intelligent environments

Digital Financial Solutions

2016

The End Of Collections

How collections has become part of customer service - and what happens to it from here

An Intelligent Environments White Paper

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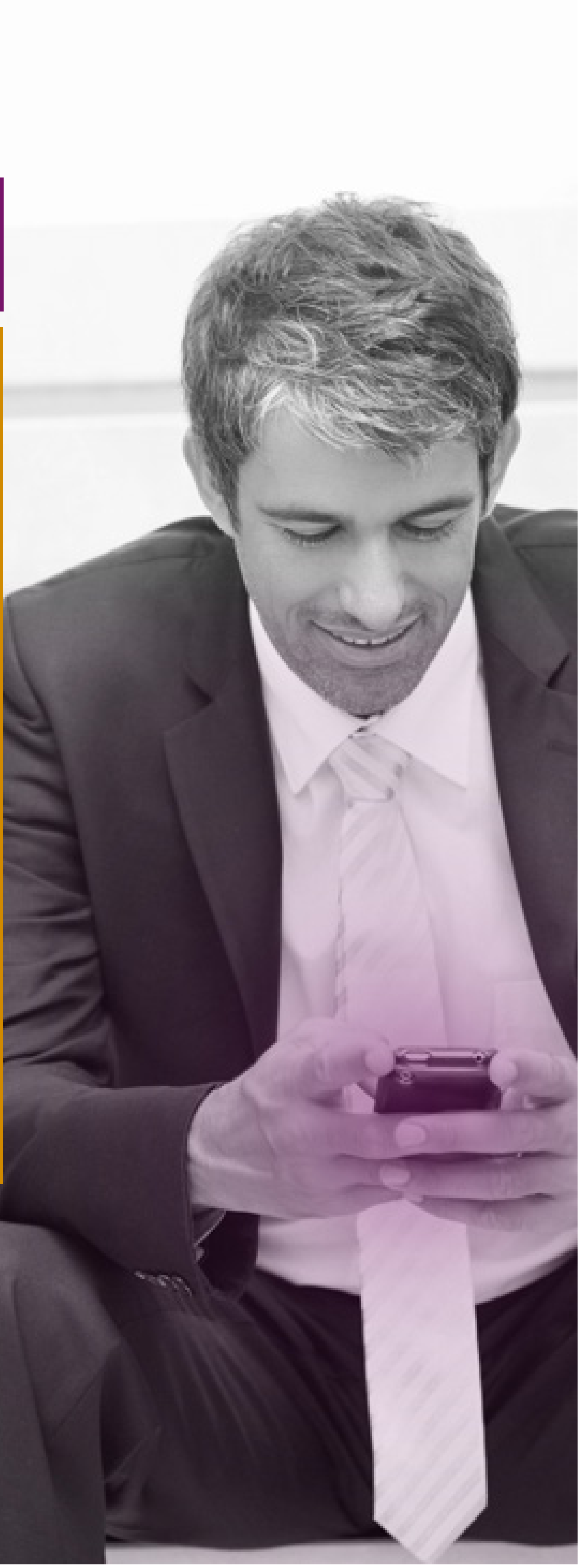
The role played by collections in consumer credit has changed dramatically in recent years, to the point where it is barely recognisable compared with even five years ago.

Historically, the collections function existed to recover as much value as possible from accounts in arrears or default. This was achieved, either in-house or via contracting to a third party, by use of high-volume direct mail and call centre activity. By and large, it was seen as separate from the servicing of paying accounts.

Now, however, the way credit providers look at the very nature of collections has changed: it has become an extension of the customer service process, and this has prompted a commensurate shift in the way it is carried out.

This analysis will explain how - and why - collections has become a part of customer service, examine the challenges and opportunities this raises for businesses engaged in credit management, and look at how debt collection solutions are adapting to the task



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The Challenge

Nobody is a debtor any more

Perhaps the simplest, but most emblematic, change in the collections environment has been the disappearance of the word “debtor” in favour of “customer”.

These days, even for a debt collection agency (DCA) servicing a portfolio of long-defaulted accounts, agents will work within a culture of assisting customers, rather than recovering money from debtors. To understand why this is the case - and why it is more than just a case of using more pleasant language - one must look to wider changes in consumer credit.

Culture shock

Everyone in financial services is well aware of the effort that has been made among consumer credit providers over the last two years to adapt to the requirements of the Financial Conduct Authority (FCA).

One set of requirements that has loomed large in discussion are the TCF (Treating Customers Fairly) principles set out by FCA predecessor the FSA in 2006, and which begin with the requirement that consumers be “confident that they are dealing with firms where the fair treatment of customers is central to the corporate culture”.

