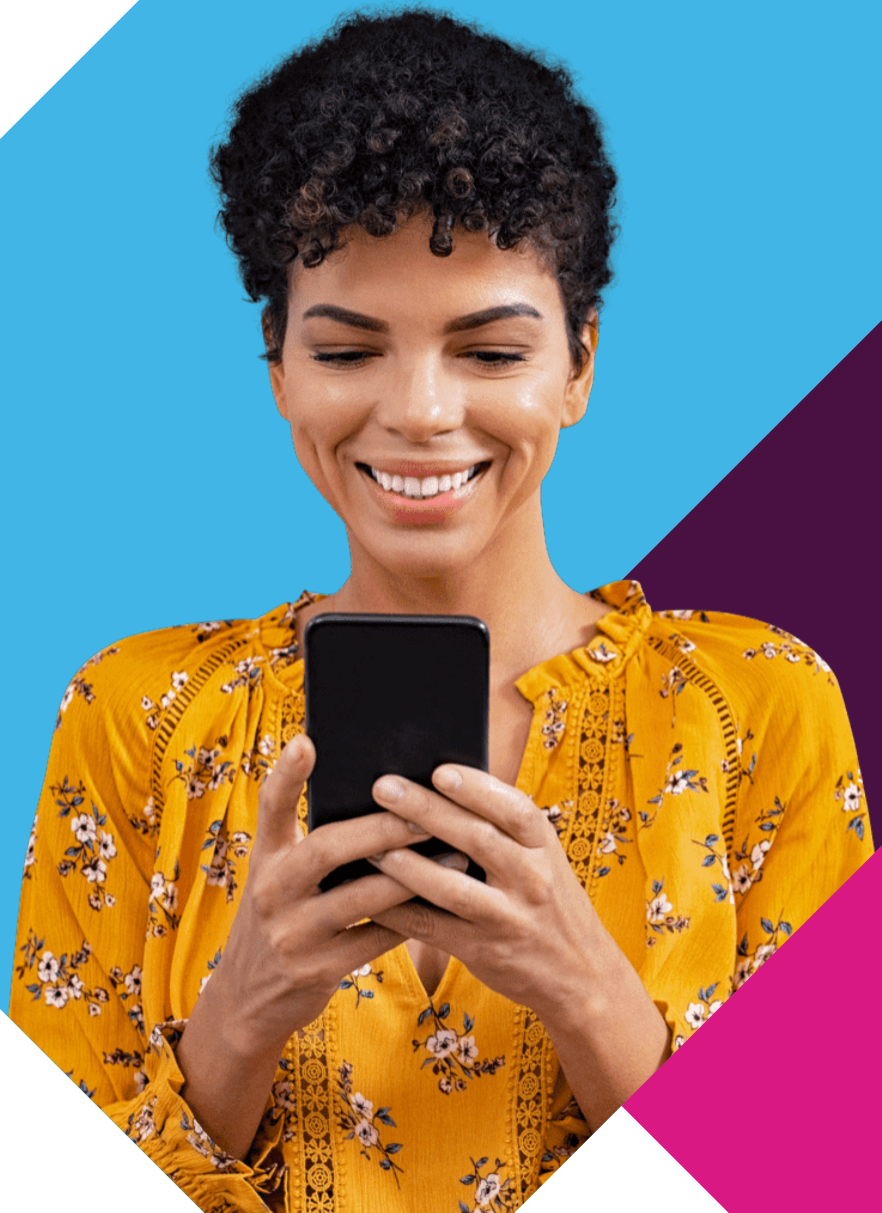
7 Smart Ideas to Transform Debt Collection and Recovery

Find out how banks like Santander have revolutionised collection processes



vizolution

The coming collection & recovery tsunami

The tide of consumer debt has been rolling in for decades and we are about to see a tsunami come crashing in.

Since the early days of the COVID-19 crisis last March, 813,000 payroll jobs have disappeared. In February 2021, 5.3m people were furloughed. By September 2021, 2m are still expected to remain on furlough, however, not all will be going back to work and there is the very real potential for up to 500,000 job losses.

4.7m payment holidays have been granted across mortgages, credit cards and personal loans, helping prevent a sharp spike in non-performing loans (NPLs). However, this is no cure. Consumer credit write off rates are likely to almost double, from 1.3% to 2.5% in 2021, according to EY ITEM Club forecasts. Mortgage write-offs are expected to quadruple to 0.04% for all of 2022.

The end of furlough and payment holidays is going to bring many borrowers to the cliff edge.

UK Debt Summary

8.3m
People in the UK are over indebted.

