intelligent environments
Digital Financial Solutions

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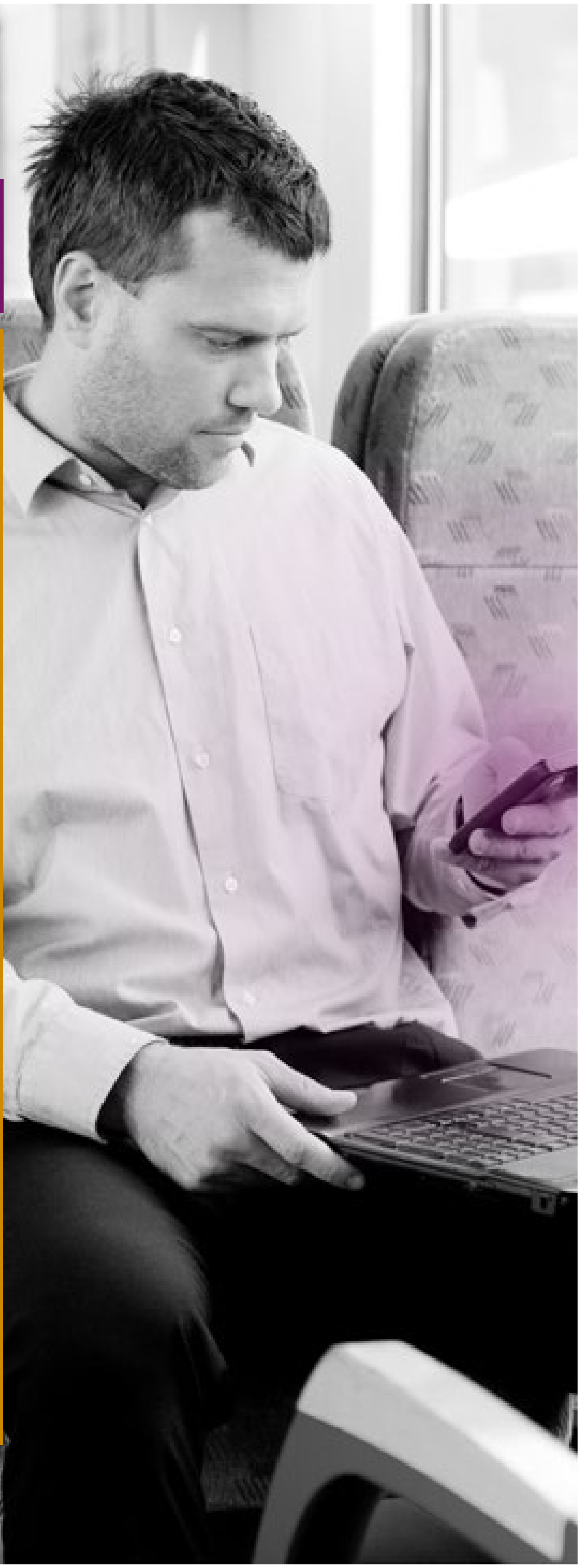
The Best of Both Worlds

How collections can embrace disruptive technology... without all the disruption

An Intelligent Environments White Paper

> "We know that, with all the will in the world to overhaul existing processes, total change cannot happen overnight."



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It's tempting for technology companies to prescribe revolution over evolution when it comes to the adoption of new technology. After all, we are in the business of innovation - it's our job to help businesses stay on the leading edge of a changing world.

Indeed, the concept of the 'digital revolution' is at the heart of what we do. We know the benefits companies can enjoy from being able to interact with their customers in a sophisticated online space, and so do our customers.

But at the same time, we understand that a profoundly transformative approach to technology - especially in such a crucial field as customer contact - can challenge the agility of even the most nimble financial services businesses.

We know that, with all the will in the world to overhaul existing processes, total change cannot happen overnight. Resource limitations, compliance concerns and cultural inertia - not to mention the perennial headache of legacy systems - all speak loudly in internal debates over technological change.

In addition, there are many arguments for the efficacy of traditional contact methods - and it may come as a surprise that we would be the last to dispute them. After all, this is not a zero-sum game, and the uptake of digital shouldn't necessitate abandoning tried and tested strategies altogether.

In this paper, we will offer a starting point for businesses looking to embark on the digital journey without demolishing existing models. We will examine where digital financial solutions will supplant traditional channels, where it can co-exist with them - and how it can increase their efficacy.

> "with so many businesses focused on customer acquisition, so-called "back end" functions have found themselves underprioritised when it comes to the drive to innovate."

