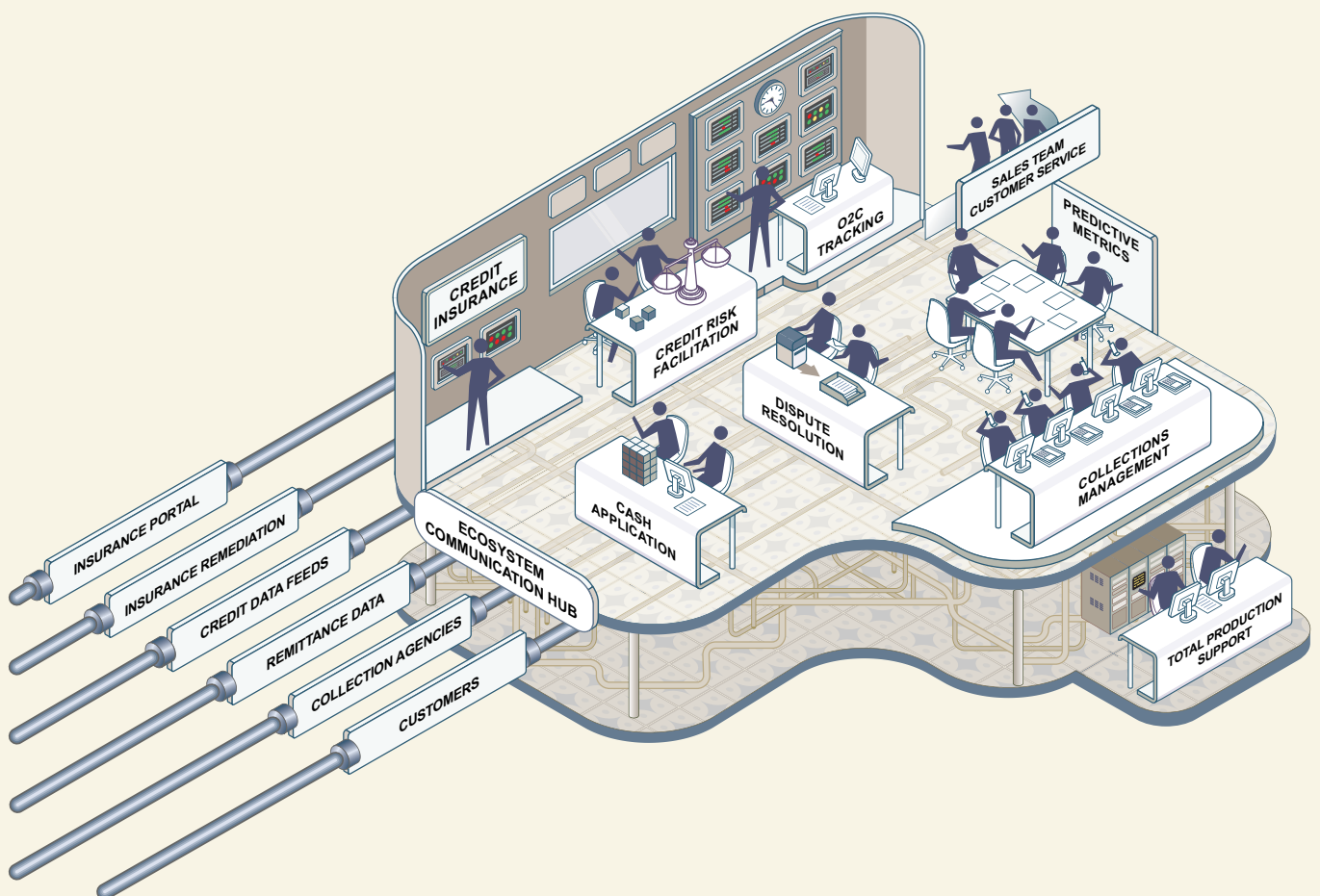




**SUNGARD** AVANTGARD RECEIVABLES

Predictive Metrics for  
B2B Trade Credit

Managing credit and collections cost-effectively is critical, especially in today's economic climate. Companies are dealing with resource constraints and an increasing number of customers are paying slower. This leads to more accounts in collections, resulting in a larger collection queue, which makes it more difficult to identify which customers to contact first. By not addressing those with the highest risk of delinquency and cash at risk first, companies will see an increase in past due percentages and ultimately write-offs.



## GET PAID FASTER BY PRIORITIZING COLLECTIONS

Instead of using the traditional method of contacting customers based on an aging report, organizations are able to accelerate collections by identifying high risk customers and then placing those customers on a high touch “call” collections strategy. This practice of riskbased collections is driven by risk scores that actually examine and are calibrated to your customer’s payment habits and then automatically places their account into the appropriate collections strategy. SunGard helps companies do this by using statistical-based risk models that look at your own experiences with each customer in order to create a monthly risk score. This method offers a higher level of accuracy versus using bureau data that is traditionally intended for new account decisions, not ongoing collections management. Even if and when the appropriate data from a bureau is used, it is not solely based on the customer’s payment experience with you but rather the average of all companies providing trade data to the bureau - data that is not necessarily relevant to your relationship with the customer and mostly likely not as current as your own experiences.

