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THE DIGITAL TRANSFORMATION OF CREDIT MANAGEMENT

In a global economy hooked on credit, credit management is more important than ever before.

As banks and financial institutions work to transform their credit management operations, getting it right means rethinking the customer journey.

Introduction

Global borrowing by governments, companies and consumers stands at an estimated **$247 trillion**. As Washington Post columnist Robert Samuelson wryly notes, "**That's trillion with a 't.'**"[1] Stacked up, $1 trillion in one-dollar bills would reach one-quarter of the way to the moon, or more than 60,000 miles.[2] In the U.S. alone, **total household debt stands at $13.5 trillion**—that is $1 trillion higher than the household credit level reached before the 2008 recession.[3] In **2017 per capita world debt stood at $86,000**, an amount more than 2.5 times per capita income.[4]

Put simply, credit makes the world economy go around. With so much at stake, it's easy to see why effective, efficient credit management is vital—and why failure to manage credit properly raises unacceptable risks to consumers and businesses alike.

Notwithstanding the importance of this issue, however, banks and other financial institutions often struggle with the myriad shortcomings of their credit and collections operations. Credit is sometimes granted too freely or without a clear-eyed assessment of the risks involved. Collections lapse past 90 days. Write-offs balloon. Post charge off recoveries languish. Creditors often lack the predictive insight, seamless information, and flexible, performance-proven collection rules and treatment strategies needed to make dramatic improvements.

But with digital transformation—a holistic approach combining dynamic organization, informed business models and advanced technology—this situation is starting to change. As a result, for banks and other financial institutions seeking to gain competitive advantage, increase credit revenues and retain valuable customer relationships, the persistent challenges of credit management are actually becoming unprecedented opportunities for expansion and growth.

This white paper explains how digital transformation is re-writing the rules of engagement in credit management, and, in so doing, producing big benefits for lenders and borrowers alike.

1 https://www.washingtonpost.com/opinions/the-247-trillion-global-debt-bomb/2018/07/15/64c5bbaa-86c2-11e8-8f6c-46cb43e3f306_story.html
2 http://www.ehd.org/science_technology_largenumbers.php
3 https://www.newsweek.com/american-household-debt-nearly-trillion-dollars-higher-it-was-2008-recession-1220615
4 https://blogs.imf.org/2019/01/02/new-data-on-global-debt/

Why leave legacy behind

Revamping the credit management process is really about re-imagining the customer journey. In a perfect world, this journey is the series of data-informed, digitally-driven interactions from initial loan origination to repayment and subsequent new loan application. Such interactions promote positive attributes like choice, convenience, trust and loyalty.

For many lenders and borrowers, however, the world is not perfect and the credit management process is filled with misunderstandings, mistakes, consumer complaints and worse.

For instance, some financial institutions may still be trying to use some level of manual processes or processes that mix both manual and legacy system operations. Lines of business may operate independently, perhaps even competitively, and credit management systems are frequently unable to look across the enterprise to see the many different types of accounts and relationships that a customer may represent. From a service delivery perspective, that is a recipe for using data which is incomplete, inconsistent, or out of context. Meanwhile, as business rules governing loan origination and collections age and reach obsolescence, they become difficult to administer, streamline, or maintain. In such an environment, the temptation to just take a “one size fits all” approach to credit management is all too real.

For the customer, the credit experience with a legacy lender contains approval delays, demands for redundant information, loan offers that are simply not competitive. or lending rejections based on false or out-of-date data. In addition:

- Loan repayment mechanisms may be viewed as cumbersome, confusing, and easy to forget; or lack a self-service component.
- Collection efforts may be perceived as ill-informed, annoying, and even abusive. This is particularly true for a social media savvy generation, where failure to use a preferred communication channel for contacts is always one contact too many.
- Over-zealous contacts can produce increased consumer complaints, reduced new business opportunities, regulatory fines, and reputational damage.

Legacy credit management processes and technologies have the potential to take a heavy toll, not just on the customer experience, but also on the financial institutions themselves. The inability to break down silos and to look across operations for emerging trends or real-time transaction data means less visibility and flexibility for good decision-making.

Handicapped by organizational impediments, conflicting business goals and disjointed systems, it is not surprising that banks and financial institutions may struggle to align their accounts or to design business rules that can be based on predictive analytics and more complete customer account information. For loan origination campaigns, this can mean slower times-to-market and less competitive product and service offerings. For existing business, credit management disfunction reveals itself in shrinking loan portfolios, declining credit revenues, burgeoning defaults, and mounting bad debt write-offs.

