

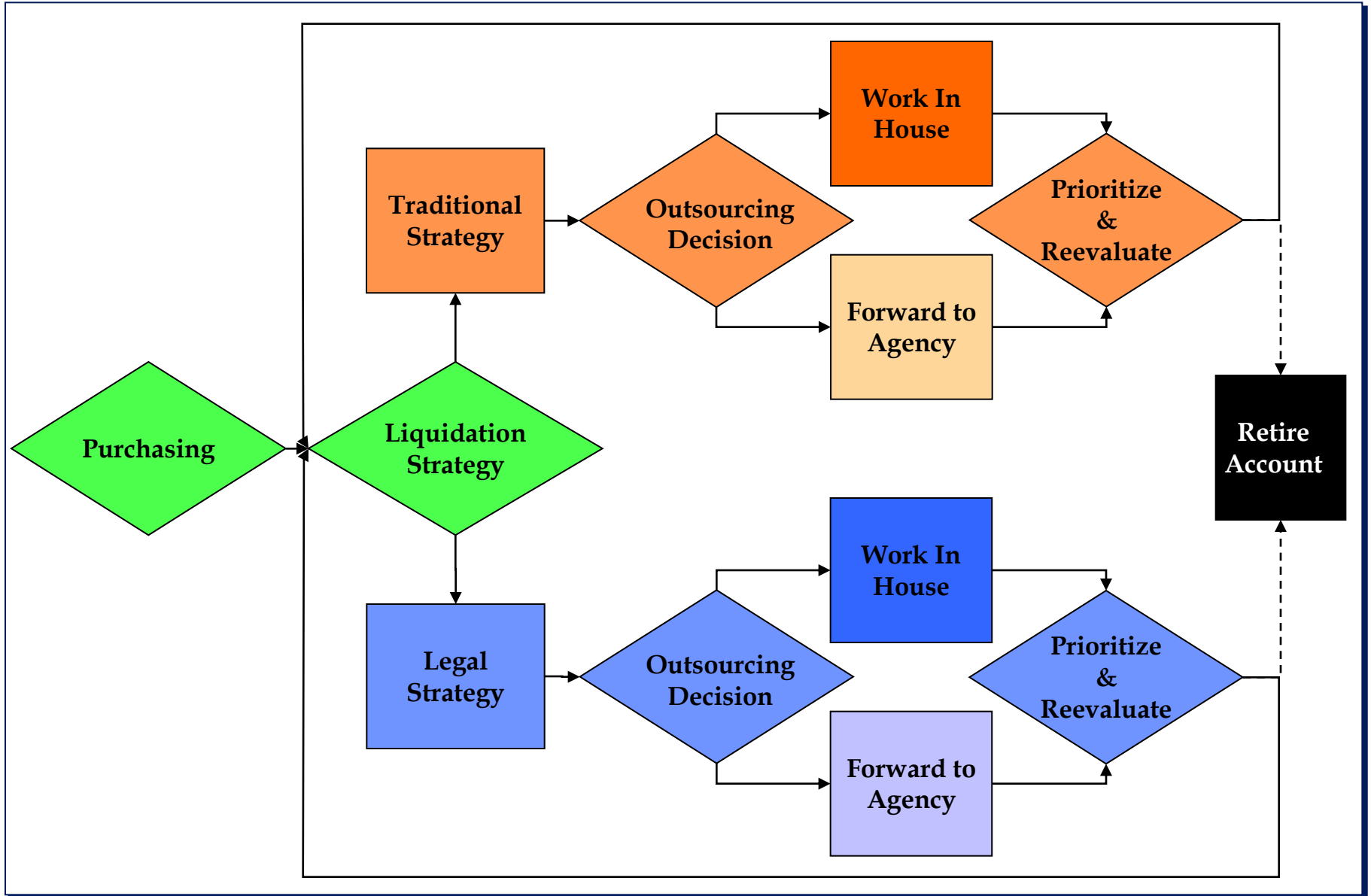
# **Applications for Segmentation and Scoring**