During the banking crisis of 2008 and its aftermath, public trust of financial institutions took an enormous hit. Politically, this created a mandate for a regulator that would enforce better conduct - hence, even before it was up and running, the FCA had clear instructions to constrain short-term high-cost lending, which had become a focal point for public mistrust.

A shift in responsibility

Yet the FCA’s “principles-based” approach to regulation has been more transformative to the market as a whole than any rules it imposed on the payday lending community.

With a move away from “tick-box” regulation, wherein firms could be confident in having met regulatory requirements simply by enacting discrete changes at the behest of a centralised compliance team, firms are now responsible for demonstrating they embody the principles of regulation in every element of their work.

Indeed, especially now the hurdle of FCA authorisation is passed for many firms, it is more often than not the demands of businesses’ own compliance resources, rather than the explicit or anticipated requirements of the FCA, that are driving forward conduct standards.

“Compliance” as a business function has become integrated into businesses’ every function, with responsibility borne by staff at all levels of seniority, rather than centralised in one team.

In collections activity, creditors often find their “second line” compliance teams have far more stringent expectations of their conduct than anything set out in the requirements of the regulator - although conversely, this is precisely the cultural approach which the FCA’s principles-based approach sought to foster.

The situation is particularly acute for DCAs, debt purchasers, solicitors and other credit management businesses working with creditor organisations. Not only do they have their own conduct standards to satisfy but, increasingly, they must work to the letter of a creditor’s ‘second line’ requirements too.

The end of collections?

The bottom line of all of this - from a collections point of view, is that once a customer is signed up to a credit product, there should be no change to the way they are treated, no matter whether they happen to fall on hard times financially.

If a company has made the decision to extend credit to an individual in the first place, they are responsible for providing consistent customer service to them right through to the end of the product lifecycle. Should the creditor later sell that customer's account, or engage a specialist servicer, they must have utter confidence that their own customer service principles will be upheld.

Taking this journey to its logical conclusion, one might even go so far as to say there is no such thing as "collections" any more - only customer service that takes place after the event of the customer experiencing financial difficulty.

Many companies have already embraced this way of thinking, renaming and restructuring their collections and recoveries functions, or even subsuming them entirely into customer services.

Third party collections businesses are also responding to this change. Many which previously existed as specialists in collecting from customers in default are now looking to extend their work into earlier parts of the product lifecycle, acting as outsourcing partners with a heritage in NPL management, rather than traditional DCAs.

The long-standing model of third parties being paid by commission based on amounts recovered has long been in decline, with new models tending towards payment based on a flat fee per account served, or with remuneration linked to the same customer outcome goals as held by originators.

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The Solution

Silver linings

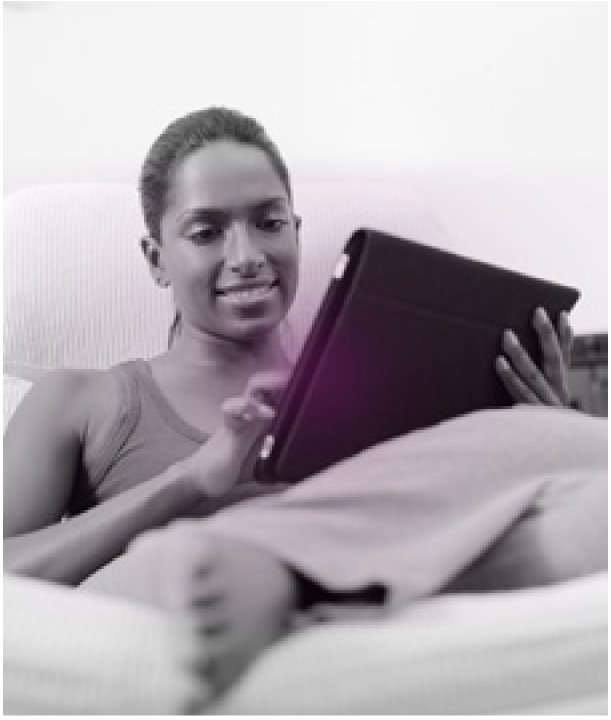
While the move from collections to customer service has no doubt brought its share of cost and market disruption to consumer credit, it has also brought a broad suite advantages, both ethically and commercially:

- For a start, collections activity based on a positive customer rapport, with no adversarial element, ensure more dependable revenues over a longer period than a strategy based on trying to recover the greatest sum possible following an arrears or default trigger.

