

Implementing a Customer Centric Collections Environment

A Decision Analytics briefing paper from Experian



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Introduction

Taking a holistic view of the customer enables lenders to deploy collection strategies that are closely matched to both the value of the customer and the overall credit risk they represent. The end result is more effective collections performed at lower cost combined with improved customer relationships. This ability to manage payment arrears and revenue collections at a customer level is known as 'customer centric collections'.

The situation

A customer-centric approach to collections can have a number of impacts, not least a heightened level of customer satisfaction and a subsequent reduction in the level of queries and resultant bad debts.

Best of breed software solutions can assist in this process by providing a comprehensive range of customer centric collection tools. What this means in practice is:

- Customer centric management of portfolio
- Customer centric view of exposure
- Minimisation of scope for customer reasons for non-payment

One of the methods being employed is that of a holistic view whereby the total customer exposure can be viewed and managed via a customer centric approach and not just at the level of individual overdue accounts.

In addition, a customer centric collections system can facilitate improved targeting and cross selling of complementary products and services such as credit cards, loans, insurance and so on, whilst simultaneously reducing the organisation's risk profile.

Long term benefits

There can be many benefits from employing a customer centric collections model, not least:

- A level of contact appropriate to the customer's value to the lender
- Improved customer satisfaction & loyalty
- Clear cost benefits (fewer client contacts)
- Improved collection rates
- Reduced company exposure & risk
- Early identification of accounts 'at risk' and the propensity to pay

Optimised use of resources

A best of breed collections solution enables customer centric management of accounts, providing an overall picture of the customer's indebtedness within the enterprise. Essentially this allows not only the overdue account to be visible but also the ability to look at the whole exposure of the customer across multiple products and channels.

In this way the system is introducing the concept of Customer Revenue Management – an extension of the traditional debt management solution.

The benefits of taking this approach can be seen to include:

- Timely, accurate targeting of debtors in a consistent and prioritised manner
- Single point of contact
- Increased collection rates and productivity combined with reduced roll rate and write-off levels contribute to an optimised return on investment
- Reduced communication costs (letters, phone calls etc)

Before commencing on a customer centric collections project, it would be prudent to analyse the current portfolio mix in terms of how many clients have only one product, 2 products, and 3 or more. From this analysis, it will be apparent to what extent the current client-base could benefit from employing customer level collections and so give an indication as to the potential scale of the return on investment.

Similarly, to maximise the benefits of implementing this approach, best use of internal performance data (such as first payment defaulters), supplementary credit bureaux data and customer scorecard data should be utilised if possible.

Challenges to successfully implementing a customer centric collections environment

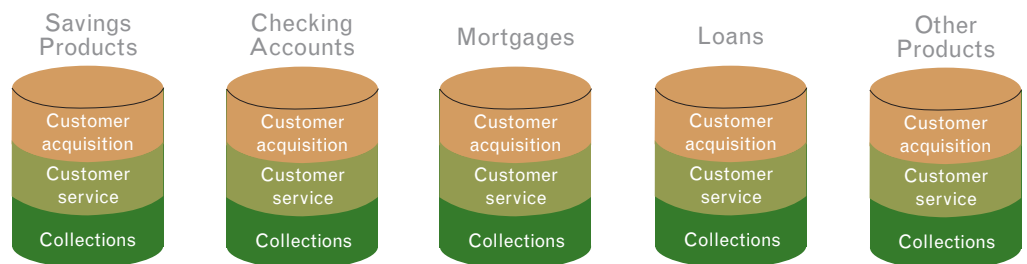
Organisational Challenges

Traditionally, collections call centres have been set-up to effectively manage individual product sets within the business's portfolio. As a result there are islands of expertise within the organisation to deal with each of the products in question. In effect a product centric collections strategy. As lending organisations have grown through mergers and acquisition, the number of different products being offered and different collections teams used to manage arrears has also increased.

There is a key issue that needs to be addressed when a business is organised departmentally in terms of products (silo based). When this is the case, there needs to be increased levels of communication between each of the departments to ensure that the customer contact levels are kept to a minimum when dealing with a client with more than one product. It should be made very clear as to the exact course of action within each department when a particular product or products enters the collection arena.

