

Middle East Skip Scorecards - Predicting foreigners leaving a country

In the Middle East, the estimates of the proportion of expatriate workers in the workforce range from a low of 35% in the case of KSA, to a high of 80% in Kuwait. For retail financial service providers, a commensurately large percentage of their business is sourced from expatriate workers. In addition to the normal bad debt losses suffered by credit providers, there is additional risk arising from “skips”, that is, expatriates who leave the country and default on their debt.

The skip problem is likely to continue for some time, as the countries in the Gulf region are heavily dependent on expatriate skills and labour for the continued growth of their economies. Indigenisation programmes aimed at increasing the proportion of nationals in the workforce may reduce the skip problem in the long term, but to the extent that they are successful, these programmes will also increase the skip problem in the near term, as a larger proportion of expatriates are liable to leave the region at the end of their contracts.

This presentation explores the possible early prediction of skips using statement and transactional information to provide tools for account management purposes. The underlying assumption of these predictive models is that the behaviour of a potential skip changes once they have decided to skip. The decision and the changes in behaviour begin well enough in advance of the actual skip date, so that a company alerted to a potential skip has sufficient time to prevent additional losses and possibly even recover the existing balance before the client departs.

The exciting news is that the predictive models which have been built have been able to identify higher skip risk populations with a lead time of at least 3 months before skip date. While there are undoubtedly some skips who only change their behaviour very close to skip date, the majority start making different types of purchases, reducing their payments, increasing their use of cash withdrawals and revolving higher balances well in advance of their departure. A model developed to detect these changes will give a company advance warning of likely skips.

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