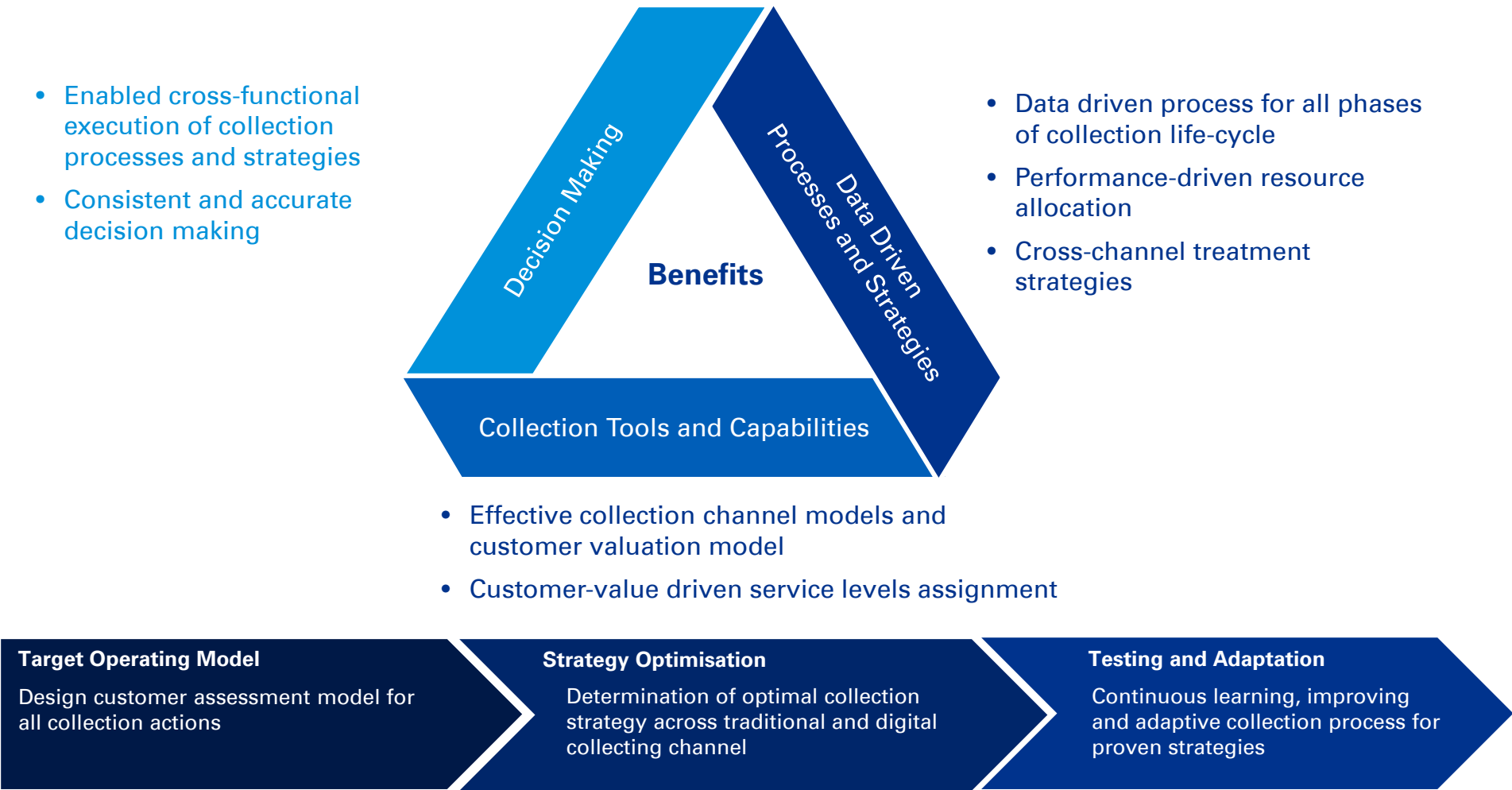"I want to keep the product but don't have the mean to do so"
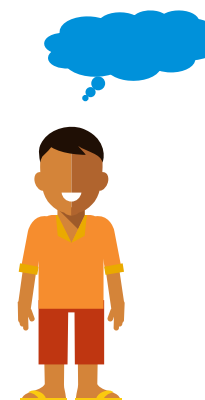
"Can we reschedule the payments?"

