Insight and agility

An updated guide to optimising collections in utilities

Experian
A world of insight

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Introduction

The UK utility sector faced tough challenges through 2010, with customers facing the reality of their reduced liquidity and cash in both the residential and business sectors. Competition in the energy market has remained volatile with churn rates remaining high (circa 23% 2010), whilst market pressures to reduce costs to serve and the associated cost of commodity to the customer, has lead to a marked changed in attitudes of our clients to transform their processes and policies.

So why is the sector looking to change now? The simple answer is that the utility sector has long been regarded as the 'poor relation' of the financial services sector, with less sophisticated practices in customer insight and risk management in particular. If is fair to say that Obligations to Supply and legislation relating to use of data and the strategies to enforce such insight, has continued to decelerate this transformation. However, for every 'camel' there is a 'straw' and the final straw seems the onset of the Green and Smart journeys. With the mandate of Department of Energy and Climate Change (DECC) to drive the smart meter roll out imperative towards the 2020 completion target, and the additional commitment towards the Green Deal and the Green Investment Bank, the Energy Sector is facing a future where understanding the customer and having the means to react in an agile way pertaining to these circumstances is of critical importance.

The next question is what does this transformation look like? Here the answer is manifested in the order in which the utility tackles their requirements in terms of data robustness, insight and agility in decisioning and operational deployment. Our experience throughout 2010 shows that the first stage of data validation and verification is crucial, as the utility can not build sophistication on a foundation of quick sand. With data certainty the next stage of the journey is tailored to the order of management agendas at each utility. Experian is seeing two distinct patterns emerging. On one hand we are observing the utility company's desire and commitment to build actionable insight from customer data, both from their own experience and that of other parties. On the other hand we are seeing the next step as a commitment to the analysis of data to support decision making as well as deployment into operationally agile platforms. The most forward thinking utility company recognises both elements as part of the whole journey, to transform insight into an agile optimised strategy for the betterment of their business and just as importantly, the customer.

Our review of the utilities sector concludes that there is an even greater need for customers to pay their bills on time and the use of appropriate and timely resource is crucial in order to minimise costs. However the sector statistics still paint a bleak time ahead.

- The overall total household debt in utilities was £2,079 million, in 2010 with £1,455 million water, £624 million energy (compared to £1,652m in 2009 a 42% rise). Sources: OFGEM, OFWAT and USwitch.
- Energy suppliers are also feeling the strain. OFGEM, the UK energy regulator, has recently reported that:

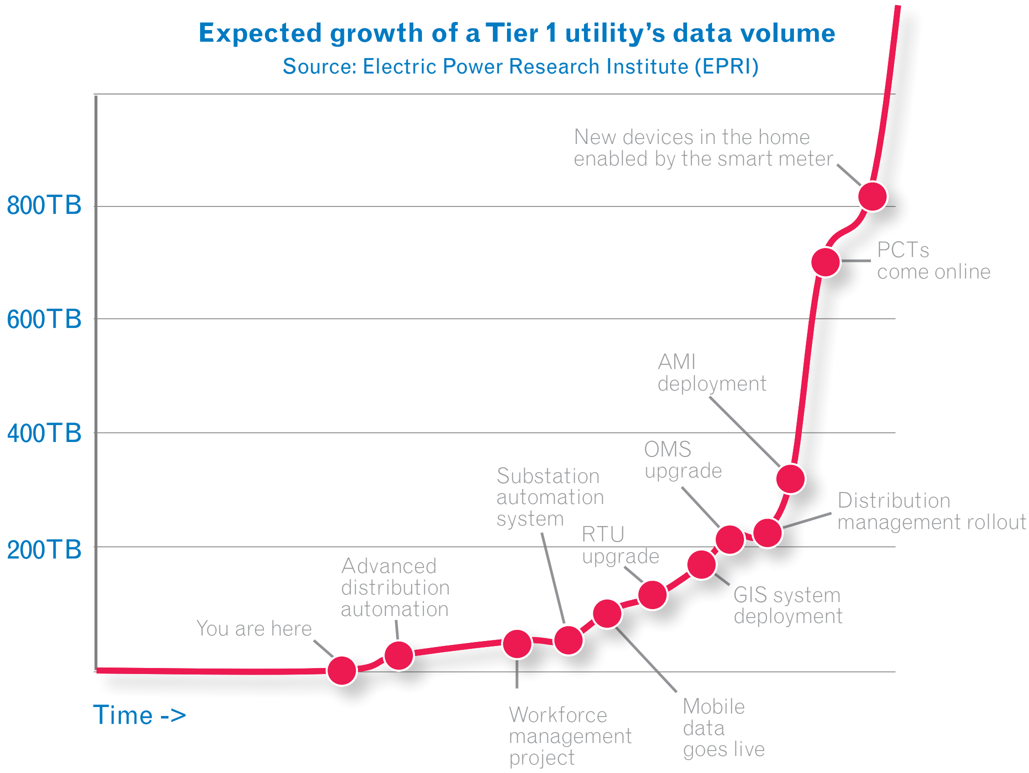
    - Electricity debt had increased by 15% to an average of £306 and gas debt by 14% to £307, indicating a worrying trend in customers' ability to manage their energy bills.
    - The number of people in substantial debt and owing over £600 had also risen 21% in the second quarter of 2010 compared to last year, a problem likely to be exacerbated by the cold winter at the beginning of 2011.

