The three pillars of successful debt collection

Keep it simple - the key to successful debt collection.

To recover from the economic upheaval of 2020, businesses need to regain a more solid financial footing by ensuring money owed is making its way back into the business quickly, smoothly, and cost-effectively.

Traditional debt collection practices do not provide as much insight and use manual processes that are prone to create risk and result in errors. This results in substandard collection yields and higher costs. In addition, the regulatory environment is complex and ever-changing; new rules from The Bureau of Consumer Financial Protection (CFPB) come into effect later this year, which focus on debt collection communications and the practices of debt collectors.
In 2020, the worldwide pandemic, the associated economic fallouts and payment deferment plans by banks and large financial institutions have also impacted recovery rates. This all comes at a time when more people are in debt and in need of extra support.

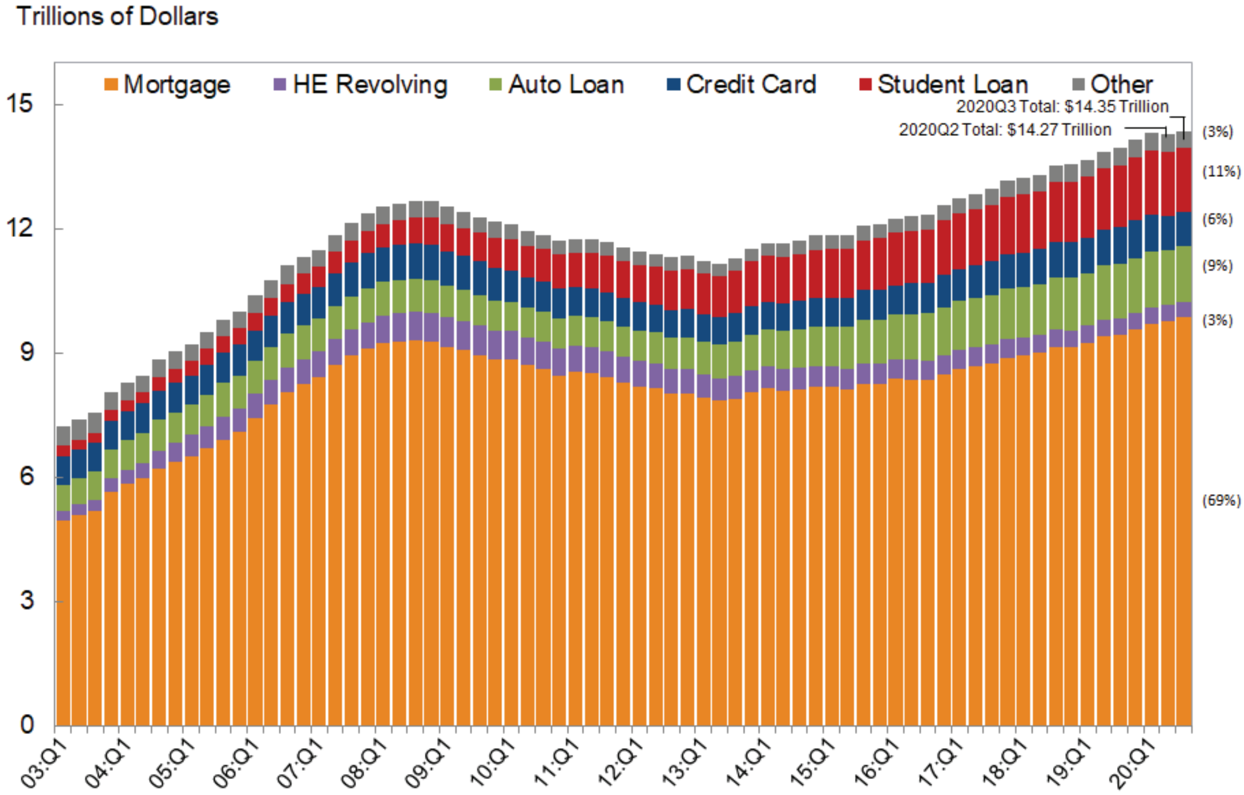
A digitally-driven approach to collections can ensure efficiency and consistency while lowering customer anxiety. It can improve your recovery rates by two to four times that of traditional collections and bring your cost to collect rates down to as little as 2% to 4% of unpaid balances.

