



The Loud Ping for Debt Collections

By Shaveen Garg and Arjun Mitra

In the same amount of time it takes you to finish reading this sentence, more than 6,000 people will have received a spam call. Imagine being a business owner who relies heavily on phone calls to collect overdue payments in this scenario. In the last two years, collection agencies have seen a drastic increase in their legitimate calls being blocked or mislabeled as spam.

And it's not just the call blocking. Call centers—such as operations that collect debts—are increasingly finding the deck stacked against them, as the pandemic had a two-pronged impact on collections, **both amplifying the debt problem and accelerating digital adoption** by consumers. The need for organizations to re-think their collections strategy is now higher than ever.

The 3C Chain: COVID, Consumer Debt, and Collections

In the U.S., unemployment levels peaked at 14.7% last year—the highest level since the Great Depression in the 1930s—making the drain on businesses' purse strings very real.

Our study, for which we interviewed 50+ executives looking at debt and collections across industries, reveals that 55% of companies witnessed a significant increase in the number of delinquent customers compared with pre-COVID levels.

Telecom was particularly hard hit, with more than 90% of executives stating that they witnessed a 2–4% increase in customer delinquencies. (See [Exhibit 1.](#))

Yet, amidst their rising debt, companies have also seen another interesting trend: a rise in inbound calls.

Customers actually started calling in to discuss options for bringing down their debts. Out of every four organizations that saw a significant increase in average balances, three also saw a significant increase in inbound calls. This proves that most customers are keen to learn about the payment options available to them, while offering repayment options has become even more crucial to debt collectors maximizing debt resolution.

Employing only one standardized approach to reaching customers and collecting on debts simply doesn't work anymore.

In our experience, personalization and not having a one size that fits all is critical to customer engagement and fulfillment. On average, we see 92% of our digital customers opting to self-serve from these tailor-made solutions.

— *Largest Global Credit Card Issuer*

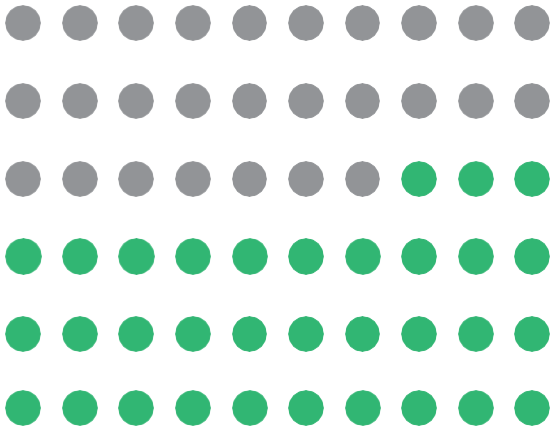
There is a burning need for a platform to optimize debt-collection strategies across industries such as banking, fintech, telecom, and utilities. About half of the executives we surveyed believe that delinquencies will only rise further. Expectations are even worse within the telecom industry specifically, where three out of every four believe that delinquency rates are only going to increase.

So what are the biggest issues around recovering debt that are keeping CXOs up at night?

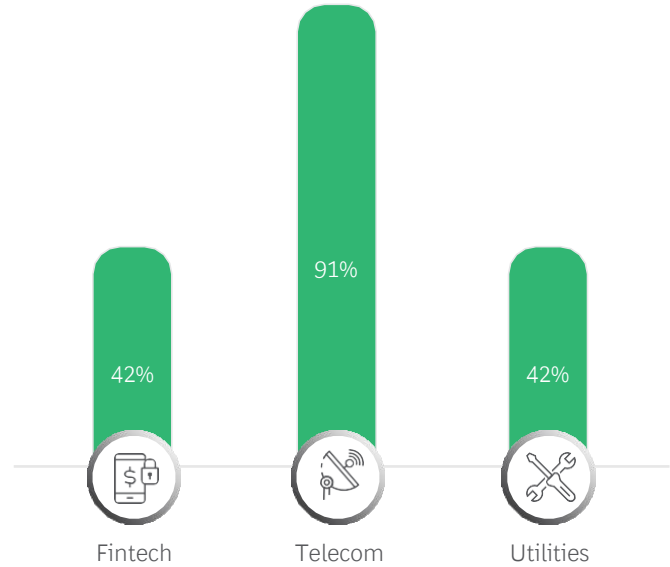
Exhibit 1 - Effect of COVID on Consumer Debt

55%

of organizations witnessed a significant increase in the number of delinquent customers over pre-COVID levels across industries.



Organizations that saw a significant increase in the number of delinquent accounts



Source: BCG research conducted with 50+ executives in banking, fintech, utilities, and telecom, 2021.

