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Customer Satisfaction, Cost Savings, Performance Improvement:

A Clear Case for Moving to Multi-Channel Collections

Introduction

Banks, credit card issuers, utility companies, retailers and other collectors of consumer debt can reduce collection costs, increase customer satisfaction and improve collection results with multi-channel digital communication.

Traditional, call center-focused debt collection practices are fraught with pitfalls for debtors and creditors alike. Customers may perceive collectors as being intrusive, overly persistent, and disrespectful; likewise, creditors may find some borrowers to be uncooperative, unwilling to communicate, and even downright evasive.

As a result, person-to-person collection approaches can be costly and ineffective. They also can be detrimental to customer loyalty, business retention and brand reputation. With total U.S. household debt averaging over $90,000, the stakes involved in building effective collection programs are enormous.[1] Yet, at least one aspect of the debt collection process suggests there is much room for improvement; the Consumer Financial Protection Bureau reports that debt collection is its single greatest source of consumer complaints.[2]

Digital-based multi-channel approaches can make a compelling difference to collections success. Done properly, digital collection solutions have the potential to reduce the cost of customer interactions from dollars to dimes, to enhance rather than detract from the customer experience, and to dramatically increase the yield on delinquent account payments and recoveries. For example, one analysis shows the combination of automated voice messaging and text messaging increased the collections success of one card issuer by 400%.[3]

This white paper looks at several commonly expressed concerns about digital multi-channel communications for collections. It explains how each can be addressed and why multi-channel is a more sensible approach to collections for creditors and debtors alike.

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[1] The Average American Household Owes $90,336 -- How Do You Compare?, Matthew Frankel, The Motley Fool, May 8, 2016.

[2] CFPB Monthly Complaint Snapshot Examines Debt Collection Complaints, CFPB press release, March 29, 2016.

[3] Winning the Top-of-Wallet and Collections Battle, Mercator Advisory Group, July 2008.

Debt collection has traditionally depended on telephone calls made to debtors at home. Such calls have become less effective for several reasons:

- Landline telephone penetration in U.S. households has dropped by almost half since 2007[4]
- One in nine people move their residence each year (for renters the rate is one in four)[5]
- 37 million physical mailing addresses change each year[6]

Digital communications itself has reached an important tipping point of sorts, with members of the millennial generation (those born in 1980 or after) spending more time per week with digital devices than traditional devices.[7] Clearly, new approaches are required to deal with a more mobile population.

At the same time, consumers want a more personalized interaction at every phase of their purchase experience, including how they make payments on their legitimate obligations. When it comes to collections, however, greater personalization means more preference-based digital engagement and less person-to-person contact. Digital collections introduces an important element of consumer self-service to the debt repayment process. Putting the debtor in charge of managing his or her own debt both empowers the debtor and makes phone calls from overzealous, misinformed, inconsistent or poorly trained debt collectors unlikely.

Mobile SMS text and email are especially useful tools in digital collections. First, because roughly two-thirds of consumers own and carry smartphones, a large swath of the borrowing public becomes readily accessible. Second, with respect to smartphone applications, text messaging and email are among the four most common applications. This means consumers do not need special training to use these applications.[8]

Smartphones have changed the way borrowers interact with creditors. Embarrassment, misunderstandings and other problems resulting from person-to-person interaction are eliminated. Instead, customers specify their contact channel of choice, as well as the day and time that such contacts should take place. Because it is conducted without human bill collector pressure, the process is more comfortable, private and complete—and more likely to achieve satisfactory results. Better repayment options lead to happier customers, the retention of high value accounts, and greater long-term brand loyalty.

Surprisingly, many creditors have not taken full advantage of these customer-centric capabilities. For instance, they may be using SMS text messages to send simple payment reminders rather than as part of a campaign to establish true consumer self-service relationships. The thinking behind these types of one-way digital contacts is anything but strategic. These messages may include urgent requests or pretexts. Their goal is nothing more than an attempt to prompt a live telephone call with a collections agent. Such short-sighted contacts may end up doing little more than annoying the recipient and reinforcing negative repayment behaviors.

