QUALCO

THE DEBT PORTFOLIO BLUEPRINT

Building the skills and competencies within your workforce to enable better governance, compliance, and credit management.

Discover how to improve achieve better governance by building the right set of skills and competencies.

QUALCO.EU

CONTENTS

FOREWORD

Organisations should move to a debt recovery world characterised by much greater sensitivity to customer circumstances than ever before"

Traditional creditors have sometimes been reticent about investing in their collection and recovery operations. Their priority has been selling new credit products that increase revenue and profitability. At best, overdue accounts have been viewed as a drag on profitability and, at worst, a time-consuming nuisance.

As credit has expanded and lending controls have relaxed since the financial crisis, overdue accounts have again increased. However, regulation of the treatment of customers who are behind with their payments has tightened significantly.

Compliance standards and requirements have become more onerous and some debt holders have realised that their systems and procedures are not up to the job of properly managing their debt portfolios.

Poorly coordinated and inefficient legacy systems, combined with minimal staffing levels and deploying insufficiently experienced people, have meant collection and recovery operations have not always performed adequately.

However, this is now changing. We are starting to see a willingness among creditors to invest in new technology and platforms to ensure that they have the best possible solutions to help them manage their overdue accounts. They are now bringing on board people with a strong background in collections and recoveries. The value of doing so is becoming clear in terms of return on investment (ROI).

This often springs from a comprehensive review of their entire strategy. What starts as a conversation about a specific area, quickly evolves into more widespread change.

The Financial Conduct Authority's requirements around systems and controls have driven organisations to take a long hard look at what they have in place and whether it is fit for purpose. We are also seeing that many creditors are reducing their external debt collection supplier base to retain sufficient oversight and reduce risk in this area.

Many creditors still have some way to go before they reach optimal collection and recovery practices. Time and money spent chasing overdue customers can be wasted if the data used is incomplete or out of date. But the tools are at hand to make significant improvements. The following Debt Portfolio Blueprint will inspire them to move to the next level of effectiveness and efficiency in a debt recovery world characterised by much greater sensitivity to customer circumstances than ever before.

—

Jan-Michael Lacey
Head of Sales
Qualco UK

REGULATION OF THE TREATMENT OF CUSTOMERS WHO ARE BEHIND WITH THEIR PAYMENTS HAS TIGHTENED SIGNIFICANTLY

SPEED READ: WHY DATA IS CRUCIAL TO BETTER GOVERNANCE, COMPLIANCE, AND CREDIT MANAGEMENT

Rich, deep data is the bedrock of a successful collection and recovery operation. Gathering and handling it optimally means using all available internal and external data sets and integrating them in a state of the art collection management system.

But while data is vital, it is not everything. Experienced, well-trained and professional staff are needed to achieve high levels of compliance when speaking to customers.

Their skills are what will eventually enable debts to be settled and provisions to be written back. Their success provides the ROI required of the organisation's investment in technology and people.

Who is best placed to collect the debt? A thorough collection strategy will determine the balance between in-house collection and use of external agencies, including debt sale. But supervision of the total process is critical to compliance, success measurement and fair treatment of customers.

This feeds through to brand protection and enhancement in the eyes of customers and regulators.

The final outcomes are: enhanced customer relations, customer retention, high levels of debt recovery, less bad-debt provisioning, good levels of ROI and strong end-to-end customer management.

"IN MANY CREDIT BUSINESSES, THE RIGHT LEVELS OF INVESTMENT IN SYSTEMS AND PEOPLE HAVE NOT BEEN MADE"

When it comes to collecting overdue accounts, the clear, overarching message of the Financial Conduct Authority's (FCA) Consumer Credit Sourcebook (CONC) is that the customer must be treated fairly and ethically.

The FCA offers detailed information on how to approach and manage the customer relationship and the rights of the customer. Businesses that offer credit products and facilities must put the customer at their heart.

Consequently, the customer whose account is overdue is not just an entry in a ledger or a row in a spreadsheet, but an individual. They have particular circumstances, abilities, needs, wants, histories and capabilities.

