The Next Generation of Government Debt Collection Practices

This issue paper provides an overview of current and emerging best practices in government debt collections. It is intended to help government collection managers and executives evolve their organizations to better meet current and future stakeholder needs.
Summary

As governments continue to face short-term and long-term financial burdens, improving collections can be an important part of the solution. Rapid technology advancements and ever-evolving best practices offer significant opportunities for governments to recover outstanding receivables more effectively, and help mitigate economic challenges in their jurisdictions. As a leading provider of debt collection solutions to the public and private sectors, CGI has amassed a significant knowledgebase of best practices. This paper is intended to share insights that can help governments evolve their collection functions to achieve maximum results. It reviews how technology has transformed this critical function, discusses current practices, and provides a vision of emerging practice trends.

THE IMPACT OF TECHNOLOGY ON DEBT COLLECTION

Back in the mid-80s, many of us probably wondered how the Internet would be relevant in our own lives let alone in a government debt collection operation. Today we can see its dramatic impact with a more than 70 percent adoption rate for e-filing of tax returns, for example. Paper returns have been reduced to the point where the media no longer camps out at post offices on April 15 to film long lines.

While the fundamental steps to collect delinquent debt have been constant for literally hundreds of years, technology has dramatically changed both how and when these actions are carried out. Twenty years ago, who would have imagined that paper files would nearly be eliminated … that automated case management systems would direct next actions based upon sophisticated statistical models generated from unique debtor characteristics … or that debtors would access information about their obligations without staff assistance?

In fact, many tasks today—from reviewing account information and establishing payment arrangements to even negotiating payment agreements—are conducted via automated self-service processes with great success. While many factors have enabled this evolution, the availability of data, analysis tools and automated technologies have driven the greatest change.

CURRENT DEBT COLLECTION PRACTICES

Successful collection operations are using data and technology to drive collections at reduced costs per dollar collected, and demonstrate significant increases in revenues without increases in staff. They are deploying best practices and tools in key areas such as data gathering, decision analytics, automated involuntary enforcement, self-service and call management.

Data gathering

Many government entities have a wealth of data that can enhance collection activities. This includes employer data, information from checks previously received, bank account numbers from electronic debit and refund transactions, and addresses from drivers’ licenses and even utility bills. More recently, government collection functions also are gathering information from social services as well as professional licensing and motor vehicle departments, among others.

Governments able to centrally warehouse data from many different organizations (including federal, state and local governments) have a much more complete view of the debtor. Aggregating this data into a single account record enables dramatic improvements in the account resolution process and automated collections. It also allows collectors to determine the location of the debtor, get a true picture of financial ability to pay, and pursue the best involuntary collection path if needed.

Comprehensive data gathering is also changing the nature of debtor conversations. As more data becomes available about financial resources and employment, the volume of involuntary collection actions is increasing. Some agencies now use involuntary enforcement tools as an early stage activity rather than a last resort.
Decision analytics
Decision analytics has proven to be highly effective in optimizing collections and resource allocation. Organizations using the power of data analytics are able to place the right account with the right resources at the right time using the right tools to achieve the right results. CGI calls this the 5R Collection Strategy.

Government data on debtors is being used to develop statistical models that direct the most effective and efficient workflows. Determining what action not to take often is more efficient than spending time and resources on an account that will either self-cure or has a very low probability of collection. For example, models can determine which cases will likely self-cure, and delay their assignment to a collector, and can also determine which treatments are likely to be unproductive, allowing the case to bypass those unnecessary treatments.

Using analytics, the approach to working collection cases has evolved from prioritizing by dollar balance and age to using statistically-based models that predict the expected yield of each case. These models evaluate the likelihood of collections, the balance owed, and the type of assessment to determine the actual yield from case assignment. This projected yield is important because it becomes the basis for how much agencies are willing to spend in collecting the account. Once the predicted yield is determined, work efforts to generate the yield are reviewed.

Similarly, analytics are being used to determine the best treatment strategies for each account, including what type of contact method to use and at what point in the process that contact should occur. Analytics also are used to determine how long an account should be worked prior to moving to the next level of activities. This allows scarce staff resources to focus on the highest priority accounts with the most appropriate action. As operating budgets and staffing allocations are constrained under an ever-increasing case load, efficient use of resources is increasingly important.