Therefore, to be able to effectively manage a customer in a holistic manner the call centre agents will need some re-training to ensure each collector has sufficient knowledge about all of the products the customer might hold.

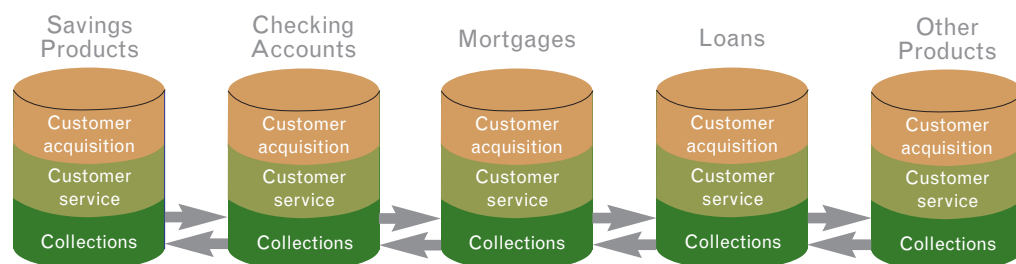
As an example, there may well be a call centre for checking account management but when a move is made to customer level collections they will need to have an appropriate level of knowledge about mortgages, loans, insurance and so on such that they can correctly evaluate the action to be taken and the advice to be given to the customer.



A traditional product centric model with little or no integration between the business silos

An alternative strategy could be to organise the collections call centre such that there are one or more teams dedicated to multi-product debtors, the size of the teams being relative to the portfolio mix of single versus multi-product debtors.

An effective 'half way' approach can be to employ the 'customer view' method, whereby each department still manages the customer but in a product centric manner. However, when arrears first appear in product department A, a warning alert or referral to the other product departments could be initiated as a precursor to possible further arrears occurring in their department. The other departments being forewarned are therefore forearmed.



A customer view model model with integration between collections departments

Strategy Definition

In some ways the cascade of arrears can be compared to Maslow's' hierarchy of needs in terms of a pecking order of what is important. A typical case could be that a customer's checking account initially enters the collections system due to an overdraft limit that has been exceeded. Next on the agenda is the credit card balance increasing and ultimately breaching the shadow limit or credit limit. Following this could be loans being one or more cycles down and then ultimately the mortgage moves into arrears.

In all of the above scenarios, there needs to be a matrix of decisions (Strategies) as to the best approach to deal with the delinquent customer.

Examples of some alternative collections strategies that could be deployed are as follows:

- Once a product has entered the collections process, it could continue on the standard path for this particular arrears profile, irrespective of the number of products in arrears. The collector uses the customer level view as collateral when negotiating payment terms with the debtor.
- As above but accelerating the speed of the collections process each time an additional product moves into arrears or the risk level / category is increased.
- Each time an additional product enters collections, the customer is re-evaluated and re-routed to the most relevant course of actions based on factors such as customer level credit risk and behavioural scoring models.

Similarly when there are additional accounts held by a particular customer that are performing well, then the collections process could be decelerated to give more time for accounts to self-cure.

An added complexity that will occur is how to deal with each of the products when each of them is likely to be at different delinquency levels. For example:

Customer A has:

- Checking account has exceeded limit for 3 months
- Loan that is 2 months in arrears
- Mortgage that is one month in arrears

