

# ASSESSING AND MANAGING CREDIT RISK IN ESSENTIAL SERVICES

Credit and Collections in Energy and Water 2013

seed



- Understanding Credit Risk
- Approaches to Managing Credit Risk
- Trends in Credit Risk Management



# UNDERSTANDING CREDIT RISK

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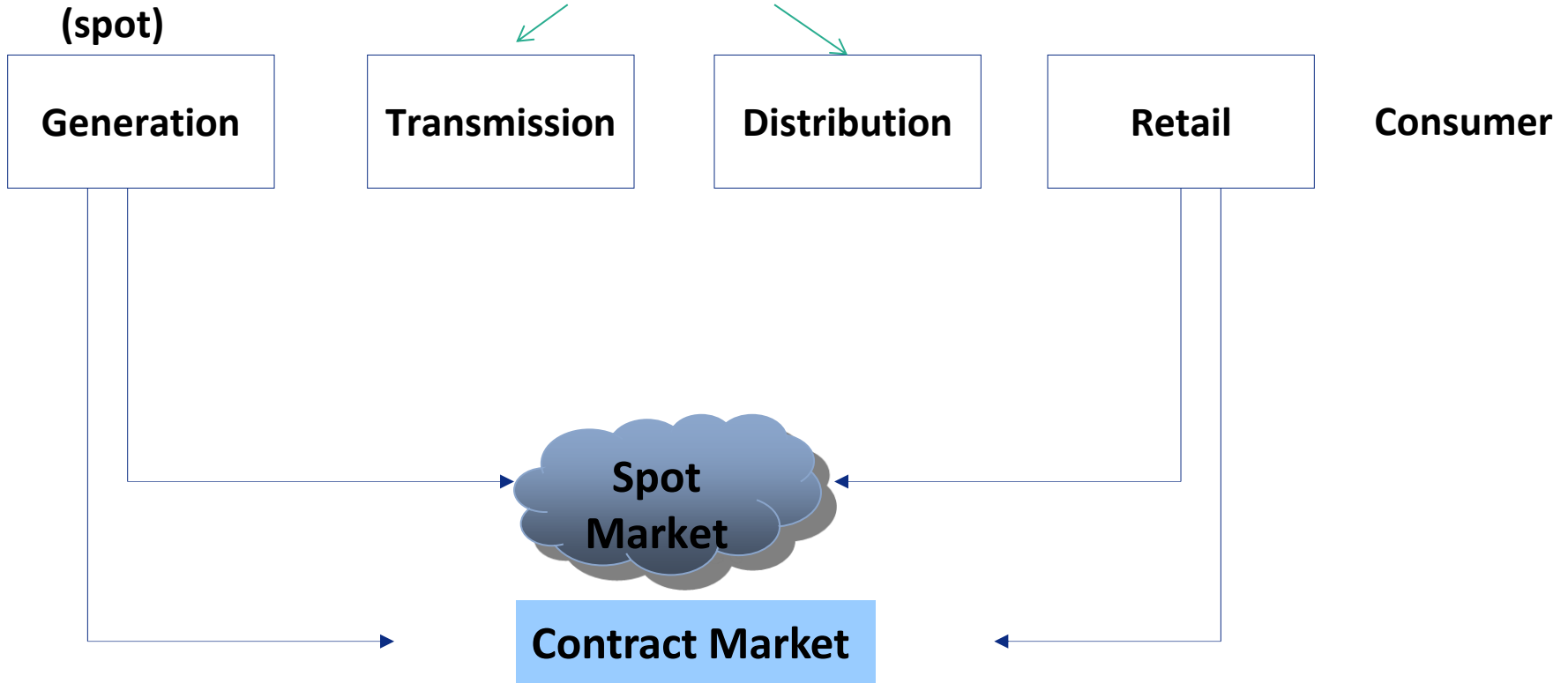


# Credit risk varies across the value chain

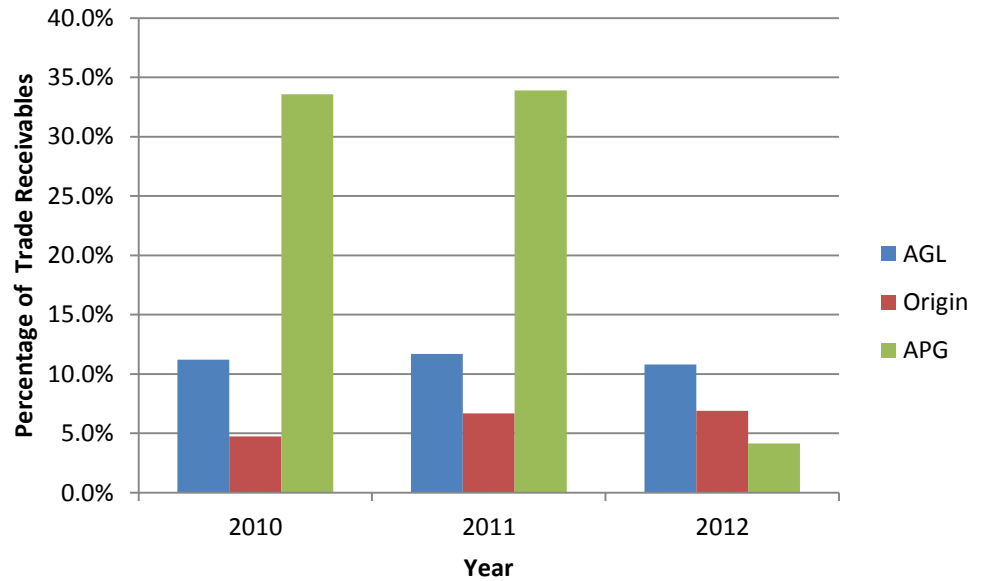
- Counterparty default
- Short payments (spot)