Segmentation of borrowers can be based on their attitudes towards important elements; such as collection approach, credit rating, and the offering of re-payment resolutions to etc.
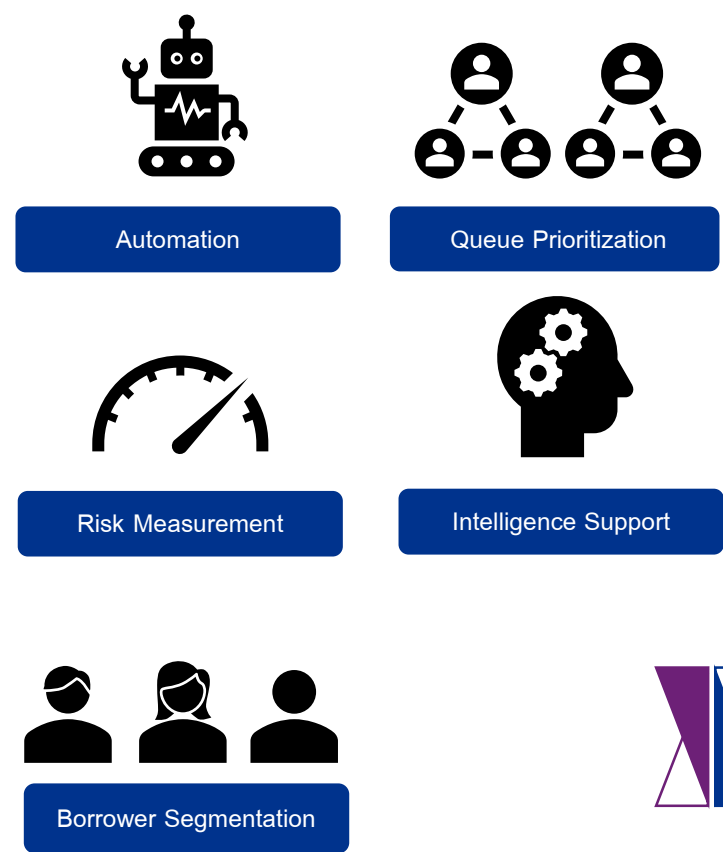
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Our proposed solution

Collection Strategies using Analytics

- Enabled cross-functional execution of collection processes and strategies
- Consistent and accurate decision making

Decision Making

Data Driven Processes and Strategies

Benefits

Collection Tools and Capabilities

- Data driven process for all phases of collection life-cycle
- Performance-driven resource allocation
- Cross-channel treatment strategies

- Effective collection channel models and customer valuation model
- Customer-value driven service levels assignment

Target Operating Model	**Strategy Optimisation**	**Testing and Adaptation**
Design customer assessment model for all collection actions	Determination of optimal collection strategy across traditional and digital collecting channel	Continuous learning, improving and adaptive collection process for proven strategies

Solution's capacities and processes

The solution will provide automation, measure borrowers' risk, perform segmentation, prioritize queues, and recommend appropriate strategies to collectors.

Three important processes executed by the solution:

Automation

Queue Prioritization

Risk Measurement

Intelligence Support

Borrower Segmentation

1 Prioritization

2 Collection Strategy

3 Resource Allocation

To identify customer segment

To identify the sequence of customer contact

To allocate resource to each segment of customers according to their expertise

To identify the most effective collection strategy for each segment

To utilize collection teams based on level of difficulty case type and collector's skillset

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Our debt collection model

Our collection model and solution

Compatibility
Support most systems, programing languages, and analytic tools.

Performance Tracking
Subject to periodic validation and performance testing based on statistical approach.

Self-Improvement
Constantly retrain and incorporate new behaviors to maintain effectiveness

Functional Design
Allow configuration of business rules and decision flows to support the decision making in collection process.

Timely Updates
Allow real-time updates in dynamic information; such as, borrower ratings, days-past-due, and account status etc.

Delinquent Borrowers

Debt Collection Solution

KPMG

| Borrower Model | Collector Model |

Feedback Loop

Centralized Queue

Borrower	Calling Dates	Risk Level	Collector
1	(1) / (15) / (30)	High	A
2	(1) / (6)	Medium	B

Case Assignment

Collector A

Date	Task	Action	Borrower Details
15-Dec	1	Call	Borrower 1
	2	SMS	Borrower 2

Outcome Processing

Payment ? — No → Litigation

Yes

Remove from centralized queue

Stylized workflow

Debt Collection Solution
- Incoming delinquent accounts enter the decision engine, which uses relevant models (e.g., borrower and collector models etc.) to analyze borrowers.

Centralized Queue
- The solution produces a centralized queue that match borrowers with collectors and the identified strategies.

Case Assignment
- Tasks are allocated to collectors based on results of the prioritization and models' recommended actions.

Outcome Processing
- The system tracks execution outcomes and provides feedback to the decision engine. Payments according to promise will remove accounts from queue, whereas failure to pay up to certain consecutive due dates would send accounts to the post-default process.

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Our emphasis on customer experience