Some of these characteristics can be distilled into data entries – such as contact details, amounts owing and previous account performance – but that is not the whole story.

Sensitivity to individual customers must be demonstrated to a significant degree at points of communication such as telephone, e-mail, text, mail or personal visits.

In many ways, raw data is, or ought to be, the easiest issue to address. Accurate, up-to-date, granular data is a basic requirement and vital to being able to collect overdue accounts, but many traditional debt holders such as banks, utilities and retailers work with poor quality data.

Set alongside this is the expansion of credit that has occurred since the financial crisis. More credit is being conceded to consumers in a marketing push designed to increase profitability in highly competitive markets. Yet, in an era of economic stagnation characterised by austerity measures, consumers' disposable income is still constrained. Moreover, following the Brexit vote, the outlook for the UK's future is unclear, which has dealt a blow to consumer confidence.

For all of these reasons, credit portfolios are showing higher levels of underperformance and there is a need for better credit management, particularly in collections and recoveries. This requires higher levels of investment in systems and people, but in many credit businesses this has not been made.

Consequently, recoveries are in many cases suboptimal. The appropriate treatment of customers still has some way to go before it fully conforms to FCA standards and high levels of credit rehabilitation are achieved.

The following Blueprint discusses how creditor organisations can go about building the skills and competencies within their own workforce to enable better governance, compliance, and credit management.

The fundamental rationale is the business case. The purpose of better credit management is to increase the rate of recoveries and expend less in doing so, while ensuring that customers are fairly treated. If possible, they should be rehabilitated and continue to be worthwhile customers of the organisation.

These goals are common to banks, telcos, retailers, utilities and to debt collection agencies (DCAs) and achieving them should be justifiable in terms of ROI.

QUALCO

THE PURPOSE OF BETTER CREDIT MANAGEMENT IS TO INCREASE THE RATE OF RECOVERIES AND EXPEND LESS IN DOING SO

THE TOOLS TO INCREASE PRODUCTIVITY AND COLLECTIONS EFFECTIVENESS

The Financial Conduct Authority deliberately repeats its Principles for Businesses (PRIN) in the preamble to its Consumer Credit Sourcebook (CONC). It says:

Principle 1

“a firm must conduct its business with integrity”

Principle 2

“a firm must conduct its business with due skill, care and diligence”

Principle 3

“a firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems”

Principle 6

“a firm must pay due regard to the interests of its customers and treat them fairly”

CONC chapter 7 covers "Arrears, default and recovery (including repossessions)" and includes specific instructions on how credit providers must set "clear, effective and appropriate arrears policies and procedures for dealing with customers whose accounts fall into arrears".

This includes how to approach and treat their customers, as well as how not to.

Using the United Kingdom as an example, this Bank of England statistics graph shows a steady increase in consumer credit since the financial crisis. The Money Charity estimates that at the end of June 2016, UK consumers owed:

- £1.484 trillion

That's an increase of £40 billion over a year earlier – an additional £778 per adult. Yet many credit providers are not geared up to cope with the inevitable rise in overdue credit accounts.

"CLEAR, EFFECTIVE AND APPROPRIATE ARREARS POLICIES AND PROCEDURES"

INTEGRATED MONITORING TOOLS ENABLE REAL-TIME, DASHBOARD REPORTS ON THE STATE OF INDIVIDUAL CUSTOMERS' ACCOUNTS OR ENTIRE PORTFOLIOS OF OVERDUE DEBTS.

DATA, DATA, DATA

Data is the bedrock of credit management. Without it, an organisation, whether it is a bank, a telco, a utility, a retailer or DCA, will not know what is owed, by whom, or how to contact the customer and arrange for repayment.

The key problem for debt holders is often that the data they hold is inaccurate, incomplete, out of date and held on incompatible legacy systems. However, technology can resolve this basic issue.

This can be cloud or internal server-hosted, work across platforms and integrate all available in-house data regardless of file format. Moreover, technology can draw upon external sources such as credit information, electoral roll and other data to corroborate, verify, augment and authenticate customer information.

