



## **IBS White Paper – July 2006**

Lately, a lot of industry talk has focused on real time or on-line collection systems. Like many new technologies, there are facts and there are myths. Some vendors stretch the truth, or cross the line, as they present their solutions, which may or may not do what you expect them to do.

This document was developed to assist collectors, collection managers and lending staff to shed light on the topic of “on-line” or “real time” collection systems. It will define, it will guide, and it will help you make an informed decision about on-line or real time. What is it? Will it really help me? Do I need it to do an effective job? Will this candidate solution do it?

Read on, and learn the answers to these questions.

### ***Real Time – what is it?***

A lot of buzz is hovering in our industry about real-time versus batch feed, (or integrated software versus interfaced software). On the surface, this is an easy and straightforward topic. However, like many things in today’s world, when you dig a little deeper, the initial simplicity is blurred with complexity, details and marketing hype.

Most collection systems for collectors in financial institutions are batch fed. Even collection systems from the same vendor as the provider of the core account servicing system are typically batch fed if you dig under the skins of their technology. As a result, if a delinquent debtor completes a financial transaction like makes a payment during the business day, a collector will not know about that transaction (within the collection system) until their next batch feed (typically done overnight tonight).

*On-line* or *real time* by definition means that the debtor and account information displayed on the collection system screen is the most current information then available. The information could be address, phone number, current balance, total delinquent amount due, next payment due date, etceteras.

### ***Will “real time” really benefit me?***

Probably real time will benefit you (as long as your core account servicing system posts (or memo posts) loan transactions). The real question is “what is the cost of this benefit?” Assume during the middle of the night an inquiry happens to your core that copies all collector needed contact and account information from your core system into your collection system (which is how most collection systems operate, including collection modules from the same vendor as the core loan account servicing system).

Then, during the late morning you call a past due customer, seeking a payment. If the debtor responds that they just made a payment at the branch, one could argue that your call was *a waste of your time*. Another argument is that your call gave you the opportunity to speak with a past due customer, emphasize their ‘positive’ behavior by making the payment. And, that conversation can potentially prevent future delinquencies.

A second question is “how often does this happen?” If this situation happens two or three times a day, compute the total cost to have real time information compared to the “consequences” of not having real time integration and make an informed business decision as to the importance of this feature (see Do I really need it (or do I just want it))?

Additionally, not all loan account servicing systems update financial information throughout the day (as payments are made). Therefore, it may be possible to get a current balance, total delinquent amount due or last paid date *dynamically* during the day. However, that data may not change until after that core system does its end of day processing ‘tonight’. Consequently, the same information that was fed into a collection system during the night processing would be live fed during the day.

### ***What are the advantages and disadvantages of “real time”?***

The primary advantage is that key financial data in the collection system is as current as your core system. Additionally, you frequently can perform other core transactions directly within the collection system, to see other valuable client and account information not typically within a collection system (summary of all accounts for this debtor rather than just delinquent accounts, all financial transaction history for this account, etceteras). This saves application switching time, lowering collection costs while increasing collector productivity.

The two key disadvantages are cost and potentially response time. Cost is very easy to understand. Review the total cost to implement the real time or on-line piece of the collection system (include up both front and reoccurring collection system vendor and core system vendor product costs).

Response time is a bit more difficult to address during the purchase decision. When a collection system submits a transaction to the core (like is this account still delinquent, what is the current pay-off, show me the financial transaction history for this account), that collection system waits for a response from the core system. Your live response time within that core system may be different from that core systems tools that respond to these system submitted transactions. Different core systems have different response time expectations. You can have an indication of your core systems response time, as you use it daily. Client reference calls are a better method to learn of expected response time. Obviously, your financial institutions hardware and computer communication environment will also impact your response time.

### ***Is true integration possible only in software directly from my core system provider?***

No, integrated software can come from any software developer. I am sure that if you reviewed the manufacture of your cars tires, you will find that they are not made from the same company that made your car. Many industries have standards that allow manufacturers and consumers to select the best of the best components to assemble the ultimate best total solution.

Granted, some core providers do not adhere to the best of breed approach. They try to provide solutions that are only authored by them. Since no one can be all things to all people, this closed approach forces many of their customers to compromise their requirements when adding

additional components -- like a collection system -- by buying a less capable system just because it is offered from their primary core vendor.

A major advantage to the closed model of these core providers is to the core provider, in that your cost to go to a new core provider is typically prohibitive (since you must discard virtually every piece of software in use at your institution). Once they get you, they have got you for life.

### ***Can I only get real time integration by using browser-based software?***

No, there is no relationship between real time integration, and browser versus Windows software. Collection system vendors can offer both Windows and browser solutions; either with or without real time core integration capabilities.

### ***Do I really need it, or do I just want it?***

Need and want are always an interesting dilemma. Long ago, computer users stopped buying new technology because it was new technology, or just because it was cool. A computer and its software are business tools. Businesses, including your financial institution, are in business to make money or distribute its income to its owners or members. Software purchases should be measured by a business return on investment analysis. How much money will this software save or earn me compared to its cost of implementation?

Need typically can be defined using a simple business analysis.