# Fischer Jordan Overview

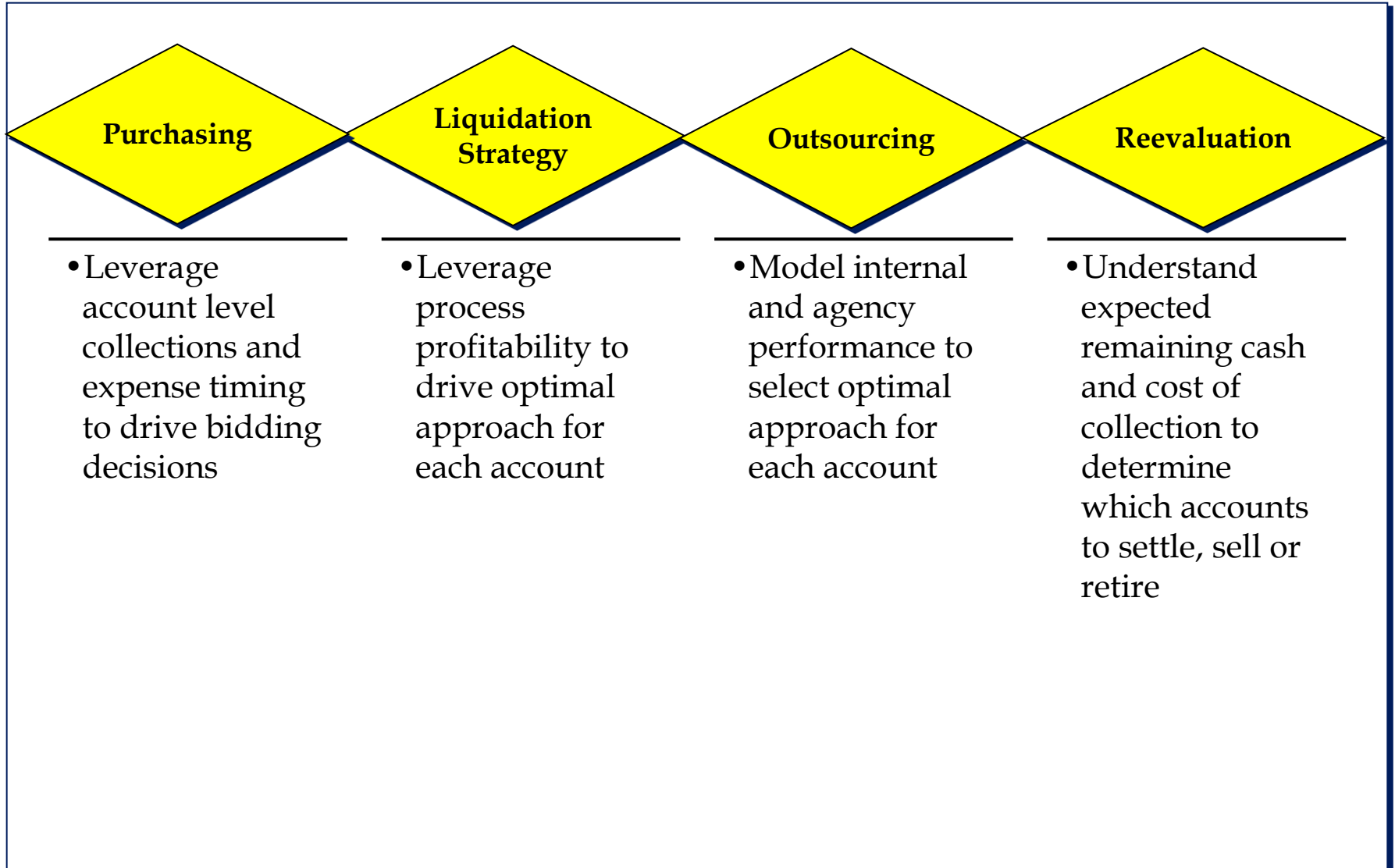
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- **Analytics consulting firm specializing in collections and credit card space**
- **Focus on leveraging analytics technology to drive rapid bottom-line impact**
- **Provider-agnostic approach**