In this paper, we explore how to build a digital debt collection strategy that reduces costs and increases successful collections. It reveals how a digital approach can enhance the customer experi-ence and ensure compliance at every step.

Consumer debt in the US

According to the Federal Reserve's Quarterly Report on Household Debt and Credit (November 2020) , National debt in the US increased by $87 billion (0.6 percent) in the third quarter of 2020. Some of the increased debt can be attributed to more people taking advantage of low-interest rates and taking on new mortgages. At the same time, non-housing balances, such as auto loan and credit card debt, increased by $15 billion.

Total debt balance and its composition



Source: New York Fed Consumer Credit Panel/Equifax

The challenge for lenders is how to recover debt while supporting customers during times of increased stress and uncertainty. Get it right and businesses like yours can recover more debt (even a small percentage improvement in successful collection can notably improve profitability), while forging deeper relationships with your customers. Get it wrong and you risk alienating your customers and suffering losses. The key to success is making your debt collection services easy for customers and communicating through their preferred channel. In short, you need to be digital and human.

Fortunately, the path to achieving this can be less complex than you may expect if you build your debt collection strategy upon three pillars.

The three pillars of successful debt collection

EMPATHY

A large number of consumers have experienced unemployment due to the pandemic. Unemployment in the US immediately rose from 4.4% in March 2020 to 14.7% in April 2020 . Whether temporary or permanent, being unemployed affects both consumers' financial situation and their emotional state—so EMPATHY from lenders is key.

INSIGHTS

As more consumers find the need for credit, with many increasing their amount of personal debt quite considerably, the effective use of data and INSIGHTS is crucial for lenders to reliably assess risk and remain compliant.

AGILITY

The pandemic showed just how quickly industries, sectors, and entire economies can be affected. As a lender, you need to have AGILITY to adapt so you can support customers as their situations and needs change.

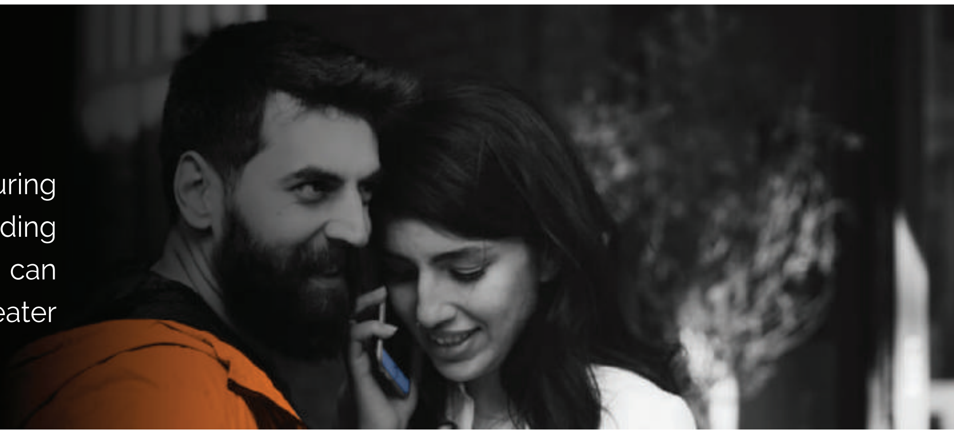
Debt collection does not have to be complicated. By building your strategy upon these three pillars you can keep it simple and be reassured that you have the best plan in place for your business and your customers.

How can Digital Debt Collection drive success?

How to build your digital debt collection strategy?

