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Up To The Cloud

How e-recording solves many of the problems associated with lien recordation and release.

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Collections Geared For The New Customer

Technology presents new opportunities to transform collection practices.

by Shashi Singh & Pinaki Ghosh

The banking, financial services and telecom industries have put technology to intensive use. That is why banks and telecom providers look nothing like they did 15 years ago. Everything has changed - from customer acquisition to products and services and from business and operating models to regulations. Through this, one aspect has remained untouched: collection practices.

Collections continue to depend on negotiations with defaulters using third-party debt collection agencies. In fact, debt collection is still only triggered when a default or delinquency is identified. With growing debt and defaulters, putting collections at the end of the lending and billing cycle may not be the most strategic approach. Actually, in the same ways that technology has transformed several processes in banking and other financial services, there is an opportunity to transform collection practices, as well.

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Customer experience is vital

It's no secret that collection on a debt can be tough. Because compensation for debt collectors is linked to the volume of debt collected, this often leads to aggressive and intrusive actions. As a result, consumer complaints are on the rise, and regulators are coming down with a heavy hand. In fact, according to the Consumer Financial Protection Bureau (CFPB), 219,200 debt collection complaints have been handled as of March 1, with the top issues being collection on debts not owed, debt collectors repeatedly calling consumers and consumers being unable to verify debts owed. According to the report, the CFPB received the most debt collection complaints about two companies, which were the largest debt buyers in the U.S. and averaged more than 100 complaints between October and December 2015, causing the CFPB to take enforcement actions against the two debt buyers for using deceptive tactics to collect bad debts.

Penal action from regulators is just one reason to keep good customer experience at the core of collection practices. The other reason, more important than compliance, is that the cost of finding new customers is growing, which means eroding the trust of existing customers can prove to be quite expensive.

Time for a change

It's time for debt collection practices to work at retaining customers and meet regulatory requirements. This means there needs to be a lateral shift in debt collection strategy to ensure the following:

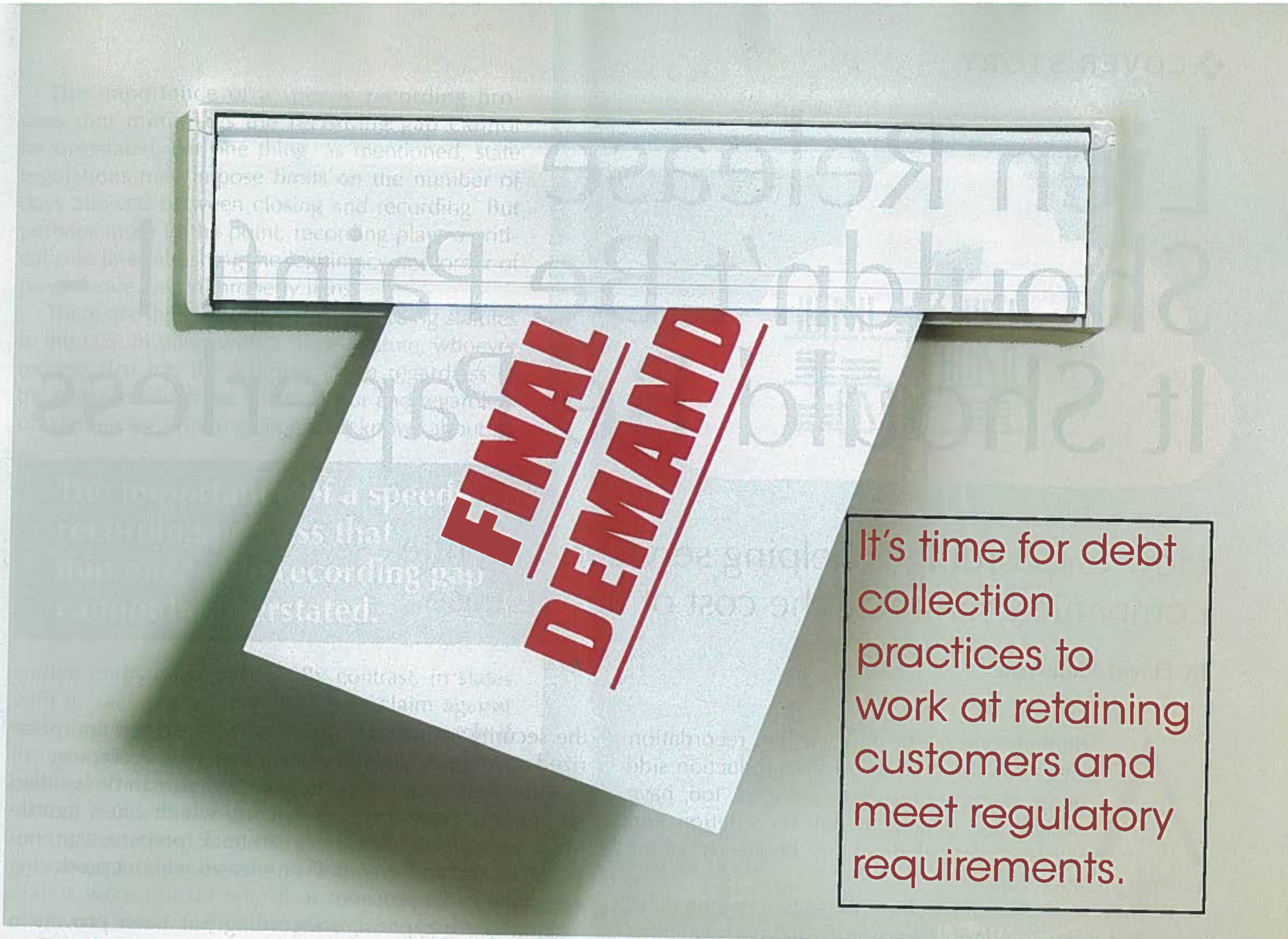
- Improved collections;
- Improved customer experience during the debt collection process;
- Lowered cost of debt collection; and
- Proactive reduction in delinquency and default rate.

