

# PAYGo PERFORM

## Portfolio Quality Working Group Subcommittee: Collection Efficiency Indicators

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# Logistics

1. We want this and future sessions to be interactive, open to questions or points of discussion at any time, unmute and speak up at any time
2. To minimize outside noise, however, your mics have been muted on entry. Please keep yourself muted throughout the call unless you have a question.
3. You may ask a question or make a comment at any time during the call. To do so you can:
  - a) Use the Chat box on the right-hand side of the WebEx session.
    - To ensure that your question is seen by the moderator, select “All Participants” from the drop-down menu before sending the question.
  - b) Unmute yourself and ask a question remembering to re-mute yourself when done.

# Collection Efficiency Indicators

# Collection Rate (Utilization Rate)

- 95% respondents in the PQ working group agreed that utilization rate should be included as a KPI
- Respondents reported that this was the **most highly regarded and widest used metric for portfolio "quality"**, which gives actual customer repayment information. It could be improved by:
  - **Standardizing**
  - **Defining the relevant time-period**
  - **Renaming**

“Utilization rate is where I start when I'm looking at PAYGo portfolios, as it tells me the most about actual customer repayment”








-Development Organization

“Utilization Rate as defined above is very straightforward indicator of portfolio health. Everyone should be measuring it”

-Investor








The proposition is to establish the collection rate as principal KPI to measure collection efficiency and complement it with 2-3 additional KPIs to mitigate the Sniff-tests. These KPIs together would then give a well-balanced and robust view on the collection efficiency of a PAYGo company.

# Collection Rate (Utilization Rate of Installed Assets)








	The percentage of expected revenue actually collected
	The collection rate measures the ability of a PAYG firm to convert its expected revenue into actual revenue
	$\frac{\text{Amount of customer payments collected (t)}}{\text{Amount of customer payments due/expected (t)}}$
	<p>Amount of customer payments due should be calculated on the basis of installed assets (While calculating on assets in circulation would provide additional insights, there are practical concerns)</p> <p>Assets in circulation = #installed assets + #repossessed assets - #written off assets</p>
	...
	Useful for internal operational analysis if disaggregated by cohorts, product offering, relevant timing bands.
	<p>To prevent negative outcome on:</p> <ul style="list-style-type: none"> <li>- Smoke &amp; Mirrors test: complement with Churn rate / trend* -&gt; to be aligned with Default /Loss Subcommittee</li> <li>- Fire Bell test/Red Flag test: Rolling Collection Rate &amp; Advance Collections Rate</li> </ul>

\*defined as: (# repossessed + # written-off + # lost) / installed systems








# Red Flag/Fire Bell test: Rolling Collection Rate

	<p>Percentage of expected revenue received from borrowers who are at least 'X' days old, in the last 'X' days</p>
	<p>The collection rate measures the ability of a PAYG firm to convert its expected revenue into actual revenue – while not taking into account the potentially distorting effect of new sales (down payments).</p>
	$\frac{\text{Amount of customer payments collected from customer older than 30d (t)}}{\text{Amount of customer payments due/expected from customers older than 30d (t)}}$
	<p>Eliminating new borrowers focuses the metric on collections and not underwriting. Can expect this metric to be sensitive to downturns, and easy to map to bottom line.</p>
	<p>...</p>
	<p>...</p>
	<p>...</p>

# Red Flag/Fire Bell: Advance Collections Rate

	The percentage of collections that are ahead of time (not due/expected)
	It measures the fraction of collections that were collected ahead of time
	$\frac{\text{Amount of customer payments collected ahead of time (not due/expected) (t)}}{\text{Amount of customer payments collected (t)}}$
	This rate helps a company to understand if a “high” collection rate could potentially be biased by a small customer basis that has substantially pre-paid vs. the due/expected payments.
	...
	...
	...

# Other KPI suggested: System Utilization Rate

	The percentage of days that active customers have utilized their solar home systems
	It measures the fraction of time customers have <b>not been</b> shut off for non-payment
	$\frac{1 - (\text{Total number of days locked})}{\text{Total customer age}}$
	
	...
	...
	Passes fire bell test, but for red flag test, need granular data from ageing and cohort analysis



# Working Group Timeline

## Weeks 1 & 2

- Agree on list of KPIs and basic definitions

## Week 3

- Determine relevant cohorts, thresholds, time series
- Assign formulas

## Week 4

- Identify missing ancillary / informational indicators to pass sniff tests
- Present recommendations to working group

# Next Steps

- Come back with relevant cohorts, thresholds, and time series for selected KPIs
- Finalize formulae
- Submit by [Monday 24<sup>th</sup> COB]
- Discuss on call on [26<sup>th</sup>]