EMPATHY

Customer experience is the key to ensuring success with consumer and business lending collections. The quality of interaction can build relationships and lead to greater customer retention.



Take the emotional burden out of financial conversations

In times of stress, humans react in a number of different ways. It is only by understanding their triggers and likely reactions that businesses can respond reassuringly and effectively. A digital approach allows you to reach your customers and engage them at the right time through the best possible channel, improving long-term engagement.

Using voice calls to contact customers can be intrusive and drive resentment. Digital communications offer less intrusive contact and more empathetic interactions.

By using digital channels, you can empower your customers: they are always just a click away from proactively making a flexible payment plan, while you can be sure of giving them all the information they require at their fingertips.

Handle sensitive conversations

Financial conversations can be sensitive and emotionally charged. As a lender, your business needs to have the skills to tackle such sensitive conversations. Automation empowers your customers to take control through self-service options. This allows you to focus on providing your phone staff empathetic listening training and how to converse with vulnerable customers.

Your staff can reduce the number of manual process-led interactions with customers and focus on how they can empathize and support those who really need it.

INSIGHTS

As you would expect, empathy can be strengthened by insight into customer behavior. Using customer data effectively allows you to mitigate risk while improving the quality of communication.

Focusing on the customer experience helps you communicate with your customers at a time that is right for them through their preferred channel. Digital collection service analytics can quickly alert you to a change in a customer's situation, enabling you to be proactive and provide support. This is truly about putting your customer first and using insights to deliver smart collection strategies that drive recovery rates.

Data analytics is key to identifying trends, anomalies, and opportunities. Traditional debt collection strategies tend to rely on instinct rather than logical sequential data to develop insight-led solutions. By using data and insights to build customer profiles you can use predictive models based on persona segmentation to identify, understand and respond appropriately to a debt collection scenario. These models can employ existing and emerging data.

Proactively identify and supervise risky accounts

By analyzing existing data, you can build borrower profiles segmented by risk level. Incorporating this into a contact strategy can feed into how and when you contact your customers. Behavioral data resulting from this communication can then be used to further refine customer profiles.

Adjusting operations and communications based on insights

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Keep compliance top of mind

Using automation and the data and insights it provides, you can ensure that your collection services are always fully compliant with the Fair Debt Collection Practices Act, Telephone Consumer Protection Act, Regulation E, State Laws, privacy rules and other applicable regulations.

By digitizing your communication practices, your approach is controlled, eliminating the possibility of staff "going off script." This reduces the overall risk of legal, reputational, and financial losses that may arise out of non-compliance.

AGILITY

If the Pandemic has taught us anything it is we live in uncertain times, so it is difficult to predict the future. It is important for debt collection processes to remain in step with regulations and innovations while catering to evolving customer needs. The ability to pivot to meet new business and customer priorities is crucial.

Digital collection services can provide data that informs your decisions. It helps you fine-tune every aspect of your collection processes and strategy.

Of course, lenders have always needed to be flexible in how and when they contact their customers, whether it is a voice call, an email, a text, a letter or more likely, a mix of all of these. The predictive models that digital services enable you to develop can be modified as the market and customer dynamics change. This means you can accurately predict the best possible collection methods to reduce avoidance and improve your collections productivity.

Automating processes can help smaller teams reach significantly more people while providing real-time data on capacity, making you more resilient. Accordingly, you can scale technology and human resources operations depending on customer needs. Importantly, your customers can continue to use self-service options at times of extra demand, ensuring that there is no decrease in service levels at peak times.