- Retailer default

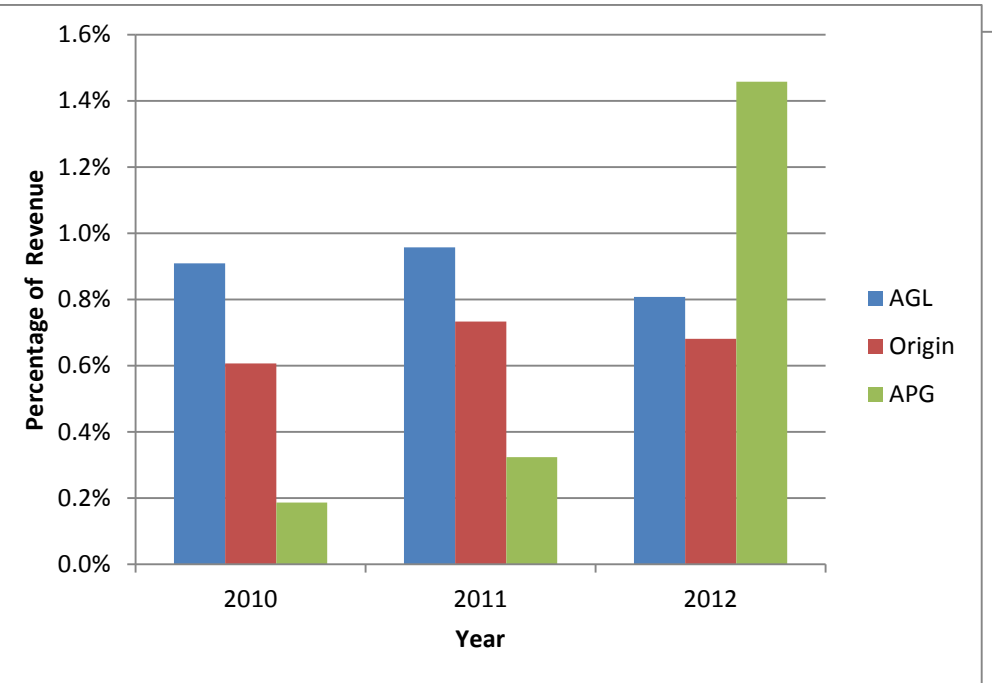
- Customer default
- Regulatory constraints



