



Credit Scoring and Credit Control XII conference

Evaluating the influence of enhanced customer service processes on portfolio credit risk in the German market

Edinburgh, August 24th 2011
Thomas Hoffmann

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BERTELSMANN

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SERVICES RETAIL-E-COMMERCE
CUSTOMER SERVICE

RISK MANAGEMENT

IT & HIGHTECH

PRINT SERVICES

MANAGEMENT CONSULTING

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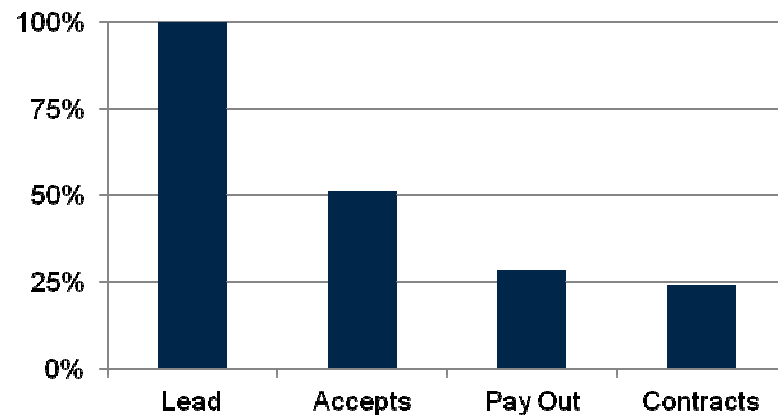
German market for retail credit

General

Billion Euro

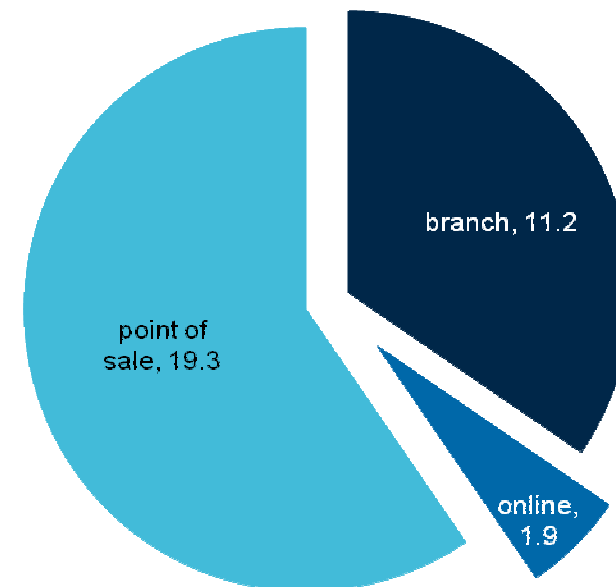
- Unsecured retail credit volume € 226,7
- Unsecured retail loan volume € 155,0
- Issued unsecured retail loan p.a. € 32,4

Conversion Rates



Online market

Billion Euro



- Strong growth rates +15%
- New applications will change the current business model
- 65% is generated via platform brokers

Online credit comparison / platforms

Kreditvergleich

Ihre Vorgaben

Kreditbetrag: 10.000,00 €
 Kreditslaufzeit: 36 Monate
 Art der Kreditbeantragung: Unwichtig
 Verwendete Kriterien: Effektivzins, der für zwei Drittel der Kunden gilt
 Postleitzahlgebiet: Keine regionalen Anbieter
 Finanzierungszweck: Ohne Zweckbindung

Anbieter	Angebot	Effektiv-zins	Monatliche Rate	Gesamtbetrag	Info
CosmosDirekt		5,55 %	301,57 €	10.856,51 €	[i]
SKG Bank		5,55 %	301,57 €	10.856,51 €	[i]
C&A Money		5,74 %	302,38 €	10.885,84 €	[i]
1822direkt		5,85 %	302,86 €	10.902,83 €	[i]

KREDIT VERGLEICH

Ihre Vergleiche / Anträge

Über das PDF-Symbol können Sie sich den jeweiligen Antrag erneut downloaden.