As many as 300 data fields can be populated, producing an enriched and granular data pool. This far outstrips most credit providers' legacy systems where there is typically far less detail available.

These technology tools also integrate call centre performance and dialler monitoring information and performance. Integrated monitoring tools enable real-time, dashboard reports on the state of individual customers' accounts or entire portfolios of overdue debts.

Such reporting is available to control work carried out internally or by external agencies such as DCAs or law firms. The system provides both insight and oversight and this enables rigorous control of the debt collection process, a key regulatory theme. Consequently, users are able to protect their reputation with regulators and customers.

FRAMEWORK FOR SUCCESS

Knowing that such tools are available is important, but having the right people to use the system is also vital. Underinvestment in technology has typically been mirrored by underinvestment in staff.

While many credit providers, reacting to regulatory pressure, have reinforced compliance, often they have not recruited collection and recovery professionals to work with their customers.

Having highly skilled staff, who are capable of using the data they have at their disposal in a compliant way, is an essential integral part of the framework for success.

This is more crucial today than ever before. Knowledge of regulation is vital, as is experience in dealing with collections for different types of customer.

This necessitates strong staffing and training of call centre staff. A customer-facing business can only be as good as its customer liaison staff, who significantly influence whether or not customers pay their arrears and are rehabilitated. The cost of customer acquisition reinforces the rationale of customer retention where possible.

Both staff and technology are crucial in increasing the level of net recoveries. Unless the investment is made, recoveries may languish. Careful monitoring of the results should produce a worthwhile ROI, and demonstrate a valuable contribution to the credit process as a whole.

Moreover, adopting and prioritising amicable solutions for the whole debt cycle will protect shareholders from the effects of non-compliance penalties. It will fulfil values of social responsibility and reinforce the credit provider’s brand.

OPTIMAL STRATEGY

Effective debt management needs to be driven by a strategy that is right for the business.

One size does not fit all. What is right for a telco or utility may not be appropriate for a major high street bank that makes personal loans or issues credit cards because of the differences in product offering, nature of relationship, customer group and credit terms. So key strategies need to be established, re-examined and tweaked at regular intervals to ensure they remain optimal.

Strategic considerations can include:

What is the goal for improving customer days outstanding? Should it be 10, 20, or 30 days after due date, for example?

At what stage are customers moved to the non-performing ledger if they fail to pay by a given due date?

How will the collection and recovery operation be managed, staffed, trained and rewarded?

Which technology tools will be most effective and produce the required level of ROI?