# Generalized Collections Process



# Where Can Segmentation & Scoring Help?

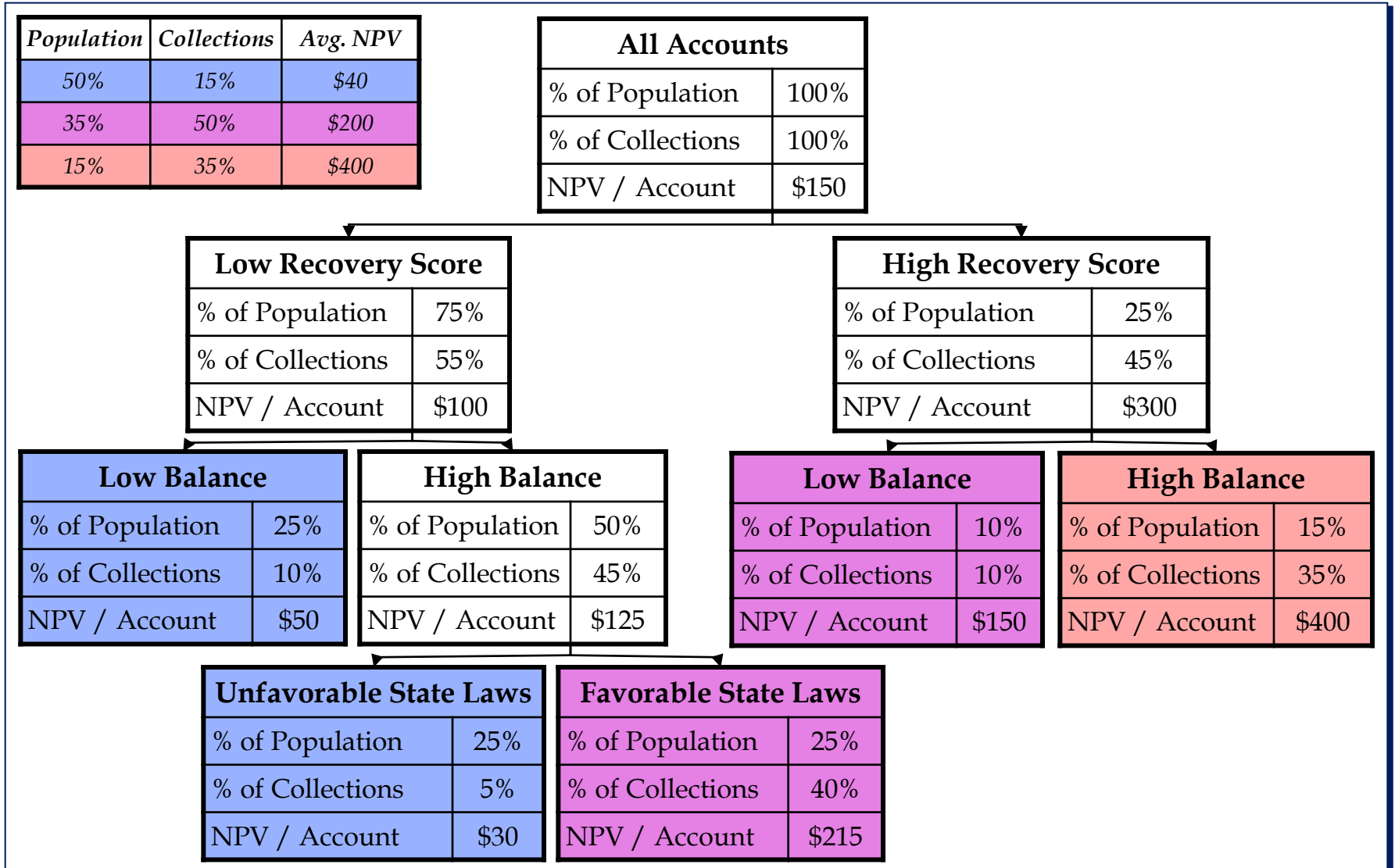


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## 1. Variables to Consider

Variable	Rationale
Account Balance	<ul style="list-style-type: none"><li>• Informs total potential collections potential</li><li>• Liquidation rate and balance tend to show negative correlation</li></ul>
Paper Type	<ul style="list-style-type: none"><li>• Informs nature of debtor's original credit quality</li><li>• Informs depth of debtor's financial distress</li></ul>
Time Since First Delinquency	<ul style="list-style-type: none"><li>• Informs level of previous collections efforts</li></ul>
Jurisdiction	<ul style="list-style-type: none"><li>• Drives effectiveness of legal strategies and by extension, traditional strategies</li></ul>
Recovery Scores	<ul style="list-style-type: none"><li>• Combines many credit attributes into a single score reflecting general collectability</li><li>• Excellent starting point for account level liquidation strategy</li></ul>
Credit Attributes	<ul style="list-style-type: none"><li>• Provides variables for segmentation and fine tuning of recovery scores</li></ul>
Public Record	<ul style="list-style-type: none"><li>• Identifies accounts belonging to debtors with other severely distressed obligations</li></ul>
Evidence of Asset Ownership	<ul style="list-style-type: none"><li>• Identifies debtors with assets to protect and / or liquidate</li></ul>
Evidence of Employment	<ul style="list-style-type: none"><li>• Identifies debtors with income streams to fund payment</li></ul>