The Challenge

The case for tradition

In collections, the benefits of digital channels are well understood, and there is widespread enthusiasm for a transition to digital-led strategies. However, this is matched by equally widespread resistance. Some of this is systemic: with so many businesses focused on customer acquisition, so-called “back end” functions have found themselves underprioritised when it comes to the drive to innovate, and have had to make do with traditional means as a consequence.

Resistance to change has also been boosted by the success of existing models. Old school ‘call & collect’ methods have worked for decades and, as such, the old maxim of “if it ain’t broke” is often invoked in debates about change. For many businesses, therefore, improvements in dialler technology and call monitoring have had to suffice when it comes to technological overhaul.

The case for change

But, increasingly, this approach is no longer sufficient. It is broke, so to speak, and must be fixed. The modern compliance environment has vastly increased the costs associated with running a call & collect operation: recruitment and training costs have risen, call times greatly increased, and calls are bringing in considerably reduced average balances as payment plans become longer and flatter.

With cost-benefit ratios so skewed from their previous stability, and margins growing slimmer, the old methods are looking inadequate in terms of commercial efficiency, not to mention in the pursuit of appropriate customer outcomes. Digital collections activity - defined broadly as the offering of a self-serve, omnichannel proposition for customers - is a clear solution here. Overheads can be drastically reduced, a much broader variety of customer needs can be met, and interaction can be monitored and logged precisely to provide full auditability for compliance purposes.

Synthesis

For so many businesses, especially those of scale, the challenges of full transition to these models are significant for the reasons outlined in the introduction. Collections heads in particular are entrenched in a constant struggle for buy-in to the digital revolution, and so have had to make do with incremental change.

In the real world, therefore, evolution is the only option. But we don't necessarily see that as a byword for compromise. With the right strategic approach, we think the retention of many elements of traditional collections activities affords a great foundation on which to build a digital infrastructure.

A synthesis of tradition and innovation is not only pragmatic for the collections industry, but also offers the potential for tremendous synergy. A digital financial solution based on tried and tested methods, augmented with the sophistication of the latest digital technology, can offer something far greater than the sum of its parts.

> "nobody likes to owe money, and certainly nobody likes to come under pressure to pay."

The solution

When is a customer not a customer?

To ascertain where the best uses of call & collect methods lie, it makes sense to pit them against digital channels in a champion-challenger model. And, since modern collections operations work according to customer-centric principles, it seems logical to model this from the customer's point of view, starting from their first interaction with a collector.

In actual fact, the first customer contact challenge a collector faces is convincing a debtor that they are a customer in the first place.

After all, while the word 'customer' is fully appropriate in the context of collections, it is always worth remembering that nobody chooses to be a collections customer - they choose to be a customer for a credit product, under which the resolution of outstanding debt forms part of the customer service process. Explaining this to a debtor, and so converting them into a customer, is fundamental to the collections process, and the best opportunity for achieving this is during first contact.

An inconvenient truth

However, nobody likes to owe money, and certainly nobody likes to come under pressure to pay. Even with the most exemplary conduct strategy, it's impossible to circumvent that truth. What can be done, however, is to mitigate it to the point where, instead of feeling under pressure to pay, a customer feels supported in overcoming a challenge.

In the context of this thinking, call & collect methodology leaves a lot to be desired as a means of first contact. A customer might be on a bus, at work, or with family when the call is made, and might well find the situation invasive or embarrassing. Furthermore, and especially considering the responsibility collectors have to carry out extensive affordability checks, the likelihood is that they will have neither the information they need to hand, nor the time necessary to run through it, when the call is made.

These obstacles are significant - after all, especially with modern collections strategies revolving around building long term rapport, first impressions are all-important. Research shows that recouping outstanding debt is almost entirely contingent on a strong initial contact - in the majority of cases, once a person acknowledges a debt to be paid, they will be converted into a paying customer.

Lightening the load

Not only does this 'stab in the dark' approach of first contact by telephone risk damaging the prospects for a successful long-term rapport with the customer, it also inflicts a more immediate commercial penalty. As mentioned previously, call centre running costs are increasing rapidly, and locking resources up in making unsuccessful first contact attempts - or chasing them up - is an inefficiency that is becoming harder to afford.

Looking at the situation purely in terms of the cost to recoup debts, digital clearly lightens the load by giving the customer agency over the nature of how their relationship with their creditor will begin. A prompt to self-serve will immediately engage many debtors who would otherwise have had to be reached by phone - and who might have reacted much more negatively to that channel.