£100 savings
22% of adults have less than £100 pounds in savings (11.5m people).

£1,698 billion
owed by UK people at the end of February 2021 increase of £15bn year on year.

£60,448
The average total debt per household, inc mortgages.

£31,798
The average total debt per adult.

110.3%
of average earnings.

25 years
time to pay off a credit card with minimum payment.

The Challenge Ahead

Quite simply, the financial services industry needs to be well prepared. The voice of expert opinion from advisory organisations such as EY suggest there is a need for greater strategic management of NPLs. Preserving pre-pandemic NPL levels and avoiding escalation of distressed debt is critical to supporting customers and maintaining profitability.

The part digitised, part manual approach that many financial services companies use today is simply not up to coping with the projected scale of the problem. Increasing headcount is unlikely to be enough; this would further entrench inefficiency. There is a need to find new ways of doing things. As we rethink debt collection techniques and strategies, there are a number of strands that need to be brought together.

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A balancing act

Fundamentally, creating greater efficiency for collections and recoveries is a balancing act where the best interests of three stakeholders need to be satisfied - borrowers, lenders and regulators.

Providing scalability and embedding a sympathetic process

Scalability is required for successfully managing the increasing numbers of customers needing help. However, this needs to be balanced by not losing sight of the need to treat each customer as sensitively as possible.

Maximising collections while maintaining affordability

The need for preserving profitability through maximising collections has to be tempered by providing repayment plans that are affordable to each customer.

Reducing costs and improving CX

Using technology to replace paper forms and hand signing of documents with technology solutions is a huge step towards better efficiency. The use of technology must also boost the customer experience by enabling self-service and improving communication.

All the above while meeting compliance...!

Bringing these different considerations together needs to support many areas of compliance, such as auditing, affordability assessment and the need to embrace the outcomes and standards of Treating Customers Fairly (TCF).

In this eBook we discuss some smart ideas that have enabled a transformational shift for collections recoveries business units within some financial institutions.

1. Anticipate the needs of those in debt

From the macroeconomic perspective as well as for individual financial institutions, NPL rates are an indicator of financial health. In the wake of the 2008 credit crunch and ensuing global economic recession, the credit quality of loan portfolios deteriorated sharply.

Figures from the Bank of England show £16.6bn of net repayments on credit cards, personal loans, student borrowing and car finance during the pandemic – the most since 1993. However, this shouldn't obscure the flipside; £25bn of arrears and debt was accumulated by 11.1 million households since March 2020, due to the financial pressures of the pandemic.

To minimise the loan default rate as we recover from COVID-19, the key for banks is to ensure that they have the right tools to help swiftly and thoroughly address NPLs at an early stage.

A good first step in overhauling collections recoveries is to improve the ability to identify loans at risk of falling into NPL. Machine Learning (ML) data science techniques allow existing bank data and other information sources to be used to better understand customer situations.

Improving NPL risk scoring by partnering with specialist Fintechs enables lenders to better anticipate which borrowers and mortgagors may need help. This enables earlier engagement and earlier resolution. Outbound contact activity can be better structured and focused on providing personalised debt solutions that avert NPL situations.

Santander

14

minutes

Using video Santander reduced their Collections journey from 6 days to 14 minutes.

2. Adopt video technology

Changes to retail banking and the wider financial services industry are in full flow. Central to this is the preference for customers to operate their bank accounts at arm's length. Increased use of online and telephone services means the trend for declining footfall in branch offices is well established.

Demographic data suggests 40% of millennials do not visit physical banks. And COVID-19 has forced the majority to reduce the risks of infection by avoiding face-to-face (F2F) meetings. The emphasis is for lenders to find new ways to engage when providing personalised financial services that would traditionally require an appointment at the branch.

One way forward for lenders is increasing the use of responsive screen sharing and video technologies. Using the right tools to view curated documents and supporting content on screen simplifies explanations and accelerates processes.

The delays resulting from use of paper forms and documents for identity verification, affordability assessment and document signing are all avoided with technology that is appropriately designed and fit for purpose.

For some customers experiencing financial difficulties, this helps de-stress the situation by avoiding the formality of the banking environment. Where there is need to preserve more interpersonal engagement, consider the benefits of connecting contact centre agents and customers with F2F video calling technology.

AIB

Using video, AIB financial advisors handle 50% more customer appointments than in branch.

50 %

more cases handled

3. Leverage technology to streamline collections

At scale, processes that revolve around paper forms and printouts are outmoded; yet many systematic procedures are still burdened with the legacy of paper. Hybrid systems that are part computerised, part 'paper-ised', are still widely deployed.