Über den Button "neu vergleichen" können Sie einen neuen Vergleich durchführen. Ihre Antragsdaten müssen jedoch nicht erneut von Ihnen eingegeben werden.

Datum	Bank	Monatl. Rate	Zins p.a. eff.	Kredit-summe	Laufzeit	Status	Anträge öffnen
17.08.2011	swkbank.	233,70 €	5,90 %	10.000 €	48 Mon.	Angenommen	[PDF]
17.08.2011	onlinekredit.de	233,70 €	5,90 %	10.000 €	48 Mon.	Angenommen	[PDF]
17.08.2011	DKB Deutsche Kreditbank AG	233,93 €	5,95 %	10.000 €	48 Mon.	Angenommen	[PDF]
17.08.2011	Postbank	235,00 €	6,00 %	10.000 €	48 Mon.	Angenommen	[PDF]
17.08.2011	Deutsche Bank	237,00 €	6,49 %	10.000 €	48 Mon.	Angenommen	[PDF]
17.08.2011	barclaycard	238,10 €	6,90 %	10.000 €	48 Mon.	Angenommen	[PDF]
17.08.2011	Credit Europe Bank	240,53 €	7,48 %	10.000 €	48 Mon.	Angenommen	[PDF]
17.08.2011	Hanseatic Bank	243,00 €	7,90 %	10.000 €	48 Mon.	Angenommen	[PDF]
17.08.2011	Creditplus BANK	242,78 €	7,99 %	10.000 €	48 Mon.	Angenommen	[PDF]
17.08.2011	smava Direkt Kredit	197,20 €	8,42 %	10.000 €	60 Mon.	Angenommen	[PDF]
17.08.2011	e@sy Credit	248,00 €	8,99 %	10.000 €	48 Mon.	Angenommen	[PDF]
17.08.2011	TARGO BANK	260,38 €	10,99 %	10.000 €	48 Mon.	Angenommen	[PDF]
17.08.2011	COMMERZ FINANZ	255,90 €	10,99 %	10.000 €	48 Mon.	Abgelehnt	[PDF]
17.08.2011	ING DiBa	233,89 €	5,95 %	10.000 €	48 Mon.	Offen	[PDF]

Persönliche Angaben

Anrede: Frau Herr

Vorname:

Nachname:

Geburtsdatum: TT MM JJJJ

The landscape is highly competitive and portfolio growth depends on winning new business in the online environment.




HOW CAN YOU SELL ONLINE CREDIT LOANS MORE SUCCESSFULLY ...

...WITHOUT LOWERING YOUR INTEREST RATES?

The Mystery Shopping Approach - Price

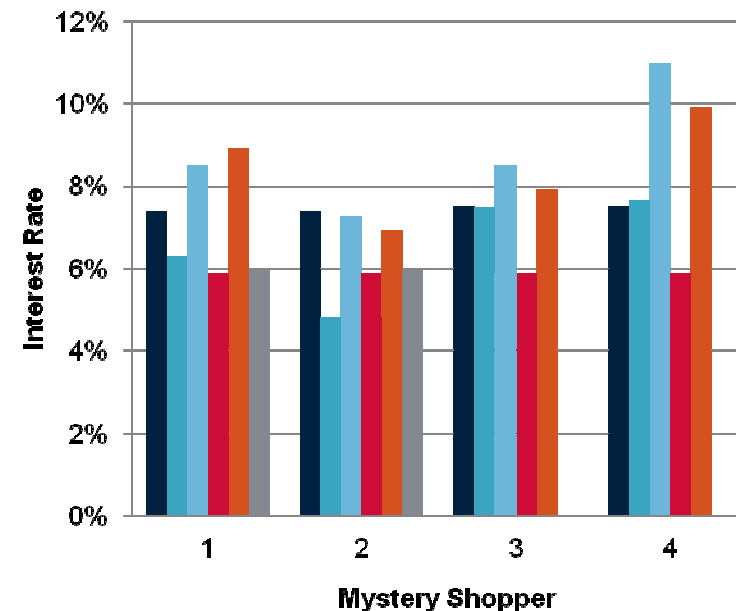
+1.000 Mystery Shoppers

To evaluate the influence of enhanced customer service processes on portfolio credit risk, arvato carried out a study based on some 1.000 credit applications by mystery shoppers.

