Future of Collections Management

Vision and Strategy Document

Business Overview

With recent changes in the economy, new consumer technology, and increased competition in the maturing consumer lending market, managing account receivables is becoming more of a challenge. Consumer lenders are seeing an increase in delinquent dollars and customer attrition while there has been a decrease in new accounts and applications. This increasing trend is making it more critical that companies become innovative in their approach to collections and recovery.

This changing environment, coupled with the new business paradigm focused on total customer relationship management (customers deciding when and through which channel they will communicate) has driven financial service companies to embrace new technologies. Collections channels of the future include the internet self service, email, outbound interactive voice response units, traditional call centers and direct mail.

Progressive financial service companies will take their traditional collections operations and move them towards a financial advisor model using these new technologies coupled with customer focused strategies.

Technology Overview

There are several kinds of software systems necessary to support the collection operations of the future:

Inventory/Account Management Systems

These systems will be used in tandem with scoring models to execute targeting and queuing strategies; this will focus efforts on the most critical and collectable accounts. With the cost of collecting on delinquent receivables increasing at a record pace, it is becoming more important to work smarter, not harder. By using decision technology and scoring models, financial service companies will be able to reduce the overall number of contact attempts, and increase their response rates on these contact attempts. This can be accomplished by using contact models that not only measure the best time and place, which are common in today's environment, but also the channel for attempted contact. Each unique strategy will have a customized work stream associated with it, including what treatments will be taken, when, and by what channel. Each strategy or treatment will be predefined in the system by an administration or strategy team. Examples of indicators or data used to predefine the strategy or treatments include: account balance, profitability, channel preference, contact history, delinquency history, and external data such as credit bureau scores and detail. This technology can be developed in house or purchased from companies such as London Bridge, American Management Systems, and Fair Isaac.

Browser Enabled Workstations

This technology is quickly becoming the standard in collections departments across the country because of the flexibility it provides. Using browser based technologies companies can allow employees to log into any computer in the company to perform their duties. As an added benefit, browser based technologies facilitate outsourcing of accounts for which recovery attempts are not cost effective. Using this technology, workstations will be created to manage accounts, including the storing of collector notes, the tracking of promises to pay, and the scheduling of individual accounts, by date and time of day, for the next work action. The functionality is the same as today's collection workstations, though the technology is more flexible.

Predictive Dialers

This technology will remain a key tool in the collection toolbox although, given new consumer technology and privacy laws, the effectiveness of this technology will be greatly reduced. Already, collections operations are seeing a drop off in right party contacts at all numbers, including home and work. As a result of the drop off in effectiveness, many companies are considering offshore call centers to reduce costs. Despite this reduction in efficiency, power dialers still provide very effective functionality, including scheduling, rescheduling and placing calls to accounts. Once a call is placed, the calls are routed to an available collector. To further increase productivity, additional functionality (managing accounts of lesser delinquency, and minimizing time between calls), can be provided to automate collector tasks. One last piece of functionality gaining greater acceptance, is the use of power dialers to call and leave messages for lower risk accounts. Options for this technology include traditional providers such as Avaya, Concerto and Remedy.

Web and Email Technology

The newest technology to be introduced into the collections process is internet technology. While this is relatively new, it is quickly becoming a major factor in the collection attempts of select organizations. Several large card issuers have begun leveraging the web and email not only as another channel to contact customers, but also as another payment channel.

When a customer logs into a financial services website there is an opportunity to communicate with the customer in their preferred channel. Companies have begun doing this through several methods, including: alerts, online education programs, pop up windows, and online self service assistance programs. While this channel requires the customer to initiate the contact, it allows the customer to research their options and make payments. In addition, it serves as a reminder for customers who have forgotten to make payments.

Email is a more intrusive technology that companies will use increasingly rather than outbound calls and direct mail letters. This is a relatively inexpensive technology, compared to sending a letter or placing an outbound call (both of which are beginning to see diminished returns). In addition, given that the average inbound call costs $8.00 (based on a recent study by AT&T), this can provide companies with a substantial savings. Currently, many organizations will only reply to customer inquiries, but they have begun to experiment with more proactive techniques, outbound e-mail campaigns for example, to lower risk with confirmed e-mail addresses. While online collections is relatively new several companies such as Incurrent are providing customized solutions for the collections market.