## Allowance for doubtful debts



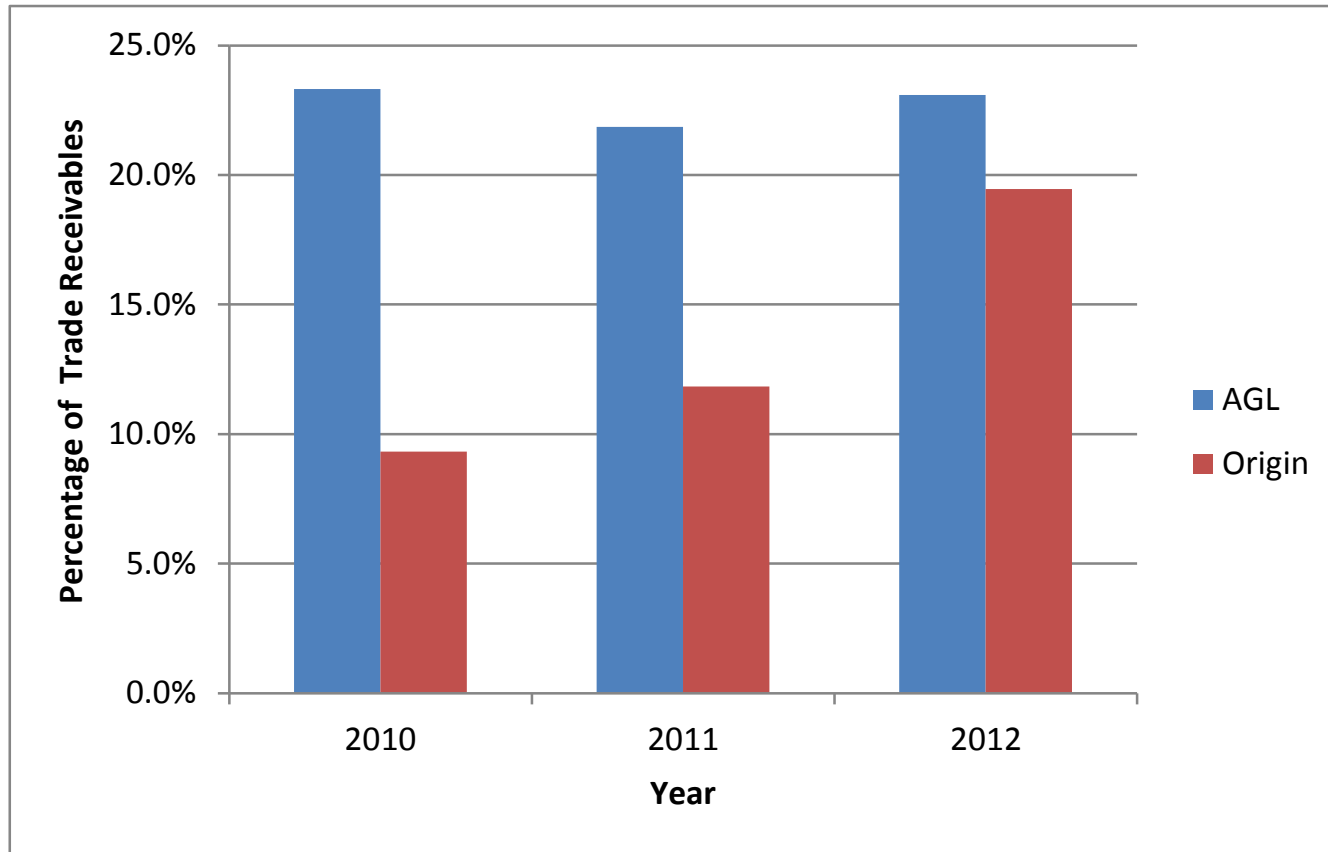
## Write offs



Source: Company annual reports, Seed analysis



# Receivables (>90 days) as percentage of total receivables.



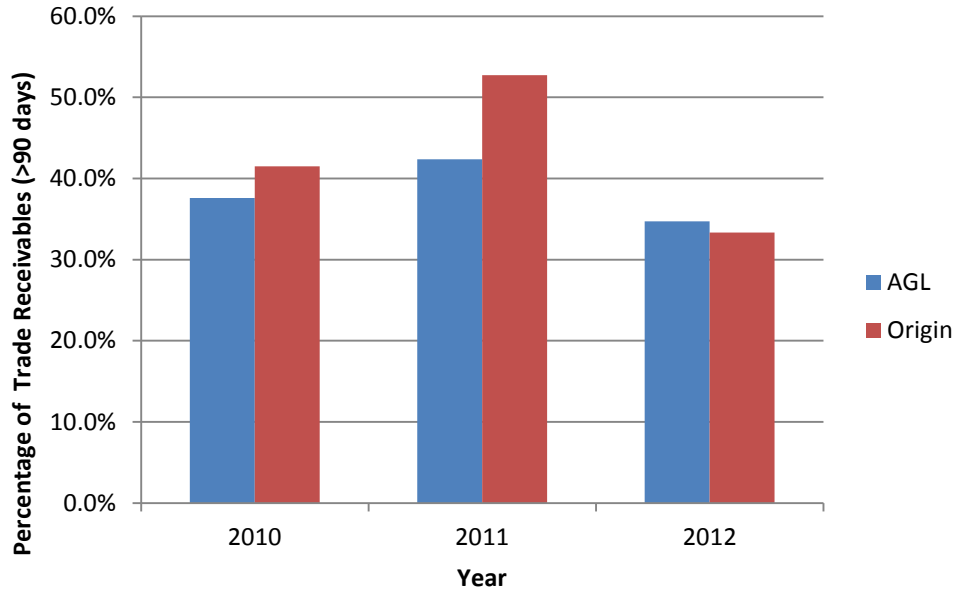
Source: Company annual reports, Seed analysis

Credit and Collections Seminar – May 2013



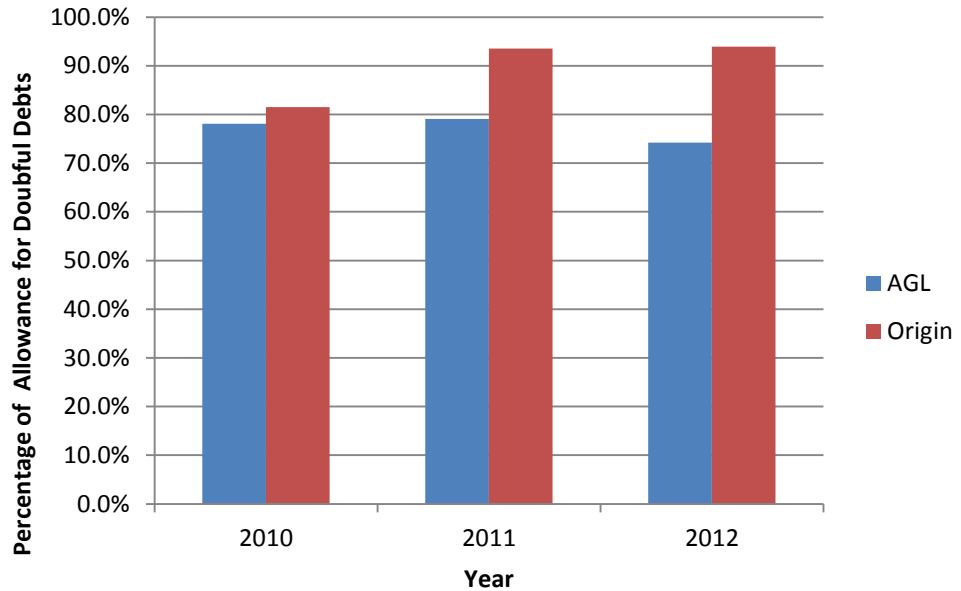
## Allowance for doubtful debts (>90 days)

