NPL servicing platforms. Effectiveness of debt collection agencies in the region.

APS Group

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APS - Leading NPL Investment and Recovery platform in CE & SEE

14 EUROPEAN COUNTRIES COVERED, OVER 750 PROFESSIONALS

EUROPE  Since
Austria  2018
Bulgaria  2012
Bosnia  2018
Croatia  2017
Cyprus  2016
Czech Republic  2004
Greece  2014
Hungary  2016
Luxembourg  2017
Montenegro  2005
Poland  2007
Romania  2007
Serbia  2005
Slovakia  2005

active coverage
expansion target
Where does Europe stand?
Overview on the European NPL Market

Where does Europe stand?

Deleveraging and balance sheet optimization continues across the European banking sector, with loan sales remaining an important deleveraging tool for banks.

2017 has been the most active year in the loan sale market and activity levels are likely to persist.

Activity by country (€ bn)

<table>
<thead>
<tr>
<th>Country</th>
<th>2016</th>
<th>2017</th>
<th>Ongoing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Italy</td>
<td>€37.0</td>
<td></td>
<td>€51.7</td>
</tr>
<tr>
<td>Spain</td>
<td>€14.3</td>
<td></td>
<td>€21.8</td>
</tr>
<tr>
<td>UK</td>
<td>€13.0</td>
<td></td>
<td>€3.8</td>
</tr>
<tr>
<td>Ireland</td>
<td>€13.0</td>
<td></td>
<td>€12.9</td>
</tr>
<tr>
<td>Netherlands</td>
<td>€11.8</td>
<td>€0.3</td>
<td>€1.5</td>
</tr>
<tr>
<td>Austria &amp; CEE</td>
<td>€6.4</td>
<td>€2.4</td>
<td>€4.0</td>
</tr>
<tr>
<td>Germany</td>
<td>€7.5</td>
<td>€2.2</td>
<td>€0.9</td>
</tr>
<tr>
<td>Greece</td>
<td>€0.2</td>
<td>€3.3</td>
<td>€12.5</td>
</tr>
<tr>
<td>Portugal</td>
<td>€2.3</td>
<td>€2.8</td>
<td>€1.3</td>
</tr>
<tr>
<td>Asia</td>
<td>€3.0</td>
<td></td>
<td>€0.8</td>
</tr>
<tr>
<td>Europe</td>
<td>€3.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>€0.1</td>
<td>€0.5</td>
<td>€0.6</td>
</tr>
<tr>
<td>Nordics</td>
<td>€0.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cyprus</td>
<td>€2.4</td>
<td></td>
<td>€0.5</td>
</tr>
<tr>
<td>Middle East</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>USA</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Activity by asset type (€ bn)

- Mixed
- CRE
- Residential
- RED
- Consumer
- Corporate
- Other
- Asset
- REO


Source: Deloitte research, Global Deleveraging Report 2017 - 2018
Overview on the European NPL Market

Market summary and forecast

With some of the potential sellers in 2018 already identified, the Irish market is expected to see at least two more years of significant deal-making.

The Nordic Region remains Europe’s outlier in terms of NPL holdings and portfolio deals. However, regulatory pressure could drive banks to review their lending portfolios.

The UK market is still dominated by UK Asset Resolution (UKAR), the state-owned wind-down institution, with the prospects for continued disposals during 2018 remaining good.

The German loan sales market has continued to be small in relation to its potential, with German banks remaining reluctant to sell at prices the market is prepared to pay.

The Austrian/CEE NPL market is entering its final phase, with investor interest remaining high and competition still strong despite gradual wind-down of the pipeline.

The Dutch stock held by banks remains substantial and further portfolios are expected to come to market in 2018.

Ukrainian NPL market is just opening up in comparison to the rest of the countries in the CEE region, being the only exception in the region in 2017.

Modest disposals on the French loan portfolio market, due to low regulatory pressure and banks preferring internal work-out solutions. However, it is expected that this will change in 2018.

The long-awaited Greek deal pipeline is finally becoming visible, with the rapid development of the market being accelerated by the Bank of Greece’s adoption of NPL resolution targets.

Tackling bad debts remained a priority in 2017 in the SEE area (Croatia, Serbia, Romania, Bulgaria, Hungary), with the wave of deals shifting in 2018 more to the smaller Balkan markets.

The activity in the Portuguese NPL market has accelerated in the second half of 2017 and the market is likely to see the biggest deal pipeline since the financial crisis.

Spain continues to have the third largest stock of NPLs in Europe and pressure on banks to accelerate the cleansing of their BS continues.

Italy is expected to still remain one of the most active players in the European NPL market in 2018. The acceleration in the Italian NPL market has been accompanied by consolidation and restructuring of the debt servicing market in 2017.
Overview on the European NPL Market

Latest regulatory and supervisory developments (1)

**IFRS 9 Implementation**

*New financial reporting standard* enters into force in 2018, directly affecting many aspects of banks’ functioning. The methodology of impairment losses changes. The loss model in favour of the expected loss model is abandoned.

The adoption of IFRS 9 means that banks have to calculate provisions on their loan portfolio according to the new rules and apart from the group of working and non-working loans, a new category of loans appears with a significant increase in credit risk. For part of the loans previously classified as working the bank will need to calculate reserves within the life horizon of the instrument.