Voice Response Unit

Automated voice response units are not new to collection operations, but they are becoming more important as the volume of delinquent accounts increases. It is a simple fact that no operation has both the technical and physical resources needed to handle all delinquent accounts. As a result, when appropriate, many companies interact with low risk customers using this automated channel. This allows them to focus on customers that require more interaction by financial advisors. Several key players in this industry include Cisco, Geotel, and the traditional dialer companies.

A recent trend in the collections market is to use VRU/IVR technology to make outbound calls to customers. While many companies have been using this to leave messages on confirmed answering machines new technology innovations have allowed several more progressive companies to become more advanced in their use of the technology. This includes using this technology to place calls to low risk delinquent customers and place low value calls such as information confirmation calls to attorneys, CCCS, etc. With the new innovations this technology is now interactive and allows customers to pay their account, set up payment plans and perform other more advanced collection actions. Leading technology companies that produce this technology include CenterPost, Par3, EnvoyWorldWide, Avaya and Concerto.

Emerging Strategies & Processes

The most important thing to remember is that technology is a tool that is used to execute strategies. The real key to success is using the technology correctly. In order to do this, financial service companies need to embrace the new technology, and to develop strategies emphasizing and leveraging it. Too many companies purchase technology and feel that it is a "magic bullet" that will solve all of their business problems. Critical components of future collections strategies and processes include current account collections, multi-channel collections, and multi product collections.

The need for multi-channel collections is the result of the movement toward a more customer centric business environment. The result of this movement or revolution has been that customers want to communicate with companies through many channels and at their own convenience. As a result, the channel mix of future collections operations will include:

- Direct Mail: Traditional mail will still be used, but the number of letters should decrease due to the expense and falling response rates

- Internet: Online collections will continue to become more of a focus for many financial service companies because it is cost effective. Once this becomes a viable collections channel, all other channels such as statements, letters and VRU/IVR should reference this channel as another option for the customer to address their financial issues and set up payment arrangements

- E-mail: E-mail collections will continue to become more of a focus for many financial service companies given the cost effectiveness and comparable, if not better, response rates than direct mail and outbound calling.

- VRU/IVR: The use of VRU/IVR will increase with automated messaging, and the handling of early cycle delinquency and current high risk accounts

- Statement Messages: Will become more important as a tool to drive customers to more cost effective channels such as the internet and VRU/IVR. This will become increasingly more important as companies target current high risk accounts and early stage delinquency

- Inbound and Outbound calling: Call centers will always be the centerpiece of the collection operations despite the reduced right party contacts and promise to pay rates that have been seen in the past five years. In the future, the key will be to source the correct accounts to this channel

With the increase in delinquency, it is becoming more important for companies to ensure that they are proactive in treating delinquency. Using improved modeling to target high risk, current and early stage delinquency accounts companies have started to proactively work with the customers to provide financial assistance. While these accounts are not yet delinquent or traditionally not worked during the collections process, companies are leveraging technology such as e-mail and VRU/IVR to reach out to these customers. By establishing contact with these customers, companies can provide advisory services to assist them through their difficult times.

This will help companies reduce delinquency in the early stages, while it is still possible. This is critical because accounts that historically roll to more than two payments delinquent are 50% more likely to charge off then those accounts that do not roll. In today's environment, the roll rate for early stage delinquency has been increasing. This increased roll rate is a result of the difficult environment and the trend of many companies to focus on later stage delinquency due to the lack of resources. With new online technology that is more cost effective, it will be possible for collection operations to address early stage customers and still provide the appropriate resources to later stage delinquent customers.

In today's converging market, it is becoming more important to have a "360 degree" view of the customer to allow for multi-product collections. Unfortunately, many companies are still operating in product or line of business silos that result in fragmented data and the lack of a true "360 degree" view of the customer. As a result, an individual customer may be treated as five separate customers if they have five products. This then causes difficulty in the collections process when considering compliance, treatment strategies, measurement, and effort.