- Real people applying
 - with their real data
 - with their real documents
 - for credit loans
 - at more than 10 different banks
- 
- Track all key information from contract as well as potential changes made
 - Track and evaluate processes in place
 - Email
 - White Mail
 - Telephone

Interest Rates offered

Example



- In more than 75% of all cases at least three banks provided offers with less than 10% difference in pricing
- Still, significant differences in risk assessment/ estimations

The Mystery Shopping Approach - Quality

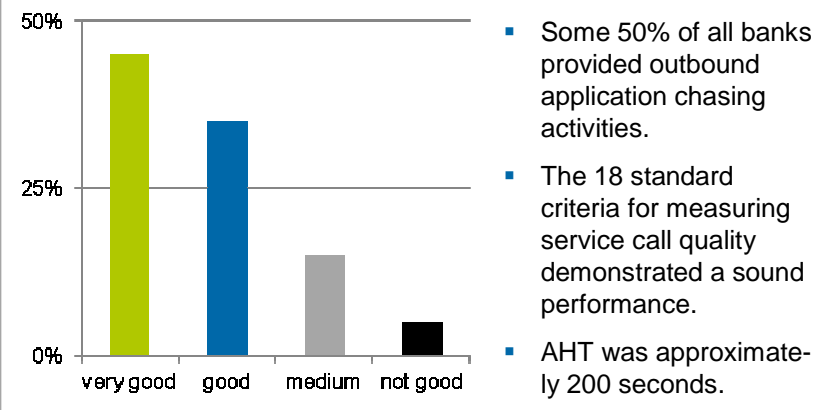
Application Management Processes

We observed different approaches ranging from literally doing nothing at all to intensive outbound activities combined with white- and E-mail correspondence.

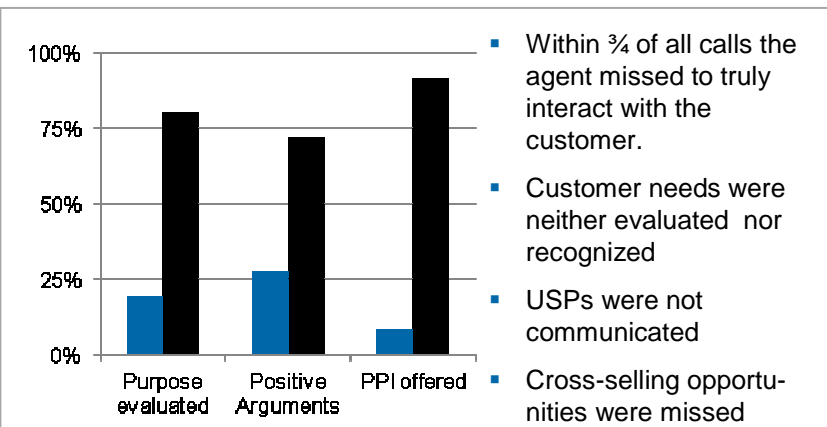
- Usability of web site
- Instant online decisioning
- Welcome Call
- Contract package
- Identification
- Application handling time
- Missing information process
- Timing of final credit decision
- Pay out process

No differentiation in processes corresponding for example to the customer's estimated PD was observed.