There is evidence to support the efficacy of this approach. Recently, a collections provider in the U.S. used predictive data models and customer classification to focus its delinquency management strategies. The result was a 50% improvement in the amount collected and a 20% reduction in operational expenses.

Technology that transforms: automation and analytics

Debt collection is an evolving practice. With each improvement, the practice has helped decrease the potential loss to income. Today, when managed with the help of analytics and automation, it can preempt default and also guide customers into maintaining a healthy payment culture. The outcome is diminished occurrence of default, improved perception of the lender, avoidance of social media backlash and improved public relations.

Also, social media can actually play an important role and be leveraged to improve collection practices. Social media can be used to stay in touch and forge relationships with customers. Social media streams can be



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analyzed for voice of customer and to help redefine and improve collection strategies. Consider this - according to the Global Customer Service Barometer from American Express, 42% of consumers will tell their friends about a good customer experience via social media, while 53% will talk about a bad experience. Interacting with customers via social media has become vital to a company's reputation and should be incorporated as a way to improve collection practices.

Debt collection is expensive, and growing regulatory oversight can quickly pile up costs. The collections function must, therefore, maintain a tight focus on avoiding needless collection calls and use the most efficient and effective channels - and automation and analytics is important here. Some quick gains in cost management can be obtained by doing the following:

- Using a smart segmentation approach to optimize customer experience and minimize customer attrition;
- Using predictive modeling and pre-delinquent treatment to reduce charge-offs and delinquencies; and
- Using analytics to determine the most cost-effective channel for customer engagement.

Although analytics, automation and predictive models largely contribute to the elimination of manual tasks, such as sending reminder letters and emails, they also help ensure compliance with stringent laws that are redefining collection dos and don'ts.

Also, in the U.S., the number of consumer complaints escalated to the CFPB is assumed to be directly proportional to customer experience as related to the lender. About 40% of the 90,000 complaints registered with the CFPB in the U.S. in 2015 pertained to debt collectors reaching out to consumers for debt that was not owed, and 40% pertained to aggressive communication tactics. Predictive analytics can help bring those alarming numbers down, improving compliance and customer experience.

Win-win

Automation and analytics have a far-reaching role in collections. Today's advanced robotic process automation capabilities can eliminate manual inputs for repetitive, error-prone tasks, such as the generation of payment reminder letters and their delivery. Plus, analytics can improve proactive outreach and reduce charge-offs using omni-channel solutions. Automation and analytics can help identify channels that increase productivity (for example, an agent can hold more than one chat conversation simultaneously), improve customer experience and net promoter score, and assist in significantly reducing penalties and legal costs arising from violations of regulatory norms. SM

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