



Forecasting Solution Case Study

Customer Profile

Commerce Bank is the principal subsidiary of Commerce Bancshares Inc, a 13.4 billion regional bank holding company. For more than 135 years, Commerce provides a diversified line of financial services, including business and personal banking, wealth management and estate planning and investments through its affiliated companies. Commerce Bancshares operates across three states with more than 330 locations and also operating subsidiaries involved in mortgage banking, credit related insurance, venture capital and real estate activities.

Business Problem: Increased losses on credit card charge due to bankruptcy or non payment

With the economic slowdown and the unemployment rate, financial institutions are facing new challenges to maintain good financial health. In this context, Commerce Bank encountered the following problems:

- Increased write-off on delinquent credit card accounts
- Misapplied staffing in each stage of the collection process

In the financial world, the collection process is a core component and has direct impacts on financial results. Commerce Bank needed a system to analyze the financial risks on delinquent credit card accounts over six-month period. This information would reasonably project the amount of dollars at risk, provide indicators to establish a tolerance threshold as part of their financial planning and allow Commerce to place the appropriate personnel resources on accounts in each stage of delinquency, in order to optimize recovery efforts.

In addition, Commerce Bank utilizes a highly manual forecasting process, which is time and resource consuming. Their expectation is to reduce the number of resources by improving process efficiency through automation.

Solution

A key element of the solution for Commerce Bank to address account recovery and reduce losses, lies in the ability to accurately forecast delinquent accounts in a timely manner.

Commerce Bank wished to take advantage of state-of-the-art computer and communications technology by incorporating a financial model on delinquent accounts as well as a personnel/labor model over a six months period. This model would use Commerce Bank customer's data such as total of number of cardholders, balance, past due condition and financial analyst data (e.g. consumer price index, producer price index and unemployment rate). An automated forecasting tool combined with subject matter expertise, would allow Commerce Bank to adequately manage the delinquent credit card accounts and therefore minimize losses.

The modeling and forecasting solution chosen was **Autobox**.

This product takes into consideration many variables in the forecasting equation resulting in more accurate information that can be used in financial planning and in resource planning. By analyzing unemployment rate, number of cardholders at various stages of delinquency, balance, and other statistically significant variables, Commerce Bank can reasonably predict risk and establish a collection plan strategy. An additional advantage on utilizing Autobox is the ability to run comparative analysis on using a two-month, three or six-month period model.



Expected Benefits of solution implemented

- Improve resource planning in the collection department,
- Decrease credit card write off, by earlier detection of delinquency accounts
- Optimize resource productivity