- Utility debt is already expensive to collect, with still relatively low balances (compared to financial services) and long settlement periods mean the cost to collect can often out-strip the debt value itself, leaving utility debt de-prioritised by the consumer and the supporting services.
- With the labour market still very weak and the economy not predicted to significantly rebound until 2012, overstretched utility collections teams will now have to compete even harder for payment, further pushing up the cost to collect.

The context of the statistics clearly illustrate the current and long term challenge ahead. However, every challenge that presents itself offers new opportunities and the reality ahead is to make optimal use of the exponential growth of available data.

Expected growth of a Tier 1 utility's data volume

Source: Electric Power Research Institute (EPRI)



But the saviour of data will only be realised by those utility companies that couple the insight from an exponential source such as smart metering with that of the wider characteristics of the consumer. Experian is uniquely placed to support this journey of insight.

A 10 step guide to improving your collections strategy

- Extract the full value of your customer data - utilities can no longer afford the inefficiencies and costs of treating each account equally, without any intelligence around the likelihood of recovery. Progressive utilities are finding that by developing an accurate insight to each customer and moving to a more targeted approach, they can significantly reduce their day sales outstanding (DSO), overall write-offs and recovery costs – with the same or fewer staff numbers. This requires smarter decisions, drawn from insightful and predictive data.

- Apply your insight throughout the collections lifecycle - the most effective collections teams now drive efficiency improvements through the entire lifecycle, from pre-delinquency to legal recoveries. Utilise insight from past behaviours, current performance and couple with robust economic forecast information to future proof strategies in line with macro and regional economic trends. Align your understanding of macro and regional economic performance with key customer segments using tools such as Experian's Mosaic consumer classification. Mosaic can help you operationalise your economic foresight to better understand risk and your exposure to fluctuations in the economy throughout your customer portfolio.

- Optimise the value of your customer data within your collections systems to operationalise decision making - as the UK utility industry moves to sharing customer credit data, the wealth of data available enhances the opportunity for improved and differentiated treatments. Implementing this effectively for collections requires smart decisions, drawn from predictive data, coupled with agile systems to operationalise decision making.

- Embrace the opportunity provided by smart meters - the introduction of managed meters in energy, mandated for every domestic home by 2020, creates opportunities in customer management and improvements for reducing energy theft, as well as reducing the costs to switch the meter from cash to pre-pay and reducing debt exposure. Now is the time to start thinking about how to capitalise on the opportunities provided by smart metering, as well as to tackle the challenges of implementing the technology.

- Renew to focus on preventing delinquency - Looking for early signs of financial stress is becoming more and more relevant for collectors and, typically, this is done by gaining a richer understanding of customers. As utilities begin to share data, their ability to determine risk profiles of new customers improves, enabling suppliers to adopt more appropriate controls on new accounts and prevent early delinquency.

- Prioritise and personalise your collections activity to improve response - an overstretched utility collections team cannot afford to waste their efforts and collectors need to quickly determine which interventions to take and when to take them. Forward thinking utilities are combining predictive analytics with workflow to help them make these value based decisions to optimise collections and reduce costs. Implementing automated decisioniong tools to operationalise your insight in your collections programme allows to make decisions quickly to speed-up the collections process.

- Use your understanding of customers to make it easier for them to pay - acknowledging that different customers prefer different methods of payment and interfacing e-billing systems and web payment portals directly with your collections platform ensures that the most appropriate payment arrangements are offered to maximise response.

- Outsource with care - with such rapidly growing arrears levels, more collections outsourcing is inevitable. Getting the most from your outsourcing partner, however, means knowing what to outsource and to whom. Scoring helps utilities understand which accounts to outsource and which to retain whilst automatically allocating accounts to the agency best suited to collecting the debt can optimise returns.

- Develop smarter recoveries strategies - utilities will need to work smarter in terms of when to litigate and how best to enforce judgment debts. They also need to quickly and accurately determine if disconnection and /or any future move to a prepaid meter is indeed an option. Collections systems are now used successfully by many utilities to navigate and automate collections to reduce mistakes and inappropriate disconnections.

- Adopt an integrated approach - the power of data has never been more relevant. With increasing pressures to reduce cost to serve, whilst maintaining or improving collections there is an imperative for the sector to work smarter. Utilities need to ensure that you know about your customers, learn from your customer's behaviours and intentions, and execute strategies in a timely and intelligent manner. Most importantly you need to integrate the best in class data, analytics, people and technology to optimise collections.

For a full copy of Experian's white paper 'Insight and Agility: a guide to optimising collections in Utilities and to find out more about our services go to www.experian.co.uk/utilities.

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