- Equally, service-based collections activity allows customers in financial difficulty to begin a credit repair journey. Ultimately, as well as recovering outstandings for the creditor, this should lead to the recuperation of the customer's financial health, and a strengthening of their credit position for future borrowing.

- For companies such as vehcile finance providers, utility companies, telecoms providers, or financial services brands attached to supermarkets or other consumer brands, there is a desire to retain a customer with the wider brand, even if they enter default on a loan. For companies such as these, good customer service during the collections process ensures that difficulties with a financial agreement need not preclude future business with the customer indeed, the support provided may make it more likely.

- Even for businesses that only offer financial products, by leaving customers with repaired credit and a sense of having been treated well during a time of difficulty, a good reputation is earned. At a time when financial services businesses are paying close attention to Net Promoter Scores and similar metrics, the importance of a positive reputation at grassroots level can't be overestimated.



Early birds

If customer service has grown to encompass collections, then it stands to reason that successful collections activity begins at the moment credit is extended.

Telephony and direct mail - the traditional channels for collections activity - certainly still have their place. But it is only by adopting a digital engagement strategy that allows for true two-way communication that businesses can ensure collections success that starts at day one.

Of course, many businesses might argue they have already built a digital collections strategy - for example through the use of one-way SMS or email reminders to prompt traditional phone contact - but these methods are largely a means to a familiar end.

Communication across all channels should be two-way, and customers should have a choice when it comes to how, and when, they communicate with their creditors.

Putting the customer in control

By offering digital financial solutions in which consumers can interact with their accounts (and choose how further communication should proceed if necessary), both creditors and third party servicers can create a starting point for collections conversations, in a way that gives the customer influence over how they are handled.

Indeed, by having the option to initiate the collections process from the same place as a customer manages their account, a creditor has the ability to detect and engage with financial difficulties at an earlier stage, and can seamlessly integrate collections with the customer service process.

An all-hours online presence circumvents the need to extend operating hours for contact centres, and allows customers to choose when to handle payment issues without any element of intrusion. It also avoids bottlenecks for inbound contact - typically early on weekdays - as customers can arrange payments at their own discretion. These self-service benefits have long ago been recognised by core customer service teams - now it is time for collections to do the same.

Furthermore, provision of a digital self-service environment not only gives the creditor a way to detect the early warning signs of financial difficulty and engage, but it gives the customer a confidential channel for making their own circumstances known before they become an issue.

Forewarned is forearmed

The adoption of digital financial solutions is also one of the best tools a business can apply to solving the issue of affordability checking, one of the most-discussed challenges in the collections community.

The need to complete elongated Income & Expenditure checks by telephone - particularly during the initial contact stage of collections activity - is one of the biggest customer service hurdles a company can face.

If customers have the ability to complete budgeting exercises online - and if affordability data is already present from self-serve financial management capability in earlier parts of the product lifecycle - the challenge presented at the outset of collections, and by the need to update affordability data over the course of an arrangement, is mitigated.

The vulnerability question

Finally, providing a complete digital customer journey may yet be instrumental in cracking perhaps the toughest issue faced by customer services, and by collections in particular the identification and proper treatment of vulnerable customers.

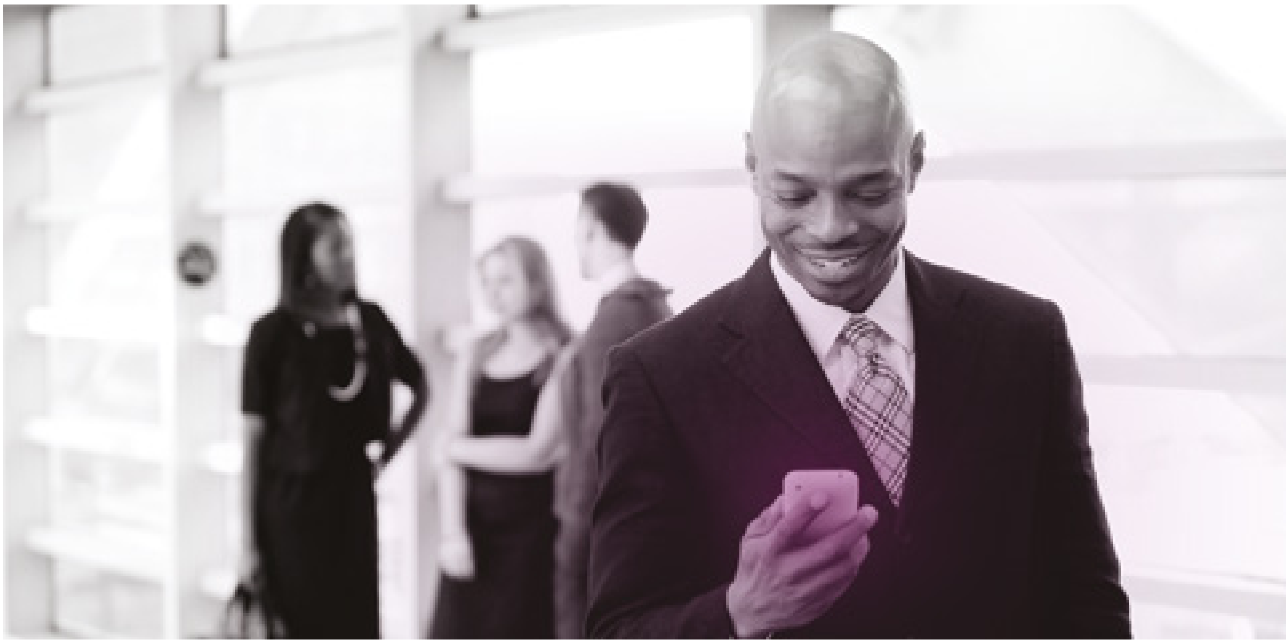
While financial difficulty can be easy for firms to spot and subsequently react to, customer vulnerability is a lot harder can detect - and may often be invisible until too late.

