2019 Report

arum

10 PREDICTIONS ON THE FUTURE OF COLLECTIONS AND RECOVERIES

CONTENTS

Introduction 3

Our 10 predictions

1 Higher volume and risk within collections 4

2 Increasing use of Robotics (RPA) and Artificial Intelligence (AI) 5

3 Adoption of FCA standards across non-regulated sectors 6

4 Increasing importance of the rental economy 7

5 Change in the Heads of Collections role 8

6 Customer will finally be king 9

7 Evolution of the collections call centre 10

8 Privacy divide in society 11

9 Multiple cloud-based collections systems 12

10 More direct government involvement and regulation 13

Five key changes to make to prepare for the future 14

How can Arum help you stay ahead of these predictions? 15

About Arum 16

Author & references 17

INTRODUCTION

The credit industry has changed over the last two decades due to the financial crash in 2008, subsequent introduction of new regulations, and the emergence of disruptive technologies.

For 21 years, Arum has been helping creditors navigate this landscape by transforming and building Best in Class collections operations, which are fit for purpose and aligned to regulations and customer channel preferences.

But what does the future of collections hold? Chris Warburton, one of our credit experts, has put forward 10 predictions, as well as advice for keeping ahead of what's to come!

What are your views on the future of collections? Join the conversation on our social media channels:

@arumsystems

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1. There will be higher volume and risk within collections, as default rates in unsecured collections increase

What do we think will happen?

Good customers are increasingly using debit cards, resulting in the risk profile of credit card customers increasing. In recent years, debit cards have continued to show strong growth, amplified by the explosion of the FinTech industry and the rise in technology. However, this process is also increasingly removing non-revolving transactors from existing credit card volumes as customers are opting to use debit cards instead.

Over time, this will gradually and increasingly change the relative risk mix of credit card portfolios. Organisations are likely to move down the risk profile in order to maintain growth. Whilst this will increase their revenue, it will also increase the delinquency volume. It will change the nature of accounts in collections. As this volume increases, instances of financial difficulty and vulnerability will be more likely to grow. The resultant higher volumes will put pressure on resources and operational costs. It will be a period of change.

How can you stay ahead of the game?

- Be prepared for higher volume and higher risk portfolios.
- Your collections process will need to be effective.
- It will be critical to manage losses, and reduce the cost to collect effectively.
- Review and increase the use of automated processes and tailor low-cost channels to the customer.
- Collect and utilise additional data to predict, inform and pro-actively reach out to your customers early.

2. We will see an increasing use of Robotics (RPA) and Artificial Intelligence (AI) to improve operational efficiency and customer experience

What do we think will happen?

Organisations are already starting to replace existing manual processes and interactions with process automation and enhanced modelling techniques. This will continue as the technology and number of providers are evolving and increasing at a rapid pace.

New challenger companies are building digital platforms that create a seamless customer journey throughout the whole lifecycle. Many existing players are using bots and AI to carry out simple tasks, such as sorting, prioritising and directing incoming email traffic. Due to this, chat bots are becoming increasingly common. The more forward-thinking companies are now starting to integrate voice bots with AI into their operations, which are now increasingly difficult to distinguish from actual agents.

How can you stay ahead of the game?

- Choose a technology partner that is evolving their products and services as quickly as the marketing is developing.
- Integrate don't bolt on - redesign the surrounding processes and customer journey to ensure that the whole experience is smooth and efficient.
- Invest in your people - use automated agents for the more mundane and simple tasks so your actual agents can spend more time and provide a better customer experience for those that come through to them.

3. The FCA has set a customer treatment standard that will be adopted across non-regulated sectors

What do we think will happen?

FCA regulations have already become a de facto gold standard for collections process excellence within financial services in the UK. They are also widely respected across other international markets. However, in many areas this has resulted in increased cost due to the additional evidence requirements.