Our study reveals that the top three challenges faced by organizations are:

1. High cost to collect

For every five organizations, two have stated high collection costs as their top-most challenge. The significant increase in robocalls and spam have reduced creditors' ability to contact debtors to resolve delinquencies and are driving up the cost of collecting debt.

2. Complying with regulations

Collection methods need to constantly keep up with an ever-evolving regulatory landscape in order for debt collectors to stay compliant.

3. Poor customer satisfaction

Lack of empathy and/or flexibility in resolving debt leads to dissatisfaction among customers. In the case of third-party collections, customers are even more wary of aggressive collection tactics.

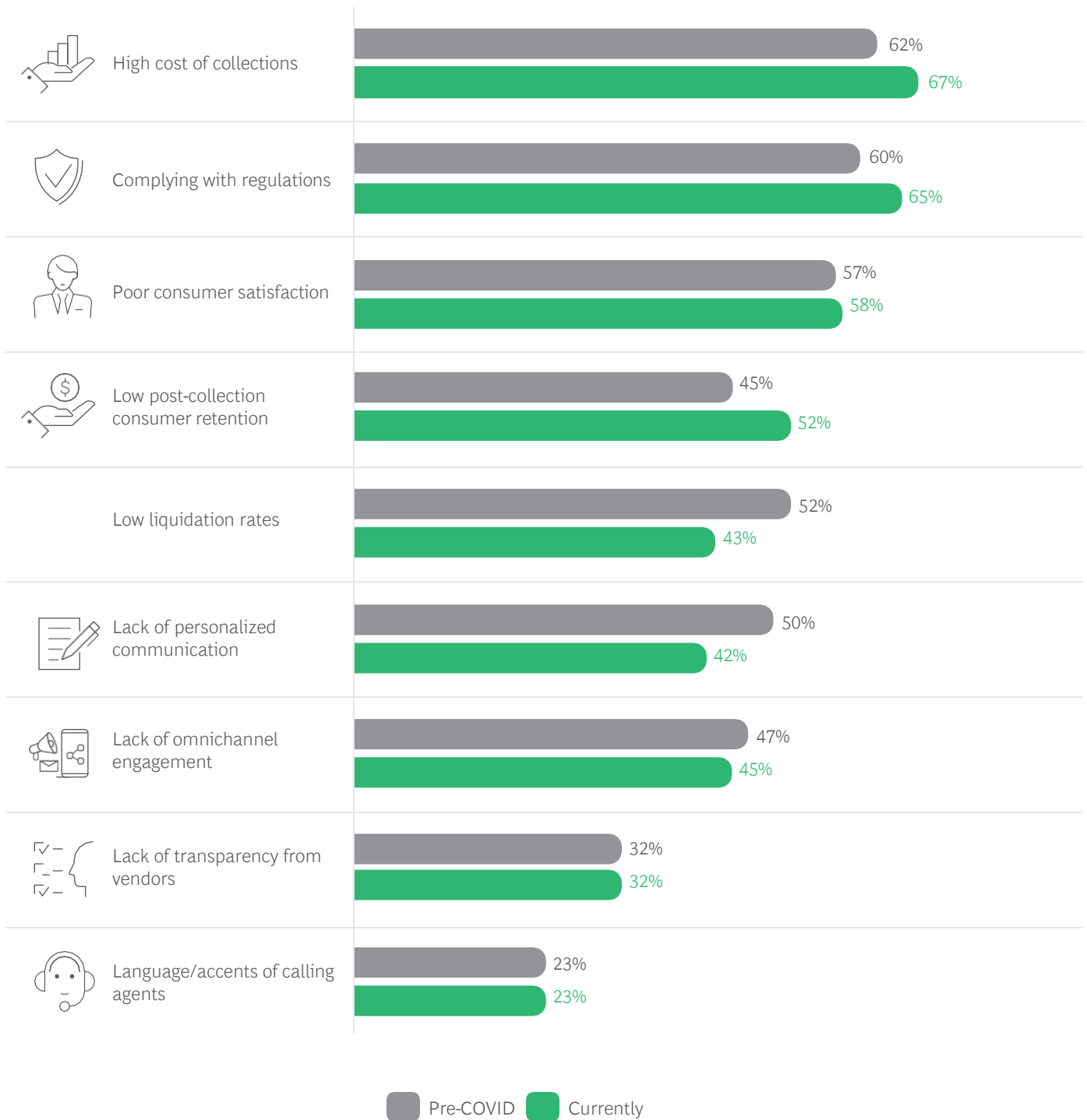
Furthermore, low post-collection retention has become a larger challenge since COVID—specifically spiking for banking and telecom industries. (See Exhibit 2.)