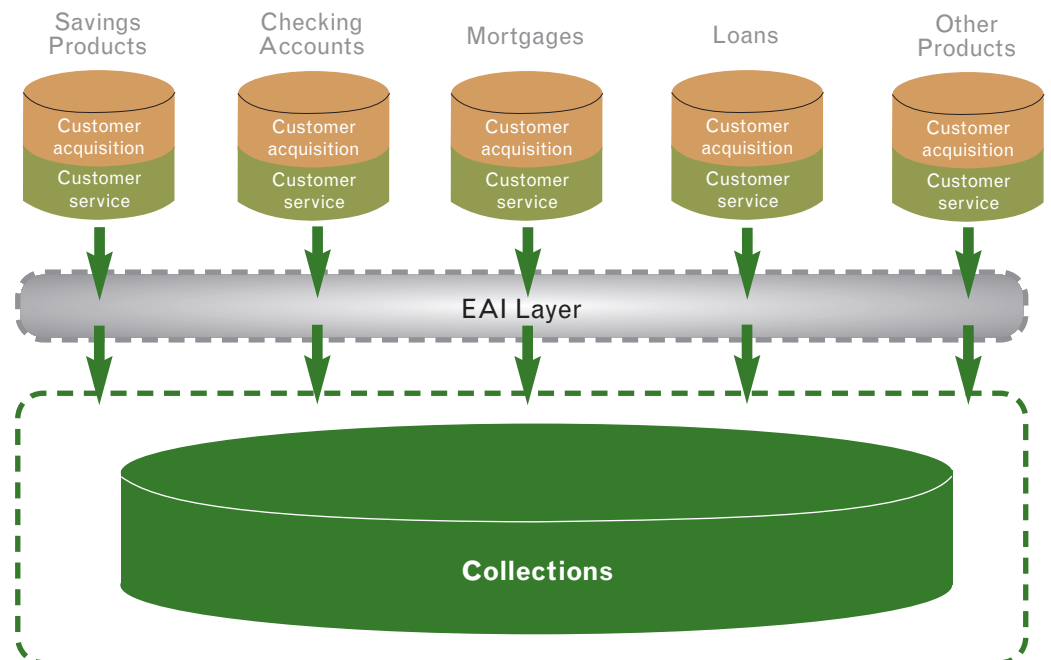
When the collector agrees with the debtor on measures to be taken to redress the situation, a view needs to be taken as to how monies paid to the organisation are apportioned to each of the products and what should be monitored and when.

In real terms, what the customer is hopefully trying to agree is along the lines of:

- Return mortgage to current by agreeing a payment arrangement over 6 months
- Return loan back to current by agreeing a payment arrangement over 4 months
- Bring the checking account to within the overdraft limit within a month

Quite quickly it becomes apparent that there can be a complex web of decisions that need to be made when dealing with a customer in this situation. Similarly, every other combination of overdue accounts, age, one or more products in arrears need to be considered so that the best action can be taken at the appropriate time.

Failure to meet the above agreements could entail a different action being taken on each of the products, thus returning to the product centric model.



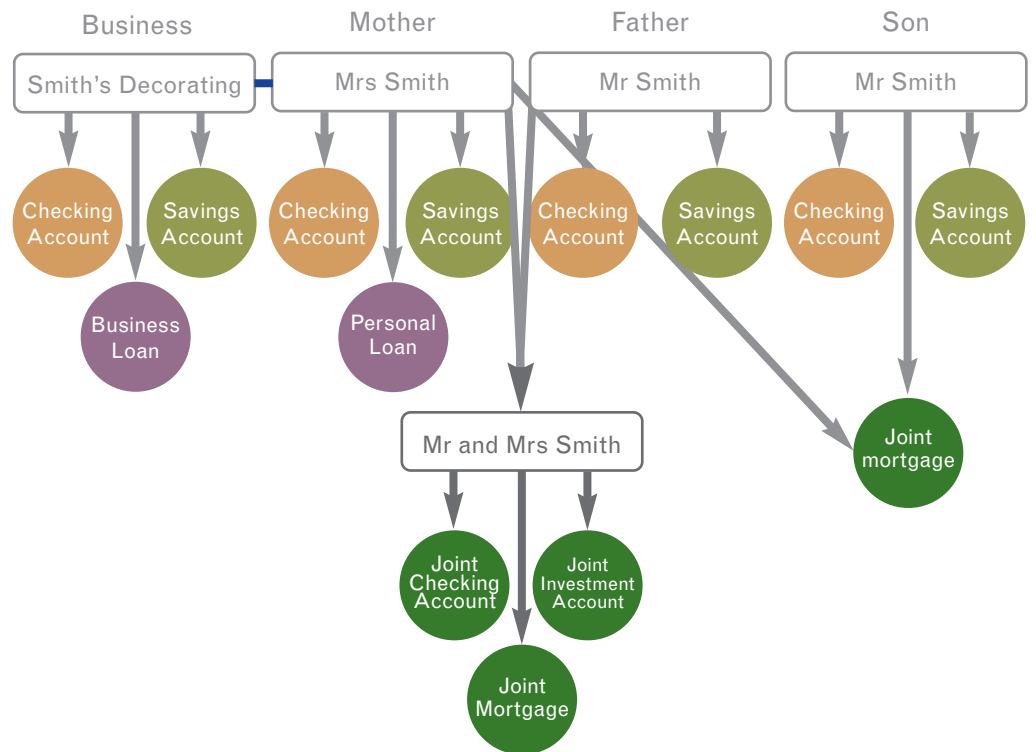
A customer centric model where all collections operations are handled by one team with access to all information across all of the products

