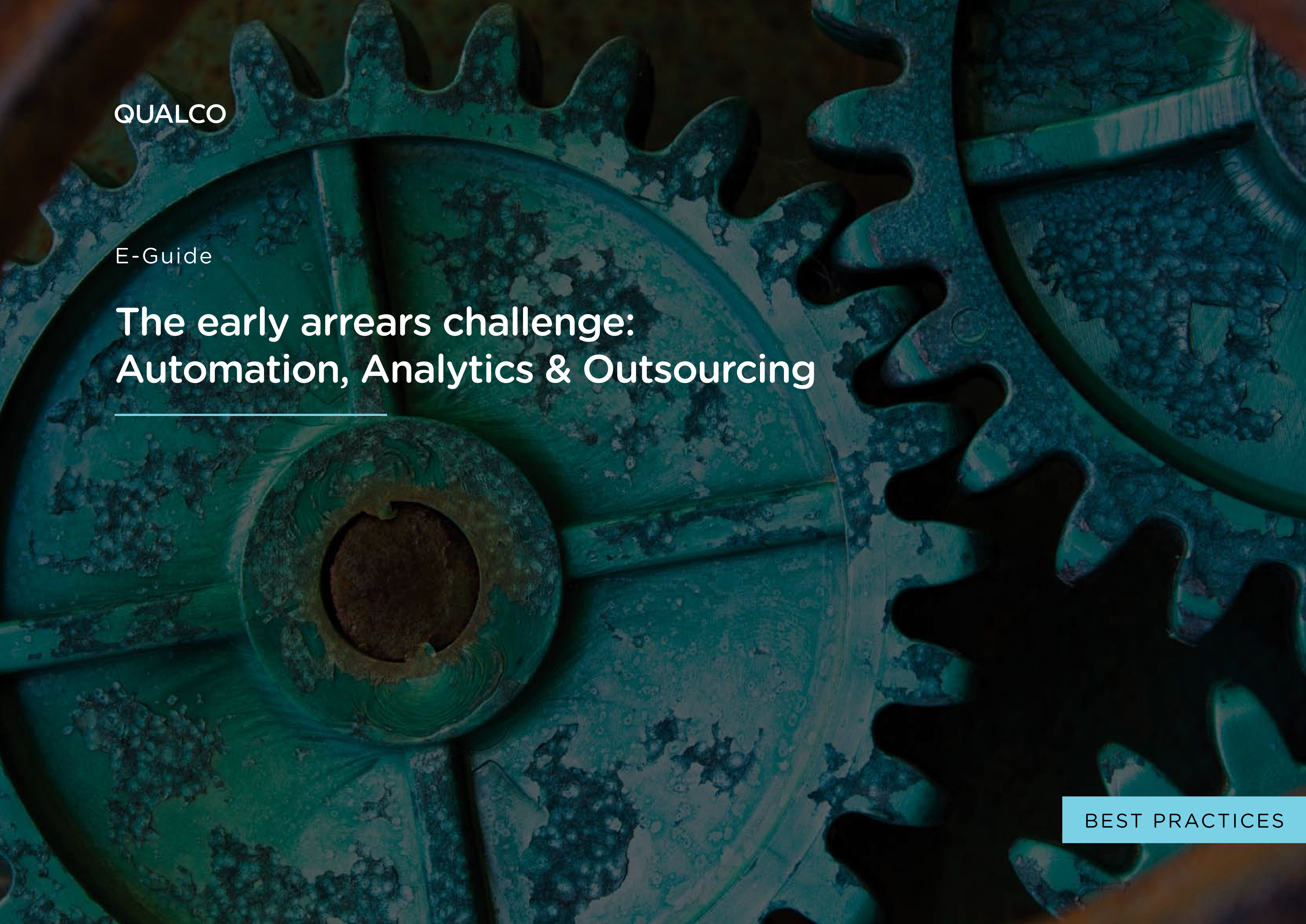

E-Guide

The early arrears challenge: Automation, Analytics & Outsourcing

BEST PRACTICES

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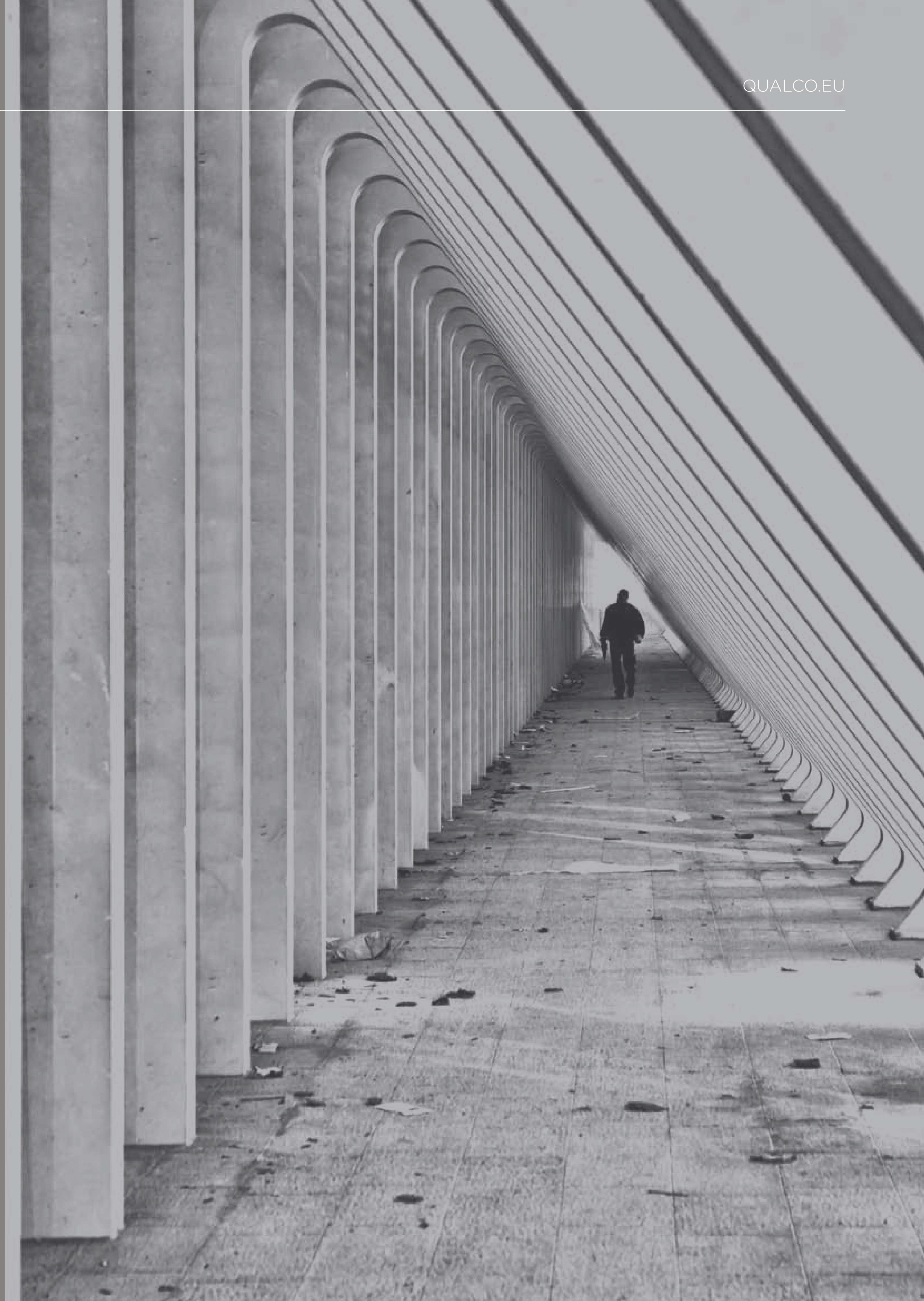


INTRODUCTION

AUTOMATION AND ANALYTICS: THE MODERN COLLECTIONS ENVIRONMENT

While outsourcing collections is a long-established practice, lenders have increasingly moved to outsource their debts at an earlier stage in the cycle, aided by developments in technology and analytics.

In the wake of the financial crisis, regulation has swept across Europe and within individual countries, focusing on the treatment of those in debt and the methods used to collect. European Central Bank Directives, GDPR and expectations around the treatment of vulnerable consumers have all altered the landscape.

Banks and other lenders realise the need to adhere to new standards of compliance and customer care, while at the same time face pressure to maximise the amount collected and reduce levels of non-performing loans. Yet the cost of compliance for in-house operations has risen dramatically. It is vital to have systems capable of effectively managing debt portfolios, segmenting and outsourcing to trusted and compliant partners.

Today collections firms offer honed strategies and expertise in collecting debts at the same time as rehabilitating customers and protecting reputations.

Advances in analytics and automation have created benefits in the collections space and bespoke technologies transform raw data into insight. Outsourcing allows lenders to access these dedicated practices and technologies while closely monitoring the performance of agencies.