Often, in an industry such as financial services, paper is enshrined by the requirement for original documents and signatures. Unfortunately, this also ring fences inefficiency!

Digitising all the elements of the recovery and collections process eliminates paper, maximising efficiency. This includes identity verification, affordability checks to collect and review income and expenditure data, electronic document exchange, and e-signing of agreements.

The right technology that integrates paperless tech with the appropriate video technologies enables a 100% paperless workflow. To streamline your recoveries and collections process, consider the advantages of solutions purpose built for the financial services industry and custom implemented for your specific needs.

Santander

% 100 paperless

Santander's digitized and streamlined Collections process eliminates paper and is so much faster increasing advisor productivity

4. Improve customer experience

The finance sector has something of an image problem. Adverse publicity about banking scandals drives negative consumer perceptions. Even though corporate and investment banking has little to do with retail banking operations, for much of the general public, all of banking has a bad name.

This often overshadows the fact that lenders and the wider financial services industry remains a cornerstone of prosperity and personal financial enablement. However, banks can seize the initiative and overturn negative consumer perceptions through raising the bar on customer service. By improving the customer experience (CX) lenders are able to differentiate their brands by promoting positive views, driving exceptionally high Net Promoter Scores.

As one of the most sensitive parts of a lender's services, debt restructuring is an ideal operational area for pioneering new ways of uplifting customer service levels. Sharing literature and information onscreen during voice calls makes it easier to give guidance that's hard to-explain over the phone. Integrating voice calling with onscreen document sharing simplifies agent-customer engagement, helping promote a more positive view.

Providing a more sensitive, efficient and gap-free process brings resolutions as fast as possible. Shortening the length of the customer journey helps minimise consumer stress and impacts on mental health. Ultimately, improving customer service reflects well on the brand, driving customer loyalty, aiding retention, reducing churn and lowering costs.

Santander

Customers experience very high levels of satisfaction with Santander's Collections process

97

NPS

5. Boost the First Call Resolution KPI

Typically, lenders tackle non-payment issues through multiple engagements with customers. The greater number of calls needed to achieve resolution in this drawn-out process, increases the contact centre workload, and directly, or indirectly, bumps up costs. Longer journeys also increase the risk of bankruptcy write-offs, as customers become more enmired in debt.

Multiple engagements are often needed because data, such as affordability information, has to be collected and reviewed. Or, documents may need to be posted and copied, or signed, and returned.

Adopting a process that is able to digitise information collection, or document exchange and signing, helps avoid the need for multiple engagements, enabling lenders to boost the First Call Resolution (FCR) key performance indicator (KPI).

This truly provides statistical evidence of how collections recoveries can be transformed. The effects of uplifted First Call Resolution statistics are likely to have a positive knock-on effect by setting new benchmarks for other contact centre KPIs, such as those relating to the productivity of contact centre staff.

Santander

%

500

increase

Santander achieved a 500% increase in FCR by digitising their collections process.

6. Record a digital audit trail of the automated workflow

Financial services is an area where multiple risks collide, making it one the most regulated industries in the economy. Besides the inherent core business risk from lending, there are multiple threats, such as those originating from IT security failures, such as cyber-crime, systems hacking and insider dealing.

With watchdogs continually evolving guidance and requirements, regulatory failure is perhaps one of the biggest risks faced by lenders. An auditing process that is part digital and part paper is a manual procedure that harbours inefficiency, invites human error and may lead to short falls in compliance.

Lenders should consider the advantages of capturing a complete audit trail of each customer’s journey through the use of a system that automatically logs every action and event. The detail of each engagement is captured, including voice and video, information sharing and document signing, completely avoiding the perils of manual auditing.

As well as reducing the risk of process auditing failure, automated auditing of all collections and recoveries activity facilitates better quality management, agent training and complaint investigation. The most appropriate solution should support 100% compliance with the regulatory requirements.

Solutions must lower risk & be rapidly deployed

- ✔ **Designed for Tier 1 global banks**
- ✔ **Secure ISO 27001 certification**
- ✔ **Full audit trail**
- ✔ **Go live within 48 hours**

7. Learn from other practice areas and your competitors

The use of the Chinese Wall to ethically screen and compartmentalise the different divisions of financial organisations is vital for supporting business integrity, governance and compliance. However, this entrenches legacy practices and reduces the opportunity for cross-fertilisation of new ideas and the sharing of innovations between departments.

This siloed nature of banking means collections and recoveries leaders may not have full visibility of how each line-of-business (LoB) within their bank operates. To help prevent outmoded or inefficient methods remaining in place, it is useful to learn from other practice areas and organisations.