Managing Customer Relationships

There is a further level of customer centric collections that can be deployed where local regulations allow. This is to link related parties so that an even more holistic view may be achieved and an appropriate collections strategy implemented.

For example, a view of a customer's individual products should also include any jointly-owned products he or she holds - such as a joint checking account with a partner, or a joint mortgage with another family member.

In addition, where appropriate, business products where the customer is the sole owner should also be taken into account for a truly customer centric view.



A customer centric product relationship model

Regulatory Issues

With particular regard to the point above, one item that should not be overlooked is the presence of any regulatory restrictions within the country of operation. For example the Data Protection Act in the UK is quite restrictive in terms of sharing information within an organisation where clients take multiple products.

Technical Challenges

Traditional collections systems contain information relating to delinquent products only and do not include currently performing products. As a result one of the key requirements when employing customer level collections is the ability to view and manage all products owned by the debtor in question.

Within the collections system, the ability to readily store and employ a data model that supports the hierarchy of a customer with one or more accounts with one or more products is essential. Similarly, the ability to 'associate' one account with another via 'soft' rules can be very advantageous when linking accounts and customers together where the hosts systems do not have a fixed link such as a common data model and / or customer number.

Access to data

The minimum requirement here is to be able to know how many other products the customer has and at what stage (such as age, risk, value etc) they are in the collections process.

Therefore, the movement of a single account into collections can trigger the request for information from multiple other systems to complement the existing data within the collections system.

Access to the above information would enable the customer centric 'view' to be achieved.

The next step would be to allow all products to be contained and managed within the collections environment. Therefore at the point an account moves into

collections then all related account details need to be visible in the collections environment from that point onwards.

An extension of this then allows the prospect of customer service (non-delinquent accounts) to be managed within the system as all accounts are present in the system.

Feedback One key requirement in this area is obviously the ability of the collections system to integrate with a variety of hosts and their associated technologies. A key requirement is the provision of feedback to the various host systems. Particularly important is the feedback to the scoring models, customer service system, the originating host systems and indeed front end systems such as the marketing database.

As a result of closing the feedback loop, future decisions can be evaluated, refined and targeted more accurately.

Identifying the client When integrating a number of potentially disparate systems, one key requirement is to be able to logically group accounts for a customer together. Often there is no categorical connection between the systems such as a common customer number. As a result the collections system needs to be able to build relationships to ensure that the accounts and the resultant overall exposure can be evaluated, presented and appropriate action thus taken.

Conclusion There are three key areas of the business that need to be addressed when deploying a customer centric collections strategy:

- Organisational – the move from a product silo approach to a customer-led approach
- Technological – the need to integrate systems and data flow so that the range of products held by customers can be seen in a holistic way
- Human Resources – the need to equip and re-train collections staff to understand the wider context in which the debtor is being managed.

While these are undoubtedly challenges, they are far from unsurmountable, and the rewards for moving to a customer centric approach are significant. More arrears can be collected more effectively at lower cost, and perhaps most importantly, more customers can be “cured” and re-opened for the sale of more products and services.

¹ http://en.wikipedia.org/wiki/maslow's_hierarchy_of_needs

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