

Case study: National Grid

Portfolio Management
Package helps to
improve collections
strategy



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Client

National Grid is an international energy delivery company. In the United States, National Grid delivers electricity to approximately 3.3 million customers in Massachusetts, New Hampshire, New York and Rhode Island and manages the electricity network on Long Island under an agreement with the Long Island Power Authority (LIPA). National Grid also owns more than 4,000 megawatts of contracted electricity generation that provides power to more than 1 million LIPA customers. National Grid is a publicly traded company listed on the London Stock Exchange (Symbol: NGT) and New York Stock Exchange (Symbol: NGG).

Challenge/Objective


In January 2008, the United States faced a serious economic downturn that was forecasted to worsen. National Grid began to see an unprecedented shift in its customers' behaviors.

“There was a sudden and noteworthy decrease in outstanding balances collected. Customers who had never

made a late payment before were suddenly behind. This was a new set of customers who had not been candidates for collections strategies before,” said Sandra Johnson, Director of Credit & Collections, National Grid.

“We asked ourselves how we would want to be treated if we were in their shoes. We didn't want to treat these customers newly in arrears like those who were higher risk,” said Johnson.

National Grid's senior executives asked the collections team what was required to get ahead of this trend and allocated funds to address those needs. “Before the downturn, we had been using standard collections approaches. What might have worked two years ago could not be counted on now,” said Tracey McCarthy, Vice President, Customer Financial Services, National Grid. “We have an appetite for using technology and saw that, given the size of our customer base, we would benefit from automating as much as possible. We also wanted the focus of this project to be on predictive strategies to serve our customers. Given the direction that



the economy was heading, we needed a solution that could be implemented within a fairly short turnaround time.”

Team members were open to challenging the standard practices that were used to manage past-due customers. They also sought collections strategies that better matched individual circumstances (in other words, matching appropriate collections actions to the risk presented by the individual customer). They did not want to be heavy-handed if a customer was newly in arrears, recognizing that a soft prompt, such as a phone call, would likely motivate the customer to bring the account to current status. National Grid team members also wanted to use its resources more effectively to impact accounts that had higher risk and work with customers earlier in the collections cycle — before their arrears grew beyond a tipping point leading to termination of service. Team members knew that a key driver for this project would be an enhanced behavioral scoring model.

Increased efficiencies and savings were an important consideration as well. National Grid sought to decrease the number of customers in arrears and to decrease wasted usage. “We knew we wanted new ideas. We needed help identifying more sophisticated collections strategies. We reviewed our strategy from end to end, focusing on creating a proactive approach. Experian was our strategic partner on another front, so we turned to the Experian team for ideas,” said McCarthy.

Resolution

National Grid implemented Experian’s Portfolio Management Package and took advantage of the consulting that comes with that package. “We signed an agreement with Experian in late

February 2008 and went live in four months,” said Johnson.

McCarthy asserted, “Portfolio Management Package allowed us to tailor collections strategies. We have doubled in size recently and are still growing. So, when you have 8 million customers, you need technology like this. Right now, we have half of our customers on this system. Our modeling had been based on historic trends. Things were changing too rapidly. Experian’s Champion/Challenger methodology is keeping our strategies fresh.”

National Grid’s U.S. business relies on four legacy customer service systems. It implemented Portfolio Management Package and its Champion/Challenger analysis in one of those areas, servicing half of its customer base.

During its first month of use, Portfolio Management Package was used to score the relative risk of the customers in that system. For each account in collections, it recommended the best way to treat that customer: calls, letters or personal visits. The system provided tangible actions that led to improved performance.

“About 15 percent of these accounts are businesses. Portfolio Management Package is unique because it addresses consumers and businesses,” said Johnson. “Now we had different treatment pathways which we could systematically implement. We had no way to say which pathway was the most effective, though. The Champion/Challenger approach tested out those strategies.”

Experian’s consultants divided National Grid’s lowest-risk customer population

into two groups. Devising the test, they took two different, low-risk collections paths with each group.

With its “champion” group, the National Grid collections team maintained its standard collections strategies. With its “challenger” group, consultants shifted their outbound calls from the fifth day in arrears to the 10th day to test how the group would respond. “We wanted to know how long we had to wait before customers would cure without contacting them. There was no need to incur costs or bad will if a customer would cure on his/her own,” said Johnson.

The team tested new challenger strategies throughout the collections life cycle, evaluated their effectiveness, and either promoted challengers to champions or revised the strategies.

National Grid has been running these Champion/Challenger tests for six months. Further, the company has been developing a standard series of actions based on risk segment as well as testing strategies related to outbound calls, written notices and field visits. It has also been testing to see if strategies would impact customers differently depending on their geographic location.

“We are continually analyzing results. We send each of our accounts to Experian once per month according to its cycle date. It is cost-effective to score that information every month. They are scoring the entire population, and it costs much less than pulling bureau data against that population. Better yet, their analysis is calculated against our in-house data. Because Experian is analyzing the data on a regular basis, we know how well specific

strategies are performing and we can respond rapidly,” Johnson said.

McCarthy added, “When we started this project, we wanted a smart tool. Six months later, we look very smart. More importantly, we are serving our customers much better.”

Results

The Portfolio Management Package and Champion/Challenger strategy impacted National Grid’s collections successes in three different ways:

- The new scoring model reduced the number of customers with delinquencies
- The strategy led to increased cures and a decrease in the number of accounts charged off or disconnected
- The reduced need for action (or applying a lower-cost action) added up quickly for millions of customers

“The strategy improved customer experience through proactive and early intervention and a creative approach that more effectively matched strategy to risk. We are very happy and are looking beyond this project to consider how else Experian can help us,” said McCarthy. “We have begun working with Experian to assess risk on the commercial and industrial side. We would like to aggregate data within our large business customers to better assess risk. We’re also exploring implementing more sophisticated account initiation strategies using Experian tools. We plan to further extend these strategies across the Customer Life Cycle.”

“We count on our Experian team members to help us stay on the leading edge.”

“We are very happy and looking beyond this project to consider how else Experian can help us.”

An excerpt from Experian collateral

Portfolio Management Package is a powerful account management and collections decisioning service that provides complex portfolio segmentation, sophisticated behavioral scoring technology, and advanced decision strategies for consumer credit and utility accounts in pre- and post-charge-off stages. It provides clients with increased control over their portfolio, allowing for the automation of more decision processes to improve customer service and recovery activities. It also allows for reduction of delinquency and losses, as well as collections expenses. Portfolio Management Package is easy to set up and modify.

To ensure expected results, Portfolio Management Package provides ongoing consulting from industry-experienced consultants who monitor performance and provide strategic recommendations for changes to cutoffs, policies and actions. Experian generic behavioral scoring models take

the guesswork out of predicting the risk or profitability of existing customers by employing statistical techniques to portray consistent, objective evaluations.

Portfolio Management Package allows a client to set strategies for up to 20 distinct portfolios. Experian’s consultants evaluate each portfolio’s results using a comprehensive reporting package and a database to test Champion/Challenger strategies within specific segments of a portfolio to learn which strategies are most effective before rolling out the strategies over an entire portfolio.

To ensure that a client is getting the maximum benefit from Portfolio Management Package, an Experian consultant reviews monthly monitoring reports on an ongoing basis. This industry-experienced expert will provide a summary of findings and recommendations to improve strategy results.

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