REDUCE - FI 30 (Non Bank Card)

The Risk Management Score for Financial Institutions
Developed by SCORE Statistical Consulting & Equifax Canada Inc.

Dynamic Delinquent Debt scoring models developed by SCORE Statistical Consulting and Equifax Canada Inc. are derived from the comprehensive and dynamic Equifax database and provide credit grantors and collection agencies with tools to maximize the efficiency of portfolio management activities. The suite of delinquent debt scoring products enable your organization to rank order and treat delinquent customers strategically based on their current individual circumstances.

The primary objective in credit scoring is to develop an effective scoring model that contains only a small number of predictor variables. These scoring algorithms or "scorecards" are then used to evaluate credit quality in the future. Credit scorecards for application, or limit purposes rank order the entire relevant population of applicants by risk, that is, the probability of credit facility outcome (a “good” or “bad” account) over a specified period of time, such as two years.

**Dynamic Delinquent Debt Scoring** utilizing credit bureau data evaluates the probability of repayment for portfolios at various stages of delinquency. This allows for consistency in collection practices, portfolio evaluation, increasing production efficiency, and effectiveness. When implemented effectively, the scorecard should be able to rank order the entire set of delinquent customers by probability to pay. That is, every account is assigned a score. This score equates to an odds quote, the probability to pay, which provides an estimate of repayment performance — i.e. an estimate that an individual account will cure or make a specified payment amount over a short time horizon (90 days). However, probabilities only make sense over the long run. Therefore, even though all individual accounts are assigned a score, the robustness of the score is predicated by the law of large numbers. That is, the greater the number of accounts the more predictive scoring will be for the entire portfolio.

**REDUCE – Credit Bureau based collection scores on Dormant Debt**

As the credit industry progresses to more finely tuned collection activities and as technology increases the robustness of databases everywhere, it becomes more and more likely that financial or retail institutions will begin to avail themselves of credit bureau data and tools for account management: **REDUCE** is such a tool. **REDUCE** has been developed with delinquent accounts in mind — in fact, only delinquent accounts 1-60 days in arrears were used in the development process. This then differentiates this score from all others at the credit bureau as it incorporates sampled accounts from all major financial institutions using only 1-60 day accounts. Unlike a new account score that “still performs well in rank ordering delinquent accounts”, **REDUCE** is built solely for delinquent accounts. The objective of **REDUCE** is to predict the likelihood of any 1-60 day account curing within the subsequent 60 days. In all testing done to date, **REDUCE** outperforms new account/current account scorecards in rank ordering collection risk and probability of curing.

Once a portfolio or a sample of accounts has been scored, the **REDUCE** score can be employed in one of two ways. First, the three digit score is a probability (i.e., score of 380 represents a 38% chance of curing) and, as such, can estimate the likelihood of any individual account curing. This can assist in developing outsource or agency assignment strategies for different score ranges (see distribution below as illustration). Second, the **REDUCE** score can be used as a tool to assist in evaluating portfolio worth. Using the probability as an indication of percent cured within a score range, it is quite possible to estimate total dollars received over a three month period for the different score ranges. **REDUCE** suggests that any and all strategies be monitored and tested so as to obtain empirical evidence relating to how bureau scores and strategies affect any one individual portfolio. **REDUCE** would be pleased to discuss any strategies along these lines at your convenience.
One final word is that **REDUCE** is based on standard and accepted practices of mathematical statistics. As such, the results that are displayed are in terms of probabilities and are valid only if the assumptions are reasonable and **only** in the long run. In other words, **REDUCE** cannot indicate which accounts will cure with certainty on a particular date; rather the goal of **REDUCE** is to indicate the expected return from a group of accounts (i.e., within a score range) over a period of time (approximately 60 days). That being said, the resulting scorecards are very robust, and even early results (within the first couple of weeks) should begin to illustrate the benefits of **REDUCE** to your organization.

**Capitalize on Our Strengths**

SCORE Statistical Consulting will work closely with you to support your account treatment strategies and result analysis. The Equifax information resources combined with SCORE’s scoring expertise and analysis techniques support clients in the day-to-day management of their customer relationships. Accurate, up-to-date information and dynamic scoring models enables us to help clients monitor, evaluate and make decisions based upon changes in their customer’s credit file as they occur. Data quality, accuracy, completeness and strategic utilization of the tools are a principle driver.

SCORE’s expertise and experience combined with Equifax’s data management capabilities and innovative solutions enable organizations to manage their customer lifecycles with greater precision and profitability.

SCORE and Equifax utilize IAO Automated Information Services Inc. as our Application Service Provider to provide quick set-up, flexibility and ease of use for a full menu selection of value added products.

To find out how Delinquent Debt Scoring and Off-Line Information Solutions can work for your business, contact your Equifax representative or SCORE Statistical Consulting at 416-861-1217.

*Visit our websites at [www.equifax.ca](http://www.equifax.ca) and [www.scorestat.com](http://www.scorestat.com).*

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