While one-way SMS text messaging is a call to action, two-way SMS texting and email can actually facilitate repayment activity. Two-way SMS texting provides a channel for the borrower to take action, often providing a link back to the consumer's account on the creditor website. Such two-way actions might include:

- Updating or correcting the consumer's account information
- Asking a question or resolving an issue
- Making a payment
- Establishing a promise to pay
- Negotiating a repayment plan

[4] 52% U.S. Landline Voice Penetration in 2016, Gary Kim, Telecompetitor, January 7, 2012.

[5] U.S. Mover Rate Remains Stable at About 12 Percent Since 2008, Census Bureau Reports, U.S. Census Bureau press release, March 18, 2015.

[6] U.S. Postal Service>Who We Are>Postal Facts>Size and Scope.

[7] Millennials Come of Age, Experian Marketing Services, June 2014.

[8] U.S. Smartphone Use in 2015, Aaron Smith, PewResearchCenter, April 1, 2015.

The benefits of web-based consumer self-service are compelling. According to Oracle, an enterprise software company, "Empowering consumers to serve themselves online not only increases customer satisfaction, but reduces support costs by more than 50x—the average support call costs $5.50 versus $.10 for a Web interaction."[9]

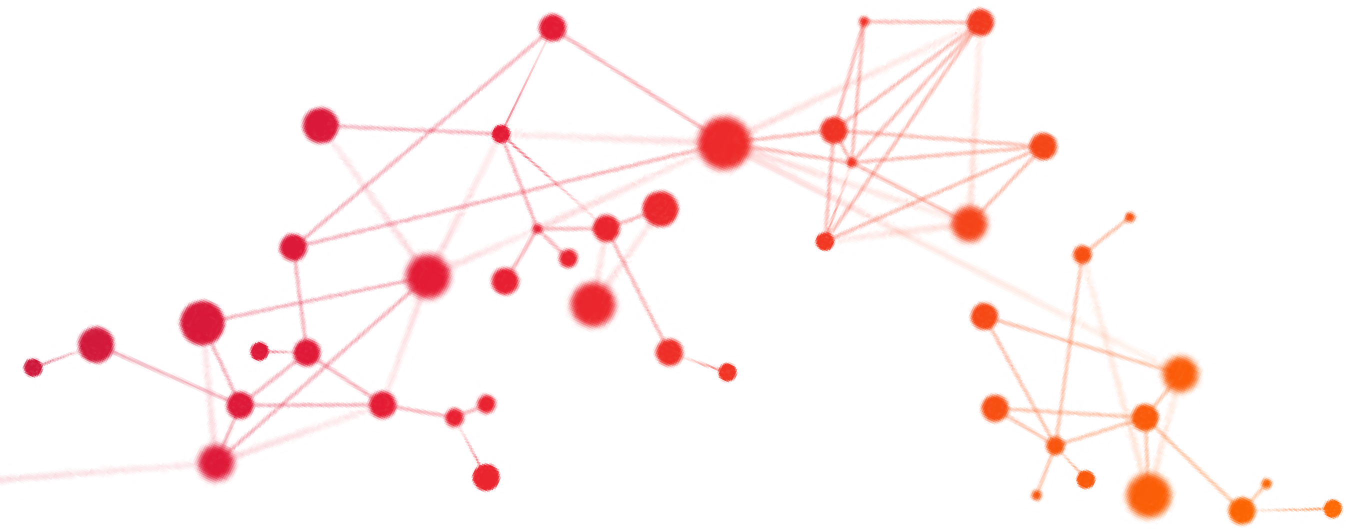
Self-service may be happening, whether creditors like it or not. According to a prediction from Gartner, "By 2020, customers will manage 85% of their relationship with the enterprise without interacting with a human."[10] In such an environment, the consumer's self-service expectation will do much to separate business winners from losers.

