

It's time to move forward with customer-centric default management

CGI study reveals companies are moving toward customer-centric default management to improve the customer experience and customer retention, and maximize effectiveness across the default lifecycle.

When was the last time one of your customers said, "Thanks for calling me twice today about my different accounts!" or, "Sure, contact me by snail mail or phone since I rarely text, e-mail or use the Web."

Competitive advantage today is all about delivering the ultimate customer experience. Yet, traditional, account-based default management strategies and channels are limiting what organizations can do. The customer-centric movement may have lost some momentum during the financial crisis, but a number of companies are now putting it back on the front burner. These companies recognize the business value of addressing the customer relationship holistically, and in ways that work best for the customer.

Meeting customer needs more precisely increases value for customers, which is proven to create value for the business. For example, a study of 125 U.S. commercial banks published in the *Journal of Marketing* found that companies implementing customer relationship management were able to improve their profit efficiency by 27.5 percent.¹ CGI, a global information technology and business process services firm, has worked on numerous customer value management initiatives, helping clients reduce attrition of targeted customers by more than 20 percent and increase cross-sell response by more than 100 percent. Taking a customer-centric approach across collections, recovery and loss mitigation offers the opportunity to achieve similar breakthrough results in default management.

What leading companies are doing and why

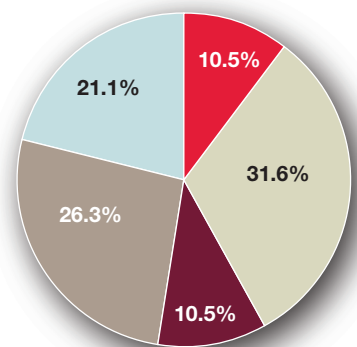
CGI is working with clients to advance their default management customer-centricity. The company recently interviewed default management executives at more than 20 leading financial institutions and communications firms across North America, South America and Europe to gain insight into their current goals, challenges and opportunities in customer-centric default management.

More than 50 percent of the executives interviewed by CGI said they have customer-centric initiatives planned, underway or completed, and most of the others were considering projects.

Among the key drivers cited for these initiatives were:

- **Retention**—improving the customer experience to build loyalty
- **Efficiency**—treating all accounts at once to reduce costs
- **Effectiveness**—collecting a bigger share of available dollars, sooner, to reduce write-offs
- **Compliance**—making it easier to comply with call limits and Single Point of Contact requirements

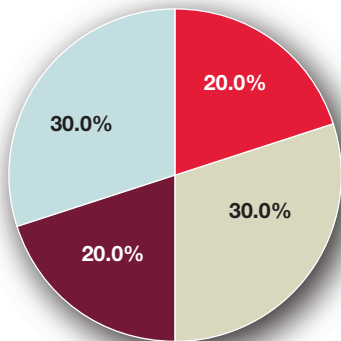
Has your company identified a customer-centric default management initiative?



- No
- Yes, under discussion, no funding or start date
- Yes, planned and funded
- Yes, underway
- Yes, complete

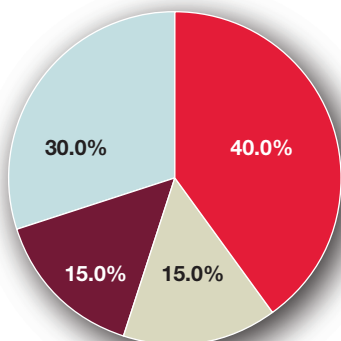
¹ "The Impact of Customer Relationship Management Implementation on Cost and Profit Efficiencies: Evidence from the U.S. Commercial Banking Industry," A. Krasnikov, S. Jayachandran and V. Kumar, *Journal of Marketing*, November 2009

Is customer account ownership data available to your collectors?



- No
- Yes, but not in the collections system
- Yes, for delinquent accounts only
- Yes, for all accounts (including deposit & investment)

Do your collectors handle multiple accounts and products on a single call?



- No, account-based only
- Not yet, planning or pilot underway
- Yes, for a subset of accounts
- Yes, for multiple accounts/products on a single call

Common challenges and approaches

The default management executives also identified a number of the key challenges they face in developing and implementing customer-centric operations. Difficulties were focused in the areas of customer data, treatment/workflow, contact channels and organization. While they are addressing these challenges to some degree, there is significant opportunity for further improvement.

Customer data challenges

The ability to link all accounts associated with a customer is essential to customer-centricity because it allows lenders to manage interactions holistically.

CGI survey participants said an integrated view of accounts is difficult to achieve due to different operating platforms and systems. They also said capturing secondary or co-signer accounts, identifying parent/child accounts across affiliated businesses, and handling probable customer matches were among their key challenges.

