

ASSA RECOGNITION AWARD 2016

PROJECT PROPONENT:

Pag-IBIG Fund (Home Development Mutual Fund) - Philippines

CATEGORY:

Transformation Recognition Award

A practice that has resulted in improvement of the overall effectiveness, efficiency, and success of the organisation

1. NAME OF PROJECT

Outsourcing of Collections for Delinquent Accounts through Collection Agencies

2. OBJECTIVE AND NATURE OF THE PROJECT

Pag-IBIG Fund, through the Loans Remediation Group, outsourced the collection of delinquent housing loans to accredited Collection Agencies to accomplish two objectives: 1) to improve Pag-IBIG Fund's housing loan portfolio by ensuring that extensive remediation activities for past-due accounts are undertaken; and 2) to reduce Pag-IBIG Fund's non-performing loans ratio to an acceptable level.

Prior to outsourcing, the Fund's corporate-wide service ratio for collection of defaulting housing loan accounts was one (1) collector for every 1,300 accounts, making it very challenging for the Fund to deal with delinquent borrowers. This resulted in the rise of the number of non-performing loan accounts.

To address this, the Fund entered into separate Agreements with Collection Agencies (CAs) as approved by its Board of Trustees on June 22, 2012. The CAs' primary task is to undertake remediation activities of borrowers who have incurred more than three months of unpaid amortisation.

The Fund began the accreditation of CAs, selecting those that possess the required competence and experience in handling the collection of delinquent housing loan accounts with proper infrastructure and proven successful processes. Taking into account these criteria, top CAs being used by leading banks, credit card institutions, and telephone companies in the country were tapped by the Fund.

The payment term is on a "no cure, no pay" basis, which means that CAs are only paid commissions for accounts they have successfully made collections on.

Specifically, the functions of the CAs include the following: conduct specialised phone calling, skip tracing and address verification, issue notices to borrowers, and negotiate payment. All CAs are required to have voice loggers and the Account Collector Ratio (ACR) should, at most, be 1:200. To protect the interest of the Fund and its borrowers, the CAs are not authorised to collect or accept payments.

The CAs' task, however, is not mere "dial and demand." Delinquent member-borrowers are offered various settlement options, which are acceptable both to the Fund and the borrowers.

The following are the settlement options offered:

1. Plan of Payment – a settlement program to help the borrower update his account by paying his arrears within three to six months.
2. Penalty Condonation – full condonation of penalties is offered upon the full updating of the account.
3. Re-pricing – an enticement offer to the borrower on the application of the new (lower) interest rates to his loan account upon full updating of his account.
4. Restructuring – a settlement program to help the borrower update his account by re-computing his total outstanding balance including the total arrears payable within the maximum term of 30 years but not to exceed the difference between the borrower's present age and age seventy.
5. Non-Performing Asset Resolution Program (NPARP) – a settlement program to help the borrower update his account by re-assessing the value of subject property against the remaining book value of the account.

The Fund, through an Audit Team, conducts regular audit on the CAs to measure their performance and compliance to the Agreement and to the Fund's Performance Standards using a Collection Agency Outsourcing Balance Scorecard approved by the Pag-IBIG Management.

The Audit team is also responsible for the evaluation of the application for accreditation of CAs using a criteria developed by the Fund. There is also a Recovery Officer assigned to every agency whose task is to monitor the accounts endorsed to the CA as well as guide them in meeting their targets.

On January 26, 2013, the collection outsourcing was pilot tested for NCR accounts and by April 2013, it was rolled out corporate-wide. To date, there are 19 accredited collection partners of the Fund.

3. WHY IT SHOULD BE RECOGNISED?

The Outsourcing of Collections for Delinquent Accounts through CAs, with proper supervision from the Fund, is a strategy that delivered more than that which was expected. Based on the numbers as discussed below, it cannot be denied that indeed, there is a significant reduction of non-performing loans. This resulted in the increase of the performing loans ratio of the Fund by almost 10 percentage points in just a little over three years, translating into better housing loan portfolio for the Fund.

Improvement of Performing Loans Ratio

For the first three years of the collections outsourcing operations, the average rate of conversion of Non-Performing Loans to Performing Loans was at 46% per year.

As of March 2016, the cure rate climbed to 55 percent, which means that out of the 319,570 total non-performing accounts endorsed to the CAs, 175,520 have already been converted to performing loans.

From 2004 until 2012, the average Performing Loans Ratio (PLR) of the Fund was at 76.18%. Since the Fund began to outsource collections of delinquent accounts, the PLR started to pick up, consistently rising to achieve a PLR of 84.45% by December 2015 – the Fund's all time high corporate-wide.

On top of this, additional collections were generated and the Fund saved on operational expenses for the activities in handling delinquent accounts.

Savings on Operations

The project enabled Pag-IBIG Fund to save on postage charges for billing notices, salaries for employees, per diem for door-to-door activities, telephone expenses, rental for vehicle and office space, office supplies expenses, and on infrastructure, logistics and other expenditures expected to be incurred in the conduct of day-to-day collection activities. Translated into monetary value, the savings is about P30 Million or USD635,151 (exchange rate at USD1 to P47.23) per year.

Additional Collections for the Fund

From January 2013 to March 2016, the CAs collected P9.9 Billion (USD209.6 Million) for the Fund and P1.9 Billion (40.2 Million) of that came from penalties alone.

More than the benefit to the Fund, this project has enabled member-borrowers to be mindful of their loan obligations. More members religiously paying will translate to a viable revolving housing fund that will provide opportunities to other members who dream of acquiring their own homes through Pag-IBIG housing loan.

4. SUMMARY OF THE PROJECT

The remediation activities of moderately to highly-delinquent housing loan accounts proved to be an effective and efficient strategy employed in addressing the organisation's voluminous task of remediating delinquent housing loan accounts.

And this is being done through a practical, simple, and effective process as shown in the methodology for the project below:

1. The Fund issues Notice of Endorsement to Collection Agency (NECA) to concerned borrowers.
2. The Fund endorses accounts over three months past due to the accredited Collection Agencies.
(Once endorsed to a Collection Agency, the Fund will no longer undertake any remediation activity or course of action on the said accounts.)
3. First Cycle. This is a ninety - day handling period of the accounts endorsed to the Collection Agencies.
4. Pull out of all accounts endorsed after the first cycle.
(For those accounts that were fully updated, we send these to the Accounts Management & Billing Department (AMBD). For those that were not cured, we endorse for second cycle.)
5. Second Cycle / Reshuffled. This is another ninety –day handling period for the uncured accounts endorsed during the First Cycle. This is done by re-endorsing the accounts to another Collection Agency.
(There are accounts that are retained/ not endorsed for re-shuffling with the Collection Agencies. Retained accounts are those accounts with approved Plan of Payment with its current CA).
6. After the second cycle, all accounts that were not converted to Performing Loans (PL) are endorsed to Final Remediation *(for NCR)*/ LCMRD *(for Branches)* for appropriate action. For the accounts that were collected on, but remained in arrears between 1-3 months, these are endorsed for tele-collection.