Weighing the cost of action versus inaction

Change is risk. Many creditor organizations may look at their current collections backlog, decide it is manageable, and determine that the spending required to introduce multi-channel is not warranted. Even if the number of current accounts in delinquency is low, the decision not to go digital deserves careful re-consideration.

Here is a macro trend; consumer reliance on debt financing is on the rise. New credit card debt, for instance, grew by $71 billion in 2015, up to $917.7 billion.[11] The Alliance for a Just Society estimates that 77 million Americans have delinquent debt, averaging over $5,000. Meanwhile, charge-off rates remain at historic lows. According to CardHub CEO Odysseas Papadimitriou, "Something clearly has to give, and it does not seem to be our spending habits."[12]

Waiting to launch a digital channel program has significant disadvantages. If and when the ability to repay becomes more difficult, borrowers will need greater, not fewer options, for communicating effectively with their creditors. Companies that wait to adopt digital collections will find themselves "behind the curve," not because of any cyclical economic downturn per se, but because they have failed to provide customers with preferred channels for engagement.



[9] Benefits of Web Self-Service, Oracle.

[10] Gartner Customer 360 Summit, March 30–April 1, 2011.

[11] US credit card debt balloons to $917B: What it means, Fred Imbert, CNBC, March 10, 2016.

[12] When collectors call, demand proof of your debt, David Lazarus, The Los Angeles Times, February 6, 2016.

Building effective compliance programs

Some creditors may believe that regulatory compliance complexity trumps the potential benefits of deploying digital collections. Non-compliance penalties can be both severe and damaging to business reputation. Still, lenders, large and small, are implementing digital collection programs and achieving impressive results.

Numerous federal and state laws regulate various aspects of debt collection or consumer protection and, as a result, make a variety of government agencies responsible for compliance enforcement. Prevailing federal laws include the following:

- **Telephone Consumer Protection Act (TCPA):** Regulates utilization of automatic telephone dialing equipment, including how this equipment is used for telemarketing calls, auto-dialed calls, pre-recorded messages, text messages and unsolicited faxes
- **Fair Debt Collections Practices Act (FDCPA):** Prohibits debt collectors from perpetrating unfair, deceptive and abusive acts and practices (UDAAP) and makes the disclosure of sensitive financial information to third-parties illegal
- **Dodd-Frank Wall Street Reform and Consumer Protection Act:** Authorizes the Consumer Financial Protection Bureau (CFPB) to issue rules under the FDCPA(CFPB has indicated it has potential interest in regulating many areas, including the communication tactics of debt collectors)

Compliance with TCPA is of particular concern to companies attempting to modernize their debt collection operations. In certain circumstances, TCPA requires debt collectors to gain express consent prior to making calls to consumers using automatic telephone dialing systems. The law distinguishes between wireline (i.e., home) phones and wireless (i.e., mobile) phones. The Commission has determined that, under the provisions of TCPA, debt collection calls made to home phones are not telemarketing calls and do not require express consent. If such calls are made to mobile phones, however, prior consumer consent is required.[13]

To ensure TCPA compliance, creditors need to implement a consistent process for capturing and maintaining debtor channel preference and the associated contact permission. A few steps can help make this happen:

- Incorporate a customer's cell phone number request into credit applications and include language granting prior consent to be contacted via cell phone in contract terms and conditions.
- Check for cell number accuracy, ownership, and porting status prior to message execution. This is now a relatively easy, inexpensive review, offered by multiple national third-party data providers.
- Create a process that allows for centralized control over executing the entire digital channel engagement, whether using SMS text, email, and/or a self-serve portal. This centralized control includes the message, timing and frequency across all digital channels.
- Ensure that customer engagements are performed in tandem and not in conflict with other communication channels (voice/IVR, letter, customer service agent) the creditor may be using.
- Be vigilant in tracking and reporting results, and refine efforts to optimize digital channel consistency, effectiveness and performance.
- Request legal review of all TCPA compliance measures.

[13] FCC Strengthens Consumer Protections Against Telemarketing Robocalls, FCC press release, February 15, 2012.