Moving into the future, many companies are bringing their data into one data store that can then be used to manage all customer interaction efforts, including collections. From a collections standpoint, the advantages include: the additional data to be used in segmentation and treatment strategies, increased efficiencies of collecting multiple accounts in one effort and, most importantly, increased customer satisfaction by communicating with the customer in a more efficient way. For example, if a high wealth client having over one million dollars invested in a retail bank has a credit card with a fifty dollar delinquent payment; would they want to call this customer? Most likely, not. In fact, they may want to send a reminder e-mail, from their personal representative, instead of the traditional form letter. While this is a drastic example, it is one that most companies will have to face in the future as a consequence of the increased convergence and blurring of lines between financial companies and non-financial companies.

Putting It All Together

The following is an example of how the financial advisor model of collections will work in the near future.

Step 1: Pre-Processing

Each night the collections files will be refreshed and put through the pre-processing phase. Additional data will be appended to the collection records for use in segmentation, scoring and treatment assignment. Examples of this additional data include: credit report data, profitability calculations, and additional product or account information.

Step 2: Scoring & Treatment Strategy

Once the file has been prepared it will then be evaluated by decision engine technology to score, segment, and recommend the appropriate treatment and channel to address each customer. In the past many collection operations have used days delinquent and balance as segmentation variables but in the future this should be expanded to include more variables such as channel preference, multiple account information, behavioral and risk scores, and balance at risk.

Segment	Reminder Email	Statement Message	Power Dial	Delinquency Letter	Outbound VRU Call	Self Cure / No Action	Block Account
Current High Risk	Yes	Yes	No	No	Yes	No	No
30 Day Low Risk	Yes	Yes	No	No	Yes	No	No
30 Day High Risk	No	Yes	Yes	Yes	Yes	No	Yes
60 Day +	Yes	Yes	Yes	Yes	No	No	Yes

Example Segment and Treatment Matrix

Step 3: Operational Execution

Once the treatment and channel has been identified, the decision engine output record will be parsed and passed to the correct system for execution. Systems that will receive files to be worked can include the power dialer, account management system, email management system, online account center or internet, letter system, statement and billing system, and VRU calling system. These systems will then take the appropriate action on the account, and record the result which will then be recorded on the account file.

Step 4: Measurement and Strategy Refinement

Once the treatments have been executed automatically or through the operations centers, the results will be measured and all data gathered. The process is then repeated with the new results and data taken into account during the scoring and treatment step of the process.

In addition to the traditional collections measurements, new measurements will need to evaluated and new data captured for evaluation and improvement of the treatment strategies. Examples of new measurements will include: Promise to Pay by Channel, response rate, and cost per action.