Quality Box 1



Quality Box 2



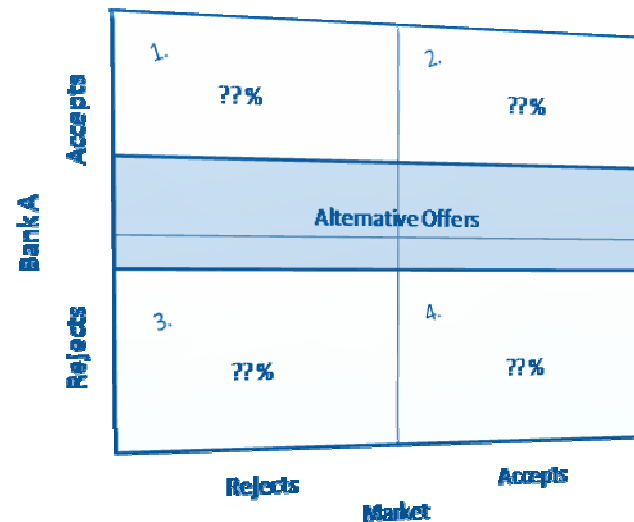
Operational strategies for key segments

Strategy Box 1

- Test price sensitivity, i.e. formerly booked at 8,99%, try 10,99%.

Strategy Box 2

- Increase effort and time, double AHT, focus on customer motivation, sweat talk, explain differences in interest rates.



Strategy Box 3

- Analyze reject reasons, if poss offer, i.e. applicant requested for € 10.000, offer € 7.500, potentially find a partner bank with a different risk affinity.

Strategy Box 4

- Analyze reject reasons, benchmark risk management methodology, potentially find a partner bank with a different risk affinity

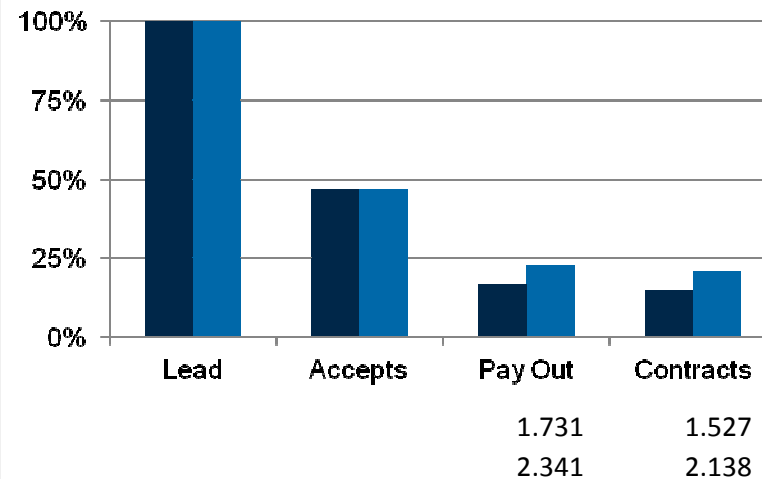
Case Study

Description:

- Bank focused on self service functions and automated processes.
- Acquisition channel was primarily credit comparison platforms.
- Email correspondence and Inbound Services Centre was available.
- Low interest rates, still more than 50% of all accepts received an offer with lower interest rates from another bank.

Approach:

