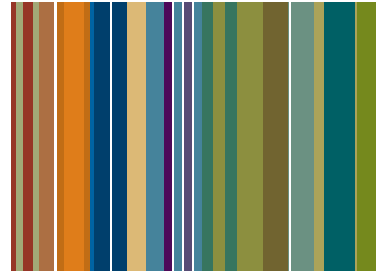


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TAKING THE PAIN OUT OF COLLECTION CLAIM PROCESSING

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About the Author

An industry analyst and receivables management thought leader, David Schmidt founded *A2 Resources* in 1994. Besides his consulting, he has published over 200 articles in a variety of trade and business publications including *Business Finance*, *Business Credit* and *Collection Advisor* magazines and is currently a contributing editor with monthly newsletter *Credit Today*. Co-author of the seminal text on automating collections, *Power Collecting: Automation for Effective Asset Management*, (1998, John Wiley & Sons, NYC), David has also served as the lead analyst for several *PayStream Advisors'* research reports covering receivables automation, collection technologies, and AR imaging as well as sales tax and freight bill automation. An experienced workshop leader, he is a member of the NACM, the CRF and the Federation of Credit and Financial Executives.

INTRODUCTION

Most credit managers or directors manage multiple collection agency relationships, yet the process of managing these relationships can be highly manual and complex creating lack of efficiency and transparency for both the company and agency. For this reason, many clients and agencies are migrating toward technology that affords portal access and significant advances in networking. This is resulting in a dramatic improvement in claims recovery.

The placement of claims with a collection agency is a critical stage in the pursuit of past due payments. When one of your customers lets their accounts go past due and then fails to pay despite repeated reminders, your firm has already absorbed the cost of goods sold, financing expenses, and collection costs. Upon placing the debtor with a collection agency, any recoveries of the past due amount will incur collection fees, but that is better than the alternative of no recovery and a bad debt loss. Agency placement is often a critical step required to get certain debtors to respond to requests for payment.

The key to the collection claim placement process, therefore, is to maximize recoveries. Because receivables rapidly deteriorate in value once they hit 60 days past due, and even more so at 90 and 120 days, there is value in placing claims sooner rather than later. Claims placed at 90 or 120 days (the point at which many creditors give up on internal collection efforts) will have a substantially higher collection rate than claims containing year old receivables. Older receivables also incur higher contingency fees.

COLLECTION AGENCIES AS A STRATEGIC RESOURCE

To maximize recoveries, you also need to thoroughly document your collection claims (this process is described in more detail later in this report) as well as work closely with your collection agencies. An agency that has experience collecting from your market segments and therefore understands your industry will do a better job than an agency without that background. By the same token, an agency that is willing to get to know you and your operations will do a better job in the long run than an agency that has no interest in what goes on before a claim is placed. In short, you want an agency whose expertise can help you solve the riddle of realizing optimal value from your receivables portfolio.

When you have an agency relationship that is built on close collaboration, there arise multiple opportunities for you to leverage their expertise from either a 1st party (outsourcing) or 3rd party (claims) collections perspective.

- **Improve Collection Efficiency** – no matter the external conditions, the strategic use of your collection agencies 1st and 3rd party resources can help you optimize your collection process
- **Mergers and Acquisitions** – when combining two receivables portfolios, agencies can be a tremendous help in cleaning up the acquired AR allowing internal staff to focus on current business activities
- **Staff Reductions** – When credit departments are downsized, agencies can pick up some if not most of the load
- **Tough Economic Times** – Faced with a deteriorating economy, pro-actively working with your agency can help your firm recover past due receivables from troubled customers ahead of your competitors
- **Turnaround Situations** – If you are a new manager hired to clean up a credit department, collection agencies can get the situation under control in much the same way as with a M&A scenario – the same for bankruptcies, liquidations and reorganizations
- **Seasonal Variations** – Some companies will experience seasonal variations in their collections volume or will have invoices that come due at a particular point in the year. Due to these surges in activity, many will engage a collection agency during these peak times