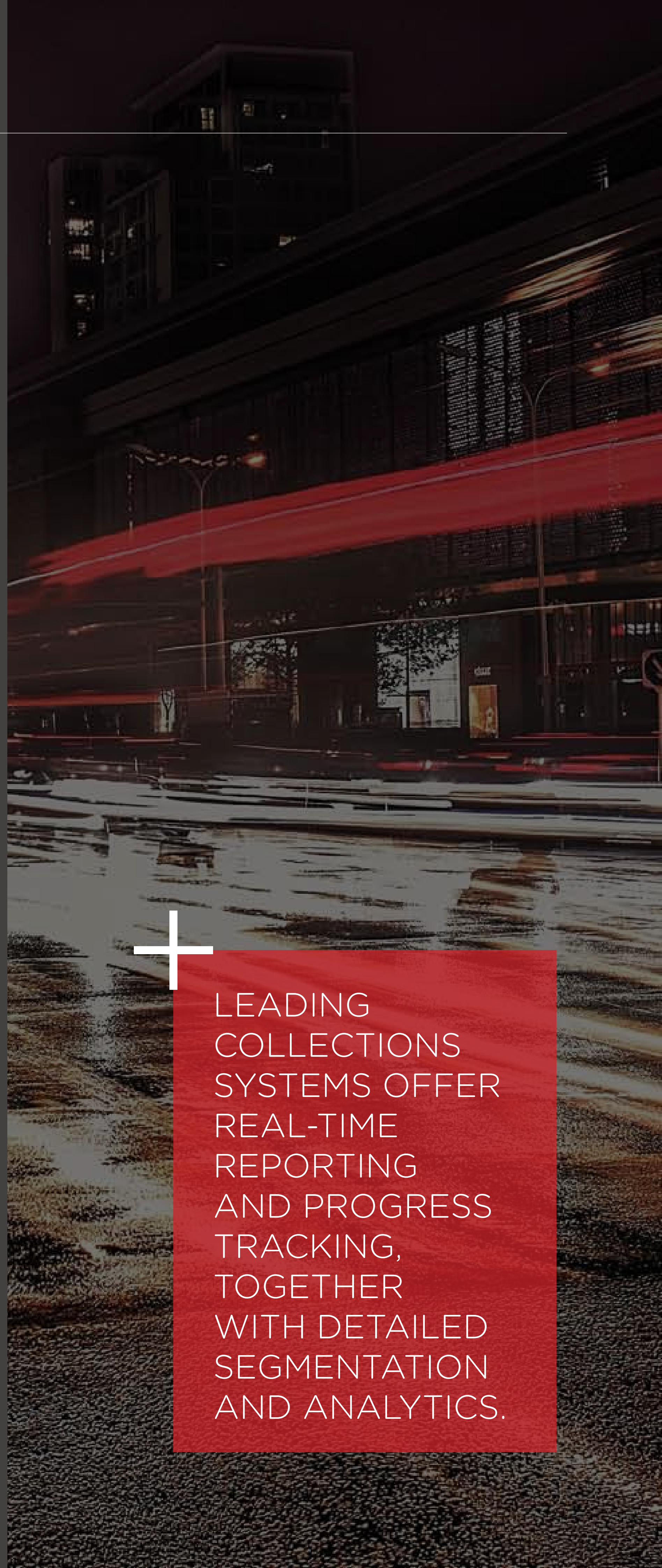
The need for a seamless customer experience in early arrears collections is high, with many customers likely to have future relationships with the originating lender. Gone are the days of third party firms being used as a last resort. Instead, panels are shrinking due to regulatory requirements as lenders raise their auditing requirements and build lasting partnerships with their third-party suppliers.

Placements are becoming longer, reflecting the need for debt collection agencies to thoroughly establish customer circumstances and tailor sustainable repayment solutions.