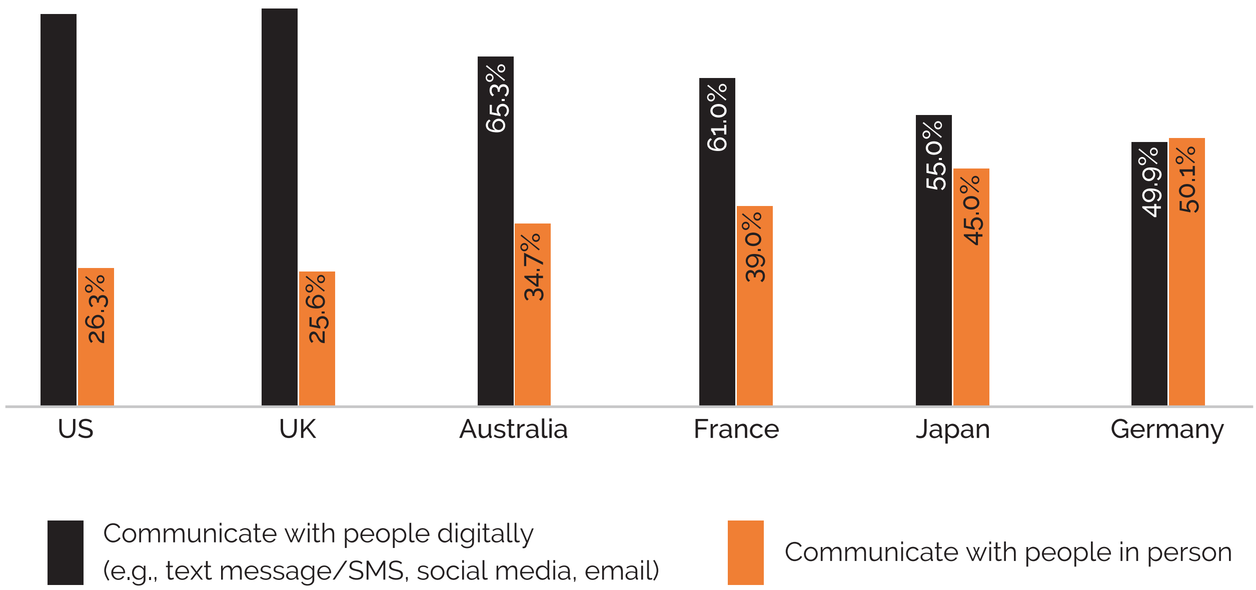
The pillars in action

Demographics matter

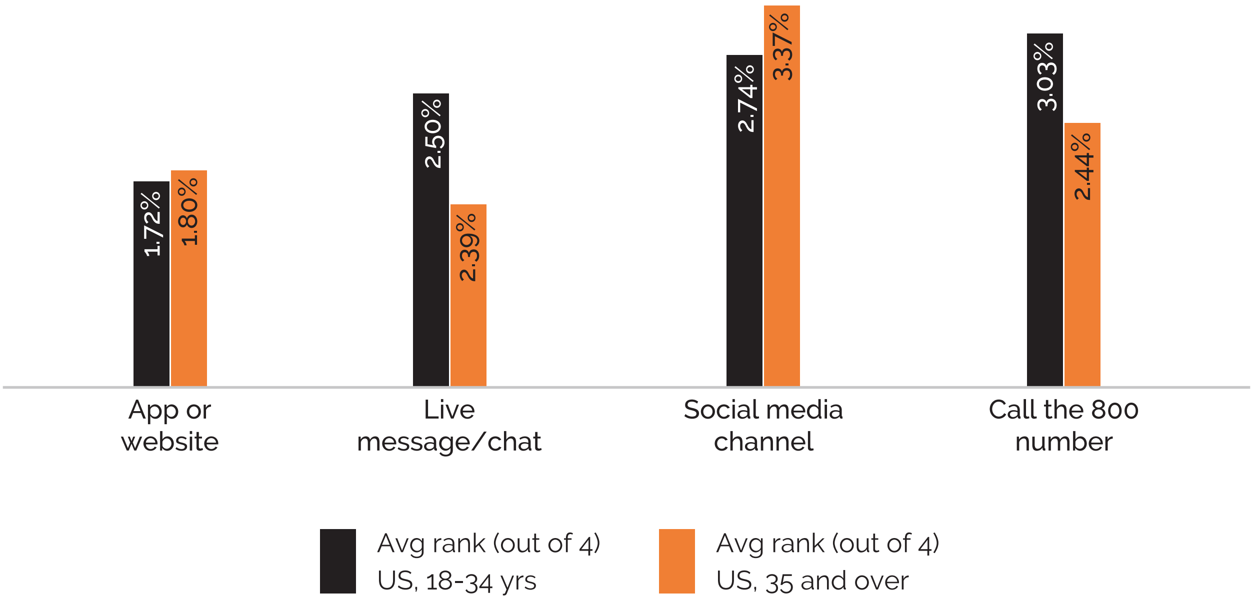
In the US 73.7% of 18 to 34-year-olds rely on digital rather than personal interaction. 3It is not surprising then that Millennials & Gen Z consumers prefer communicating with financial service providers through text messaging, E-mail, and through websites.