Income and expenditure checks, which can last anything up to an hour, can be moved to an online space. This frees up yet more phone time, and gives customers a process designed to be completed at an appropriate time, when they have all the information required at hand. What's more, their input is then available to their creditor in real time.

Back on the phones

Of course it is possible that, after this initial stage is completed, many customers will choose to conduct the entirety of their collections journey in the digital space. By providing the facilities for them to set up payment plans, promises to pay and the like online, creditors are ensuring these relationships will progress at minimal cost and in line with the needs of the customer.

In many cases, however, the completion of early account activity online will provide a helpful starting point for creditors to begin meaningful, efficient phone work. Armed with the affordability data entered by the customer at their own convenience, as well as with information about how and when the customer would like to be contacted, the creditor can then engage in more tailored, less unwelcome calls that build rapport and deliver results. Equally, telephone activity might be triggered by a debtor’s refusal to engage with an initial prompt to action - but, again, this is call centre time put to good use, as it is focused on accounts where telephone contact is likely to make a difference, such as more complex or aged debt.

Freedom of choice

Of course, not all instances in which debtors do not respond to this initial digital prompt are indicative of people refusing to acknowledge or pay a debt. In many cases, these customers may be perfectly willing to engage with a creditor, but are less keen on digital interaction.

For many people - and not just those in older demographics - telephone will be always be the preferred contact channel. Indeed, the existence of such customers is in itself reason for creditors to build a contact strategy that blends both telephone and digital channels.

Even for those customers who do prefer a digital customer journey, there will be times when a change in circumstances or a complex problem means they want to contact their creditor by more traditional means to fully explain the situation. As such, when we talk about the digital journey, it is important to remember that it is not a one-way street. Creditors need to make sure people can break out of online spaces and speak directly to a human being, whether that be over the phone or via live chat functionality.

While the provision of these facilities makes sense on the basic principles of treating customers fairly, it is also important to remember that it is an issue on which regulators have their eyes. Recently, the FCA has made it clear to organisations that, when it comes to gaining permission and explicit content from consumers, they must have - to some extent - individualised strategies for different customer requirements.

While customisation of approaches to this extent would be impossible with a pure 'call & collect' strategy, a combined approach, with the right backup in terms of analytics, makes positive steps in that direction. So, while it may seem counterintuitive to hear this from a company that specialises in developing digital debt collections solutions, we freely acknowledge that a blanket digital strategy is just as insufficient, and just as ill-suited to customers' and regulators' requirements, as a pure call & collect strategy.

Hybrid strategies for the utilities sector

As an aside, it's worth pointing out that the methodology outlined above is not just applicable to creditors in the financial services sector. In fact, it may be of even greater importance to providers of household water and energy services, since their sectors are a little way behind the banking world when it comes to digital engagement overall (for more data and analysis on the difference between the sectors, see our report 'Bridging the gap: quantifying and solving the utilities collections challenge').

In addition to being at a different point in the digital adoption journey from lending businesses, utilities providers are also in a different position when it comes to priorities for customer service, due to the propensity for customers to switch providers if they are unhappy with the service. While this is only an issue for energy companies at present, changes to competition rules in the water market will soon make this a reality there too.