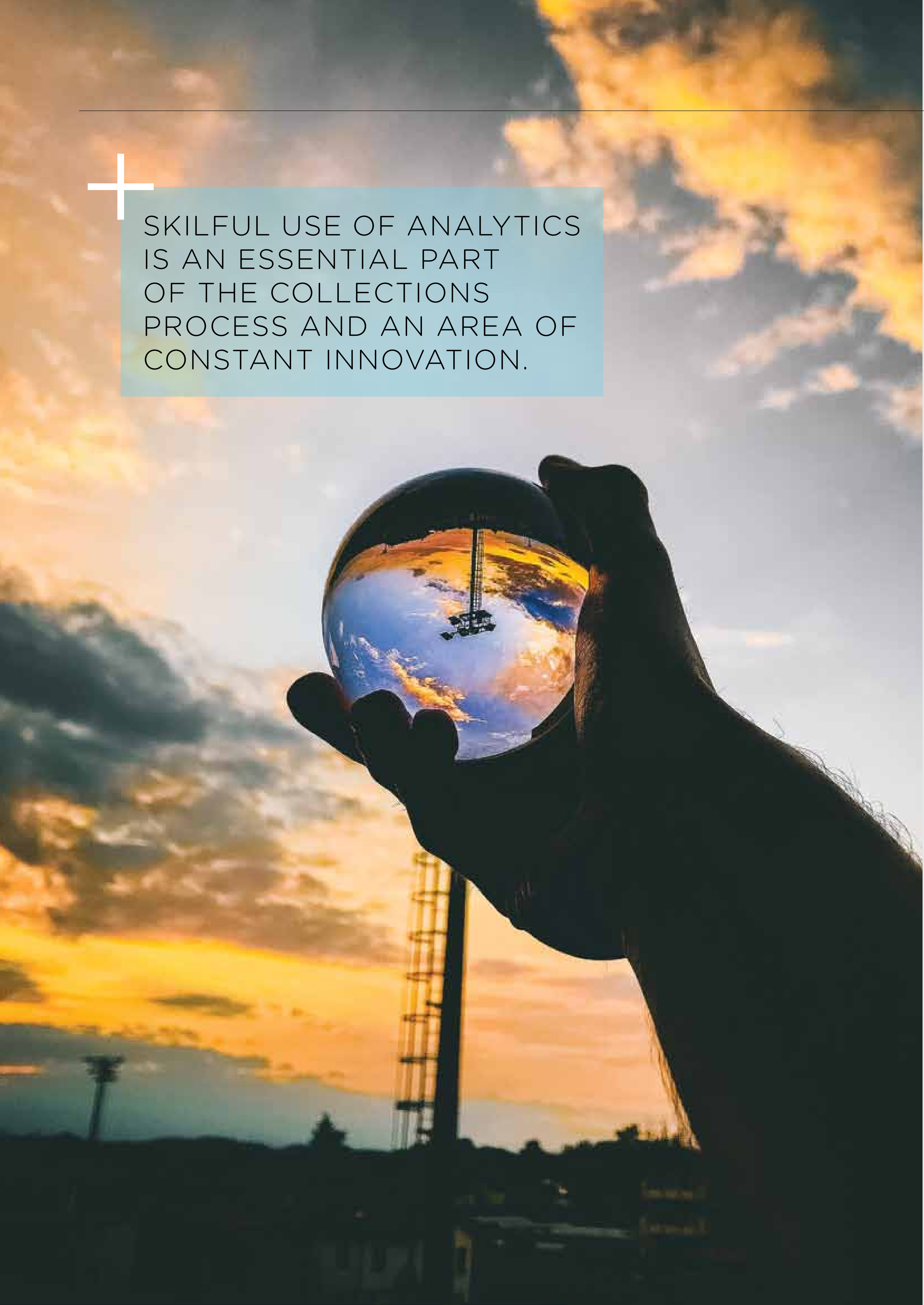
Lenders need to be assured that the systems used are capable of handling the lifecycle of the debt effectively and without detriment to consumers. The increasing sophistication offered by collections systems is accompanied by cost-efficiency, allowing lenders to benefit from scale and advances in data handling and analytics. Timely collections improve cashflow. Outsourcing those collections frees up internal resources – meaning staff can focus on other activities to add value.

The leading collections systems offer real-time reporting and progress tracking, together with detailed segmentation and analytics. This increases the rate of collections and enables the lender to monitor the performance of its third-party partners. These systems ensure accounts can easily be outsourced to the most appropriate agency for the circumstances, improving returns and the customer experience.

With a wealth of data at our fingertips and the systems to maximise that information, justifying outsourcing in collections and recoveries is easier than it has ever been.



LEADING COLLECTIONS SYSTEMS OFFER REAL-TIME REPORTING AND PROGRESS TRACKING, TOGETHER WITH DETAILED SEGMENTATION AND ANALYTICS.



SKILFUL USE OF ANALYTICS IS AN ESSENTIAL PART OF THE COLLECTIONS PROCESS AND AN AREA OF CONSTANT INNOVATION.