Younger consumers expect digital convenience and are completely comfortable with self-service digital channels. They will choose to use self-service options before calling brands[4].

On a typical day, which one do you do more?



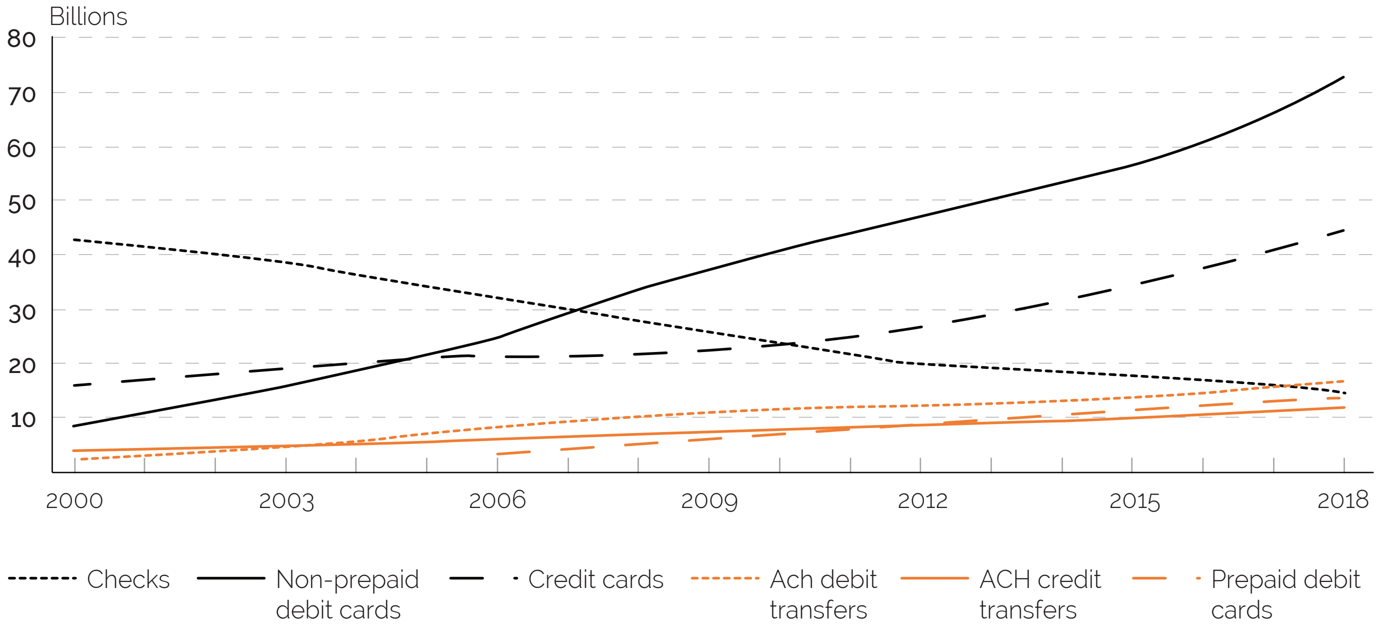
Please rank (first to last) how you typically try to get a question answered from a brand.