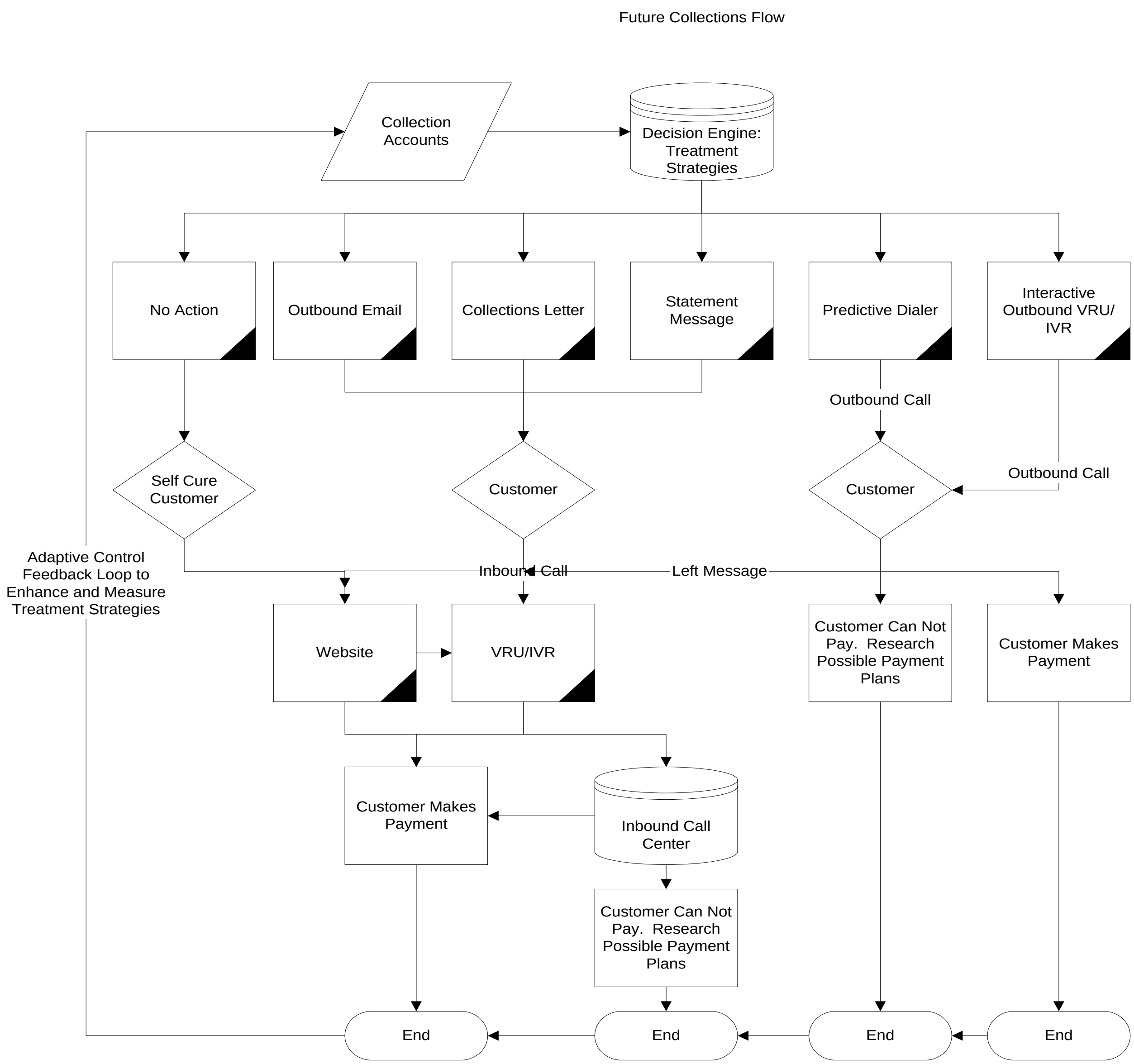
Conclusion

The future collections environment is becoming increasingly difficult, but by being innovative and embracing new ideas and technology progressive financial service companies will be able to adjust. Companies that are prepared to change the way they do business will survive, while those that suffer from institutional memory and live by the motto “This is how we have always done it”, will continue to struggle.

The following items are recommendations to organizations that are looking to make changes to their organization to adjust to the new environment.