Ensuring borrower privacy and security

Information privacy and security also are of significant concern to creditors and borrowers alike. With the appropriate expertise and controls, these issues can be efficiently and effectively addressed.

Creditors are rightly concerned that transmission of sensitive customer information over digital channels can be a risky proposition, either because it is intercepted in route or because it is sent to the wrong party. Security breaches and privacy miscues disrupt customer relationships and damage business reputations.

Digital collection processes can be made secure by conducting them within a PCI-encrypted, closed-loop system. In a typical scenario, a creditor might include a payment link in a text message or email. Information and payments transmitted over the encrypted link are protected from interception by outside parties.

FDCPA prohibits disclosure of collections-related information to third parties. Right-party connection concerns can be greatly alleviated by running contact data through a third-party validation service. Such checks ensure the accuracy of account information and eliminate the use of bad email addresses and cell phone numbers. Other identification and verification measures are used to ensure right-party connections during two-way text transactions and website log-ons.

Making the build versus buy decision

Some creditors may be interested in adding multi-channel digital collection capabilities but view them as being a simple addition to an existing mobile app or online portal. Not so. Take the example of consumer banking. The typical online banking experience does not even offer the consumer collections related services. On the contrary, when an account enters a collections phase, customer access to it is more likely to be blocked than to be supported with collections related services.

The bank may be tempted to build its own collections service, attracted by the prospect of greater project control and the ability to specify more fully its own service system requirements. Such efforts, however, often run into trouble.

Because the collections function is not likely to be a top business priority, it quickly encounters resource constraints. With fewer than expected resources, design delays begin to mount, implementation schedules fall behind, and plans for system testing are scaled back. Soon the bank is faced with delivering a “modern” collections solution that is out of time in terms of its development schedule, out of date in terms of its capabilities, out of compliance with regulatory changes, and out of step with the customers’ expectations.

Commercial marketplace alternatives offer several advantages over “build,” including:

- Immediately available solutions built by digital collection experts;
- Faster time to market for new products and services;
- Constant technology refreshment and product innovation;
- Cost savings in the near and long term.

Understanding digital collections effectiveness

The impact of digital collections is limited only by the willingness of creditors to fully deploy this capability. While some may believe that multi-channel capabilities are effective only for collections in the early phases of debt repayment or apply only to credit card related debts, the reality is far different.

In terms of credit cards, there is good reason to associate digital collections with this market segment. Approximately 14.5 billion credit card transactions in the U.S. totaled over $1.4 trillion in the first half of 2015[14] alone. Notwithstanding the fact that American credit card debt is large and complicated, it still ranks below housing, auto and student loan debt. Digital collections may be effectively applied in each of these sectors.

Digital collections serves a constructive purpose throughout the transaction life cycle and across product lines—including those not related to credit cards. Uses include confirming repayment arrangements, reminding customers of upcoming payment arrangements, taking payments and promises for payments, varied delinquency phase actions, next step explanations, and settlement offers.

Learning the truth about who uses SMS texting

True or false: Multi-channel communication is a less effective way to reach every debtor because only members of the millennial generation send text messages.

False.

Americans exchanged more than 2.1 trillion texts, videos and photo messages in 2015, translating to four million every minute.15 Digital communications, including SMS text messaging, is being embraced by adults of all ages. In fact, a survey by the Pew Research Center found that 97% of all smartphone owners used text messaging during its study period. While all smartphone users in the survey's 18-29 age group used text messaging, 92% of those over age 50 did likewise.16 A second study found more than 90% texting usage among smartphone users in the millennial, Gen-X, baby boomer and silent generations.17

[14] The Consumer Credit Card Market, Consumer Financial Protection Bureau, December 2015.

[15] Americans' Data Usage More Than Doubled in 2015, CTIA press release, May 23, 2016.

[16] U.S. Smartphone Use in 2015, Aaron Smith, PewResearchCenter, April1, 2015.

[17] Millennials Come of Age, Experian Marketing Services, June 2014.