1. Make sure your collection system vendor's real time meets your requirements or expectations. Getting live debtor addresses will not tell collectors if a payment came in today. Getting live the total delinquent amount due, when that amount does not change during the day as loan payments are made brings no additional value beyond the traditional batch feed. If this is what a collection system real-time gives you, and your expectations are to see current balance and total delinquent amount due – you will be sadly disappointed.
2. Identify how many times collection situations happen (per day, week or month) that having live data or integrated access to the host from within the collection system will benefit the collectors in their job.
3. Define the time savings you achieve with this on-line or real-time integration. Since you can always look up the account in the core system, you have a means now to validate that a payment did arrive. Your value is having the collection system automate this look-up. If it happens once a month, and the current 'cost' is 90 seconds to "ALT+TAB" into the core and perform a loan inquiry, it will take a very long time to payoff the real time feature (assuming it costs more money than the base collection system).
4. Use your collector cost (salaries, benefits) to convert this time savings into dollar savings.
5. Calculate your system pay-off. Multiply your dollar savings times the number of times it happens per month. Multiply this monthly cost times the number of months in your "payoff model" – say 60 months. Compute the total installed price from your collection and core system vendor to get on-line or real-time running live in your environment (Remember to include annual support fees to this cost and to use the same time-period, like 60 months. Divide your total implementation cost by your monthly savings to compute how long it will take to pay off your investment.

6. Find out if this computed system pay off is within your financial institutions system purchase pay off guidelines.

### ***What does my loan account core system Need for this to work?***

Your core system needs a process to respond to the collections systems request(s) for information. Using today's standards, this usually involves your core vendor providing a WEB SERVICE<sup>1</sup> that responds to XML transactions from the collection system. You will need to purchase/activate this WEB SERVICE.

The WEB SERVICE may support a library of XML transactions that could serve your collection system real-time needs. On the other hand, your core vendor may need to program support for new transactions that meet your collection system needs.

### ***Does real time or on-line eliminate the need for a batch feed (or integrated versus interfaced)?***

Normally, the collection system still requires a batch feed. Theoretically, the batch feed can be eliminated. Practically it cannot.

WEB SERVICE products are designed to quickly process simple transactions, like "is this account delinquent", "what is the current balance" or "show me the last twelve months of financial transactions for this account". If you create a transaction "send me all debtor and account information for all of my delinquent accounts" (to replace the batch feed), the volume of returned data will seriously negatively affect that WEB SERVICE.

If you opted to not 'duplicate' debtor and account information in a collection system database, by truly running live from data within the core loan account servicing system, the intimacy of the collection system within the loan account servicing system means you realistically can only use the core vendors collection system (if it is even truly integrated). Outside of the scope of this document is the decision of using all software from one vendor versus selecting the best-of-breed software.

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<sup>1</sup> According to the [W3C](#) a **Web service**<sup>[1]</sup> is a [software system](#) designed to support [interoperable](#) machine-to-machine interaction over a [network](#). It has an interface that is described in a machine-processible format such as [WSDL](#). Other systems interact with the Web service in a manner prescribed by its interface using messages, which may be enclosed in a [SOAP](#) envelope, or follow a [RESTful](#) approach. These messages are typically conveyed using [HTTP](#), and normally comprise [XML](#) in conjunction with other Web-related standards. Software applications written in various programming languages and running on various platforms can use [web](#) services to exchange data over [computer networks](#) like the [Internet](#) in a manner similar to [inter-process communication](#) on a single computer. This interoperability (for example, between [Java](#) and [Python](#), or Microsoft Windows and [Linux](#) applications) is due to the use of [open standards](#). [OASIS](#) and the [W3C](#) are the primary committees responsible for the architecture and standardization of web services. To improve interoperability between web service implementations, the [WS-I](#) organization has been developing a series of profiles to further define the standards involved.

## ***How can I know if a vendor's real time or on-line "is really what it appears"?***

Snake charmers have been around as long as mankind. You owe it to yourself and your financial institution to conduct thorough background research on all potential vendors. If you did not speak "collection manager to collection manager" about exactly how this product or feature works for them in their live environment, you have only yourself to blame after the purchase when it does not perform as expected.

Develop a specific list of exactly what you require or expect from real time or on-line collection system. For example:

1. Will current balance, total delinquent amount due, next due date, last paid date (and all other fields that you deem critical) be the same as they are in the core account servicing system when displayed in the collection system?
2. Do these fields (same list as in previous question) change (in your core account servicing system) during the day, as payments are made?
3. Can my collectors initiate the following core account servicing system transactions via a menu item or mouse click from within the collection system?
  - Get a current payoff.
  - Show a summary of all loan and deposit accounts for this debtor.
  - Show detailed collateral information for this account.
  - Show financial transaction history for this account
  - Etceteras – add you own required transactions

### Summary

Knowledge is a great defense to a purchase failure. IBS believes this to be true, and further believes that helping its customers and prospects make informed purchase decisions will always benefit both parties. IBS is a collection system provider (we develop, market, sell, install and support our collection and recovery software) with nearly 18 years of experience. This document attempts to help you understand some of the competitive "noise" that you will come across in your search for a long-term collections business partner, and ask the questions you need to get the answers you want. IBS does offer RefreshNow, an "on-line" or "real time" module. Whether you choose IBS, or a competing vendor in the market, we want you to be satisfied that you made an informed choice.

### Author:

This paper was authored by Robert M. Daley to help collection and compliance managers understand their organizational goals regarding collections and recoveries and to evaluate how well their current environment is operating, and, if necessary, to organize the process of purchasing and implementing a new system. Mr. Daley<sup>i</sup> has 25 years of successful experience with technology definition by creating and implementing a wide range of operational areas in many US Financial Institutions, with the past 18 years focused entirely on the collections and recovery industry.

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<sup>i</sup> Mr. Daley is the President of IBS, New London NH