Percentage of > 90 day receivables



## Allowance for doubtful debts (>90 days)

Percentage of total doubtful debts



Source: Company annual reports, Seed analysis



## Instalment plan numbers are relatively stable

<b>Retailer</b>	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>	<b>2011-12</b>
AGL	n/a	n/a	2.66	2.44
Origin Energy	5.32	6.08	6.53	6.74
Simply Energy	0.35	4.08	6.32	6.35
Energy Australia	8.56	8.05	7.42	5.5
Lumo Energy	1.51	2.98	2.44	3.14
<b>Total</b>	<b>4.84</b>	<b>5.28</b>	<b>4.61</b>	<b>4.4</b>

Source:

Essential Services Commission Victoria, Energy Retailers Comparative Performance Report – Customer Service 2011-12, December 2012





# Hardship numbers in aggregate are declining

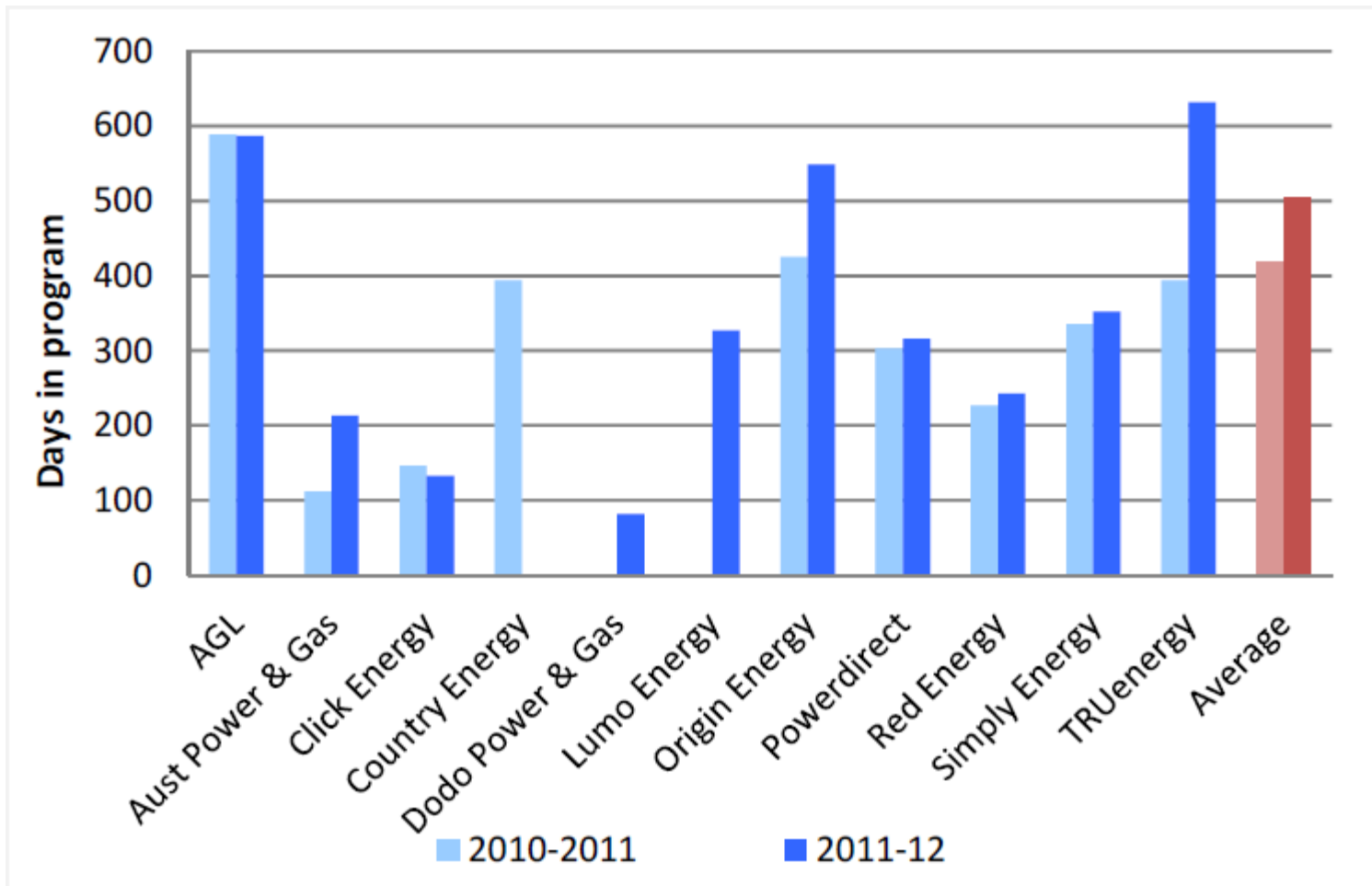
	<b>2009-10</b>	<b>2010-11</b>	<b>2011-12</b>
Hardship program participants (total)	24,122	20,319	18,879
Average debt on entry to program	606	630	919
Average debt on exit of program	683	732	715

