TransUnion

Commercial Collections Model

Taking your collections to a new level

As soon as delinquency has been realised, enlist the TransUnion Collections Model to help you recover funds, while maximising your relationships. At the earliest stages of delinquency, it will help you provide customer service for low-risk cases. During the later stages of collections, it can help you maximise recover amounts while minimising your costs.

Enhance your collections strategy to add more value

A strong collections function can make the difference between good and excellent financial performance. By identifying opportunities to make your collections more effective, efficient and customer-oriented, you can add significant value to your business.

Your collections function must also evolve due to external pressures, including markets, legislation and competition.

Leading organisations support their collections efforts by using advanced methods to set effective objectives for each stage of the collections cycle, to perform at an optimum level and adopting a strategic approach to improving the overall process. This includes using data to improve the collection decisioning process and understanding the reasons why commercial entities have become delinquent.

Taking a strategic approach to collections will help you:

- Increase your collections return
- Recover amounts owed more quickly
- Make optimal use of tight resources
- Maximise how data is used to drive collection decisions
- Add discipline to the decision-making process
- Understand and respond to the reasons why a commercial entity has become delinquent
- Prioritise actions in the recovery process
- Demonstrate value generated by the various actions taken

The collections process is a balancing act that requires you to weigh credit risk against potential customer value:

- If the relationship is ended too early, future revenue streams will not be realised.
- If the relationsip is allowed to lag, the likelihood of recovering the full debt is reduced.

The challenge is to define the collections strategy by identifying which course of action will provide the best possible outcome.

Factors to consider:

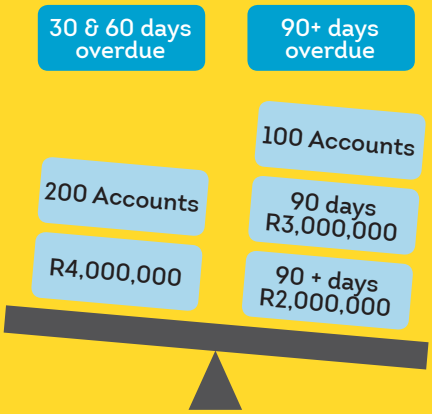
- **Every action has a cost**. Taking no action incurs no hard cost, but significantly reduces the likelihood of eventually collecting on the debt. While initiatives, such as out-bound calls, do have a cost, they can increase the chances and amount of recovery.
- **Every action has a probable success rate.** Phoning will likely be more effective than sending out a letter.

Often, it is the combination of actions that determines recovery levels and whether a customer's payment behaviour will change.

UNDERSTANDING YOUR CLIENTS:

There are three fundamental stages within the collections process:

- **Stage one** involves studying how commercial entities use credit and identifying those with a high probability of becoming delinquent, before they actually do.
- **Stage two** begins when the commercial entity becomes delinquent. At this point, collectors should focus on ways to help the customer restore their account to "current" status.
- **Stage three** is reached when a commercial entity ignores requests for payment and becomes increasingly delinquent. At this point, a decision must be made whether to end the relationship and start the recovery process.



Client Debtors Book

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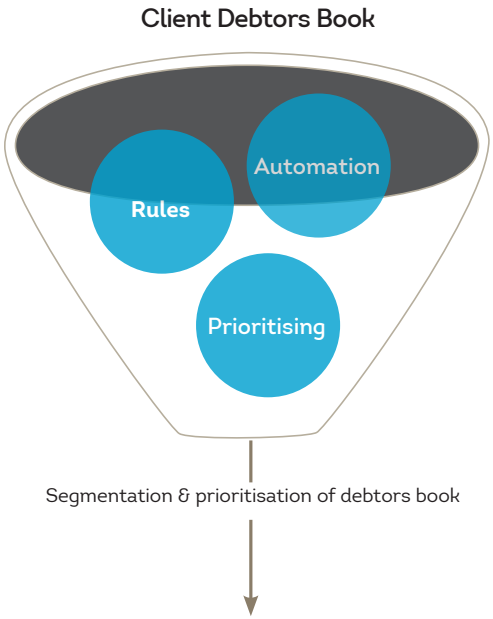
The Commercial Collections Model will help you achieve several key collections objectives. For commercial entities that are currently overdue, it will help you:

- **Develop a distinct action plan for each account**
- **Rank each debtor with a risk categorisation identifying how easily the recovery may be**

Once in place, the Model allows your collections department to be more proactive by providing the ability to benchmark newly delinquent accounts with those already in the collections process to identify entities most likely to pay and prioritise these accounts accordingly.

The Model allows you to divide your collections book into segments based on the likelihood of the individual entity making payments. This is achieved by dividing the collections book into cells of priority, relative to the risk categorisation of these accounts.



The risk categorisation is based on the debtor's past payment behaviour, taking enquiries, defaults and judgments into account. The collections book is split into seven categories relative to risk, prioritised by where to target your collections efforts. This is achieved by dividing the collections book into cells of priority, relative to the risk categorisation of these accounts:

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- **Very high priority** - these are the debtors you want to target first, because the entity and the principals have no derogatory information currently held at the bureau.
- **High Priority** - for these debtors, the entity has no derogatory information held at the bureau; however, it is unknown whether the principals, in their personal capacities, have judgments or defaults.
- **Above-Average Priority** - the entity still has no derogatory info held at the bureau, but the principals, in their personal capacities, have defaulted once before.
- **Average Priority** - the entity still has no derogatory information but their principals, in their personal capacities, have defaults and/or judgments.
- **Low Priority** - this is where the risk for collections increases because the entity now has at least one listed default, but no judgments and/or notices are held at the bureau.
- **Very Low Priority** - this risk is high and the likelihood for collections is very low because the entity has judgments and/or notices held at the bureau, irrespective of negative information listed against the principals.
- **Escalate to Legal** - no collections efforts should be wasted on these debtors as they are either no longer registered, liquidated, in the process of liquidation, disbanded, etc. Rather escalate to legal to claim some money as a concurrent creditor.

In today's competitive environment, you can gain a valuable edge by employing a strategic approach to collections by segmenting the collections book and prioritising entities that are most likely to pay their account. The TransUnion Commercial Collections Model will help you do this.

FOR MORE INFORMATION ON COMMERCIAL COLLECTIONS MODEL PLEASE CONTACT YOUR SALES REPRESENTATIVE:

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