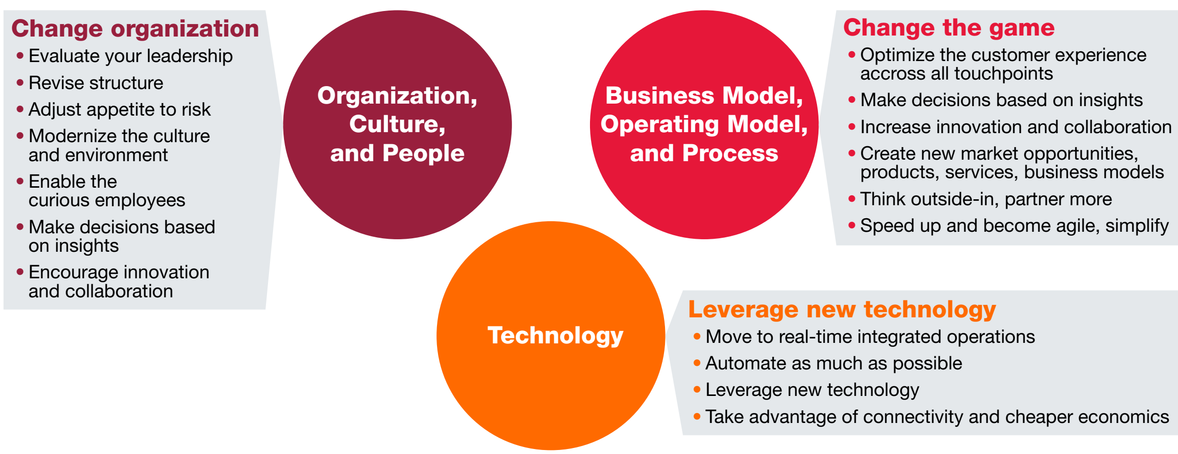
Finally, as companies see their own credit management efforts produce unacceptable returns, they may turn to third-party collections agencies and law firms. If not properly managed, however, this step introduces its own set of challenges. These include:

- Sharing the most up-to-date account information about a borrower’s repayment history or contact preferences.
- Imposing a common set of business rules for implementation and monitoring, and using case appropriate collection treatments.
- Complying with ever changing federal and state regulations and legal requirements.

Building a new type of customer journey

Market leading financial services companies realize that best practice credit management requires operations based on fully integrated, multi-line customer accounts, not on accounts isolated and segmented by lines of business. Digital transformation has the power to not only enhance performance and to correct these types of process lapses, but also to turn credit management into a core competence of the enterprise and to generate opportunities for profitable new business growth going forward.

As noted earlier, digital transformation takes a holistic view of the organization and its strategies, the business and operational models used to achieve these strategies, and the technology supporting it all. This linkage of organization, business models and technology is key because the success of digital transformation depends on the readiness for change within the enterprise—success based as much on people and culture as it is on technology itself.



Fundamental "readiness" considerations include:

- Re-orienting the organizational mind-set and fitting its approach to a digital transformation vision
  - Digital transformation solutions are both agile and people-centric. To achieve these goals, organizations need to evaluate leadership and revise structures to encourage curiosity, to better understand risk and to modernize culture. From a strategic and organizational change perspective, digital competencies emphasize a business-driven digital strategy, a pervasive digital culture and programmatic innovation.
- Selecting suitable business models to pursue the transformation
  - Digital transformation solutions understand that customers no longer expect companies to stay in their own lanes. Neither do investment nor regulatory barriers keep out new market entrants and disruptors. Advantage goes to solution providers best able to add value in a networked economy, to optimize the customer experience at all touch points, and to create new market opportunities. From a business and process change perspective, digital competencies include decisions based on analytical insights, a laser focus on customer centric services, and the strategic sourcing involving an ecosystem of best in class performers, whether inside or outside the enterprise.
- Leveraging emerging technologies
  - Digital transformation solutions are composed of technology building blocks. While the temptation is always to build a transformation strategy around a particular technology, the likelihood is that only an interconnected network of technologies will produce the right set of answers. Overarching considerations here are the need for real-time, integrated operations, taking advantage of connectivity and cheaper economics. From a technology perspective, digital competencies include an evangelical embrace of agile, the hybrid adoption of information technology, and a rigorous approach to information security.