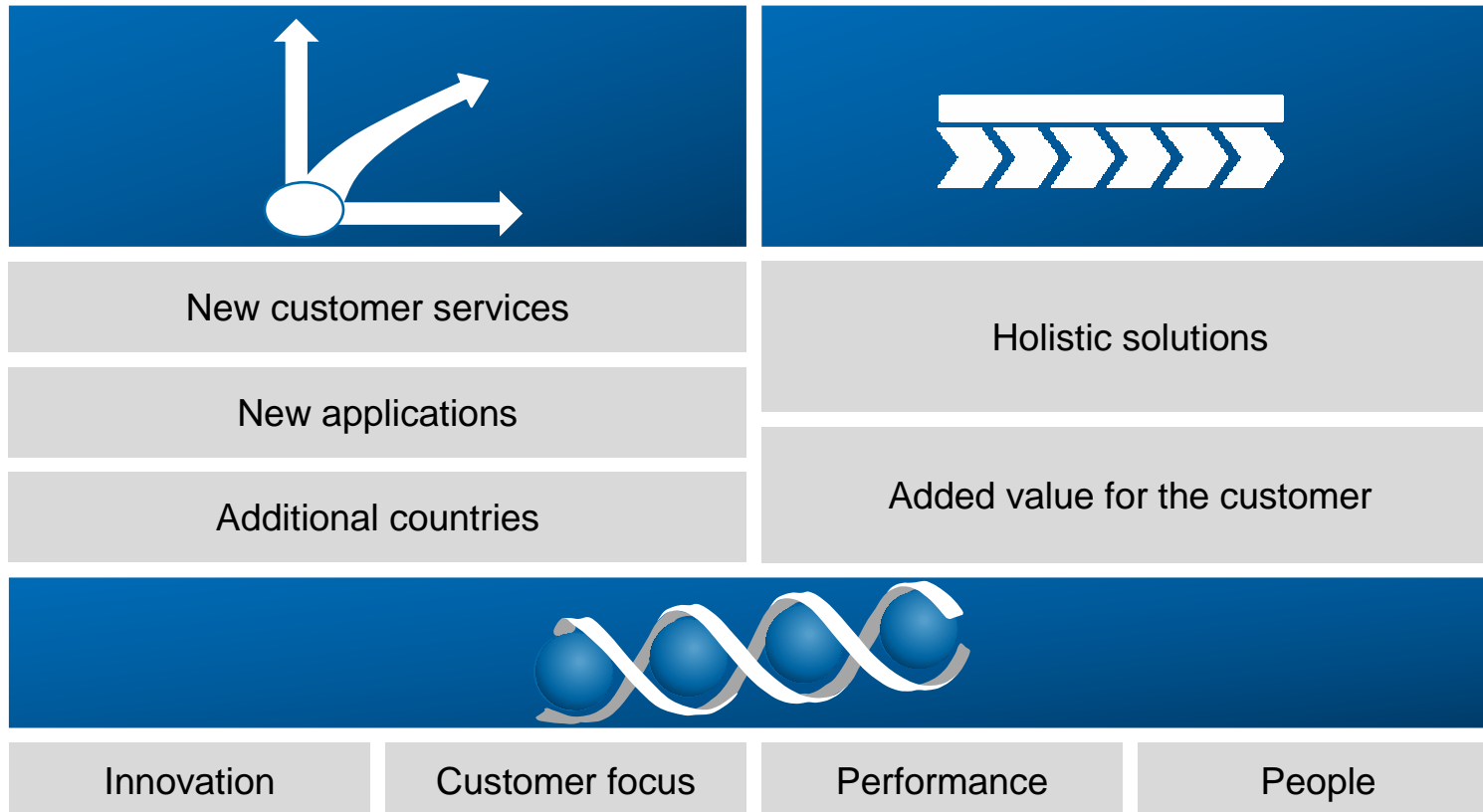
- Split accepted population in lower and higher risk application.
 - For low risk applicants an additional outbound call (€ 5) was provided and contractual documents were send out by white mail (€ 8).
- The testing period was 8 (+3) weeks
- All KPI's were tracked and a comparison between both groups was carried out.



- Loan volume (€ 10.700 / € 9.800) and term of loan (57mths / 54mths) was almost identical in both groups.
- The expected PD of the additional bookings is 0,77% compared to 1,22% of all new contracts. Therefore, the expected PD of this cohort was reduced by 5%.
- The CPC was augmented by € 29, from € 352 to € 381

» introducing a differentiated customer service process results in an augmentation of +15% in booked business in low PD segments. The corresponding impact on credit risk is significant. «

Our Next Steps





Thank you for your attention.