MAXIMISE COLLECTIONS WITH ANALYTICS

Skilful use of analytics is an essential part of the collections process and an area of constant innovation by collections professionals. Systems are now able to handle large volumes of raw data, using automation and machine learning to identify the best predictive models.

These models are used to establish which customers are likely to repay and determine the most effective strategies for particular groups. Using analytics in this way makes the best use of resources, ensuring firms are not wasting time on unsuitable approaches or accounts with a low propensity to pay.

Likewise, analytics determine which accounts should be outsourced and which third-party partners are most suited to specific segments. This allows the lender to spread accounts across different agencies, making use of different types of expertise and maximizing returns.

These systems offer lenders the opportunity to gauge the effectiveness of their own internal operations as well as those of their partners, providing clear justification for their outsourcing approach – as well as the ability to tweak and hone that approach over time.

For example, **QUALCO's Data-driven Decisions Engine D^{3}E** transforms raw portfolio data into powerful intelligence, insight and granular-level predictions.

It is capable of processing and automatically structuring large volumes of raw data. D^{3}E self-configures to segment portfolios, model their behaviour and predict their performance. Adjusting to changing institution and market needs is as simple as configuring the new objectives and restarting the process.

I want to learn more about D^{3}E

COST REDUCTION & INCREASED EFFICIENCY

Collections performance is only one side of the coin in the decision to outsource. Dedicated collections operations offer economies of scale. They invest quickly in the latest technologies and systems to improve collections and customer experience and are at the forefront of changing regulation.

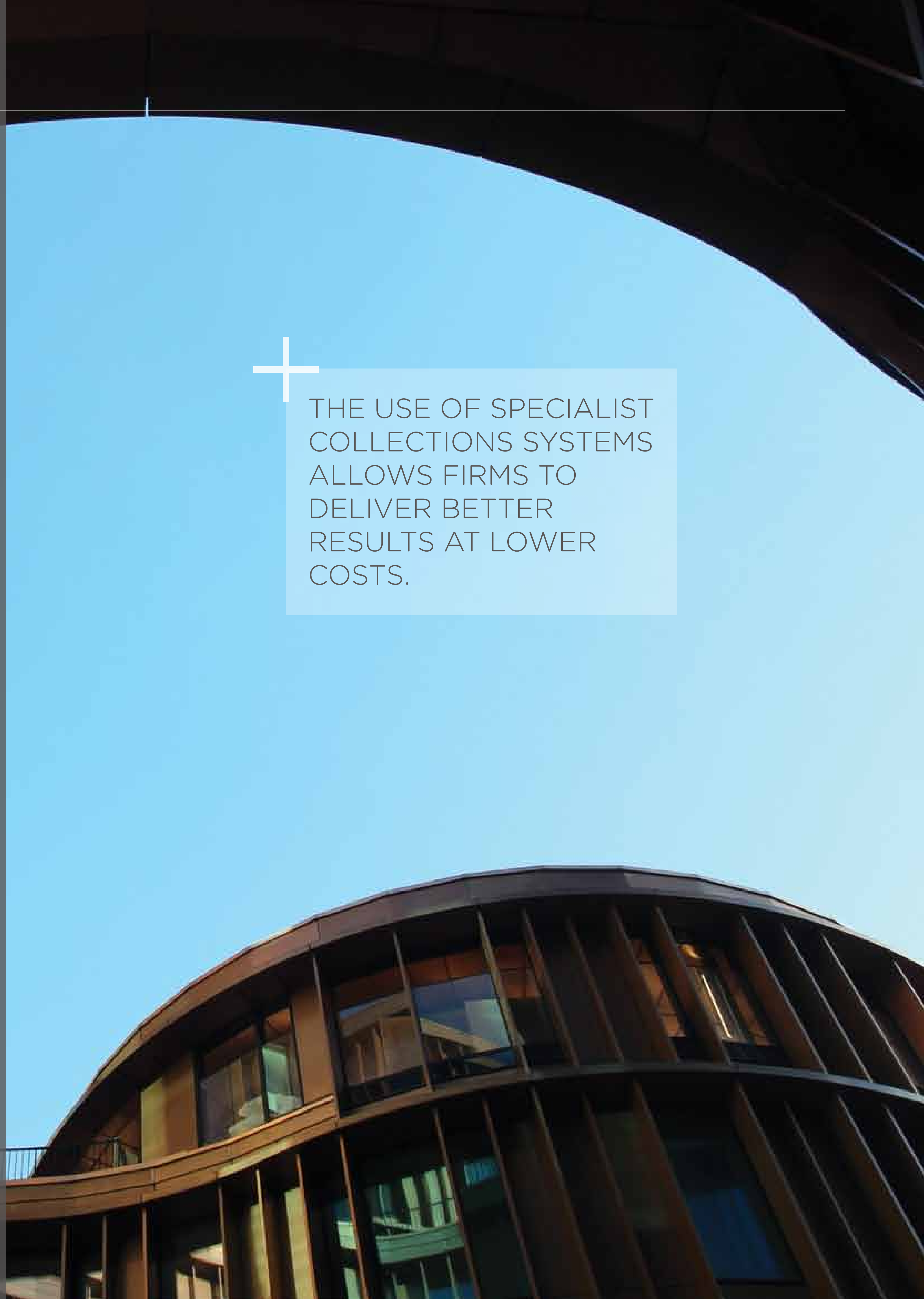
The use of specialist collections systems allows firms to deliver better results at lower costs by reducing headcount. Lenders can assess their partners on this basis, using detailed monitoring to measure costs as well as results.