Source:

Essential Services Commission Victoria, Energy Retailers Comparative Performance Report – Customer Service 2011-12, December 2012



# Customers are increasing their length in hardship programs

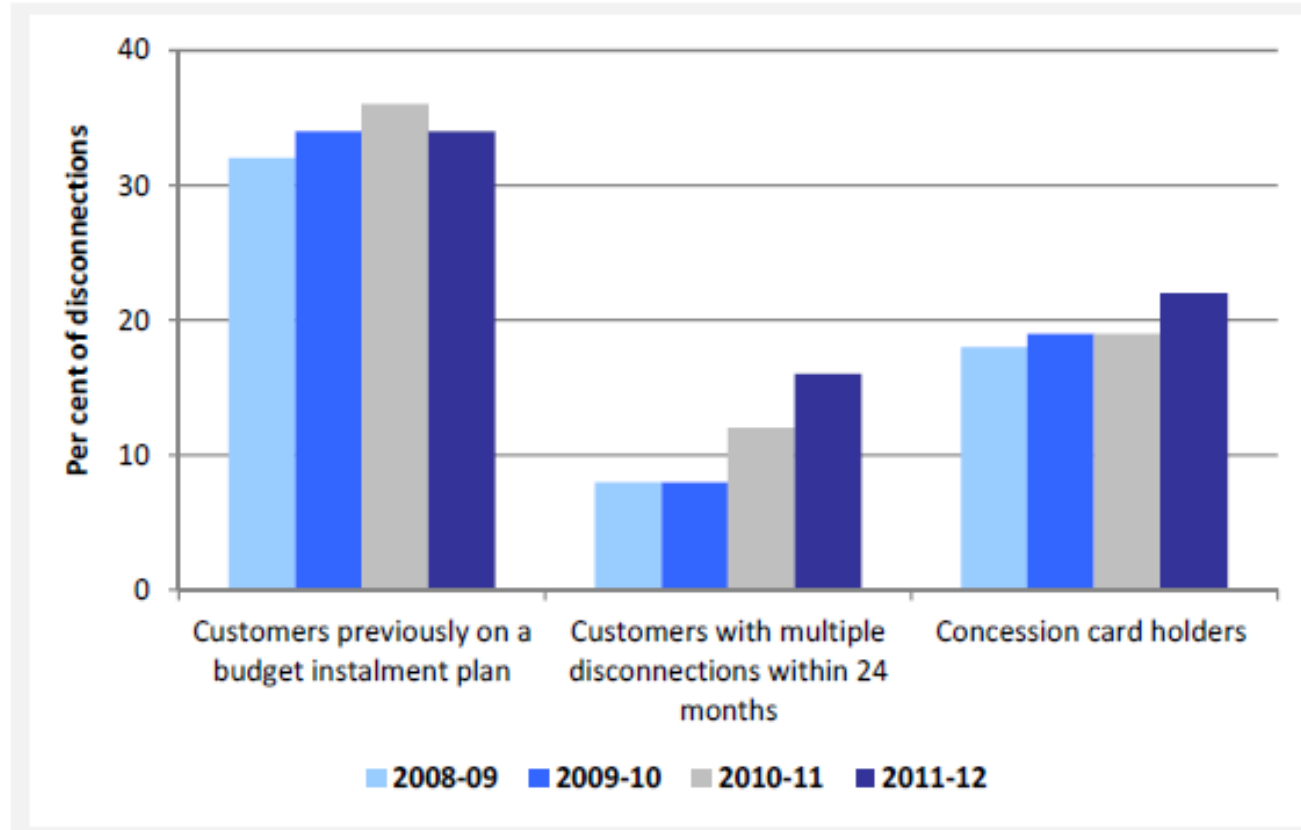


Source:

Essential Services Commission Victoria, Energy Retailers Comparative Performance Report – Customer Service 2011-12, December 2012