While analytics are used to determine the optimal work efforts and processes in the standard collection workflow for each account, some accounts do not resolve as a result of these activities. In these instances, analytics can drive strategies for subsequent actions. In addition, each work effort, even if unsuccessful, provides an important data point that can be used to continually enhance data models.

For cases that do not warrant even minimum work efforts, the goal is to spend as little effort as possible on those accounts prior to moving them to other enforcement activities. The most fiscally sound approach may be to send the account directly to a private collection agency (PCA), for example. If the balance is relatively low, and the collectability is similarly low, governments can assign the case to a private vendor, rather than spending unproductive time chasing the case.

Automated involuntary enforcement
Automating involuntary collection efforts is another powerful tool. While many agencies have the authority to levy and garnish debtors, the process is cumbersome and often ineffective. CGI has helped many agencies revolutionize their collection operations with a system-initiated, automated approach to involuntary enforcement. Thousands of levies and garnishments can now be generated based on clearly defined business rules and without the intense labor requirements of the past. This has yielded literally millions of dollars per month for a number of jurisdictions.

Government collection organizations typically can access data regarding a debtor’s bank accounts through previous tax returns, prior payments to or from the debtor, financial institution data matches, interest reporting from banks and other data sources. In addition, employment information often is obtained through employer withholding forms and relationships with other government agencies. This data sharing is a key to automating involuntary activities.
While all debtors are given the opportunity to self-cure through the billing process, if they do not, the risk of involuntary collection activity creates a sense of urgency. Once a debtor is notified of a likelihood of levy or garnishment, they are highly motivated to call the revenue agency to resolve the liability. The net effects are fewer outbound calls to resolve accounts and more debtors contacting the revenue agency to work out a payment plan.

Self-service
Self-service options are being successfully used to allow debtors to handle simple tasks via the web or a touch-tone phone (IVR) and free up government resources to work other cases. In fact, debtors often prefer self-service features since they can avoid potentially embarrassing person-to-person interaction, and can resolve the case on their schedule, unconstrained by typical government working hours. Organizations providing self-service using the web and IVR, and providing robust FAQs via the web, have reduced phone calls to representatives by as much as 30 percent while simultaneously increasing collections by offloading many phone calls. Those offering self-service for simple account inquiries and payment arrangements are further enhancing customer service while simultaneously increasing collections.

The private sector has adapted to these trends and is reaping the benefits of lower operating costs while giving customers the information and access they desire. The public sector may have a few more hurdles in terms of security, but some of these are self-imposed and are not insurmountable. In fact, many in the public sector are already realizing the benefit of these enhancements.

High-volume calling and messaging
High-volume calling and messaging is advancing in technical capabilities and coming down substantially in price. Unattended messaging is being used effectively by many collection organizations to drive compliance. These calls made by an automated dialing device to a phone number on file for a debtor yield three possible results:

- **No Answer**—the call is terminated and automatically rescheduled for a later time
- **Answering Machine Detected**—a customized message is automatically delivered for that debtor using text-to-speech technology; to be sensitive to confidentiality rules, no debtor-specific information is left, just a message asking the person at that number to contact the applicable agency
- **Live Answer**—after validation of the right party through a series of questions using touch-tone capabilities, the debtor is presented information about his or her account by selecting from menu choices presented by the automated attendant.

The goal of the unattended message is to deliver account-specific information similar to what the debtor would receive on his or her billing statement and then prompt a payment or payment agreement, an alternate compliance activity or, at a minimum, a return call. The cost of unattended messaging is less than 5 percent of the cost of sending an additional billing notice. Call centers can deliver more than 5,000 unattended messages a day for each inbound call center representative staffed.

THE FUTURE OF GOVERNMENT DEBT COLLECTIONS
Government collection organizations must evolve to meet stakeholder demands for collecting more revenue at reduced staffing and budgetary levels. A survey conducted jointly by the National Association of State Auditors, Comptrollers and Treasurers (NASACT) and CGI showed that a number of states are considering expansion of their delinquent debt collection programs to increase revenue from their accounts receivables. Depending on current conditions in a state or province, enhancing collection tools and capabilities would likely increase revenues by scores of millions of dollars each year. CGI has also observed that jurisdictions with comprehensive collection practices are able to increase voluntary compliance when the public feels the government is serious about collection activities.

The following table illustrates how core collection processes have evolved over time and how they are trending for the future.