## REDUCE SPEND ON BUREAU DATA FOR ONGOING COLLECTIONS

Most B2B credit managers will tell you that they rely on bureau data for the new customer evaluation process. In addition to bureau data, they will often look at bank & trade references, many conduct an evaluation of financial statements, among other factors. Once you enter into the trading relationship with this customer, the best indicator of the ability to pay is your own experience with that customer. To continue to buy bureau data to evaluate the collection risk is not only costly but is not as predictive of your customer’s risk with you as developing a statistical score based on your own experiences.

However, many companies continue to buy bureau data in order to ascertain risk grades for ongoing collections efforts. When statistically challenged, bureau data proves to be less predictive of what your actual experience will be with that customer, which your own customer payment data would have indicated if used in conjunction with a statistical model. Improper risk grading leads to improper prioritization in the collection process, which can lead to delinquencies and ultimately losses.

Another advantage of using statistical-based scoring for credit and collection strategies is that statistical models are evaluated through a validation process that documents the model’s ability to predict a payment problem - before the model is even implemented. Historical data is used where the result of the customers’ payment activity is already known and the model’s predictive ability can be accurately determined and checked. Also, if your company is currently using another data or scoring solution to assess the risk of your portfolio, we will perform a head-to-head challenge between the two scores to determine which score is most predictive and the level of performance improvement. This portfolio validation and champion / challenger analysis is provided to prospective customers at no cost.

## TAKE THE CHALLENGE

To prove the advanced predictiveness of this scoring technology, SunGard offers to perform a champion / challenger validation analysis versus any score or data that you may be using. This head to head analysis will allow you to evaluate which scoring technology is the most predictive in evaluating your customers’ payment risk for ongoing collections management. This A/R data is specific to your business. It is your customers’ unique payment behavior with only you, rather than your customers’ payment behavior with everyone that they do business with. As a result, the payment behavior used in the model is much narrower, which yields far more predictive output of risk scores.

### Criteria leveraged in the model:

- Monthly Aging Dollars
- Monthly Balances
- Account Number
- Indicator of Loss or Bankruptcy
- Other optional data

## HOW DOES THE VALIDATION ANALYSIS WORK?

For a validation analysis, a company needs to provide SunGard with 18 to 24 months of historical month-end AR information (aging data plus other internal data elements) on each customer in their entire portfolio in a country or across the globe. If the company is currently using another scoring solution they will also need to provide those scores during the required period of time for comparison. This data serves as the basis for predicting "future" customer payment activity. Our statistical model is applied to the data by uncovering past trends, magnitudes and payment patterns, and formulating this information to predict "future" payment performance.

Model results are validated by using actual customer payment activity, subsequent to the time of score, to evaluate the model's ability to differentiate future problem payers from future timely payers. This process quantifies how accurately the model predicted future customer payment behavior and provides an analytical basis for your collection strategies going forward.

For the champion / challenger analysis, SunGard will produce a Lorenz Curve and bar chart that shows by percentile what percent of the future BAD's were captured by each score. This will help determine when put side by side, which score is a better indicator of predicting future payment risk.

## CALIBRATED USING YOUR PAYMENT HISTORY DATA

During the validation process, the models are calibrated to your delinquency objectives and then tested against actual outcomes. The validation and calibration process then occurs on an annual basis to fine tune the models. The Statistical scoring models can be run in various capacities:

- Standard: Leverage the predictive power of only the internal data;
- Enhanced: Apply external commercial bureau data such as trade, public record and demographic data with the internal data; or
- Custom: Develop multiple models that blend internal data with the most applicable external data sources for optimum performance in unique situations where our Standard and Enhanced Models do not meet your business requirements.



## WHAT DATA DO THE MODELS DELIVER?

The evaluation of customer payment risk will take into account internal payment history with the option of combining external factors (such as bureau data if desired). The models are first calibrated to your portfolio and then they produce five key outputs:

**Risk Score:** The scoring models applied to trade credit typically create a series of outputs which include a core output labeled the Net30Score, which uses a scale of 0 to 100 where 0.01 is the customer with the greatest risk and 100 is the customer with the least amount of risk.

**Probability of BAD (PBAD):** The model predicts and provides a calibrated, specific probability (%) that an existing GOOD paying customer is going to become a delinquent or BAD paying customer at some point during the six months following the score date.

**Risk Class:** Based upon the monthly score, customers are segmented into 6 risk classes from Extreme to Very Low Risk. The Risk Class is often the basis for applying collection strategies.