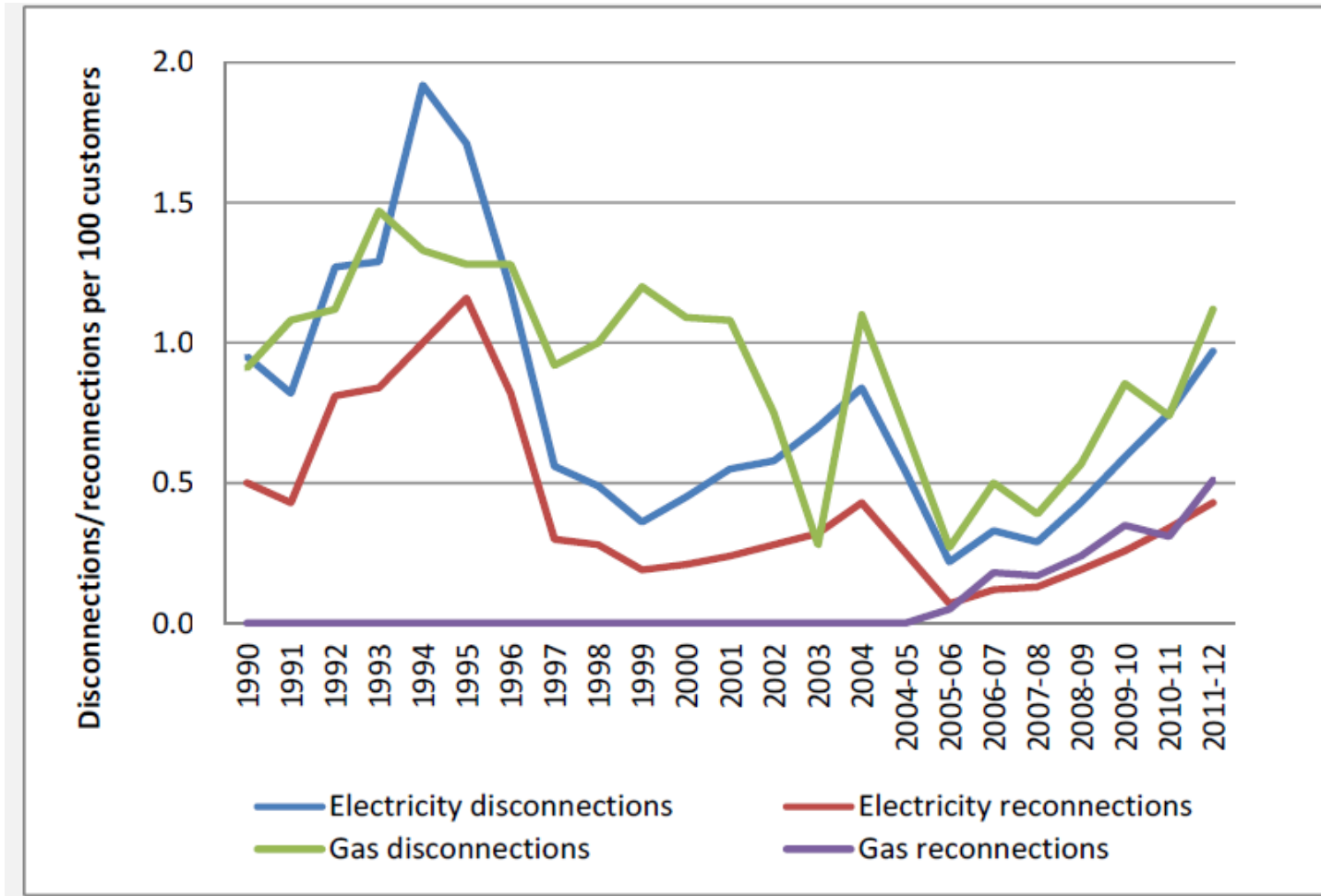
# Hardship customers seem to dominate disconnection rates



Source:

Essential Services Commission Victoria, Energy Retailers Comparative Performance Report – Customer Service 2011-12, December 2012

# Disconnection numbers are trending upwards



**Note:** Gas reconnection data commenced in 2004-05.

Source:

Essential Services Commission Victoria, Energy Retailers Comparative Performance Report – Customer Service 2011-12, December 2012

- Credit risk not uniform across value chain
- Individual retailer experiences highlight areas of concern
- Industry trends support similar conclusions