The regulations continue to be pro-actively extended with schemes such as 'Breathing Space' recently being implemented. There is also potential for further 'best practices' from elsewhere, resulting in further regulatory overhead.

Current FCA regulations are gradually being adopted across other industries. They increasingly represent the benchmark standard, and with continued pressure politically from customers, this is only likely to align into a single best practice set.

How can you stay ahead of the game?

- Review and adopt regulatory best practice into your existing processes.
- Embed a robust control framework and process evidence within your collections process, design and systems.
- Build effective customer segmentation and communication strategies, including sign-posting debt help where needed.
- Adopt training and coaching for agents that are new to FCA-regulated collections processes. Treat customers fairly and use the standard financial statement to fully assess ability to pay.

4. There will be new processes to manage the increasing importance of the rental economy

What do we think will happen?

Companies are increasingly adopting monthly 'rental' approaches to generate cash flow stability. Everything from cars to music, and phones to clothes now available to 'rent'.

This approach can provide new revenue streams to what could be considered more traditional industries. However, this can result in financing with assets at risk. This will also mean additional collections processes will be needed and controls put in place to ensure profitability.

How can you stay ahead of the game?

- Ensure you have robust collections practices, controls and processes in place.
- Remember that inventory control and collections systems will remain important. Ensure they are robust and fit for purpose.
- Stay ahead of loss rates to ensure that there is no surprise on flattening growth.
- Be prepared for new process streams.

5. The Heads of Collections role will change dramatically

What do we think will happen?

Collections operations continue to be evermore customer and process-orientated, with a focus on automation continuing to dominate. Identifying (and handling) vulnerability and financial difficulty is also a major focus that will continue to demand the attention and investment it deserves.

The advent of alternative low-cost channels is resulting in volumes being worked earlier in the collections lifecycle and often overlapping with disputes, complaints and customer care departments. The point at which the collections process starts and finishes is becoming increasingly hard to determine.

Are collections departments destined for history? No. Nuances and dynamics specific to collections will remain, especially the ones linked to credit risk and timings of emergent performance issues. Companies will need to react and the role of Head of Collections is likely to change.

How can you stay ahead of the game?

- Be ready for change as customer centric processes are going to be key.
- Ensure a robust understanding of the credit risk lifecycle, the dynamics between acquisition risk, default and payment.
- Focus on using existing, as well as collecting new, data to determine how, what and when to contact customers.
- Use scoring and machine learning to better segment your portfolio and link them to strategies.
- Your digital customer choice during acquisition needs to be seamless through to collections and recoveries.

6. The customer will finally be king

What do we think will happen?

As digitalisation continues across all aspects of our lives, customers increasingly want to feel in control of their finances; they demand to be informed and to have a choice. Organisations will therefore focus on online and app servicing to give customers that control, including within the collections process. This trend will accelerate.

Social media is also likely to continue to amplify customer feedback, creating activism and greater political pressure for legislated change.

Digital processes gather useful data, and there will be an enhanced ability to use this data resulting in hyper segmentation to improve customer experiences.

How can you stay ahead of the game?

- Build and design a customer-centric process which enhances customer automation and choice.
- Create options for customers so they can be in control of the decision, using an expansion of selection tools to help.
- Quantify and assess the impact of options for customers' next steps.
- Provide transparency for choices and consequences. View collections as a process, with automated exceptions and nuance as a human escalation.
- Move roles such as collections agent from collector to a debt advisor.

7. We will see the end of the collections call centres as we know it today

What do we think will happen?

An immense pressure on cost and control is leading to increased automation across collections processes. This is reducing the size of collections call centres.

Additionally, with controls and restrictions on dialler, the telephone call, which had historically been the primary method of proactive contact, has become less dominant.

The rise in automation and digitalisation means online, less manual, and lower-cost communication options are often preferred by both businesses and customers. As a result, the regulatory environment is slowly starting to catch up.

However, as this trend continues, call centres will consolidate, reduce in size, and handle more types of communication.

