Accelerating the return on investment from your collections process

A cost-efficient approach to achieving leading collections capability

Experian
Decision Analytics

An Experian white paper

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Introduction

As some parts of the global economy continue to show signs of stress with low growth rates and the eurozone crisis, competition for collecting consumer debts is becoming more fierce. With this, the collections process has evolved from an overhead and cost centre to one that is seen as a central driver of profit.

This briefing paper looks at how consumer credit lenders can help raise their priority with customers and make sure that their debts are repaid first while balancing the challenge of collecting more debt at the lowest cost. It also discusses how lenders who have faced financial or information technology (IT) barriers can now use more advanced collections technology to achieve competitive advantage, and do so cost-effectively.

Evaluating collections systems

The rapid surge in the number of delinquent customers challenges today's collections departments to collect more with fewer resources. Many lenders have seen their collections book grow rapidly. Some have managed the delinquent growth with an increased head count in their collections operation but, for others, limited scalability of the collections department has blocked their ability to collect efficiently and profitably. These organisations need to employ their resources shrewdly, combining knowledge of their customers with a segmented and targeted approach and as much automation as possible.

Justifying capital investment in a large-scale dedicated collections system is a significant challenge for a business restricted by limited cash flow. As a consequence, many lenders turn to their existing provider of billing or customer relationship management (CRM) systems to extend their use to support collections processes. Collections has been neither a core focus area nor a core competence for these vendors, but the repackaging of their offering to address this market opportunity can appear as an attractive option. The true cost of ownership often is concealed however. Because of years of underinvestment, these systems lack sophistication, with any adjustment to strategies requiring third-party configuration. With capital expenditure under such intense scrutiny, it is vital that system selection focuses on key collections criteria that will deliver a proven rapid return on investment and satisfy the need for a low cost of continued ownership.

Key collections criteria

A dedicated collections system should allow lenders and service providers to improve the efficiency and performance of all aspects of their collections process. Four crucial capabilities have emerged as having the greatest impact on collections success:

- Segmentation
- Automation
- Integration of contact channels
- Consistency of collections activity

Segmentation: Maximise collector productivity

Without the ability to differentiate between portfolios, collectors can spend a lot of time managing simple cases instead of focusing their efforts on more complex or higher-value debts. By identifying customers who will pay their arrears without any proactive action, lenders can deploy self-cure strategies that provide a grace period. This can enable those customers to return to order (or cure) without incurring costs through collections activity. The targeting and correct identification of these groups are essential for this to be effective.

Not only does this save costs, but it also can protect the relationship. Aggressive collections tactics on these types of debtor can result in alienating the customer, damaging the relationship and reducing the chance of collection.

For the proportion of indebted customers who are in extreme financial difficulty or those who exploit the system to avoid paying, gaining visibility of their true financial circumstances can enable the application of a customer-centric approach. Collectors who can view and assess a customer's total exposure across all accounts can agree on holistic repayment plans with an accurate evaluation of the customer's total business value. This informed approach ensures that realistic promises to pay are more likely to be honoured, resulting in improved cash flow and less long-term delinquency.

More granular segmentation can be achieved when bureau data is leveraged, which enables sophisticated analytics to provide insight on the customers most likely to default. This allows the creation of effective pre-delinquency campaigns to help stem the flow of cases entering the full collections process.

Automation: Improve collections efficiency
Optimal collections performance demands that the cost of collecting outstanding debt is balanced with the amount requested — generally, the lower the better. Automating standard collections activities significantly improves the cost-efficiency of the collections department, enabling more cases to be handled while driving down overhead. Collections products and services that feature workload targeting enable the collections team's strengths to be focused in the right place by matching the complexity of cases to the collector's skills.

Where Champion/Challenger (test and learn) analytical techniques are employed, the benefit and relative value of each activity can be objectively evaluated. This provides deeper insight into communications strategies such as when to call, how often to call, when to send a letter, what incentive programme works best – and at what cost. By testing strategies on a small live sample, the cost/benefit impact of any change can be accurately assessed in a real-time, low-risk environment. This controlled pilot-testing approach ensures that collections strategies are kept up to date in today's ever-changing and challenging environment.

Access to management information reporting tools enables the performance and efficiency of the collections team and system to be evaluated in real time, allowing for a continual cycle of fine-tuning and improvement.

Integration of contact channels: Increase the value of collections activity
Timely, right party contact is key to increasing overall recovery rates but is becoming more costly to achieve. In the past, many lenders adopted a one-size-fits-all approach to customer communications. Most have now realised that this is not the most efficient way to approach collections. Personalisation of collections strategies improves the quality of customer engagements, increases customer satisfaction and, most importantly, increases cash collected.