Edinburgh, August 24th 2011
Thomas.Hoffmann@Bertelsmann.de

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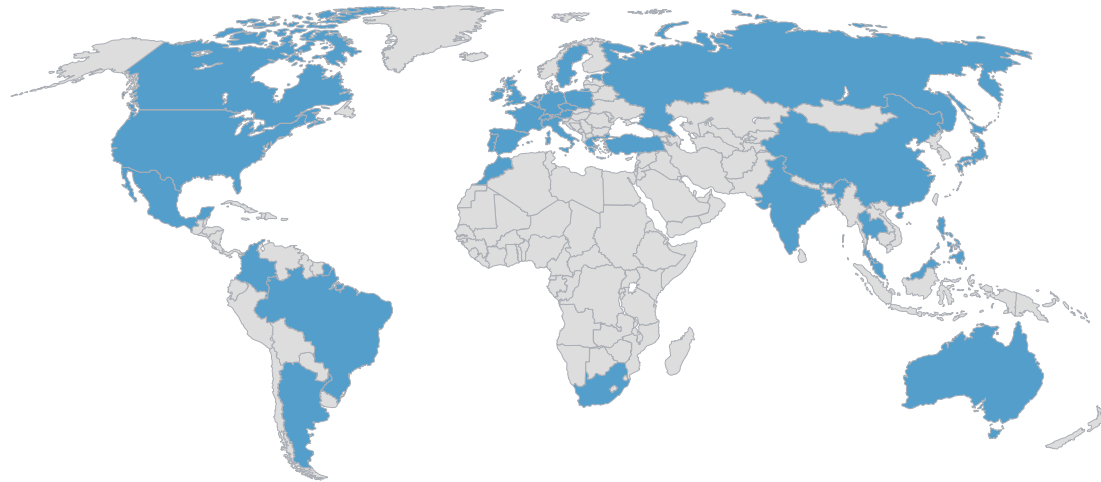
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Revenue (2010)

5.1bn EUR

Earnings (2010)

350m EUR

Employees (12/2010)

Worldwide: 63,985

Germany: 22,745

arvato has evolved from a German printing company into an international provider of services



1835

First printing plant



2004

Launch of Government Services



1958

Founding of Sonopress



2005

Takeover of the Infoscore group



1959

Bertelsmann Services enter the market



2008

Launch DeutschlandCard



1993

First CRM/Loyalty program



2009

Establishment of digital archives (Universal Music)

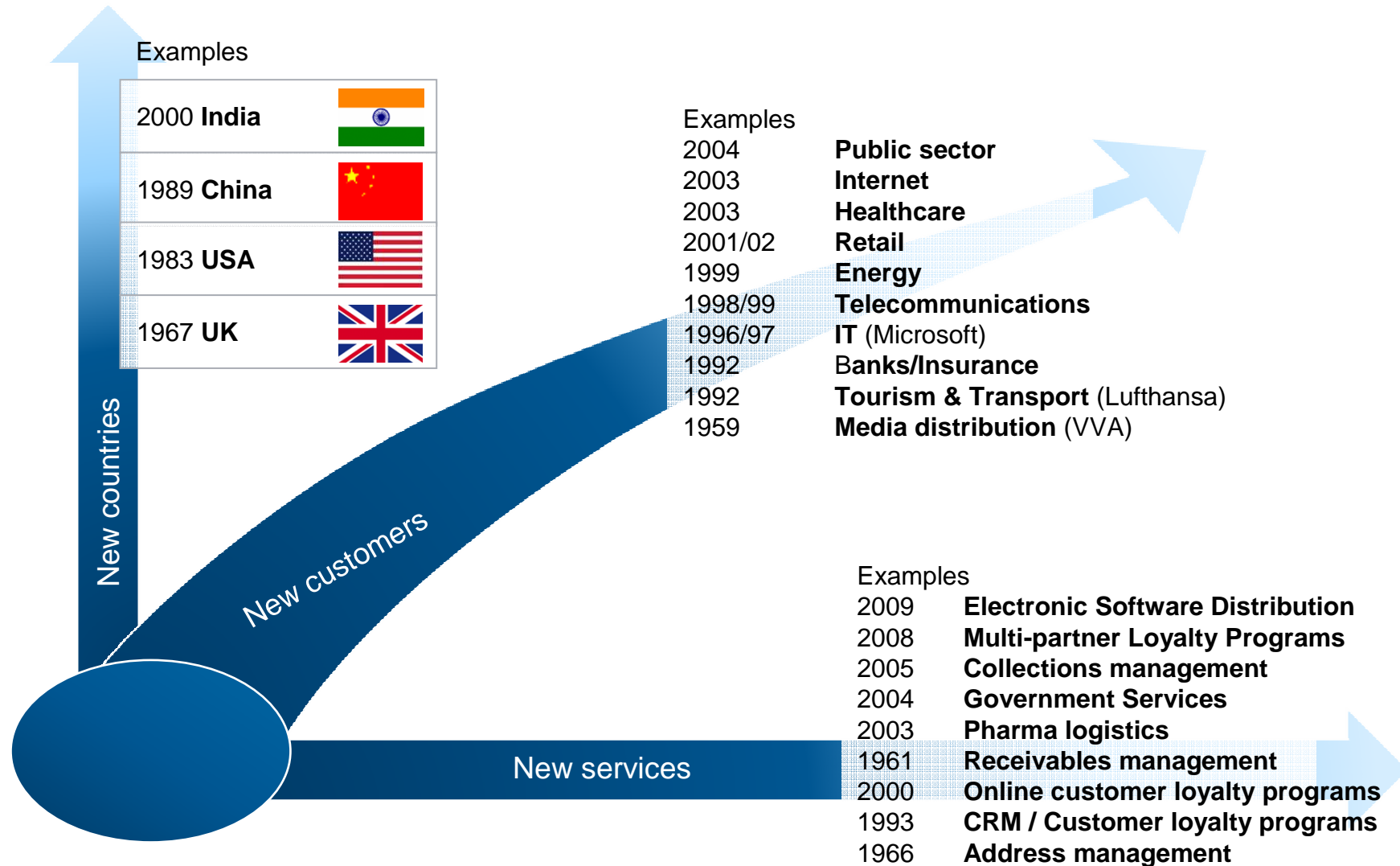
arvato works in the background - the spotlight is on our customers