Some collections and recoveries LoB divisions within banks are successfully using technology to eliminate paper. These organisations are using agent-assisted live sharing of documents and e-signatures to support voice calls to accelerate identity verification and affordability assessments.

Consider the advantages of solution purpose built for the financial services industry and custom deployed within weeks for the specific needs of each lender to deliver customer value and ROI rapidly.

NatWest

> ***Vizolution has allowed RBS to introduce a transformative, unique approach to our mortgage process. The rate of adoption has been outstanding and shows the appetite our customers have for digital solutions that are quicker, easier and more convenient to use.***
>
> Ian McLaughlin
>
> Formerly Managing Director of Home Buying and Ownership, now Chief Executive, Bank of Ireland (UK) plc.

Santander

Santander simplified and digitised its Refinancing and Collections process.

- **Eliminating delays caused by multiple stages**
- **Streamlining affordability checks**
- **Making complex advice easier to explain**

With 80% of calls made via mobile, the results clearly demonstrate that the process is clearer for the customer and reduces their journey times. In turn, this makes it more cost effective and efficient for Santander.

This transformational journey is now the default collections and refinancing across Santander Brazil accounting for 60% of all customer interactions.

Vizolution worked with us to understand the specific difficulties our customers were facing and then devised a solution to address these challenges.

As a result, we have created a radically improved customer journey that is market-leading in the collections division in Brazil, and provided a unique way for our customers to gain more clarity about the collections procedure, while being able to make repayments more conveniently than ever before.

Gustavo Santos

Head of Distribution Strategy Santander Consumer Brazil

97
NPS

% 100
paperless, process

% 20
increase in conversions

% 500
increase in first call resolution

14
minutes journey time, reduced from 6 days

Digitising the human and humanising the digital with Vizolution

The smart ideas, use case examples and testimonials provided here give some insights into how Vizolution is helping the financial services industry to achieve far greater efficiency, while boosting CSAT and fully supporting regulatory requirements.

With Vizolution collections and recoveries departments:

Digitise the human process

Use technology to increase efficiency by eliminating paper and manual tasks, streamlining the workflow end-to-end.

Humanise the digital process

Embed a sympathetic approach and support TCF by enshrining fairness and transparency for customers facing difficult situations and tough decisions about their finances.

About Vizolution

Vizolution is a market-leading customer experience technology company that helps enterprises streamline their complex customer journeys into effortless experiences by replicating the qualities of face-to-face interactions in their remote channels.

Its digital suite of solutions allows customers and agents interacting remotely, over the phone or online, to share, display, exchange, complete, verify and sign documents as if they were face to face, and works without requiring customers to download any software or apps.

Used by over 30 global enterprises from the financial services, telecoms and utilities industries, including HSBC, Santander, NatWest and O2 (Telefonica), its patented SaaS solutions typically deliver over 40% increase in sales conversions, 50% reduction in transaction times, high levels of customer satisfaction (>80 NPS), improved compliance and reduced costs.

Vizolution is an award-winning, hypergrowth CX-tech company ranked on Deloitte Fast 500 EMEA, FT1000 Europe and Inc. 5000 Europe. Vizolution have received awards for customer experience innovation, including from the Institute for Customer Service Awards, the UK Digital Impact Awards and the Professional Planning Forum.

Founded in 2013 and headquartered in Wales, Vizolution employs over 100 people across offices in London, and Toronto, and are backed by HSBC, NatWest, Santander Consumer Finance, Development Bank of Wales and Notion Capital.

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Suggested further reading

As NPEs increase, how will you control the flow?

EY website article

Erberto Viazzo - EY EMEIA Financial Services Banking and Capital Markets Leader; Partner, Strategy and Transactions, EY Advisory S.p.A.

https://www.ey.com/en_gl/financial-services-emeia/as-npes-increase-how-will-you-control-the-flow

Five ways banks can transform their collections processes

EY website article

Dai Bedford - EY Global Banking & Capital Markets Consulting Leader

https://www.ey.com/en_gl/banking-capital-markets/five-ways-banks-can-transform-their-collections-processes

COVID-19 and non-performing loans: lessons from past crises

European Central Bank (ECB) Article

Anil Ari - Economist, International Monetary Fund, European Department

Sophia Chen - Economist, International Monetary Fund, Research Department

Lev Ratnovski - Lead Economist, European Central Bank, Directorate General Research, Financial Research Division

https://www.ecb.europa.eu/pub/economic-research/resbull/2020/html/ecb.rb200527~3fe177d27d.en.html