## APPROACHES TO MANAGING CREDIT RISK

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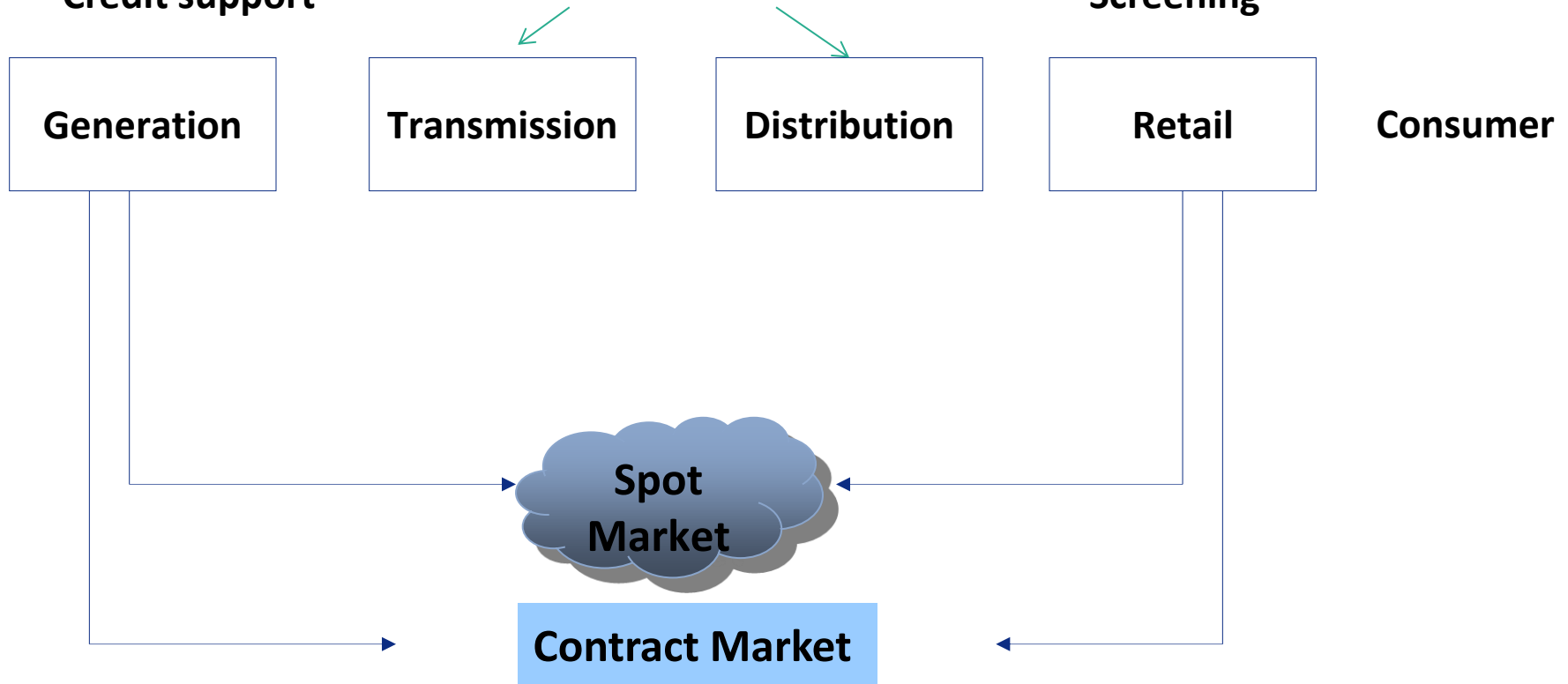


# Multiple approaches are used to manage credit risk

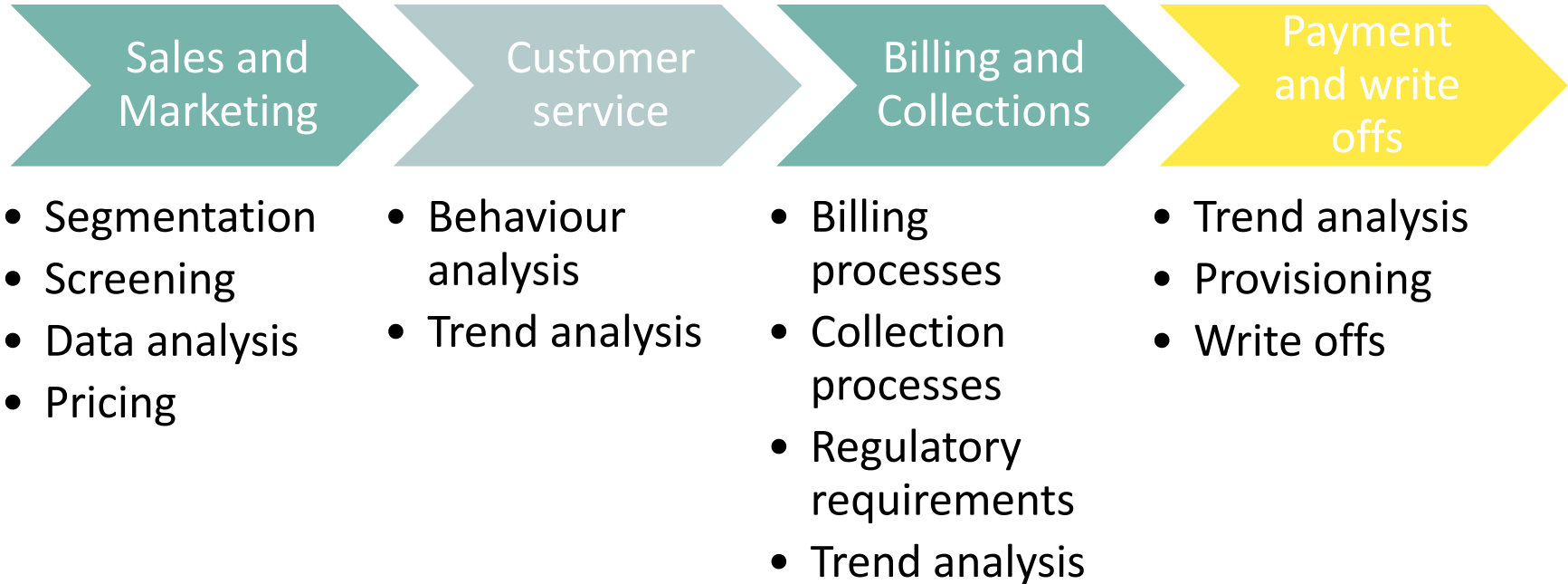
- Prudentials
- Margining
- Credit support

- Credit support
- Pricing

- Credit support
- Pricing
- Screening



# Retail credit risk processes should span the customer lifecycle





## Macroeconomic factors

- GDP
- Unemployment
- CPI

## Segment Characteristics

- Demographics / Firmographics
- Geography
- Size
- Regulatory requirements

## Customer Characteristics

- Size
- Payment History
- Regulatory requirements
- Business characteristics
- Other?