In all these scenarios, the right mix of in-house, 1st party, and 3rd party collections helps creditors balance collection efficiency and cost. This is because if everything is done in house, improving performance requires either automation or additional staff, and both involve expenditures. The counterpoint is, if there is too great a reliance on claims placement, collection costs will swell. The idea is to utilize your collection agencies in ways that free up your staff so they can spend more time on risk analysis, problem resolution and other tasks that are unsuitable for an external partner to perform. By balancing the higher efficiency of an agency in regard to completing collection calls (both high volume 1st party calls and collection efforts directed at intransigent accounts) against your credit departments capabilities and strengths you optimize your entire collection process. That naturally results in DSO and bad debt loss reductions. The key element here is to truly understand your own business so as to optimize both internal staff and partner agencies.

THE TRADITIONAL CLAIMS PROCESS

Placing delinquent accounts with a third party collection agent, while relatively straightforward, has traditionally been a manual process. When the process involves passing paper back and forth, a lot of time is spent documenting claims and communicating with the agency. This friction then creates inefficiency and a lack of transparency for both the creditor and the agency resulting in a series of challenges relative to the three primary activities that drive the creditor/agency relationship (see table).

PRIMARY ACTIVITIES	CREDITOR CHALLENGES	AGENCY CHALLENGES
Claim Placement	<ul style="list-style-type: none"> • Daily workload often supersedes claim placement efforts • Time required to assemble claims for agency placement 	<ul style="list-style-type: none"> • Claim values deteriorate due to tardy placement • First party outsourcing activities suspended pending placement of 3rd party collection claim
Debtor Information Exchange	<ul style="list-style-type: none"> • Each Agency requires different data parameters for claim submittal • Data has to be re-keyed, rather than transmitted electronically, even when agency provides an online portal • Agency Requests for information interrupt other tasks and take time • Acknowledgement of claim placed, if any, is seldom timely 	<ul style="list-style-type: none"> • Capturing claim information that has been transmitted in both electronic and paper formats • Missing contact logs necessitate 'starting over' rather than 'picking up' where the creditor left off • Incomplete debtor files generate requests for information • Collection activities must be suspended pending response to information requests • Collectors lack access to AR updates (payments, credits, etc.)
Performance Monitoring	<ul style="list-style-type: none"> • Data to compare performance between different agencies must be collected manually • Very limited granularity to the data collected, which impedes analysis • Claim status is communicated differently by different agencies • No unified view of the status of all accounts placed for collection 	<ul style="list-style-type: none"> • First party outsourcing is often facilitated by dialing in and using the creditor's system, which requires training, breeds inefficiency and makes it difficult to monitor collector performance • Agencies must respond individually to client (creditor) requests for performance data

Creditor Challenges

From the creditor's perspective, claims take time to assemble. Even when agencies provide for online placement, a considerable amount of the process is manual (paper or data entry required) and each agency's placement portal is likely to be unique. Because placing claims takes significant time and effort, placing claims gets in the way of the daily routine, or vice versa. In the first instance, claim placement detracts from higher value collection activities, and in the latter there are delays in processing claims, which, as has already been noted, diminish their value.

Because each agency has their own client interface, there is no consolidated or unified view of all the accounts placed for collections. Checking up on the status of a particular claim is a one-off process that requires doing a manual look-up on the appropriate agency's customer portal. It is entirely inefficient.

Lacking a portal (or true networking), agencies may provide a monthly summary of claims placed or, worse yet, periodic individual account status reports when a significant event occurs. As a result, creditors have little transparency into claim status and find it difficult to track contractual terms with their agencies. The most common way to monitor claims and agency performance is to create a spreadsheet that lists claims placed, matches recoveries against placements, and tracks agency fees (commission, attorney, other legal, etc.). Of course this is an administrative burden as data must be captured from multiple agency sources and provides only limited parameters for comparing agency performance, usually just net recoveries as a percentage of dollars placed.

Organizations today are looking for a more streamlined method to operate. While there has been much advancement within the credit industry, until now the client – agency relationship has benefited little.