Printed media	
Audivisual media	
Telecom-munications	
Software	
Hardware & Elektronik	
Retail	
Transport & Tourism	

Industry & Automotive	
Energy & Utilities	
Finance	
FMCG (Consumer goods)	
Public administration	
Pharma	
Fashion	

Our growth takes place in three dimensions



Europe's No. 1 in customer relationship management

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- arvato makes sure that information gets to the customer securely and directly. Effective solutions for customer communications and customer loyalty.
- Development of custom-tailored marketing campaigns, successful customer loyalty schemes and rewards programs



150 million consumers served in
30 languages

200 million calls per year

over 40 years of experience in
running customer loyalty
programs

Innovative solutions for managing receivables and risks

arvato
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- Performance-oriented solutions for billing, debtor management, and collection measures through to factoring to increase liquidity.
- Risk-oriented decisions are supported by the provision of credit ratings and development of scorecards.



67 million credit checks
per year

Average response time
< 0.6 seconds for online credit
check

More than €3.2 billion in
receivables processed in
Factoring services

Integrated IT solutions

- Based on more than 30 years of experience as an IT services provider, arvato's big data centers offer customers comprehensive international 24- hour service.
- The value chain covers everything from consultation, design, development and implementation through to the operation of complex IT systems and CRM.



Follow the sun support (24/7)

Support for some 38,500
Microsoft Exchange users in 70
countries

ISO/IEC 27001 certified for
security

Leading provider of Supply Chain Management

arvato
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- arvato organizes worldwide supply chains for companies – from order entry and warehouse management to product personalization and financial settlement.
- All after-sales services can also be provided upon request – including product repairs and reconditioning.



More than 650 million consignments per year

260 million warehoused items

Over 2 million mobile communications devices repaired per year

Europe's leading provider of print services

arvato
BERTELSMANN

- arvato companies offer the full spectrum of Palette print services.
- Leading-edge technology is used to achieve maximum efficiency and top quality both in offset and in gravure.



1,4 million tons of printed paper
per year

750 million books per year

6 million advertising items printed
per day

Globally leading DVD/CD manufacturer

- Provider of integrated service packages for the IT/Hightech, Video, Games and Audio industries.
- Full Service from replication to fulfillment, from distribution/Supply Chain Management and Financial Services through to Electronic Content Distribution, facilitated by innovative end-to-end IT systems.



4 million CDs per day

2.5 million DVDs per day

Electronic Software Distribution
platform



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