How can you stay ahead of the game?

- Treat collections as a fully automated process, with a robust design, control and various options and consequences. Baseline 100% automation, gather and record data throughout the collections process. Make use of machine learning and artificial intelligence to better segment, providing an enhanced customer experience.
- Consider where manual intervention is required against this baseline on a cost-benefit, customer experience basis. We see this being more prevalent in late stage collections, or when handling situations of financial difficulty and vulnerability (although even this will be under cost pressure).
- Make use of low cost, digital and automated communication channels, such as: app, chat, chatbots, video agents.
- Use APIs to automate steps in process through data share – think about data share agreements across companies (for example, for Income and Expenditure processes).
- Initially increase outsourcing to BPOs, but as the market consolidates, you can eliminate as these processes are automated.

8. There will be a privacy divide in society, requiring change and control to manage

What do we think will happen?

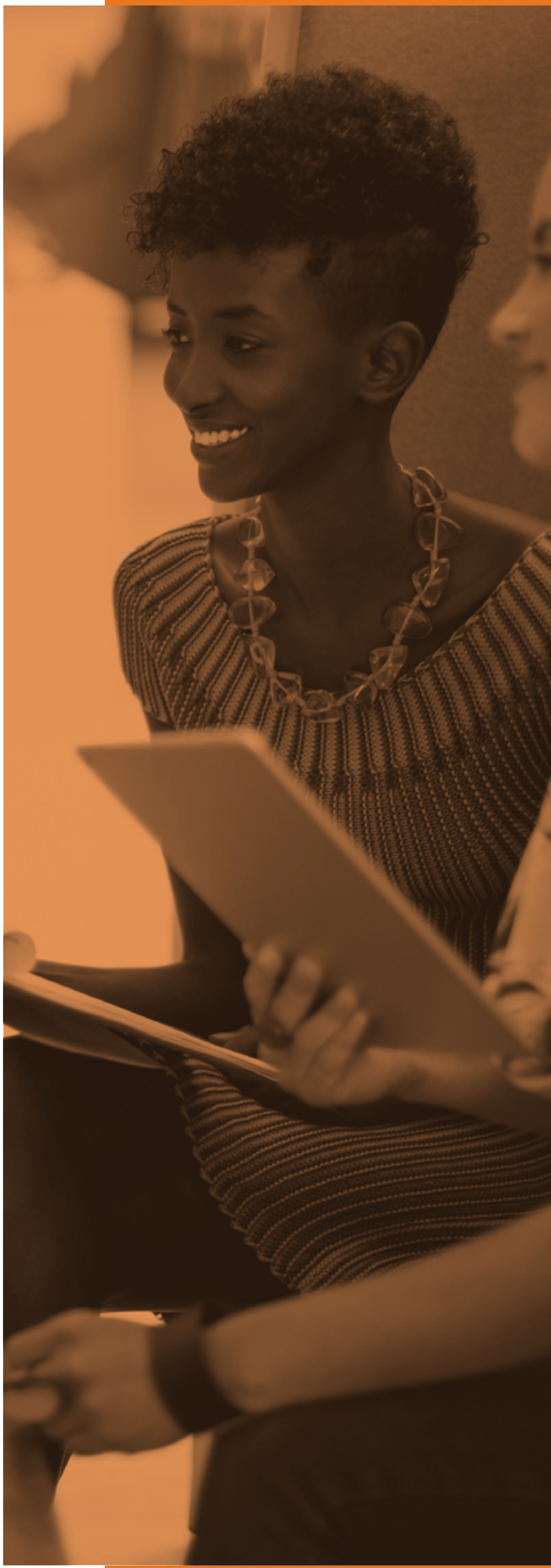
Nowadays, privacy has become an increasingly important topic. As artificial intelligence/machine learning and the use of expanded data sets become more prevalent, this concern will continue.

