



MARCHMENT HILL

- consulting -

A Preventative Approach to Debt Collection and Hardship

the challenge

Our client, a Victorian regional water retailer, had recently restructured to accommodate its hardship function within its credit and collections operation. The intentions behind merging these groups were to place renewed effort on the growing hardship debt book, to bring the organisation further in line with best practice debt collection in the utilities sector and to increase the customer focus in both areas.

With the new structure having recently been put in place, our client sought to refine the operating model for how these newly combined teams should function. In particular there was a need to understand the optimal processes and technologies to be employed to ensure our client was able to meet obligations to customers experiencing hardship while at the same time achieving optimal debt recovery outcomes. At a time of rising payment delinquency across the industry, combined with the state's regulator placing increased scrutiny on utilities' ability to cater to hardship customers, it was critical the new operating model was able to achieve these two (often conflicting) objectives.

what Marchment Hill did

Enhanced debt prevention capabilities are a key feature of a high-performance credit function. They allow the organisation to simultaneously improve the health of its debt book, meet its obligations to hardship customers and enhance the overall customer experience.

With this in mind, MHC took an end-to-end view of our client's debt to identify prevention opportunities. Particular focus was placed on upstream capabilities given their key role in identifying customers experiencing signs of early hardship or at higher risk of delinquency.

Our work specifically involved:

- An analysis of the organisation's "As-Is" credit and hardship processes and maturity level. This was benchmarked against its desired "To-Be" level of maturity.
- Engagement with teams located upstream to the credit function (e.g. new customer onboarding, customer service) to determine their ability to help drive debt prevention efforts.
- A cross-industry analysis of best practice credit and collections processes and technologies. This also considered regulatory limitations around their application in the Victorian water sector.

- An assessment of the organisation's readiness to move to a Risk Based Collections approach involving customer behaviour segmentation, champion/challenger testing techniques and differentiated customer treatment pathways. This specifically included its ability to obtain and analyse customer data.
- An assessment of the interfaces between hardship and debt collection to streamline efforts between the functions and better identify hardship customers during the Dunning process.

The key results delivered included:

- A set of ten 'Priority 1' initiatives. These spanned improvements to existing work processes as well as enhanced application of technologies already being used by our client (e.g. SMS notifications). The focus of these initiatives was on upstream processes (with several outside the credit function) to drive *prevention of debt* - particularly through enhancing the ability to identify early hardship customers and offer early assistance.
- A further set of nine 'Priority 2' initiatives. These focussed more on downstream processes within our client's Dunning and post-mercantile processes and were aimed at *reducing debt tenure*.
- Particularly attention was placed on ensuring all initiatives were easily actionable and low-investment. Most involved changes to process and different application of existing technology.
- A stakeholder session on 'Risk Based Collections' and the benefits of applying differentiated collections activities to different customer segments. This included the use of champion / challenger testing techniques.
- A detailed implementation roadmap that outlined the key tasks, resources and timeframes required to achieve each of the recommended improvement initiatives. An agile project methodology was applied to ensure a focus on 'quick wins'.

the benefit

As our client introduces the recommended initiatives, it is shifting from a largely *reactive* credit and hardship function to one that is better able to *prevent* debt falling onto its debt book. This is particularly enhancing its ability to identify potential hardship customers before they enter the hardship phase, thereby giving our client time to work with these customers on early remediation activities such as payment plans and government grant applications before their debt becomes more severe.

This preventative approach to collections is helping our client to reduce the size of its debt book while simultaneously meeting its obligations to hardship customers and driving an enhanced customer experience.