In response, some companies are addressing this procedurally by asking customers for other accounts and then linking them to customer IDs, while others are using automated matching algorithms. There is also a trend toward moving to a single default management platform for collections, recovery and loss mitigation, allowing organizations to interact with the customer from a single, integrated source.

Treatment and workflow challenges

Determining the right actions to take for multi-account customers requires access to customer-level account information, agents with an appropriate level of knowledge of all products, and treatment strategies that are executed using customer-level, rather than account-level, workflows.

Multiple platforms make it difficult for organizations to get a full view of the customer relationship. For some survey participants, such a view is available only through a separate system, which slows down collector responsiveness. Where companies attempt to collect in a customer-centric manner, different accounts are routed to different work queues, resulting in disjointed or redundant treatments. In addition, collecting across multiple accounts and products at once presents the challenge of how to allocate available dollars to pay the various accounts.

Some survey participants address these challenges by starting with a customer-centric approach across a subset of related products (e.g. mortgages and home equity), which reduces the training challenge. Another first step is to work around the limitations of account-level workflow with procedures such as checking for accounts already in treatment before contacting the customer. It should be noted that several organizations have moved beyond these initial approaches to make more fundamental changes, including agents trained on all products, customer-level workflow, cross-product negotiation and payments, and an integrated default management platform. In most cases, payment allocation determination is being left to the customer.

Contact channel challenges

As consumers seek greater ease of access and higher levels of personalization from their creditors, they are moving their transactions to an ever-growing spectrum of channels—and the providers that best support their preferences. CGI survey participants identified a lack of prime channels for younger customers, capturing and using customer preferences and permissions, measuring channel effectiveness, and regulatory compliance as their main customer contact challenges.

As the market shifts, these organizations are adding channels such as e-mail, text, mobile and web-based services including chat and virtual agent, making self-service options available, and focusing on making the best use of each contact. To that end, they are using experimental design and business intelligence tools to understand the impact of these contact methods for different customer segments.

Organizational challenges

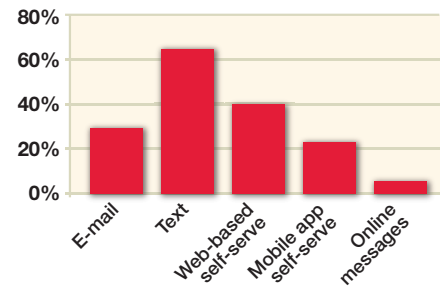
A siloed organization creates inconsistencies in customer treatment and misalignment with customer needs. CGI survey participants said their organizational challenges for customer-centric default management include recent regulatory changes and senior managers who are more focused on revenue generation. Another frequently raised issue was lines of business with “siloed thinking” and misaligned incentives. The lines of business are incented to focus on maximizing collections on their products, as opposed to the entire relationship.

To address these challenges, some companies are conducting focus groups with customers to determine the target experience and then tracking performance vs. target. Additionally, they are trying to prove relationship concepts by starting with a subset of similar products. Finally, some managers are aligning their initiatives with enterprise-level, customer-centric projects to raise visibility and priority with senior management.

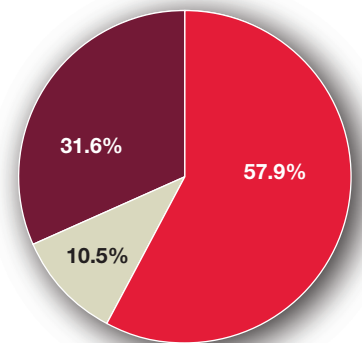
It's all about the customer

CGI's experience has shown that a holistic approach to default management through contact channels, strategies and treatment requires a foundation of integrated data, technology, people and processes. When all is said and done, however, it all has to deliver a better customer experience.

What contact methods will you introduce in the next 18 months?



Have you defined customer-level metrics to evaluate collector performance?