Besides the physical challenge of placing collection claims and the associated data management, agency communications are handled as exceptions rather than process components. As mentioned, monitoring claim progress and results is fragmented because every agency has their own way of handling how claim status is communicated. There is seldom a network mechanism for responding to a high volume of agency requests for information. Consequently, decisions regarding next steps are delayed when additional account details are requested, especially if further research is required. The problem again is that lacking an efficient process, communicating with your agency requires more time and effort than it should. In the end, the partner relationship is strained.

Agency Challenges

The challenges agencies face are almost a mirror image of their clients. For example, claim quality is affected when claims are placed later than they should have been and increases the time lapse since the last collection activity. Incomplete files also affect claim quality. In particular, when the agency is not provided with access to the debtor's collection history, the agency must 'start over' with the debtor rather than 'pick up' where the creditor left off. Agencies are also challenged when they receive claim data in both electronic and paper formats. Paper clogs up the process because data conversion is an unnecessary cost and burden. For these reasons, progressive agencies are now participating in more innovative communication methods, taking advantage of portals and connectivity.

Further, many agencies also work for their clients as 1st party outsourcing partners. This requires either writing a data interface between the client and agency systems, or the agency collectors must dial in to the client system. With the former, clients lose visibility of performance requiring the creation of a customized reporting function. In addition, it is difficult to get updated information from client systems after initial account data has been transmitted. When collectors dial in to the client's system, they have access to updates, but the agency loses visibility of individual agent performance. Also, agents may require training on multiple client systems. Again, the process has historically been entirely inefficient and lacks critical transparency. Both the client and the agency are now looking toward advances in technology to improve communication.

Agencies are also challenged to maintain the manpower required to communicate manually with clients. One of the biggest issues arises when the agency, usually due to less than comprehensive claim data, is faced with a high volume of requests for additional information. Under these circumstances, creditors are often slow to respond. The problem is then compounded because collection activity is suspended pending a response, which affects recovery rates. One way around this is to provide agency collectors with access to client screens, but that affects the number of collection calls they are able to make.

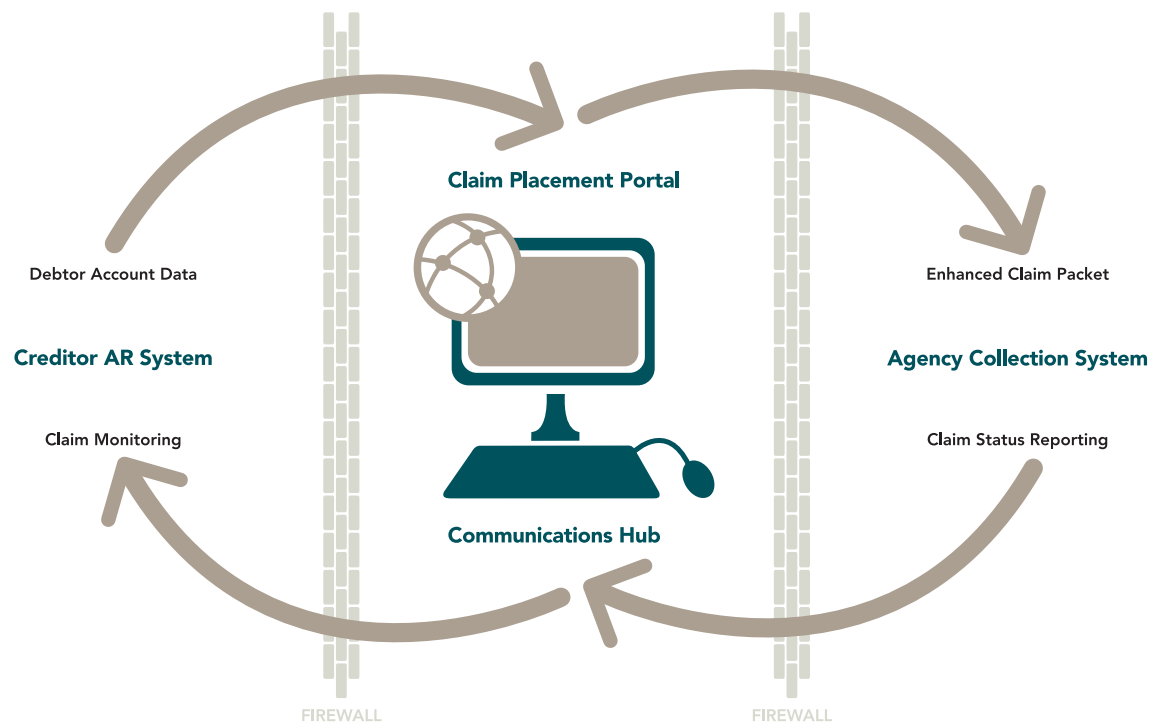
To sum up, traditional methods for handling 3rd party collection claims typify a disconnected process. The crux of the problem is that the data exchange is both inconsistent and disjointed. As a result, both the agency and the creditor suffer from poor transparency, which makes it difficult for either party to make informed decisions designed to improve performance.

