Collection Efficiency Subcommittee call May 1

The Loss/Default Subcommittee is part of the PQ Working Group. The meetings objectives were to finalize formulas and thresholds for the collection efficiency indicators and discuss what other indicators are needed to round out the understanding of a PAYGo company's collection efficiency and portfolio quality in general.

1. Basic definition Collection rate

Scenarios that should be considered when finalizing the formula:

1. Free days that are issued to a customer because they experienced a customer service issue or promotion. <u>This doesn't change the overall balance due and only extends the loan term.</u> Promotions do not affect the overall balance but affects the time of money. The expected payment of the client takes longer, and this would come with a cost. This is not accounted for in the P&L, but it would rather be accounted for when calculating the ROI of a given promotion.
2. Initiatives/promotions that would change the contract value and, thus, <u>change the overall balance due.</u>
3. Change in financing agreement. Accounts receivable has fundamentally changed, and, thus, <u>affects the overall balance due.</u>

We should make a difference between the payable versus expected payments. The basic definition of the collection rate should refer to payable. An additional indicator could refer to the expected payments. Rule of thumb for the basic definition: **<u>Anything that affects the overall balance due should be reflected in the denominator</u>.**

Other comments definition:

1. Deposits should be excluded from both the denominator and the numerator.
2. General definition refers to the company as a whole – all receivables and all payables so this would measure on a portfolio basis rather than a customer basis.
3. Basic definition should be altered with 'active receivables' to consider that some customers have already fully paid one loan and currently have a new loan.

$$\frac{\text{All receivables collected from active receivables [since inception]}}{\text{All receivables payable}}$$

4. Could also look at it over average nominal period for portfolio (would differ per company) and look at it on specific meaningful intervals (e.g. last 120 or 180 days).
5. Active receivables should exclude write-offs. There is no current trigger for write-offs. The view of this subcommittee (SC) is that the company should have the liberty to define their own write-off policies. LD SC has a slightly different persepective and will most likely set the trigger around 120 days or another appropriate fixed term for purposes of identifying "at risk" receivables streams. Once the SCs will rejoin, it can be reviewed what would make the most sense.
6. It is important to look at the collection rate in connection with the 'churn'.

2. Collection rate time cohorts

The various cohorts may not be a key indicator of overall portfolio quality but rather look at specific aspects such as how efficient is a company at collecting or the quality of sales. These will be recommended to companies to have more insights, but it won't necessarily be asked to report on. The proposed cohorts are:

1. **Monthly collection rate for active accounts** without catch up payments (based upon payment plan. It indicates how efficient a company is at collecting.
    a. It gives the most actionable view; if there is a trend going down, it could be that the portfolio quality is also declining.
2. **Monthly sales by customer cohorts** gives a how well a company is collecting and quality of sales (e.g. good/ bad sales agents in a specific timeframe or one region is better than other)
    a. Age should be longer than a month, at least 90 days, and within a timeframe of 3-6 months.
    b. PAYGo company mentioned that they are look at it on a 12 month and rolling basis to consider catch-up payments.
3. **Product cohorts** as companies might accept lower collection rates for higher margin products and have different margins for different products.
    a. Unsure whether it is possible to standardize it for external reporting and would require a lot more effort to conclude for standardization.
    b. Recommended for companies that they can differentiate by different product cohorts.

General note prepayments:

a. Repayment will show up as high in a month but disappear in the following when the payments is not due. Those on the call felt that if a payment is $10 in month one and $30 payment is made but not subsequent payments made, this is a 300% collection rate in month two ($20 balance outstanding) and 100% in month 3 vs. 300% in month one and 0% for month two and three.
b. Conclusion: Prepayments should be reflected as receivables collected. The distortion effect would be trivial in most cases as it is a rare occasion (concluded last call) and the whole portfolio is blend together. It is also something positive for the company and shows that the company can incentivize their customers to pay early.
c. Recommendation for companies that have large repayments to consider looking the monthly rate without any prepayments.

3.Ancillary/Additional metrics

1. Average finishing time
2. Variance from full payment
3. Weighted average life of receivables (WALR) (only fully paid accounts)
    a. Very valuable to compare nominal versus actual. It wouldn't bring that much value to only have nominal. Thus, also include actual.
    b. Changes in Nominal could indicate how fast a company is growing and thus what growth phase they would be in.
    c. Actual would give more depth in average actual credit period.

   d. Good to view on a percentage basis and actual life of the receivable. You get a sense how far off from the formal loan term and the actual period for payments to take place.
   e. Actual is potentially more valuable if you have several accounts that have reached maturity.
   f. Suggestion to make it weighted average actual life of receivables
4. Average Actual Credit Period & Average Nominal Credit Period.
   g. Both make sense and should be added.

4.Reviewing portfolio performance

What is the right point in time to review a portfolio?

Approach 1: High level indicator could be relative to the average nominal credit period (e.g. 30% of the average nominal credit period rather than define strict days). The company can decide to look at it globally or contract cohort basis.

Approach 2: Look at it on a contract length cohorts and not entire portfolio view.

Approach 3: Set period that is longer term (90/120 days) and should not be too focused on the first 90 days by breaking it down with a 15 days increment.

Approach 4: Look at all currently active receivables streams

WACP is changing all the time, so maybe too complicated. Might be better to come up with an indication that is reasonably long enough to get rid of short-term volatility. Suggested to ask input from the working group.

5.Outstanding question from group

In our metrics, are we exclusively looking at collection on solar products or including other PAYGo products / upgrades / cash loans included in the company's PAYGo portfolio?

To what extent are we taking a portfolio-level view of PAYGo financing in general vs. a view that is specific to the solar energy industry?

From SG perspective, feel it makes sense to look at overall portfolio-level for headline KPI as the measures should be a reflection of the company's overall credit risk.

6.Next steps

1. Reach a final agreement on the general base definition and the cohort threshold time series to recommend in a general format.
2. Have a survey to agree/confirm
3. Present recommendations to the working groups.

Assess whether the formulas are easy to compute and make sure that it is comparable across different companies/business models.