Together, these challenges translate to one big question on the minds of executives: *In today's climate, what is the right response their organizations should take in order to realize effective collections?*

Our study reveals eight areas where executives feel they can improve their collections strategies and execution. The most important area for improvement cited was *real-time performance reporting*. Making good business decisions begins with using accurate data, so it's important to have current reports, backed by historical data, that are available at a moment's notice to support the decision-making process and tailor next steps to get the best contact and recovery rates.

Within banking, we found an 83% consensus that integration of vendor offerings with existing systems tops the wish list,

Exhibit 2 - Top Challenges to Collections Faced by Companies



Source: BCG research conducted with 50+ executives in banking, fintech, utilities, and telecom, 2021.

while personalized communication and self-serve payment platforms are extremely important for 75% of respondents in utilities. (See Exhibit 3.)

Many organizations are now looking to shift toward a more proactive approach in order to prevent delinquencies, as 8 out of every 10 leaders in banking and BNPL (Buy Now, Pay Later) fintech say it’s important to focus on up-front delinquency prevention. In legacy industries such as utilities and telecom, a slightly lower portion (55–75%) believes in the same.

We have automated roll-rate management, which calculates the amount of time left until payment due dates and proactively sends reminder emails and SMS with helpful links for customers to pay minimum balances or current amounts due in order to prevent further delinquencies.