THE AUTOMATED CLAIMS PROCESS

Recent developments have allowed for an automated collection claim process that facilitates the translation of claim data derived from the creditors AR system into the agency's collection software and then standardizes feedback from the agency to the creditor. On the front end, automated claim placement is abetted with an electronic acknowledgement of receipt. As the claim is worked by the agency, AR account updates are automatically transmitted by the creditor to the agency while claim status information is transmitted back to the creditor in a standardized format that allows the creditor to not only monitor individual claim progress, but also apprehend a single consolidated view of their entire 3rd party collection efforts. Thus constituted, an automated collection claim placement process contains these three primary features:

1. Automated claim placement
2. Automated Agency/Creditor Data Flows
3. Ability to Closely Monitor Status and Performance

Automated Collection Claim Processing



BENEFITS OF AN AUTOMATED CLAIMS PROCESS

The benefits associated with automating collection claim placement are related to timeliness, visibility and performance. To a large extent, performance improvements are an outgrowth of seamless processing and transparency and result in lower recovery costs.

In terms of timeliness, claims are placed in accordance with the creditor's corporate collection policy parameters, not when the collector gives up or the manager decides tougher action is required. With an automated system, whether the account has been worked in-house or by an outsourcing partner, the credit manager can still put a hold on new placements, but otherwise a claim will be filed automatically. As a result, there are fewer unnecessary delays in claim placement, which enables the agency to start working claims sooner. That leads directly to higher recovery rates. Moreover, higher agency recovery rates mean fewer claims are ultimately forwarded to attorneys, which increases both the net recovery rate to the creditor and the agency's commissions.

The greater visibility associated with an automated collection claim process also yields significant dividends. Because the agency receives full details on new claims, there are fewer subsequent requests for information from the creditor, and there is no need to rehash details – the agency starts work where the creditor left off. By the same token, enhanced status updates are provided to the creditor, and maybe most importantly, everybody is on the same page when a decision about how to proceed is required. The efficiency gains combined with improved transparency help to form a stronger relationship.

From a performance perspective, all parties benefit from the greater efficiency of an automated system. Data entry errors are for the most part eliminated as are incomplete claim files. As a result, agency management expenses are reduced even as recoveries increase. The shortened collection cycle also provides a cost-effective increase in cash flow for the creditor.

In the final analysis, both the creditor and the agency win. The dynamics related to increased process efficiency accrue to everyone involved in the process. In addition, the increase in process transparency creates an opportunity to renegotiate agency rates when it can be proven that the claims being submitted are cleaner, more comprehensive, and more timely, thereby reducing the agency's costs of collection. After all has been said, increasing performance while lowering costs is the bottom line when it comes to optimizing AR performance.

About AvantGard

SunGard's AvantGard is a leading liquidity management solution for corporations, insurance companies and the public sector. AvantGard provides chief financial officers and treasurers with real-time visibility into cash flows and increased operational controls around receivables, treasury and payments. AvantGard helps companies drive free cash flow and reduce inefficiencies across the EcoSystem of suppliers, buyers, banks and other trading partners. For more information, visit www.sungard.com/avantgard.

About SunGard

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