With these critical pieces in place, a new business dynamic emerges. With transformation comes the on-going demand for innovation and the need to meet this demand at pace and scale. The right methodology can speed the journey from initial ideas to product launches.

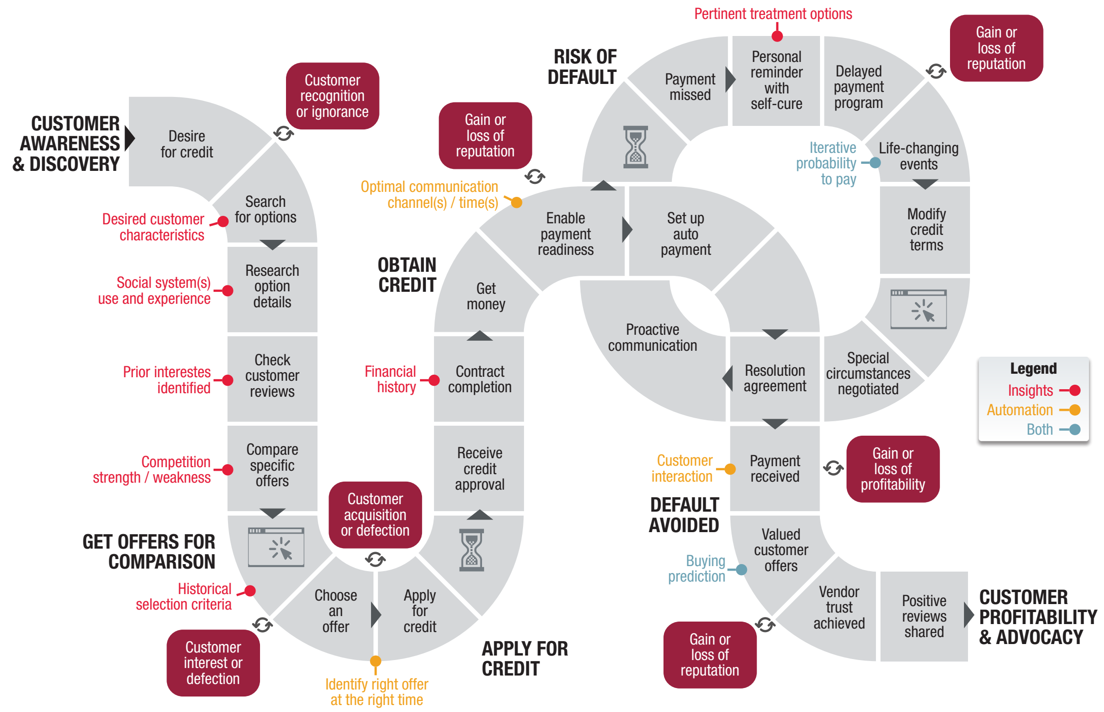
Numerous digital services provide an entry point on the digital transformation journey. Three in particular are speeding advances for financial services companies: digital experience, digital insights, and artificial intelligence.

For CGI, human-centered design transforms the way we create digital experiences and products. CGI harnesses technology and market innovations to define the path to digital transformation and deliver intuitive and innovative solutions.

For unprecedented digital insights, CGI is using advanced technologies like predictive and prescriptive analytics. These tools extract new value from data and help transform legacy processes with new applications.

CGI is automating using deep learning, machine learning and other forms of artificial intelligence to accelerate these trends, pushing computers with cognitive capabilities to the point where human-like decision-making can be gleaned from images, words and sounds.

Key touchpoints on the journey



Now CGI is serving banks and financial institutions with capabilities like these to redefine the customer's credit management experience, to achieve profitable new growth, to bolster repeat business, and even to turn their loyal customers into brand advocates.

A recent CGI Client Global Insights report capturing the viewpoints of executives across 14 industries and subsectors found 77 percent in the financial services industry have a defined digital strategy. The same report focusing on the retail banking sector found 89 percent calling the strain of digital transformation on their legacy banking systems a top trend for 2018.