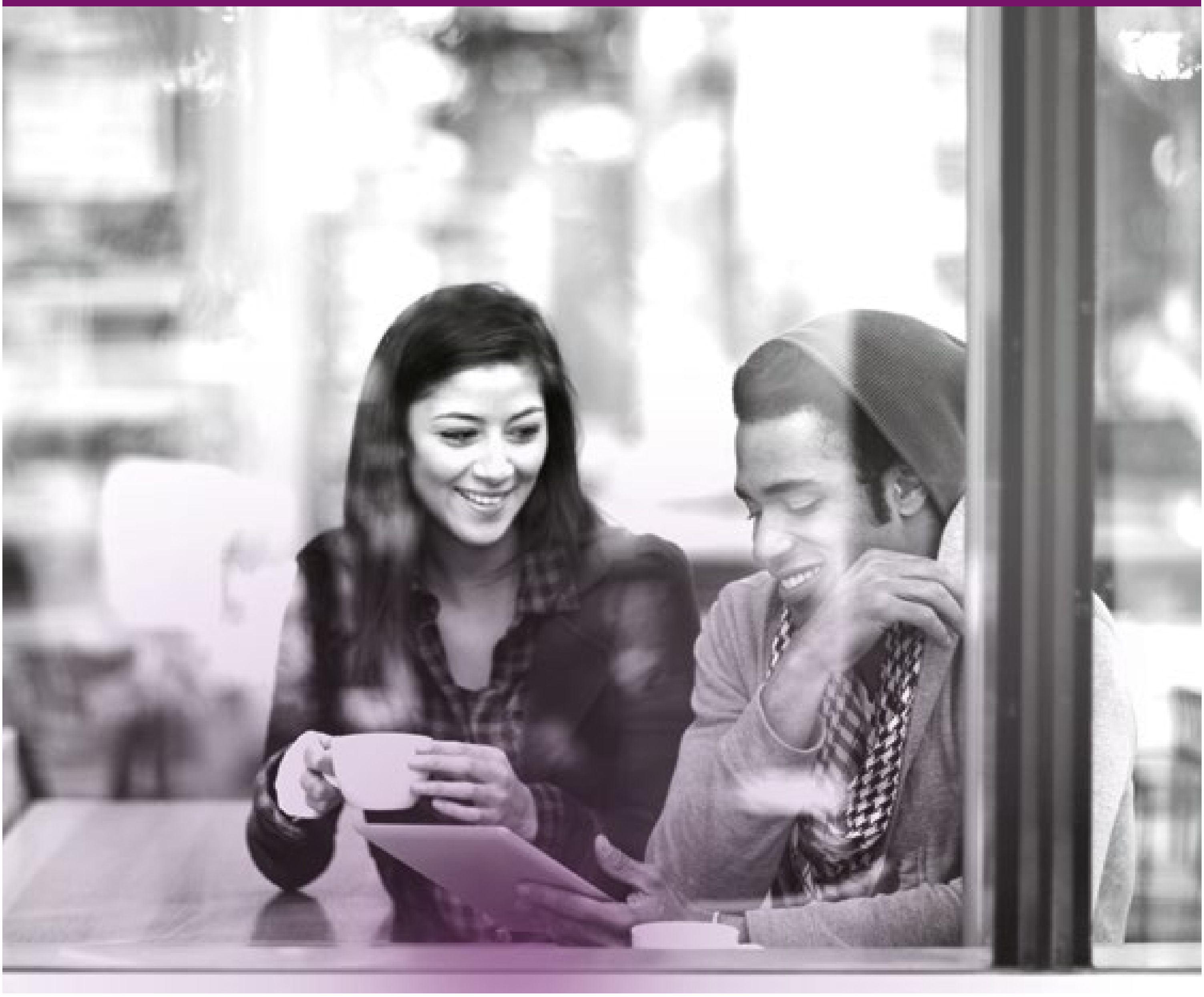
For an example of how a hybrid collections strategy can help with this challenge, consider the example of a hypothetical power company treating early delinquency customers with a pure call & collect strategy. Unhappy with being bombarded with calls over a relatively minor issue, its customers might well react by switching providers, negatively impacting both retention and Net Promoter Score. With the ability to address the issue via a non-intrusive digital prompt, this problem could easily be mitigated.

Conclusion

Digital collections strategies and telephony are by no means mutually exclusive. In fact, both in terms of conduct and commercial performance, it seems that the most successful organisations are those that are able to use each to complement the other.

Engaging with your customers online is by no means a replacement for contacting them by phone - but it does provide the information you need to deploy your human capital, which comes at an ever-increasing cost, where you need it most. Old-fashioned call & collect, backed up by the data and customer goodwill generated by smart use of online spaces, allows for calls that come at the right time, to the right people, and with callers armed with the information they need to make the most of contact opportunities.

While the digital revolution may be continuing to pick up pace, it seems it is by no means time to hang up on telephony yet.



About the Author

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Randolph McFarlane is Head of Partnerships at Intelligent Environments, where he leads a team focused on growing the company's partner ecosystem.

Intelligent Environments was established in 1985 and has been dedicated to financial services for over 17 years, giving their clients innovative and secure digital mobile and online solutions. Recognised thought leaders in customer experience and engagement, their single software platform Interact® is the class-leading system of engagement to any debt system of record (e.g. Experian Tallyman or FICO Debt Manager).

Randolph joined Intelligent Environments from Visa Europe, where he had pan–European responsibility for the establishment and delivery of their 'direct to market' business model for Commercial Cards. Prior to this he was Global Business Development Director for KDS, and was successful in securing strategic partnerships including AirPlus, Societé Generale, BNPP and MasterCard. He has also held a number of senior roles across the American Express Global Corporate Payment business, being an American Express 'Hall of Fame' entrant and President Club winner. With a 1st class Honours degree in Business Studies achieved from London Metropolitan University, Randolph can also count Spendvision, Rank Xerox, Compaq and Computacenter amongst his former employers.

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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