### The Evolution of Collection Practices

<table>
<thead>
<tr>
<th>Collection Process</th>
<th>Historical</th>
<th>Current/New</th>
<th>Next Generation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Presenting the bill to the debtor</td>
<td>• Mail—paper bill</td>
<td>• Mail—paper bill</td>
<td>• Paperless/online</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• E-mail</td>
<td>• Text message</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Paperless/online</td>
<td></td>
</tr>
<tr>
<td>Responding to questions about the bill</td>
<td>• Mail—paper correspondence</td>
<td>• Inbound call center</td>
<td>• Interactive online chat</td>
</tr>
<tr>
<td></td>
<td>• Public Service Walk-in Office</td>
<td>• IVR for FAQs</td>
<td>• Smart phone applications</td>
</tr>
<tr>
<td></td>
<td>• Inbound call center</td>
<td>• Web portal for FAQs and account information lookup</td>
<td>• Social media</td>
</tr>
<tr>
<td>Interacting with debtor and establishing a payment</td>
<td>• Mail—paper correspondence</td>
<td>• Inbound/outbound call center</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Public service walk-in office</td>
<td>• Unattended messaging</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Inbound/outbound call center</td>
<td>• IVR payment application</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Public service walk-in office</td>
<td>• Web portal application</td>
<td></td>
</tr>
<tr>
<td>Processing debtor payments</td>
<td>• Manual paper check processing</td>
<td>• Lockbox check processing</td>
<td>• Non-traditional payment processors such as PayPal, Google Checkout, etc.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• EFT and ACH payment processing including recurring payments</td>
<td>• Money transfer options such as Western Union and MoneyGram</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Credit and debit card processing including recurring payments</td>
<td>• “Electronic purse”</td>
</tr>
<tr>
<td>Securing an involuntary payment</td>
<td>• Pursuing a judgment via the court system and manually producing garnishment documentation</td>
<td>• Automated legal documentation processing to secure high-volume judgments</td>
<td>• Banking standards for automated e-levy transactions</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Data scrub and acquisition enabling automated garnishment activities</td>
<td>• Non-government offset programs between government and industry; centralized receivables warehouse community</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Intergovernmental off-sets</td>
<td>• Electronic levies transmitted to banks</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Electronic garnishments transmitted to employers</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Electronic liens transmitted to counties</td>
</tr>
<tr>
<td>Organizational structure</td>
<td>• Field offices with manual collection efforts</td>
<td>• Agency-specific call centers to handle inbound debtor correspondence</td>
<td>• Centralized collection units serving multiple agencies and debt types</td>
</tr>
<tr>
<td></td>
<td>• Collection policies and practices developed and administered locally</td>
<td>• Standardized collection practices within agencies</td>
<td>• Data sharing, leveraging tools and analytics across multiple agencies</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Field offices handling more complex cases with reduced staffing</td>
<td>• Decision analytics driving collection activities for all agencies</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Mobile case management for field agents</td>
</tr>
</tbody>
</table>
EMERGING BEST PRACTICES
Best practices in debt collection are emerging along several key fronts:

- Centralized debt management
- Cloud computing and managed services
- Call management tools and centers
- Multi-channel communication
- Self-service capabilities
- Payment alternatives

Move toward centralized debt collection
Historically, federal, state, provincial and local government collection functions have resided with the organization creating the receivable in the first place. While this made sense when access to data and automated collection applications was limited, today this practice results in hundreds of millions of dollars in lost revenue.

More than one-third of respondents to the NASACT/CGI study said they have considered or recently implemented a centralized collections strategy for multiple debt types within a single agency. CGI has seen dramatic improvements where jurisdictions have pursued this strategy. As such, centralization is a significant and likely opportunity over the next few years for both tax and non-tax debts.

More than an organizational strategy
Centralized collections is a shift in thinking that requires states to view delinquent debt management as a core function of government as opposed to a back-office activity of agencies with other core missions. This shift in focus is the principle enabler to identify opportunities to improve programs and generate significant new revenues. As such, it merits serious consideration by all governments. Benefits include creating economies of scale for infrastructure and technology improvements, concentrating expertise, eliminating duplicate efforts and tools, developing a consolidated view of debt, and establishing a single, cohesive strategy.