Chris Fitch, research fellow at Bristol University's Personal Finance Research Centre, and one of the UK's foremost experts on vulnerability, says that "without proactive identification, financial service organisations have to rely entirely on customer disclosure of a situation. This is inefficient, as not all customers in a vulnerable situation will disclose, and inequitable - under this approach, customers who display behavioural indicators of a vulnerable situation would not receive help, while customers who disclosed such a situation would."

Fitch is keen to stress the FCA makes no explicit exclusions in its vulnerability rules for activity that takes place through the digital channel, meaning that digital activity faces the same expectations as face-to-face or telephone applications.

"However", he adds. "For some customers in a vulnerable situation, contact via digital finance platforms may well be the preferred solution, suiting their individual needs and time available for interaction, reflection and action, rather than slotting into the demands of older, more established channels.

"Just as the introduction of Type Talk opened up an important new way for people with hearing impairments to engage with the financial services industry, engagement via digital financial platforms may do the same for people who are potentially vulnerable. We are working with a number of organisations on this issue, and look forward to sharing our work in late 2016."



Conclusion

In today's financial services environment, customers expect full digital engagement from the front end of a credit agreement, and the financial services industry is making huge advances in technology to provide them with this.

Customers want to do business with companies that understand their lifestyles - companies that allow them to interact on their own terms, and that do all they can to work with them when their life circumstances change.

The old, adversarial idea of collections - the idea it is something that replaces customer service when payments are missed - is fading into history. As forward-thinking businesses look to extend their standard of their customer service, from origination right through the rest of the product lifecycle, shouldn't they be looking to extend their technology with it**?**

About the Author

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Intelligent Environments

Jerry has 25 years experience working in the financial services industry. He spent 12 years at NatWest/RBS where he took on senior product and marketing roles across Retail and Corporate Banking before moving to the Cards division, where he ended up heading the e-commerce team.

Jerry joined Intelligent Environments in 2000 and was the Sales and Marketing Director for most of that period. Jerry has recently taken up the role Director of Customer and Partner Relationships driving our strategy of globalising the business through partnerships, looking after our customer and our marketing activity including The Digital Banking Club.

About Intelligent Environments

Intelligent Environments is an international provider of innovative financial services technology. Our mission is to enable our clients to deliver a simple, secure and effortless digital customer experience.

We do this through Interact®, our digital financial services platform, which enables secure customer acquisition, onboarding, engagement, transactions and servicing across any digital channel and device. Today these are predominantly focused on smartphones, PCs and tablets. However Interact® will support other devices, if and when they become mainstream.

We provide a more viable option to internally developed technology, enabling our clients with a fast route to market whilst providing the expertise to manage the complexity of multiple channels, devices and operating systems. Interact® is a continuously evolving digital customer engagement platform that ensures our clients keep pace with the fast moving digital landscape.

We are immensely proud of our achievements, in relation to our innovation, our thought leadership, our industrywide recognition, our demonstrable product differentiation, the diversity of our client base, and the calibre of our partners.

For many years we have been the digital heart of a diverse range of financial services providers including Generali Wealth Management, HRG, Ikano Retail Finance, Lloyds Banking Group, MotoNovo Finance, Think Money Group and Toyota Financial Services.

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