■ No
■ Yes, but not used for incentives
■ Yes, in use for incentives

CGI's Customer-Centric Default Management View



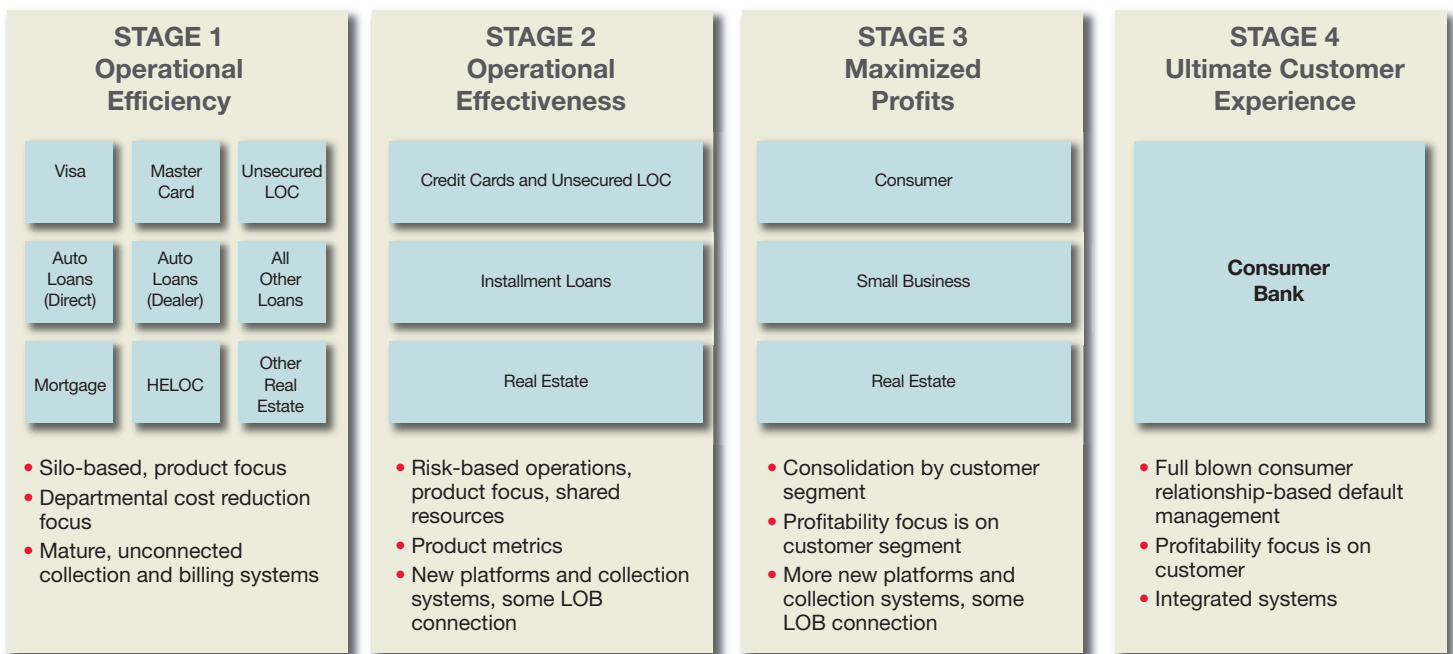
CGI has identified seven key capabilities for achieving customer-centricity:

- 1. Strategy & Learning:** Customer level predictive models and segmentation are used, with accounts routed to agents based on customer risk and profitability. Learning requires business intelligence capabilities to analyze results and a mechanism for capturing and using customer feedback.
- 2. Treatment & Workflow:** Workflow is at the customer-level, with negotiation capabilities across products.
- 3. Relationship View:** Collectors have real-time access to views of a customer's portfolio of accounts and transaction histories regardless of the status or stage of delinquency. They can also read and make notes for all related accounts simultaneously.
- 4. Contact Channels:** There is consistent functionality across a full range of channels. Default Management is integrated with a self-service website, online payment, contact and settlement capabilities.
- 5. Data:** All data is connected by a common customer ID and available from all platforms to the default management environment.
- 6. Technology:** Technology to support the business processes above, including rules engines, a full set of contact channels, and an integrated default management system with customer workflow, view and treatment capabilities.
- 7. People/Organization:** Hiring, training, coaching, skills based routing, and performance tracking and incentives all aligned around the target customer experience.

Moving forward, one step at a time

While a complex challenge, customer-centric default management is not an “all or nothing” proposition. CGI's Customer-Centric Maturity Model describes four stages of maturity. Stage 1: Operational Efficiency, Stage 2: Operational Effectiveness, Stage 3: Maximized Profits and Stage 4: Ultimate Customer Experience. Most companies participating in the survey (63.5 percent) are at Stage 1, 26 percent are at Stage 2, 10.5 percent are at Stage 3, and none have yet reached Stage 4.

CGI's Customer-Centric Default Management Maturity Model



If you think customer-centric default management would improve your customer experience and operational effectiveness, a qualified partner like CGI can help you get started with an assessment of your current operations and customer base to identify opportunities for improvement. Keep in mind that initiatives can be phased so that early benefits can fund later investments.

CGI's world-class credit management solutions have been implemented by more than 350 leading financial services, telecom, utility and government organizations. In addition to consulting and systems integration services, CGI offers industry-leading intellectual-property-based solutions for relationship-based collections, self-service collection activity and social media site monitoring.

Learn more at www.cgi.com/collections