**Cash at Risk (CAR):** The model also will then take these risk scores at the account level and use them to perform further value at risk analysis of the account. By taking into consideration the customer's outstanding balance and the probability of BAD, SunGard can calculate the expected Cash at Risk (CAR). CAR helps determine the cash value of an account's outstanding balance that is actually at risk.

**Adverse Reason Codes (ARC):** Up to three ARC's are provided for all customers that score in the higher risk categories. The ARC's provide commentary as to why the model scored the customer the way it did.

## INCREASE SALES

Many organizations view the practice of corporate credit risk analysis as a method of protecting the organization from bad debt. However, some world class companies are now using this data to help drive increased sales or cross sell opportunities. Monthly analysis of the paying habits of customers can identify customers that are paying well to determine if credit lines should be increased. This collaborative effort between credit and sales can help drive increased business in less risky customers; this is particularly effective when a customer may have been given an initial credit line several years ago that should be updated today. This regular review of credit lines, coupled with properly prioritizing collection activities - which ultimately leads to available credit for existing customers - provides the opportunity for increased sales to existing customers.

## INTERFACE WITH ANY ERP OR COLLECTIONS SYSTEM

The models operate with any A/R, ERP or specialty software solution. SunGard has integrated the scoring models with the AvantGard Receivables solution (GETPAID) for ease of access and increased automation of your processes. However, the models can operate independently as a standalone solution through the leveraging of our hosted web-based reporting and query tool.

## ADHERE TO COMPLIANCE

As part of the Predictive Metrics service, companies benefit from an online reporting and data mining dashboard that is used to not only download monthly scores, but also to slice and dice that data in order to identify trends and spot emerging risk (related to geographies, industries and more).

Businesses can assess the impact of their risk strategies on their entire portfolio, important segments, or on individual accounts to turn data into actionable business intelligence.

The tool leverages the predictive power of industry/finance specific and custom scores and groups the data for you to develop performance based strategies. All reports are exportable to Adobe Acrobat (PDF) and account lists are then exportable to Excel, text file and CSV. This functionality helps companies to obtain faster turnaround times for reports, particularly when dealing with a larger number of accounts.

## INTERPRETING RISK SCORE OUTPUT

Risk Class	Net30 Score Range	Average Number of Accounts in Risk Class	Percent of Accounts in Risk Class	Cumulative Percent of Accounts Through Risk Class	Number of BAD Accounts in Risk Class	BAD Rate in Risk Class	Cumulative Percent BAD Through Risk Class
Extreme	≤ 37.68	5,006	3.7%	3.7%	2,019	40.3%	24.6%
Very High	37.69 - 47.49	6,009	4.4%	8.1%	1,315	21.9%	40.6%
High	47.5 - 58.39	9,250	6.8%	14.9%	1,221	13.2%	55.5%
Moderate	58.4 - 76.63	32,451	23.9%	38.9%	2,132	6.6%	81.4%
Low	76.64 - 82.07	24,342	18.0%	56.8%	511	2.1%	87.7%
Very Low	> 82.07	58,542	43.2%	100.0%	1,013	1.7%	100.0%

In this example, the Net30Score segmented this customer portfolio of 135,600 accounts into six risk groups based on their score. In the Extreme Risk category, the probability of an account going BAD was 40.3%. We could expect, therefore, in the future that approximately two of every five accounts will not pay on a timely basis (e.g., will achieve a 90+ day delinquency within the next 6 months). Also, in the Extreme, Very High and High Risk Classes, which represent only 14.9% of the customers in the portfolio, there is an average BAD rate of 27.7%. We could expect, therefore, in the future that approximately one out of four accounts will go BAD in the future.

On the other hand, in the Very Low Risk category, the probability of an account going BAD in the future is 1.7%. Therefore, we could expect that only about one of every 59 accounts will not pay on a timely basis in the future.

In summary, this risk segmentation shows that within the top four risk classes (Extreme to Moderate) that represent only 38.9% of the total number of accounts, represents 81.4% of the total delinquency risk in the portfolio. As a result, you can allocate your resources to less than 40% of the portfolio with aggressive collection treatments and have confidence that you are mitigating over 80% of the risk.

## PREDICTIVE METRICS FOR B2B TRADE CREDIT

### Features

- Leverages your own customer payment data for predictive analysis
- Models constantly monitor and predict future paying habits
- Easily integrates with any A/R, ERP or specialty collections system
- Adjusts scores and allows for collections strategies to change on a monthly basis
- Secure cloud-based, hosted solution requiring minimum IT support
- Complimentary validation and calibration process

### Benefits

- Invoices get paid faster (globally)
- Reduce losses
- Decrease bureau data costs
- Mitigate bad debt expense
- Lower DSO
- Identify sales opportunities
- Reduce collection costs
- Adhere to compliance mandates
- Increase accuracy with calibrated models for your portfolio



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