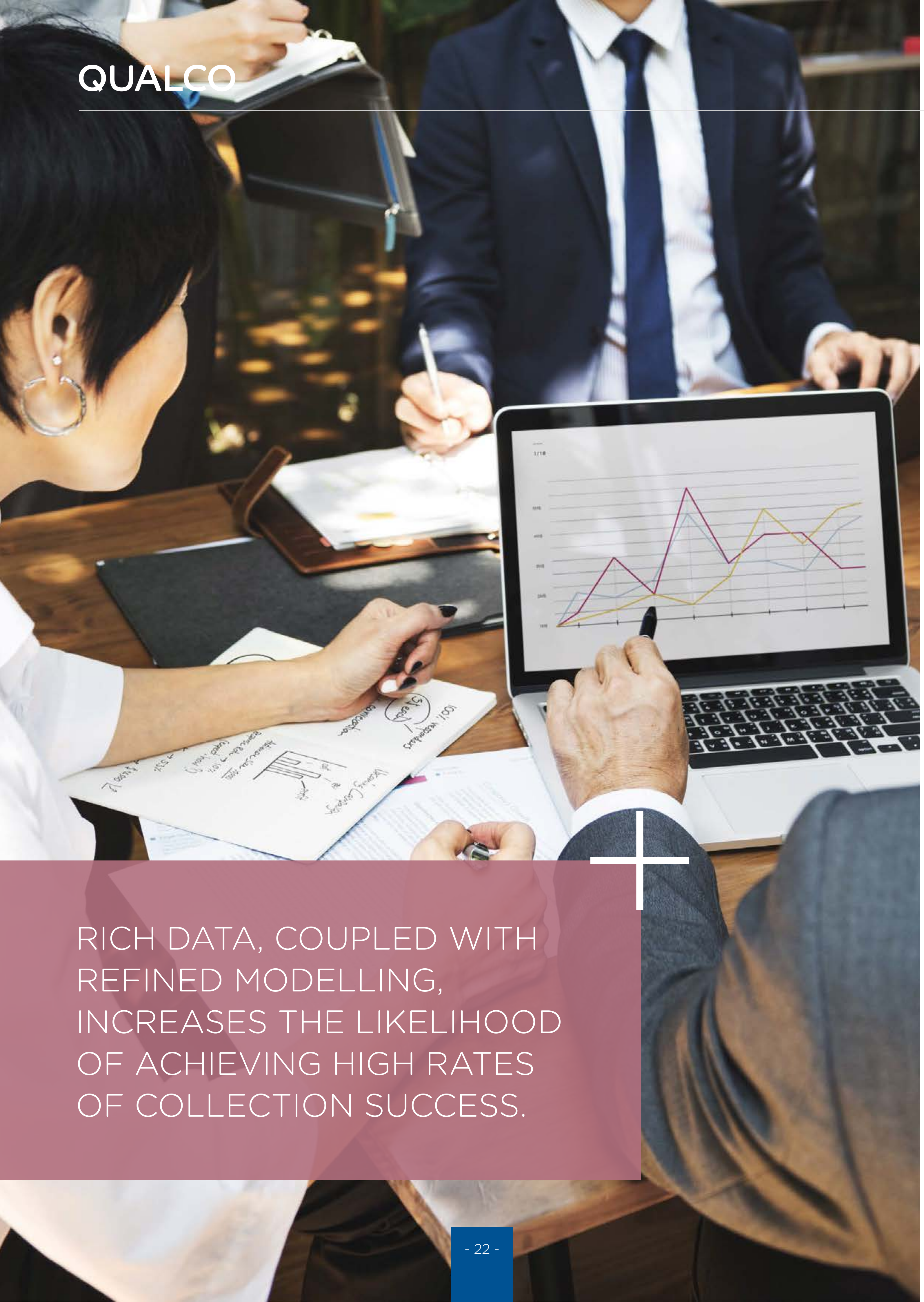
What is the best way to go about collecting the debt? Are internal staff, or an external agency with specific product or geographical expertise, best equipped and more cost effective?

Where does a creditor organisation stand on the spectrum of establishing a sophisticated credit recovery operation of its own, vs outsourcing all collections and recoveries to external agencies?

What steps are to be taken to stay abreast of new regulation and respond to changing market conditions?

What are the most effective steps towards protecting and enhancing the reputation of the organisation?

How secure is customer data with regard to both internal and external collection operations and taking account of possible hacking and cyber risks?



RICH DATA, COUPLED WITH REFINED MODELLING, INCREASES THE LIKELIHOOD OF ACHIEVING HIGH RATES OF COLLECTION SUCCESS.

HOW TO IMPLEMENT THE STRATEGY

Having decided on the strategic issues, implementation should follow.

Establishing the software platform and migrating internal and external data is a key early step. Testing and modelling real-life examples of the process will ensure that the system is fit for purpose and adjustments can be made before it is fully implemented.

These should be benchmarked to levels of success across the DCA community, where the results achieved by collection and recovery specialists can be expected to be at the highest levels. Rich data, coupled with refined modelling, increases the likelihood of achieving high rates of collection success.

Data and process need to be harnessed to the customer interface. Ensuring collection and recovery specialists occupy roles throughout the internal customer facing team can help to ensure that the right culture and understanding of how to treat customers is maintained.

This demands that high calibre staff are recruited. These could include data analysts, portfolio managers and operations experts.

Such highly skilled staff will capitalise on available data and apply best practice to continuously improve collections efficiency and portfolio performance.