Recent results of EBA show that 10-20% of the current portfolio will go to this new group, which directly translates into an increase in the level of write-downs. The total increase in the cost of write-downs may reach as much as 30%.

**ECB NPL Guidelines**

Innovation in the regulatory framework continued in Europe through 2017 with further developments being scheduled for 2018, with the scope of building up the pressure on slow-moving banks and national regulators for a more rapid clearing of Europe’s non-performing loans.

The action plan focuses on the classification of supervisory powers, enforcement and insolvency frameworks, development of secondary markets for NPLs and macro-prudential approaches to prevent the emergence of future system-wide NPL issues.

Standardized templates were already issued by EBA and although adoption of these templates is not a supervisory requirement, EBA intends that they become the EU standard for reporting impaired loan data and for transaction purposes.

**BSCB Guidelines for prudential treatment of problem assets**

The Basel Committee on Banking Supervision released guidance on the definition of non-performing exposures and forbearance.

The definition of non-performing exposures introduces harmonized criteria for categorizing loans and debt securities that are centered on delinquency status (90 days past due) or the unlikeliness of repayment and introduces clear roles for interaction between forbearance and non-performing status. The definition of forbearance provides a harmonized view on the modification or refinancing of loans and debt securities that result from a borrower’s financial difficulty.

These guidelines improve identification and monitoring, and promote consistency in supervisory reporting and disclosures by banks.
NPL Servicing Platforms. Effectiveness of debt collection agencies in the region
The purpose of the NPL Servicing Platforms is to ease the strain of NPLs on the financial system and ensure their professional management in compliance with the market principles of maximizing the recovery rates on such assets, as well as to support the development of capital markets.

**NPL Servicing Platforms’ added-value**

- **Extensive expertise with acquisitions and recovery of NPL portfolios of all types (retail, corporate, SME, secured and unsecured)**
- **Have the capacity of pooling entire classes of NPLs instead of handling troubles exposures on an individual basis**
- **Have in place the required infrastructure and resources for the proper and efficient set-up of such business**

**INCREASED LOAN RECOVERY RATES**
Unlike banks, an NPL Servicing Platform may defer the sale of loan collaterals or manage/liquidate them at a later stage, for a maximum possible value.

**EXPLOITING SYNERGIES**
Unlike banks, an NPL Servicing Platform can exploit synergies, as its internal organization may be more flexible to deal with NPLs of different natures.

**STATE OF ART RECOVERY STRATEGIES AND INFRASTRUCTURE**
used to maximize recovery in a timely manner: the NPL Servicing Platform will be able to apply a broader range of workout tools, which from an overall business perspective would mean a better return could be achieved.
Technology provides opportunities to do old things better and to introduce new products, services and ways of working.

The benefits of leveraging technology in the debt collection agencies activity include enhancing opportunities to meet customers’ evolving needs with new recovery service offerings and platforms plus streamlining operations and speeding processes.
NPL Servicing Platforms

| Effectiveness of debt collection agencies in the region (2) |

2:00 AM – 4:00 AM

Night process: portfolio segmentation and strategy association

<table>
<thead>
<tr>
<th>Segment</th>
<th>Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>No contract phone numbers</td>
<td>Letter – APS contact details</td>
</tr>
<tr>
<td>No payments last 15 days</td>
<td>Dialer campaign - No 15D payments</td>
</tr>
<tr>
<td>Constant payers</td>
<td>SMS - Payment details</td>
</tr>
<tr>
<td>Letters sent 15 days ago</td>
<td>IVR campaign – Letter feedback</td>
</tr>
</tbody>
</table>

8:00 AM – 9:00 AM

Letter – APS contact details

Daily Process: letter printing automatic scheduler

9:00 AM

Dialer campaign - No 15D payments

Process start predictive dialer campaign

15:00 PM – 15:30 PM

Load payments

Daily Process: access FTP, activate payments loading process

16:00 PM – 16:30 PM

Payment agreement strategy

Daily Process: set Payment agreements status and strategy association

15:00 PM – 17:00 PM

IVR campaign – Letter feedback

Process start IVR (robot interactive voice response) campaign

16:30 PM – 18:00 PM

Dialer campaign - PA Kept & PA Broken

Process start predictive dialer campaigns
NPL Servicing Platforms

Effectiveness of debt collection agencies in the region (3)

Night process segmentation

Segment 1

Segment 2

Segment 3

Servicing portfolio

Segment 4

Segment 5

Segment 6
At APS, we believe that embracing them is vital for the delivery of top level services at competitive costs to our Clients.

**Automatic solutions: Keeping up with the Fourth Industrial Revolution**

- Each Client is unique with respect to their business model, approach and issues
- All Clients, on the other hand, expect service excellence at reasonable prices
- Both can be reached with help of carefully planned and executed automated processes
- While machines can take over all repetitive actions, potential of our employees can be used where the human factor is irreplaceable

**Automated customer service (CS) pilot project**

- Including IVR (interactive voice response) campaigns supported by text messages (SMS) and e-mails
- Moreover, the data exchange has been also fully automated, thanks to the use of SFTP servers and internal IT solutions
- Over time the incoming calls represented practically 99% of pure debt collection calls, largely only as a confirmation after the payment had been made
- **This pilot project has proved that automated CS scheme allows us to offer appropriate rates for our Clients while maintaining both excellence and high profitability of projects**
Thank you

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