— Top-3 U.S. BNPL provider

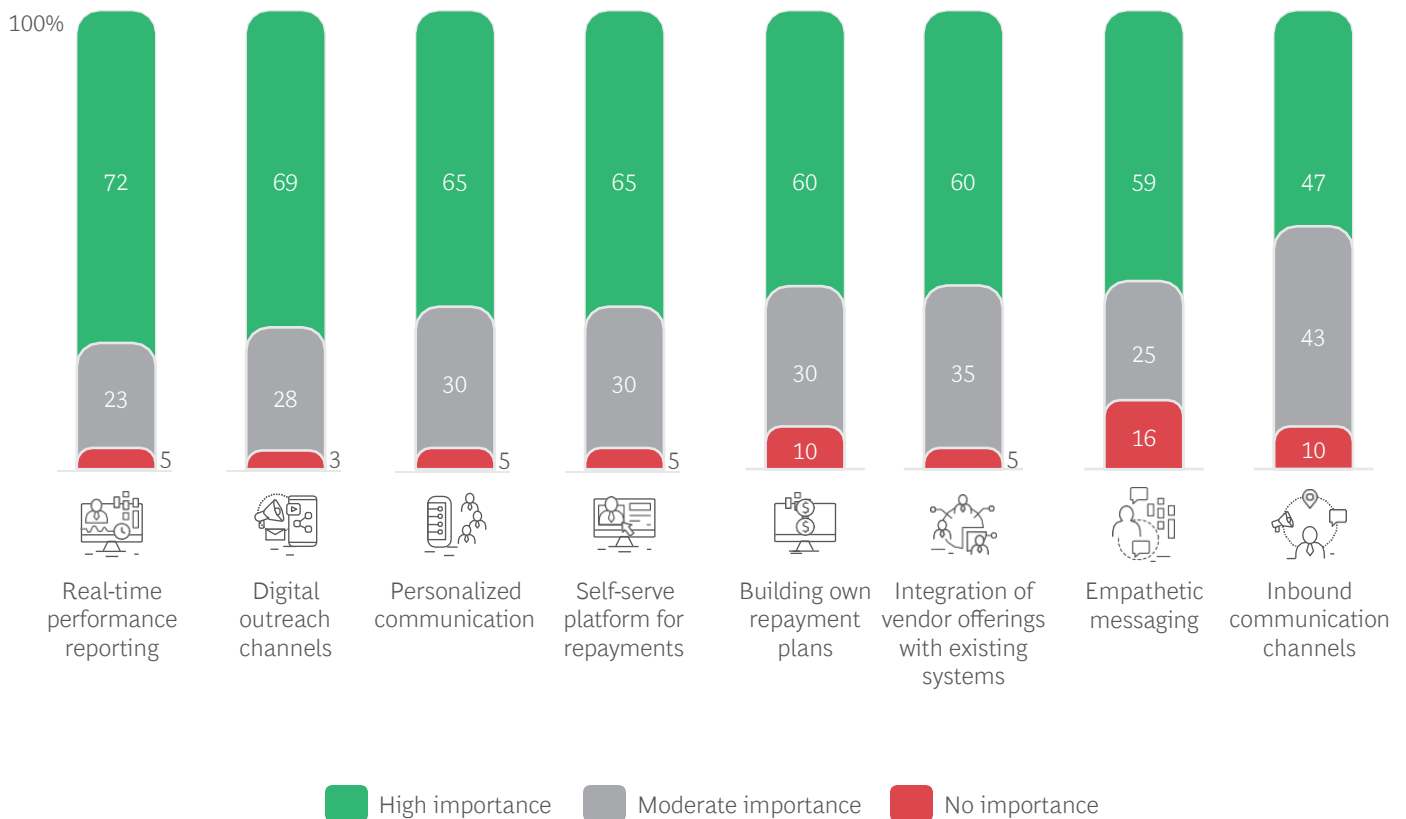
Bringing It All Together

As we reflect on the top challenges and unmet needs around this burning platform to re-think debt collections for the longer term, what emerges as an attractive proposition is a fit-for-purpose, white-labelled digital collections solution.

And we’re talking beyond outreach through SMS and email.

Organizations need a digital-forward solution—one that is rooted in analytics and on multi-touchpoint data aggregation—to determine the right outreach message, timing, and channel that would best suit each customer and provide them with self-serve customized options while allowing real-time reporting of metrics in order to learn and course correct.

Exhibit 3 - Areas for Improving Collections



Source: BCG research conducted with 50+ executives in banking, fintech, utilities, and telecom, 2021.

As mentioned, one of the top challenges faced by organizations is poor customer satisfaction. This is where white labelling becomes crucial, as it is known to amp up the effectiveness of contact, response, and ultimately the post-collection customer experience.

Digital as the primary method for collections is suitable for industries beyond just tech, as evidenced by 8 out of 10 companies we surveyed being in the process of or having already successfully transitioned to digital collections. This move is a relatively long, gradual journey to change existing methods and adopt newer ways of working—often requiring several new capabilities, which can be difficult to build for many companies. We have seen nearly 40% of companies completely outsourcing the development of white-labelled collections solutions, , and another 45% planning a hybrid approach of both outsourcing and building in-house.

Outsourcing your digital collections gives you rapid deployment, insights, flexibility, and access to the latest and most creative strategies in the marketplace—and does not tie up critical resources in creditor organizations.

— Top-5 U.S. Credit Card Issuer

Questions to End (or Start) This Conversation

The right response for individual organizations depends on a mix of **external factors** (industry trends, geography-specific regulations and customer behavior) and **internal factors** (existing collection methods, customer demographics, and business priorities). Some ending (or starting) questions for thought:

- Given the fastpace of change, real-time reporting is important to monitor what's working and what's not. Do you have a clear view of your collection success metrics and how they move over time?
- Traditional methods of collecting debt may pose a serious threat if not proactively thought through and managed. Digital- forward solutions leverage aggregated data for both adapting to effective strategies and providing customized user solutions. Have you carefully considered all the implications of continuing with legacy collection methods?
- Taking a wait-and-see approach for most cases is a mistake, but especially if that window has closed. Are you actively adjusting to shifting customer expectations, or are you hoping you'll catch up at a later stage?

After all is said and done, the message is apparent: It is imperative to digitize collections. Be it to reduce costs, stay compliant, or enhance the customer experience, applying a digital-forward lens puts you in the driver seat for building a collections system that works.

About the Authors

Shaveen Garg is a Managing Director and Partner in the New Delhi office of Boston Consulting Group and a core member of BCG's Technology, Media and Telecom practice. You may contact him by email at Garg.Shaveen@bcg.com

Arjun Mitra is President of Global Collections at Firstsource Solutions. You may contact him by email at Arjun.Mitra@na.firstsource.com

About BCG

Boston Consulting Group partners with leaders in business and society to tackle their most important challenges and capture their greatest opportunities. BCG was the pioneer in business strategy when it was founded in 1963. Today, we work closely with clients to embrace a transformational approach aimed at benefiting all stakeholders—empowering organizations to grow, build sustainable competitive advantage, and drive positive societal impact.

Our diverse, global teams bring deep industry and functional expertise and a range of perspectives that question the status quo and spark change. BCG delivers solutions through leading-edge management consulting, technology and design, and corporate and digital ventures. We work in a uniquely collaborative model across the firm and throughout all levels of the client organization, fueled by the goal of helping our clients thrive and enabling them to make the world a better place

© Boston Consulting Group 2022. All rights reserved. 06/22

For information or permission to reprint, please contact BCG at permissions@bcg.com. To find the latest BCG content and register to receive e-alerts on this topic or others, please visit bcg.com. Follow Boston Consulting Group on Facebook and Twitter.