However, continuing training of all staff is a necessity. Regulatory measures across the financial services sector continually change and increase in rigour and complexity. It is vital to stay abreast of them and maintain good compliance standards.

Add to this careful supervision. Assign cases to the right agents to ensure optimal recovery results. Call listening, scoring and closely monitoring customer behaviours will indicate strengths and weaknesses, while recoveries and customer retention will confirm if the process is working optimally.

As time goes on and more information is gathered about what achieves success and what doesn't, the process can be further enhanced.

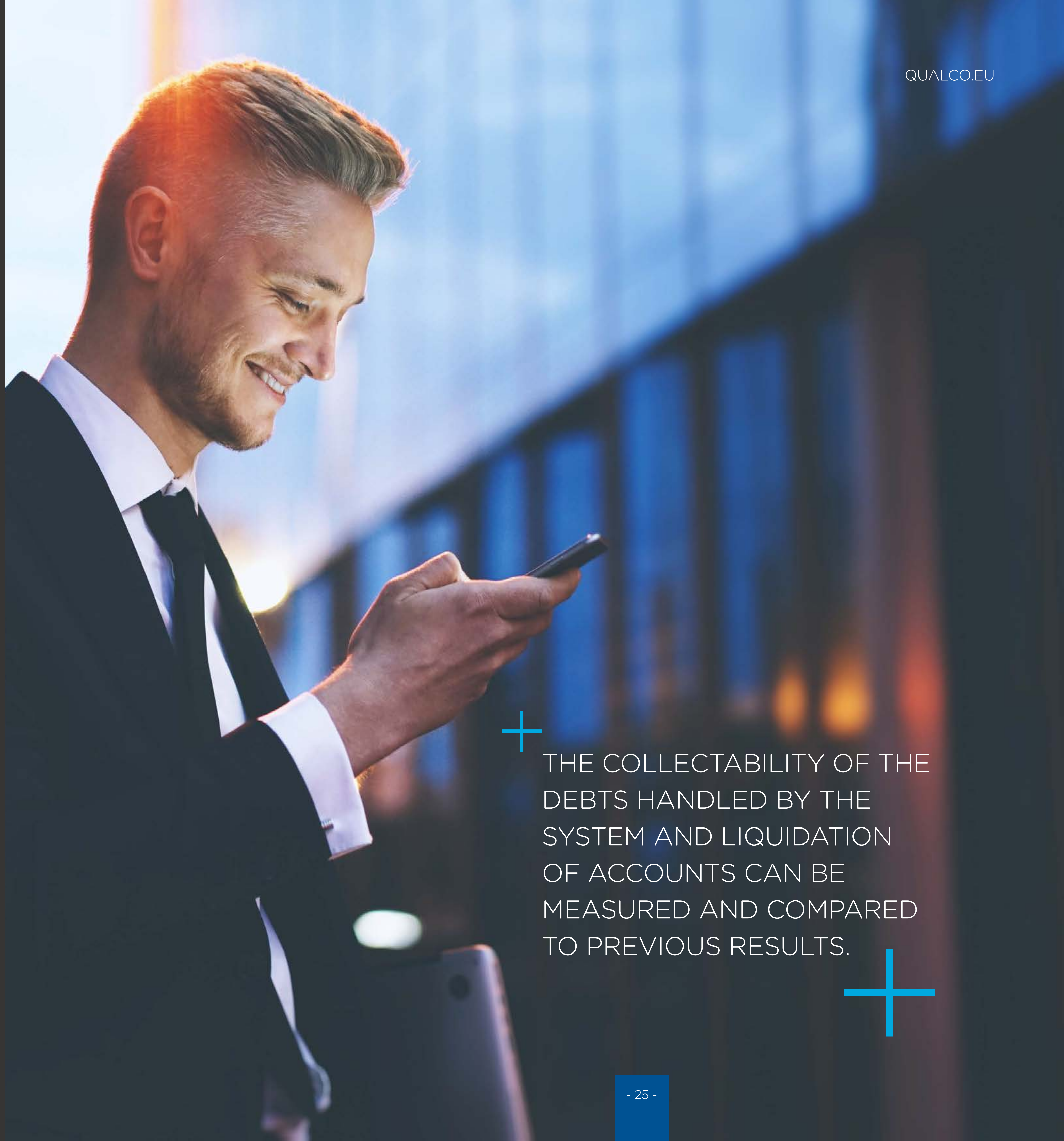
SUCCESS

What then does success look like? A richer data set will lead to a more constructive conversation with the customer. This will then feed into the quality of calls staff are making.