With banks and financial institutions ready for digital transformation, where should this journey lead? CGI believes that digital touchpoints on the road to this powerful change include:

- Awareness and discovery – using social media, search, and published research to find potential customers and draw them to the financial institution's offerings.
- Personalized offers – leveraging the customer's behavioral statistics and history to present the right offer at just the right time for favorable action.
- Rapid credit application and approval – optimizing the process through digital experience methodologies and analytic insights as well as automation for approval processing.
- Immediate access to approved credit – delivering secure access to funds where and when they are needed.
- Predictive analytics to encourage automated repayment – utilizing reminders to encourage repayments and avoid defaults.
- Personalized, integrated default management – including predictive analytics to determine probability to repay, automated communication, and personalized resolution terms.
- Ongoing customer relationship management – expressing payment appreciation, rewards with additional offerings, and insights from growing the customer base.
- Repeat business – using customer reviews, loyalty programs and insight from customer communities.

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Digital transformation made simple

CGI offers a comprehensive set of automated, insight-driven solutions to help its clients achieve digital transformation of the credit management journey.

CGI Collections360 combines software, business processes and IT services to transform the entire debt collections life cycle.

Delivered from CGI's world-class technology platform, CGI Collections360 is an end-to-end solution, including training, call centers with embedded contact channel preferences, and proven processes for collaborative governance. Working with CGI consultants—experts in the credit management field—banks and financial institutions utilize digital transformation methods like human-centered design and digital engagement to reinvent a fuller, more productive customer experience without the need for costly system developments or customizations.

For the initial stages of the customer journey, CGI solutions offer more precise customer segmentation; better marketing response rate assessment; more productive pre-approval marketing campaigns; faster, more systematic and well-documented rule changes for the design of tighter, more customer-centric business models; and reduced time to bring these models to market for enhanced competitive advantage.

More targeted marketing and rapid loan approvals mean that prospective customers will be less likely to abandon their loan applications midstream or to shop and select a competitor's offers. Lenders gain the benefits of greater management agility, deeper customer insight, lower processing costs, more performance consistency, greater economies of scale, and a better customer experience.

During the loan repayment stage, CGI solutions enable financial institutions to collect more funds faster, while helping borrowers with the information and choices they need to manage their debts more responsibly and to avoid defaults.

Collections360 allows financial institutions to quickly turn their collections operations from isolated, one-off transactions to informed and complete customer interactions using real time data and risk differentiated collection strategies, featuring:

- Customer defined modes and times of contact (whether automated or human),
- Self-service options with multiple repayment actions, 24 x 7 account access, privacy and security
- Offers of additional support in such areas as overspending alerts, money management assistance, spending habits, and household budgeting.

When third-party collectors are involved, CGI Collections360 provides complete control of assignments as well as tracking for greater accountability and the productive use of incentives. For those seeking a turnkey solution to first and third-party collections, CGI's in-house collections operation provides an efficient, effective alternative for achieving impressive results.

Conclusion

For today's financial services institutions, digital transformation of credit management and the customer journey it entails is a strategic imperative. Competitors, both inside and outside the financial services sector, are moving in this direction, while many new market entrants that were "born digital" already have an important advantage. Perhaps that explains why, in CGI's Global Insights survey of retail banks, 87 percent reported a highly competitive and evolving open banking market a top trend, up from 74 percent the previous year.

Arguably, investors and analysts look to digitalization as an indicator of management sophistication and overall corporate fitness. In the global credit economy, better digital performance means better brand performance.

And there is no question that customers increasingly expect their lenders to meet their borrowing and cash management needs with a sophisticated set of digital interactions. Customer experiences based on interactions that are comprehensive, up-to-date and value-added are just more likely to grow customer satisfaction, loyalty, retention, and referrals down the road.

For financial services companies still on the sidelines, the question is not whether they will go digital, but when. Those pushing off this important decision do so at their competitive peril. The good news is that while the underlying technology that supports digital transformation is sophisticated and complex, the decision to adopt a digitalization strategy for dramatically better credit management operations is quite simple. Learn more. Move faster. Be better. Talk to CGI today.

About CGI

Founded in 1976, CGI is among the largest IT and business consulting services firms in the world. Operating in hundreds of locations across the globe, CGI delivers an end-to-end portfolio of capabilities, from IT and business consulting to systems integration, outsourcing services and intellectual property solutions. CGI works with clients through a local relationship model complemented by a global delivery network to help clients achieve their goals, including becoming customer-centric digital enterprises.

Learn more at **www.cgi.com**.

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