## 2. Illustrative Segmentation Tree – Legal Collections

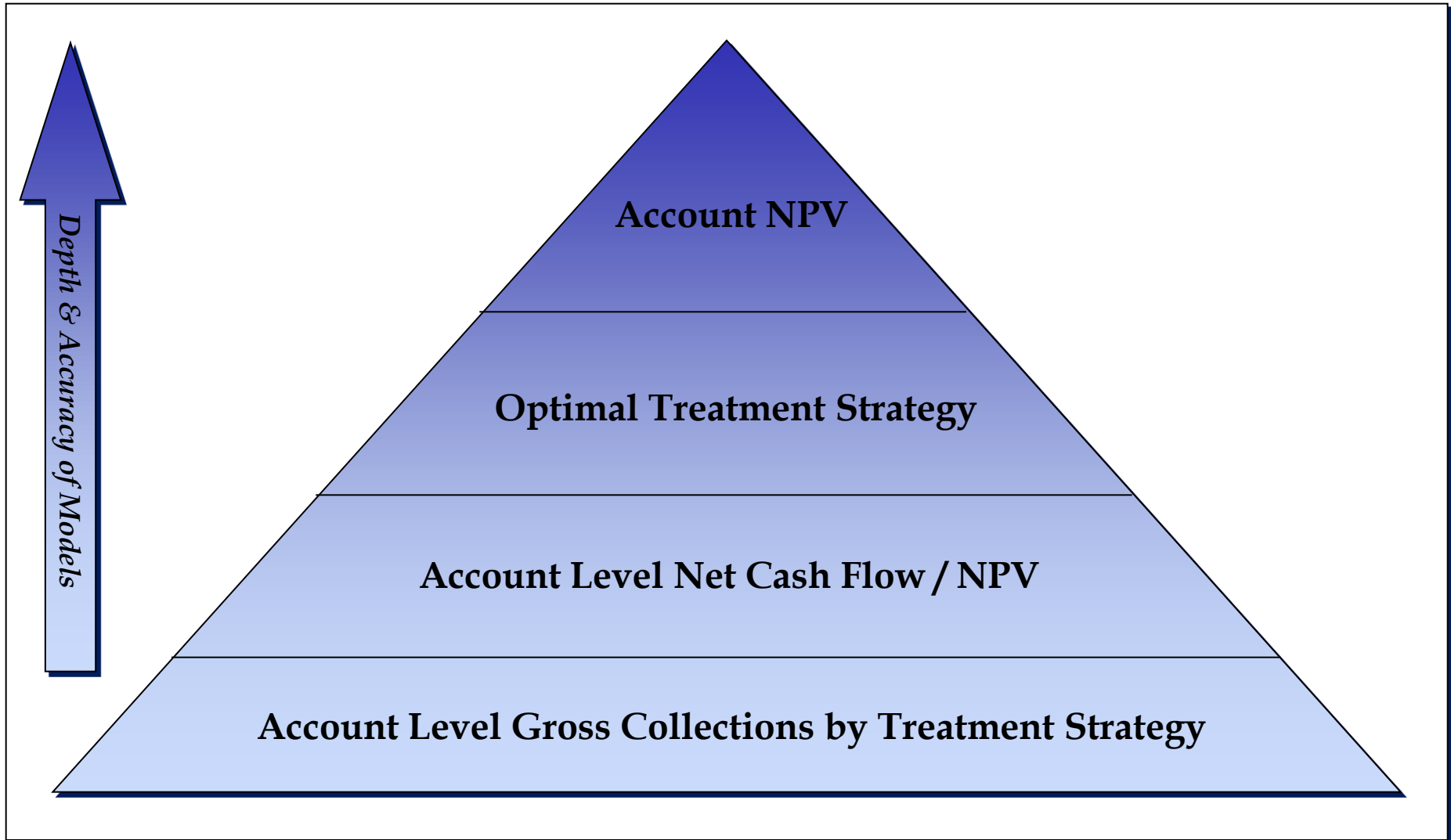


### 3. Test Design Guidelines

Issue	Consideration	Implication
<ul style="list-style-type: none"> <li>• <b>Population Selection</b></li> </ul>	<ul style="list-style-type: none"> <li>• Is the sample drawn from the same population the proposed segmentation will be applied to?</li> </ul>	<ul style="list-style-type: none"> <li>• Dynamics observed in the general account base may not be as prevalent in specific subpopulations</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Random Sampling</b></li> </ul>	<ul style="list-style-type: none"> <li>• Are the test and control populations similar in every relevant respect except the test treatment?</li> </ul>	<ul style="list-style-type: none"> <li>• Meaningful results require that the variation in account performance can only be attributed to the test treatment</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Required Resolution</b></li> </ul>	<ul style="list-style-type: none"> <li>• What level of performance variation would justify a differentiated strategy?</li> </ul>	<ul style="list-style-type: none"> <li>• Larger performance variation is easier to detect</li> <li>• Detection of smaller variations requires larger test populations</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Implementation Feasibility</b></li> </ul>	<ul style="list-style-type: none"> <li>• If the test detects meaningful variation, can the segmentation be implemented in a production scenario?</li> </ul>	<ul style="list-style-type: none"> <li>• Business impact requires the availability of segmentation variables and ability to route accounts based on segmentation logic</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Costs</b></li> </ul>	<ul style="list-style-type: none"> <li>• If the test detects meaningful variation, how much will it cost to deploy and maintain in production?</li> </ul>	<ul style="list-style-type: none"> <li>• Business impact requires the incremental benefits exceed the costs of implementation and maintenance</li> </ul>

# Developing Best - In - Class Models

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# Open Issues

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- **What novel data sources can be leveraged to drive incremental decisioning power?**
  - What is the cost-benefit of incremental data?
  - How easily can it be incorporated into existing processes?
- **How can the value delivered by purchased scores be maximized?**
- **How can ongoing testing and model refinement be automated in a cost effective way?**
- **How well can more detailed decisions be modeled and implemented?**
  - Lettering frequency
  - Account to collector ratio
  - Settlement discount rates
  - Contacts before legal action