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Get a Handle on Debt Default

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Consumer debt default is a harsh reality for utilities living through tough economic times, but implementing the right mix of technology, analytics and processes can significantly reduce the amount of bad debt write-off.

Rising levels of unemployment and economic uncertainty are restricting consumer spending and leading to debt defaults. In addition, some unscrupulous consumers exploit loopholes in utilities' business processes to default on their payments.

Utilities can efficiently manage their debt portfolios and minimize bad debt write-offs with a three-pronged revenue protection framework.

Predictive analytics, targeted collections strategies and enhanced customer experience interventions form the core of this framework.

The first level of this framework focuses on segmenting customers by forecasting customer risk behaviour, using predictive analytical models.

The models are based on customer profile parameters such as demographics, meter settings, usage patterns, payment history, complaints, and credit rating data from credit bureaus.

Insights generated from analytical modelling can help utilities prioritize accounts for collections, based on their revenue risk quotient. For instance, utilities can create a collections prioritization matrix based on the risk score and outstanding debt value, to decide on the next steps in the collections strategy.

The second level focuses on an efficient customer segment collections strategy to improve collections performance and reduce cost-to-collect. Almost all utility companies use the services of Debt Collection Agencies (DCA) at different stages of customer delinquency.

DCA commissions are as high as 50 percent in late-stage debt collection. Therefore, placing all debt accounts with DCAs is not recommended. Low risk and high outstanding debt customer accounts should be prioritized for in-house collection, while high risk customer accounts – requiring greater collection efforts – should be placed with DCAs for cost efficiency.

Despite the pressing need to recover dues from defaulting customers, utility providers need to be mindful of customer satisfaction and experience. After all, customer satisfaction is a prerequisite to sustain momentum in debt recovery.

The third and final level of the framework focuses on enhanced customer experience interventions, ranging from understanding the customer's ability to pay, identifying vulnerable customers, recommending suitable repayment options adhering to consumer protection regulation to advising customers in financial distress.

Optimizing the debt collection process shows significant positive results within a short period of implementing a pilot with the three-point framework. Efficient customer debt management methods implemented by WNS have resulted in increases in collection rates of as much as 50 percent and reductions in cost-to-collect by more than 20 percent. What's more, the pay-off is much higher than the investment and sustainable in the long run.

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