In exchange for data sharing, discounted products are being launched and this trend will be seen in financial services too. Maintaining your data privacy will cost more. Customers with less disposable income, needing low cost or sub-prime options, will not have access to finance without certain data being shared. This will also lead to the perception of a privacy divide between the prime and sub-prime.

Awareness around the use of data and potential bias in scoring will also increase as customers will expect more transparency. Organisations will need to be ready to give a full explanation of their decision-making (a continued area of research).

How can you stay ahead of the game?

- Be prepared for increased regulation and restriction on data elements available for modelling and scoring.
- Put in place a strong control framework as there will be increased regulatory privacy controls and evidencing requirements.
- Your policies will need to constantly evolve to keep up with the pace of change in terms of data and privacy.
- Seek expert advice and guidance on a continuous basis with regards to data privacy and access.



9. There will be multiple cloud-based collections systems

What do we think will happen?

Legacy collections systems are increasingly becoming dated and unsupported due to technology improvements and increased UI/UX expectations.

This cycle appears to be accelerating somewhat, in line with the hardware and software development acceleration cycles. These regular system updates and enhancements also drive revenue for the software industry. The use of APIs is also starting to result in fragmentation across the software industry, allowing companies to pick the Best in Class software, yet still easily exchange data.

Software/Platform as a Service (SaaS/PaaS) trends will continue outsourcing more of this to the cloud, so we anticipate seeing all major collections systems move to SaaS, alongside an increased number of smaller competitors (due to lower entry cost), and the development of small, specialist products for specific niches and tasks.

In short, the days of large-scale systems installed 20 years ago are fading: be ready for a continuous change and upgrade cycle.

How can you stay ahead of the game?

- You'll have less need for dedicated large-scale collections systems.
- Ensure you maintain control and coordination between systems, especially understanding linkages.
- You'll need to have a robust change control framework and monitoring to ensure correct operation, across potentially multiple lenders.
- Be careful when selecting products – focus on the testing and integration.

10. There will be more direct government involvement and regulation

What do we think will happen?

Increasing consumer debt load will result in more financial stress especially if there is an economic downturn. This will result in political pressure from consumers to increase control over lenders, policies and procedures (also amplified by privacy concerns too).

Industry bodies will react, requesting reduced risk to maintain levels of lending at a higher cost. In order to maintain levels of economic growth (and spending), governments will start to get more directly involved, potentially even acting as a central point of collections.

How can you stay ahead of the game?

- Keep a close watch on regulatory change.
- Be prepared for the introduction of new regulations to the lending market, and an increase in control over lending processes, practices and procedures.
- Reduce risks with greater data sharing standards and control.
- Seek benchmarking for best practice adoption of FCA regulations.
- Be prepared for increased costs to adopt regulations (e.g. need to segment and treat customers fairly) into your collections operation.

Five key changes you should make to prepare for the future

1.

Increase process automation to maintain margins, reduce manual intervention, provide frictionless customer journeys and improve control.

2.

Move collections agent roles to customer support, and only use where automation cannot replace, for example, late stage collection, or when handling situations of financial difficulty and vulnerability.

3.

Collect and use additional data to model, predict, inform and proactively reach out to their customers early, especially with regards to potential financial stress.

4.

Build and design a customer-centric process which can enhance customer automation and choice. Make use of the low cost, digital and automated communication channels, such as: app, chat, chatbots, video agents.

5.

Keep a close watch on regulatory change and put in place a strong control framework.

How can Arum help you stay ahead of these predictions?

For 21 years, we've been helping organisations in financial services, utilities, telco, public sector and the debt purchase and recovery industries transform and build **Best in Class collections and recoveries operations.**

From devising a new collections strategy to implementing automation and AI technologies, and building customer service visions to ensuring regulatory compliance, our team of experts can help - not only that, but the majority have made these improvements in organisations just like yours!