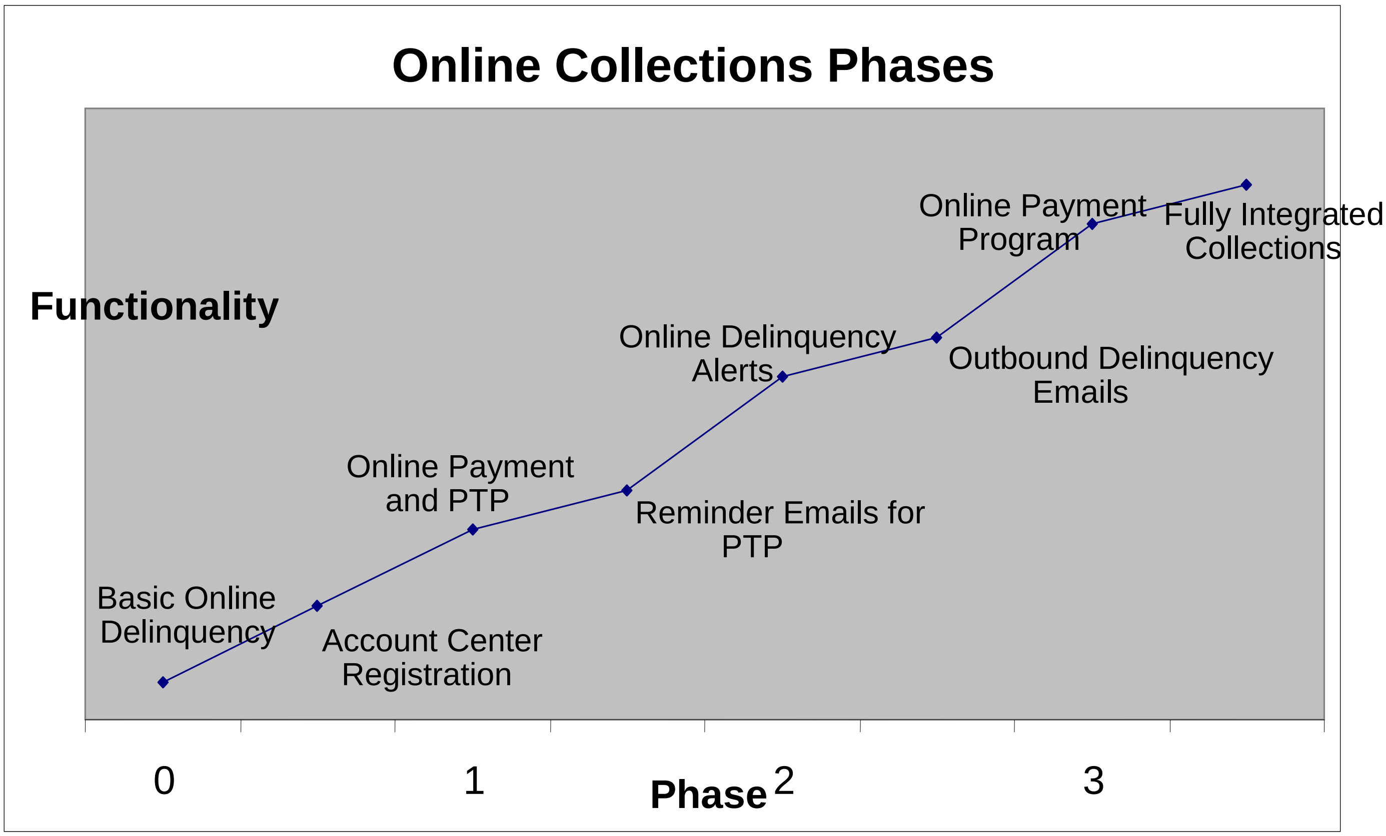
1. Embrace new technology such as the web, email, automated messages, and possibly even chat as valid forms of communication and collections. As the population matures these channels will become more common place and in many cases the preferred channel of your customers.
2. When introducing new technology use a phased approach. This will allow for reduced risk and provide ample time for customer adoption. A legal review should be completed on policies pertaining to the use of email and chat to ensure appropriate privacy and communication quality control.
3. Use each interaction with the customer as an attempt to develop the relationship and cross sell other channels. For example each statement and letter should have a reminder that customers can now pay their bills online. While on hold waiting for a collections representative the customer should be hearing about online education opportunities and special payment programs they can enroll into.
4. Capture as much data as possible for evaluation and use in the decision process. In order to refine these new strategies data will be needed to measure the results.
5. Employ Champion/Challenger methodology to the use of new technology.

Appendix A: Collections Process Flow of the Future



Appendix B: Phases of Online & Email Collection Efforts

The common approach is to start with basic online collections then move to integrate other data and systems. A majority of companies are currently in Phase 1 or just moving into Phase 2 of their online efforts



About Bridgeforce

Bridgeforce specializes in serving the needs of companies that either directly manage account receivables and financial transactions, or that aim to provide software and technology products for these market segments. Our services span across multiple industries, including: consumer lending, small business lending, auto lending, retail banking and brokerage, healthcare, insurance, telecommunications, utilities, and call centers.

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