One step beyond personalisation is optimising the process. This is achieved by identifying the right message for each customer, executing it at the right time, via the right channel, with the right terms. This practice allows the business to maximise the efficiency of its customer communications. Advanced optimisation techniques have been developed to address such issues and have been successfully implemented in some leading-edge collections environments.

Collection can be further increased with the integration of predictive dialler services, which use information from other enterprise applications and features such as Web services to enable real-time data interoperability. Such systems are particularly effective in early-stage arrears management, where the interruptive medium of an automated voice call, email or short message service (SMS) is less easily ignored than a letter. A direct link to an interactive voice response system or Web page for self-settlement or the ability for struggling customers to opt in to a conversation with a fully briefed collector significantly increases collections success.

Consistency of collections activity: Improve the customer experience
Increasing regulation demands that collections departments look beyond the recovery of debt to focus on rehabilitating debtors to become revenue generators in the longer term. Demonstrating social responsibility and complying with treating customers fairly codes by distinguishing between those who can't pay and those who won't results in improved customer satisfaction. This can protect the customer relationship for long-term retention.

Collections systems can assist by ensuring that treatment is consistent across the portfolio whilst also enabling collections departments to better comply with a variety of regulatory requirements. This can enable more accurate assessments of the risk level of individual customers, predictions of recovery rates and estimates for lower levels of provisioning.

Regional variations in regulatory codes increase complexity and risk of noncompliance for companies operating in multiple regions. However, the ability to add scripting to the collections system ensures that collectors are making the correct statements for the business and specific legal steps required by local legislation can be inserted into a route.

Making it happen

Often the biggest barriers to acquiring a leading collections system are the time and capital expense required to implement it. An investment of this kind involves commitment from multiple stakeholders from across the business. Developing an appropriate, detailed and flexible scope and implementing all the requirements of each stakeholder into a single, large project are time-consuming as well as costly.

Now, preconfigured systems are available that can be live within weeks, giving almost immediate access to best practices for collecting more debt sooner. These predefined collections strategies eliminate the need for complex bespoke customisation but can still retain the flexibility for strategy development in the longer term. Predictable costs and reduced reliance on IT resources provide a lower total cost of ownership.

These targeted systems leverage the industry's most advanced collections capabilities to markedly improve results over more generic CRM or business system frameworks. They provide a powerful service that interfaces with existing systems. They quickly enhance the collections process and deliver a rapid return on investment to boost cash flow. Hosted delivery helps overcome IT barriers and reduces up-front costs.

With consumer delinquency threatening profits, now is the time to take a fresh look at how to boost performance with a purpose-built collections product

About Experian Decision Analytics

Experian Decision Analytics enables our clients to make analytics-based customer decisions that support their strategic goals, so they can achieve and sustain significant growth and profitability. Through our unique combination of consumer and business information, analytics, decisions, and execution, we help clients to maximise and actively manage customer value.

Meaningful information is key to effective decision-making, and Experian is expert in connecting, managing, interpreting and applying data, transforming it into information and analytics to address real-world challenges. We collaborate closely with clients to identify what matters most about their business and customers, then create and implement analytics-based decisions to manage their strategies over time.

In today's fast-paced environment where developing, implementing, and sustaining an effective strategy is imperative, Experian Decision Analytics helps organisations unlock a wealth of benefits immediately — and set the stage for long-term success.

Increased revenue: Our products and services enable clients to increase revenue by providing the insight and agility they need to find and engage the right customers, target products more effectively, and grow market share.

Controlled risk: A broad range of risk-management products and services help our clients to verify identity and manage and detect fraud, optimise collection and recovery, and balance risk and reward.

Operational efficiency: Experian Decision Analytics helps our clients to quickly integrate various information and processes to enhance operational efficiency and boost agility. Our flexible, collaborative approach helps organisations increase speed to market, enhance business agility and improve the quality of customers' experiences.

Compliance as differentiation: Proven expertise lets clients use compliance as source of competitive advantage. Experian Decision Analytics helps ensure compliance with essential regulations, while helping organisations better understand customers.

About the Author

Mark Keyworth is a Client Consulting Director at Experian. He has extensive practical experience within the UK banking industry across the whole credit cycle, at both strategic and operational levels. His experience consists of developing profitable and pragmatic solutions, along with previous portfolio profit and loss responsibilities across multiple consumer product lines. Keyworth's experience has been obtained from a background of 13 years within the UK banking industry (Girobank and Alliance & Leicester), six years within retail credit (Kingfisher) and 13 years working internationally in a consulting role (FICO and Experian).

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