The solution KPMG designs will pay close attention to Customer Experience. We aim to (1) offer simple products that can solve problems (2) use better customer data (3) help achieve what is important and (4) protect identity, data, and privacy.
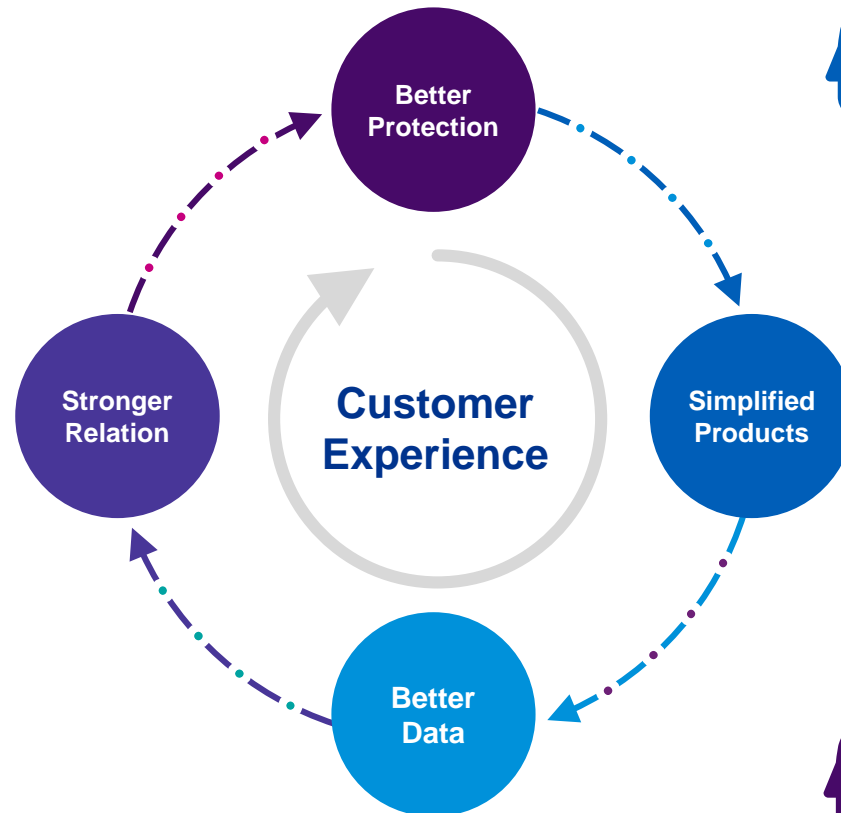
Make it easy

Simplify *life* and solve *problems*

Know them

Use data to *help*

Value them

Help achieve what is *important*

Protect them

Safeguard *identity, data, privacy*

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Industry trends in debt collection management

Key Components	Current Approach	Today's 'Best'	Way Forward
Data	- Borrower data is primarily obtained during loan origination. - Update or revision occur during the collection process.	- Borrower data can be collected from other business units.	- Firms can use big data and real-time updates to obtain model input on the on-going basis.
Strategy	- Borrower segmentation is performed broadly. Firms then specify strategies for different segments. - Collectors' skills and experience are not fully integrated. - Models are not constantly re-trained.	- Best strategies are obtained from optimization using factors that are relevant (e.g. borrower segments, contact methods and times etc.) - Collectors' skills and experience are parts of the optimization. - Models are periodically re-trained.	- Tactical recommendations are statistically driven. - Strategies can be detailed and adaptive to responses from borrowers. - Collectors' performance is quintessential to the implementation of strategy.
Process	- Process design is broad and centralized. - Assignment of accounts is done manually, in which collectors' workload is the main consideration.	- Process design includes more details and reflects feedback from the execution units. - Assignment of accounts is systematic and based on the multi-dimensional factors.	- Technology plays a larger role in the collection process and human interference is limited. - Deep learning and re-trainability are parts of the models that provide recommendations.

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Summary

Benefits of debt collection solution
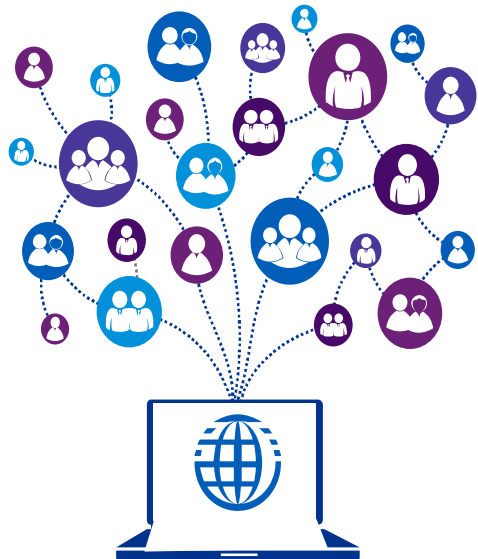
1. Process
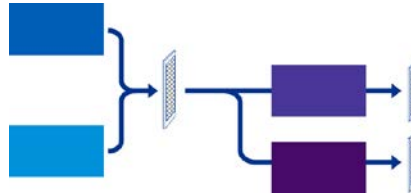
- Establish consistent and best practice for repeatable process.

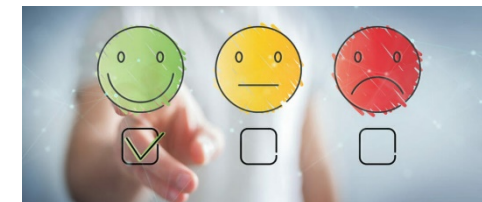- Allow performance measurement and selection of best and most predictive model.

2. Time

- Provide automation and shorten procedures.

- By allowing model to retrain, the system reduces time to conduct periodic searches for best model candidates.

3. Accuracy

- Collection Scoring model improves success rates and improves decision making.

4. Satisfaction

- Achieve higher satisfaction of customers and employees.

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Q&A Session

Please type your questions in the Q&A box.

Thank you

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