Much more than a collection agency strategy
While a few of the jurisdictions that have pursued centralized collections have simply provided their cases to PCAs, this model is suboptimal. The best approach is to let government do what it does best, and let private vendors do what they do best, all powered by automated technologies.

A government can first send notices explaining to the debtor what will happen if they do not comply. It can then send bank levies and wage garnishments (if allowed by statute) to the debtor to obtain collections. In many cases, a government can also report the debtor to a credit reporting agency—often the “Pre-Credit Reporting” notice can obtain collections. The government should then score the case for collectability. If the case is likely to pay with a simple phone call or can be collected in a cost-effective manner, then it is assigned to a collector. In this way, the government takes a very cost-effective approach by collecting the easiest cases themselves with no large commissions to pay. The remaining cases—those more difficult to collect or that cannot be collected by the government in a cost effective manner—are then sent to a PCA.
Greater use of managed services and cloud computing
Historically, system investment decisions have depended as much on what system the government can afford, integrate and maintain as the actual system capabilities themselves. Managed services and cloud computing help government agencies reduce the complexity of system modernizations and allow them to focus on obtaining the right capabilities at a fraction of the time it used to take. In addition, through managed services, costs can be deferred until after the increased revenue has been achieved, thus assuring the government no net out-of-pocket costs. These delivery alternatives will play an increasingly important role in reducing costs and risk, and increasing agility and innovation, in government collection operations.

Increased use of call management tools and centers
In the years ahead, high-volume, low-cost outbound calling tools and call centers will become even more important for generating additional revenues at a low cost. As described above, data analysis will further optimize results by determining the most appropriate contact methods and best times for reaching debtors. In addition, PCAs will continue to provide increasing value to governments by providing the technology and staff to address call center challenges that can be problematic for many governments, such as making calls after normal business hours.

Growth in multi-channel communication
Mobile devices and social media are transforming both personal and professional interactions. Since a key to compliance is making the process accessible, understandable and convenient for debtors, collection organizations need to continuously evolve their understanding of debtor communication preferences and then provide a consistent experience across multiple channels. Just as walk-in offices transitioned to call centers, collections must continue to evolve to encompass mobile and other channels for exchanging information and transacting compliance activities.

Emergence of payment alternatives
Historically, payment has occurred through paper checks. This has evolved over time so that the best collection organizations (both public and private sector) now mandate most payments through ACH Debit transactions. In the future, governments must continue to evolve and grow to use payment approaches like smart phone and third-party Internet applications. This could include single payments and long-term payment agreements. When the government wants a debtor to come into compliance, it should offer payment options that are the most convenient and intuitive to the debtor.

Continued growth in self-service
Self-service capabilities provide greater availability and control, including the “24/7/365” access many consumers have come to expect. As a result, debtors will increasingly desire to have their collection issues resolved via self-service tools along with e-mail, text, chat and other electronic channels. The ability to resolve debts without an embarrassing conversation will engage a larger segment of debtors in the compliance process.

CONCLUSION AND NEXT STEPS
Optimized collections contribute significantly to the fiscal well-being of governments at all levels. Numerous proven and emerging technologies and best practices are available to help governments collect more revenue and at a lower cost. Government collection organizations, tools and processes should be evaluated holistically to determine the steps that will maximize returns for stakeholders. CGI’s experienced consultants can help governments assess their current processes and accounts receivables levels by conducting operational reviews and then benchmarking the findings against a national best practice catalog, and mapping out the best path forward. Learn more in CGI’s issue paper, “A Proven Path for Improving Government Debt Collection” and at cgi.com/govcollect.
ABOUT CGI

At CGI, we’re in the business of satisfying clients by helping them succeed. Since our founding in 1976, we’ve operated upon the principles of sharing in clients’ challenges and delivering quality services to address them. As the world’s fifth largest independent IT and BPS provider, CGI has a strong base of 65,000+ professionals operating in more than 400 locations worldwide. Through these offices, we offer local partnerships and a balanced blend of global delivery options to ensure clients receive the optimal combination of value and expertise required for their success. We define success by helping our clients achieve superior performance and gain competitive advantage.

CGI has been at the forefront of the evolution of tax and collections management through numerous successful partnerships with government and commercial organizations. Our solutions and services have helped public sector clients alone to certify over $4 billion in increased revenues. We would be pleased to discuss specific ways your organization can take advantage of advanced technology and best practices to evolve your operations.