FICO Decisions

EXECUTIVE BRIEF

Collection Agency Management for Telecom — Improving Performance with Analytics and Optimization

Hot Topic Q&A

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Mary is an executive and industry veteran with over 25 years of experience in consumer, small business llending and telecommunications.

Telecommunications debt collections have continued to evolve in recent years, relying increasingly on external agencies to provide scalability and diversify their collection strategies. Thousands of agencies compete for the attention of telecom vendors, each agency offering unique strengths for clients who can effectively segment accounts. Distributing accounts intelligently among specialist agencies and closely monitoring results can materially impact accounts receivable, future revenue streams and enterprise reputation (both regulatory and social). Telecoms collection strategies and practices look very similar to other consumer credit industries, particularly the use of analytics, automation and precise mathematical optimization to deliver predictably better results.

Mary Dupont, Sr. Director at FICO, explains the power of automation and analytics to drive collections and customer retention rates up; collections cost and reputational/regulatory risk down.

Q: What best practices might telecoms leverage from the collections automation adopted by other industries?

A: I've worked in the credit card industry and handled debt recovery. Over the years, due to sheer volume, cost constraints and various recessions, the card industry learned a lot about collecting high volumes in a very competitive market. The use of technology and analytics was applied to managing collection agencies during both good and bad economies and the tools and methods advanced significantly over the years. Years ago, if you wanted to sign on a new agency, the process was complex and mostly manual. For each new agency you had to negotiate details such as file format for placements, recalls, reporting, payment posting and paying commissions. It took months and involved custom coding. Six months later, if you needed a new agency, you would have to go through the process all over again.

Automating these business processes by using platforms such as FICO® PlacementsPlus® Service for managing agency relationships has eliminated this problem of data structure for file interchange and reporting, and reduced the complexity and labor-intensity of agency management in many other ways.

Telecom volumes are now reaching levels that can no longer be supported by manual recalls, awkward audit processes and untimely payment posting. This problem isn't unique to telecom; it has nothing to do with the nature of the debt. Now telecom service providers have the opportunity to take advantage of technology and analytics developed for other industries where automated decisions and optimization have become standard.

Telecom does have its own balance and fee structure. A telecom bill looks different from a credit card bill. Expressing that difference with its component parts, so the agency knows what it's collecting — $50 in suspension fees, so much in wireless expense, so much in wireline expense — requires a bit of tailoring, but generally the challenges aren't entirely unique to telecom. Implementation is similar to what you would need to do to provision software to any other business, but perhaps the ability to adapt on the fly and make changes is more important given the intense competitive pressure in telecom.

Q: What are the opportunities beyond process automation?

A: There are two components to agency management automation: The first is a basic platform that orchestrates the placement of accounts with specific agencies, for specific periods of time, applying decision rules and tracking results. It's really a communications portal and a reporting platform. The second and newer component is the **optimization** solution, with embedded analytics, which recovery managers rely on to distribute accounts among multiple agencies to maximize returns. In FICO's solution, that component is Placement Optimizer℠ Solution. It's important to remember that optimization in this context is a mathematical science, not just a general term for "making things better." It is designed to place the account optimally to your agencies by selecting the best agency to collect each account given your constraints to placement share or placement volume.

Q: How does this relate to telecom-specific challenges?

A: Telecoms may actually be under-utilizing agencies, meaning using too few agencies due to high overhead per agency. The use of automated process management and optimization would give telecoms the opportunity to have more agencies, which increases competition across agencies and allows for better agency selection. Their focus and resources can then shift from process management to performance management.

Each agency has its own unique specialty. And this holds true for the telecom agencies as well, as there are certainly agencies that specialize in telecom accounts. Some of these are small balance agencies, fresh paper agencies, agencies that take older accounts, some that do skip trace work — looking for clients with whom you have lost contact. Some only work within a particular region or socioeconomic group. FICO's platform can optimize for all of those specialties by matching each customer with the right agency for that particular account.

Phase 1: Quick Time-to-Value

- FICO® PlacementsPlus Service installation
- Utilize existing ECA recovery models for segmentation
- Leverage Fair Isaac® Advisors for allocation strategy definitions and performance monitoring

Phase 2: Add Optimization

- FICO® Placement Optimizer Solution installation
- Redevelop ECA recovery models
- Develop agency performance model
- Leverage Fair Isaac® Advisors for strategy review and performance monitoring

"FICO solutions will ensure that every account is placed with the best agency possible to get you the maximum recovery, given what your capabilities and the capabilities of the agency are."

A vendor may determine that Agency (A) can have an account for six months, and then it comes back and gets distributed to Agency (B). Without automation, the recovery manager has to make sure that that actually happens, so agencies are not keeping accounts for which they haven't been effective. It requires a lot of audit work, and that tends to be manual — there's someone sitting at a computer physically changing status codes on an account. The optimization system both places and takes the account away automatically while selecting the best agency for each phase of collections.

All the decisions you're making about an account can be automated — how long the agency keeps it, how much they get paid, what share of total placements they get, what share of a group of accounts or subsegment of accounts they get.

Q: What are the likely benefits for service providers?

A: Important benefits come from precision. Optimization involves balancing multiple constraints. For example, Agency (A) can have no more than 30% of the total population — that's one of the rules that is executed as a constraint.

Without FICO® Placement Optimizer℠ Solution, a recovery manager decides who is going to get the accounts usually based on total performance. An agency may actually be underperforming on a sub-segment and the lender rarely knows this. Placement Optimizer replaces the subjective decision and makes it precise based on the analytics.

You may also have a certain segment of your accounts in which none of your agencies is performing well, e.g., small balance accounts. You shuffled accounts around, you've given them more money, but the performance hasn't changed for that segment. That's an occasion to go look for a new agency that works small balances. The analytics results would give you the opportunity to understand that you have a need for an agency to specialize in that one area.

With FICO, we are going to ensure that every account is placed with the best agency possible to get you the maximum recovery across all sub-segments, given the capabilities of each agency. You might not have the right agencies, and optimization can't solve that, but they certainly can identify that problem and highlight it for you. You also may not be able to make your agencies perform better in any particular group, so it certainly can tell you who's best at what, so every account goes to the right agency and this results in more money collected and a better customer experience.

Collections automation with analytics can improve outcomes and increase agility and transparency.

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