The collector will have more confidence that they are talking to the right customer in the right manner to achieve the right result.

In addition, the collectability of the debts handled by the system and liquidation of accounts can be measured and compared to previous results. These and other activities, such as compliance performance and the number of times customers are called, are measurable too.

The bottom line is a significantly higher level of recoveries and a lower level of non-performing facilities. When using the latest research and technology tools, the modern, up-to-date debt collection process will complete a robust, end-to-end credit management and rehabilitation operation that puts the customer at the heart of the strategy.



THE COLLECTABILITY OF THE DEBTS HANDLED BY THE SYSTEM AND LIQUIDATION OF ACCOUNTS CAN BE MEASURED AND COMPARED TO PREVIOUS RESULTS.

“INCOMPATIBLE LEGACY SYSTEMS AND POOR BASIC LEVELS OF DATA ABOUT CUSTOMERS, MEAN THAT INTERNAL OR EXTERNAL RECOVERY TEAMS HAVE A LOWER CHANCE OF MAKING RECOVERIES”

Organisations that offer credit products are facing higher levels of arrears but in many cases they are failing to control them.

The increase is chiefly due to increased sales and marketing, but profitability is being hampered by underinvestment in collection and recovery operations. Debts are provided for and then only written back when recoveries are achieved. In many cases write offs may burgeon, despite the fact that using up-to-date debt management systems and well-trained staff can reduce losses and more than justify investment.

Incompatible legacy systems and poor basic levels of data on customers, mean that internal and external recovery teams have lower chances of making recoveries.

Yet powerful debt collection platform technology can compile rich datasets, gleaned from internal sources and imported from external sources. These can be securely placed at the disposal of both internal and external debt recovery teams, upping the rate of recovery.

Current and evolving regulation such as the Financial Conduct Authority’s CONC stipulate in some detail how customers are to be treated by organisations to which they owe money. For this reason and that of their own reputational risk, creditors must ensure their staff are professional, well-trained and closely monitored.

The frequency, accuracy and manner of their communications with customers can be closely monitored using the debt management system, whether they are internal or external staff.

With such controls in place and the strategic decision made as to whether to gear up the internal collection function or to employ specifically skilled outside agencies, the organisation can achieve a sharp focus. That focus is unique to each organisation, and comprises a variety of measures, including:

- Rate of net recovery.
- Level of compliance.
- ROI in the collection process, including investment in technology and people.
- Rate of customer rehabilitation and retention.
- Reduction in provisions and write offs.

Together, these represent the value add available to an organisation that establishes an adequate, timely and suitable debt management function. There is an up-front investment to be made but the return is measurable, controllable and worthwhile in the context of an organisation’s end-to-end credit operation.

FIVE STEPS TO STRATEGY SUCCESS

Regulatory requirements, insufficient quality data and the availability of new technology tools necessitate a fresh approach to collections and recoveries.

+

Conflicting legacy systems can be coordinated and enhanced with a cloud or server-based state of the art collection and recovery system.

+

Bringing internal and external data together with industry benchmarking will enrich available datasets.

+

Who is best placed to collect and recover? An internal team or an outside agency with specific skills? Enhanced supervision tools provide insight and oversight of both.

+

The result: fairer treatment of customers, better compliance, high levels of collections and recoveries and ROI.

SHARE THIS BLUEPRINT

Are you ready to take our **Debt Portfolio Maturity Audit** and discover how we can help you build a more cost-effective C&R strategy? Find out now.

FILL OUT THE AUDIT

QUALCO

QUALCO.EU