Younger Americans do not appreciate or respond to intrusive collections phone calls—a channel approach that is further complicated by stricter regulatory compliance.

However, the Baby Boomer generation (55 to 73 years old) is more varied in their use of channel communication. While research from the Pew Research Center shows that digital device adaption is rising for Baby Boomers, it lags well behind that of the Millennials . Consequently, while some will be more comfortable with self-serve digital channels, others may still appreciate the opportunity to have a conversation.

Federal Reserve data supports the consumer demand to pay using debit cards:
Regardless of generation, the online channel offers consumers the convenience of using a debit card to establish payment arrangements or to instantly resolve outstanding balances. Trends in 2018-19 by the Federal Reserve shows the increased use of debit cards, which would tend to dramatically increase during the pandemic.



True personalization

There is much to learn from demographic data, but a digital debt collection strategy enables you to go a step further by focusing on customers as individuals. You can use data from their previous contact touchpoints to build a personal profile and begin to predict their individual patterns of behavior.

With digital collection services, the one-size-fits-all solution is supplanted by a more personal and effective one. Insight, empathy, and agility come together to provide first-class service to customers and foster effective debt collections.

Adopt a digital approach to double collections performance

A well-known US credit card issuer set out to improve collections recovery performance while adopting a personalized and empathetic approach. Through integrated digital communications, backed up by human voice calls when needed, it improved its average net yield per customer by 101% and reduced its cost to collect by 79%.

The benefits of a digital debt collection strategy

By deploying a digital debt collection strategy that is built on the pillars of empathy, insights, and agility, you can make it as easy for your customers to make a payment when they are able to do so. Automating your end-to-end processes can empower your customers to take control of their finances in an empathetic, private, and non-intrusive manner. At the same time, you are there to help when they really need it, treating them with dignity and respect.

By understanding the analytics of how your customers prefer to be contacted, you can build a strategy that is more successful and personal. By leveraging Firstsource's digital platform, you can personalize your service while increasing your collection success rate, reducing costs.

1. High open and click rates of emails seeking loan payments.
2. Low drop-off rates of customers pulling out at the last moment.
3. Ability to handle large volumes of communications running into the millions.
4. Secure and robust systems to protect customer privacy and ensure compliance.
5. Flexible and customizable digital platform designed with client requirements in mind.

Firstsource's Digital Debt Collection platform is underpinned by our 'Digital First, Digital Now' approach that leverages diverse technologies. It is scalable, agile, and flexible and will help you meet the most stringent compliance standards while upholding the values of your business and putting your customers first. It will produce an automated and compliant practice which is immune to recessions, pandemics, and volatility in volumes.

Rest easy with Firstsource expertise

1,000+ collections professionals nationwide

25+ years of experience recovering debt across the US

Six of the top eight card issuer relationships in the US

Management of more than $4 billion of annual credit inventory

A data-driven approach to analyzing strategies and product performance

Proprietary technology.

Learn how Firstsource enabled a top US credit card provider to see 100% increase in potential collections in the top decile.

Click here

If you would like to discuss any aspect of this paper or how Firstsource can help you on digital collections click here

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Growing Legacies

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Helping customers stay ahead of the curve through transformational technologies and capabilities

Firstsource Solutions Limited, an RP-Sanjiv Goenka Group company, is a leading provider of transformational solutions and services spanning the customer lifecycle across Healthcare, Banking and Financial Services, Communications, Media and Technology and other industries.

Our 'Digital First, Digital Now' approach helps organizations reinvent operations and reimagine business models, enabling them to deliver moments that matter and build competitive advantage.

With an established presence in the US, the UK, India and the Philippines, we act as a trusted growth partner for over 100 leading global brands, including several Fortune 500 and FTSE 100 companies.

For more information, please visit www.firstsource.com