# TRENDS IN CREDIT RISK MANAGEMENT

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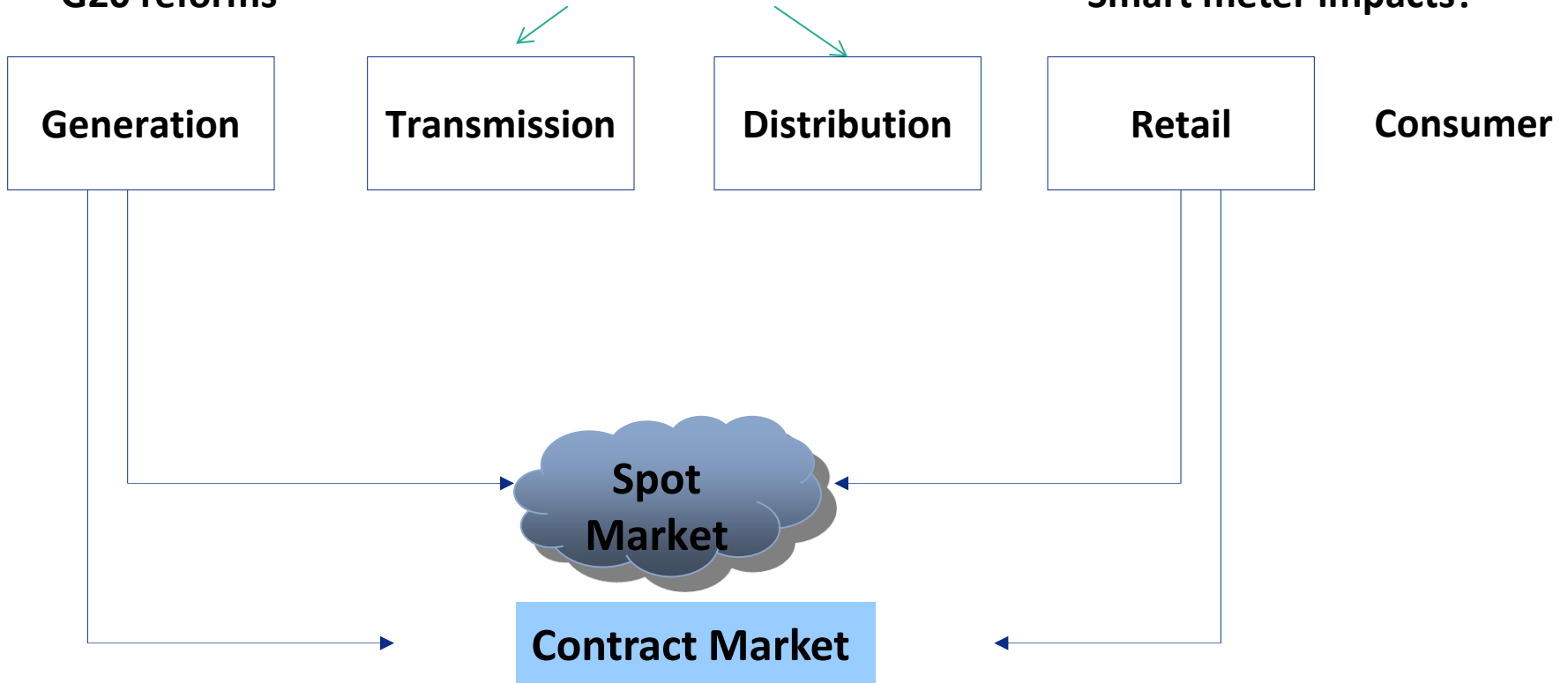


# Changes in all areas are being investigated

- Revised Prudentials
- G20 reforms

- NECF changes to credit support

- NECF
- Analytics
- Smart meter impacts?



# Retailers will need to focus increasing efforts at higher granularity and more upfront assessments

<b>Customer Lifecycle Stage</b>	Upfront	<ul style="list-style-type: none"><li>● Segmentation</li><li>● Trend analysis</li><li>● Pricing</li></ul>	<ul style="list-style-type: none"><li>● Screening</li><li>● Pricing</li></ul>
	Ongoing	<ul style="list-style-type: none"><li>● Behaviour analysis</li><li>● Trend analysis</li></ul>	<ul style="list-style-type: none"><li>● Collections</li><li>● Write offs</li></ul>
		Coarse	Fine

**Level of Granularity**



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