Take a look at some of our client case studies:

UK's first major Debt Manager 9 upgrade with global bank

Find out more >

Met aggressive system launch dates

Find out more >

Improved government collections operation

Find out more >

New customer services vision for energy supplier

Find out more >

Meeting Irish banking compliance regulation

Find out more >

ABOUT ARUM

Arum is the only truly independent company offering services across the credit management lifecycle.

We have over 20 years' experience helping our clients achieve their strategic objectives by improving their regulatory, credit risk and portfolio performance, whilst maximising returns on their technology investments. We provide a blend of professional services, consulting and unrivalled knowledge of the collections & recoveries software landscape, including benchmarking analysis across 30+ system vendors.

Our team includes highly experienced operational and program directors, project delivery leads and implementation experts, the majority of whom started their careers within the financial services sector working for major banks and software houses, with a passion for sharing their knowledge and expertise.

Headquartered in the UK and with clients spanning more than 20 countries worldwide, we work across financial services, utility companies, telcos, public sector, and the debt purchase and recovery industries.

AUTHOR

Chris has been with Arum since 2016 and leads the Credit, Collections and Data Pillar helping top UK and global businesses leverage data to improve strategy, performance and enhance control.

His background over the last 20+ years includes extensive experience in multiple industries and markets, completing regular advisory work across the customer lifecycle.

Data-minded and people orientated, Chris has considerable experience client side having previously held senior roles such as: VP Risk Operations at American Express, VP Billing Credit and Collections at Bell Canada and Head of UK Collections at Barclaycard.

Chris Warburton

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References

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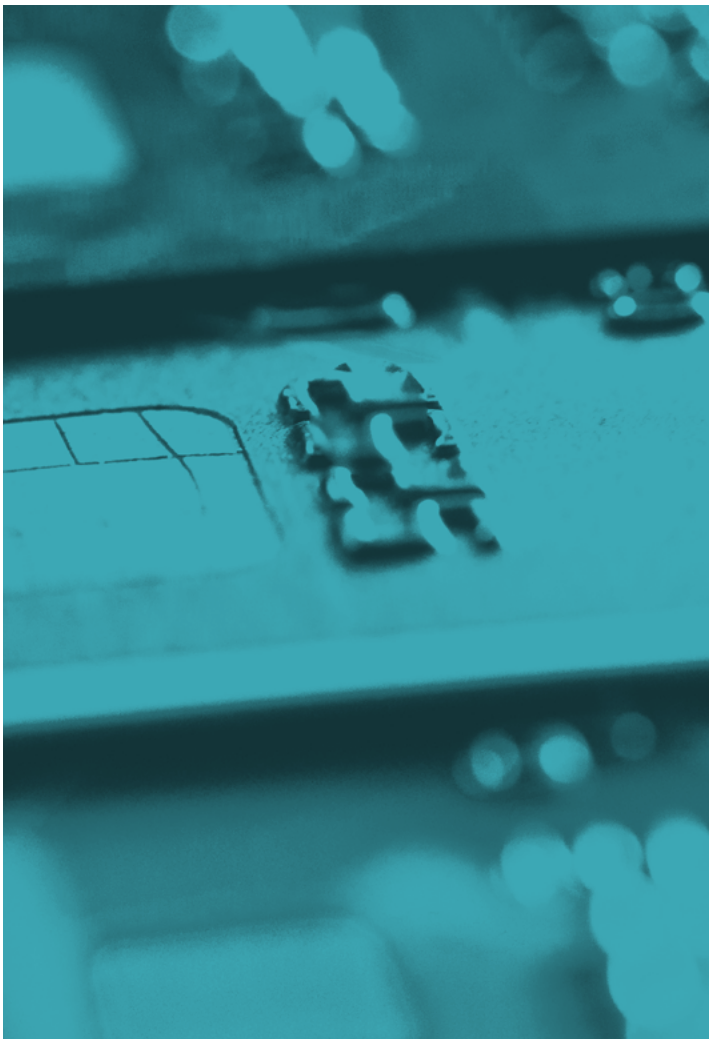

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