Text messaging is rapidly becoming "virtually" addictive. According to one mobile marketer, "SMS regularly enjoys a 90% read rate within minutes of receiving the text message—a far greater success ratio than email marketing." This executive goes on to cite an SAP study covering 12 countries in which 70% of consumers indicate that SMS texting is a good way for companies to grab their attention and 64% believe SMS type engagement should be used more often.[18]

Creating personalized borrower relationships

Digital collections may seem to take the "personal" out of personalization and the "customer service" out of a customer-centric approach to business. The truth is, of course, that the success of person-to- person contacts is influenced by a wide variety of factors, even if the contact has been carefully pre-scripted. Variables include:

- Account information accuracy
- Collecting agent's mood, attitude, ethics, interpersonal style and communications abilities
- Extent to which collector contacts are made at a time and day the debtor considers convenient
- Collector's ability to resolve repayment issues quickly and effectively
- Customer's willingness (or unwillingness) to speak with a live collection representative

Such success is far from certain. Rather, voluminous borrower complaints have led creditors to seek new approaches.

Multi-channel communication capabilities enable the debtor to feel more empowered and more in control. These interactions are quick, concise and always available, making them convenient for the customer. When delivered through an integrated debt collection platform, they are part of not only a process shaped by sophisticated account decisioning, treatments and workflows, but also one that caters to customer preferences for communication channel (e.g., online versus face-to-face), contact smartphone number, and best time of day to contact.

Achieving cross-channel collection synergies

Many creditors may view adding new contact channels a recipe for collections confusion—multiple, out of synch, and potentially conflicting messages cause consumer annoyance and aggravation. When delivered by a solution provider with a platform that combines technology sophistication with collections expertise, just the opposite is true. A truly integrated digital collections program delivers just the right message, at just the right time, with just the right capabilities, to just the right customer for the debtor to take corrective action.

An integrated approach to digital collections coordinates all parts of the process and, as synergies increase, contributes to a successful end result. Contact channels complement—rather than conflict with—other channels. In this way, multi-channel communications enhances the customer experience, solving rather than introducing collection related problems.

In a typical example, the collections platform's decision support engine is used to develop a collection strategy based on the customer's specific preferences and performance. A campaign might begin with an email to the customer. The customer is directed to a web portal to provide income and expense data. In the background, the decision support engine develops a payment restructuring plan. SMS text messages are then used to provide payment reminders on a bi-weekly basis.

[18] SMS Engagement Can Amplify Mobile Results for Merchants, Brian Heikes, Multichannel Merchant, November 1, 2015.

Realizing impressive savings

Multi-channel communications replace multiple telephone calls, which average $6–$8 dollars per customer. SMS texts are .10 to .11 cents each, and email or web interaction is virtually free. The economics of digital collections allows companies operating even mid-sized call centers to quickly recoup the system setup costs.

Conclusion: Digital collections is a win-win

Creditor organizations may have many reasons for not adopting digital collections. Their concerns are more likely to be rationalizations rather than true justifications for inaction. On the contrary, customers want multi-channel digital collections now. They view the availability of these capabilities as one more demonstration of a creditor's willingness to put the consumer first. They appreciate the opportunity to set their own contact preferences, to play a greater role in establishing their repayment schedules, to view, verify and correct the accuracy of their account information, and to be assured that their debt repayment information will be handled with appropriate attention to privacy and security.

Sophisticated, cost-effective digital collection solutions are available today, delivered with the necessary collections management expertise, to help reduce operating costs and increase collection results. Market leaders will make multi-channel collections a strategic priority. In doing so, these firms will meet the expectations of borrowers, sharpen competitive advantage, recover a greater share of monies owed, and drive down the cost of doingbusiness.

CGI's Collections 360 provides all of the software, business processes and IT support needed to deliver a total managed services solution and to transform default management into a strategic asset.

CGI Collections360 features:

- Multi-channel integration, enabling 24x7 customer self-service;
- Hosting and application management with seamless software application maintenance and updating;
- Integrated default management;
- Operations management of key business processes;
- Business intelligence to measure and report on business success;

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