Agencies can dedicate time to accounts that lenders may previously have written off as too small or difficult to collect. The levels of automation that are increasingly adopted by third-party firms using specialist systems makes it cost effective to attempt collections in these cases.

For example, firms can achieve customer and account-level segmentation, with automated contacts via a variety of channels: SMS, email, app, chat and letter.

These systems also handle customer requests, direct debit and legal support, significantly reducing overheads and making the best use of resources by freeing agents to handle more complex situations.

Implementing and maintaining these solutions in an in-house environment will not always be operationally viable or cost-effective.



THE USE OF SPECIALIST COLLECTIONS SYSTEMS ALLOWS FIRMS TO DELIVER BETTER RESULTS AT LOWER COSTS.

FREEDOM TO FOCUS ON OTHER THINGS

Using skilled external partners to handle collections at an earlier stage frees internal resources. The lender can instead direct its own staff to add value in other ways. For example, internal agents may be deployed to focus on high balance accounts.

Using technology to monitor performance means managing outsourcing partners does not need to be a headache. Automated data collection technology has significantly reduced the administrative burden of using external firms.

TRANSPARENCY & CONTROL

A real benefit of the technology and analytics that have been implemented in the collections space is that lenders have a clear view of performance and control of their portfolios. End-to-end systems are easily scalable and integrate effortlessly with third party systems.

High-quality data is therefore more readily available, offering a real-time view of the activities undertaken by external agents and the results they produce. The level of detail is significant and regular reporting allows lenders to see how their agencies are performing on accounts.

These system connections mean modifications can be made rapidly to improve performance. This level of oversight has become essential as regulation of the sector has increased.

For example, **QUALCO Collections & Recoveries (QCR)** quickly and easily integrates with third-party systems with no vendor involvement.

It provides the means to manage accounts at any stage of the delinquency lifecycle (from early arrears to legal and restructuring) and facilitates both in-house and outsourcing operations.

I want to learn more about QCR

END-TO-END SYSTEMS ARE EASILY SCALABLE AND INTEGRATE EFFORTLESSLY WITH THIRD PARTY SYSTEMS.

> THIRD-PARTY COLLECTIONS FIRMS ARE ADEPT AT CONTACTING INDIVIDUALS AND WORKING WITH THEM TO FIND A SOLUTION.

INCREASED REHABILITATION

A third party can be a benefit when it comes to making contact with customers who have defaulted and helping them find a way forward.

Often outsourcing can be a wake-up call for customers who have been ignoring their financial issues. A third party can take an unemotional approach, acting as a signpost to debt advice and help if needed. They can negotiate a repayment plan that will be sustainable for the customer and secure repayment quickly and ethically.

Collections businesses also offer a range of contact methods, tailored specifically to establishing income and expenditure and setting up payment plans at any time of day or night. These dedicated solutions are invaluable as many customers find it difficult to discuss their situation, preferring to use an online portal and manage their payments themselves.

Third-party collections firms are adept at contacting individuals and working with them to find a solution. Throughout this process, the lender can monitor the situation using real-time reporting capabilities.

Effective segmentation and collection strategies are essential here, reducing bad debt, delinquency and attrition and helping ensure customers regain control of their finances. The earlier this is done, the more effective it will be. Lenders and their partners require systems that can manage debts throughout their lifecycle, using appropriate analytics to segment, model and automate elements of the process.

CONCLUSION

Justifying outsourcing in collections is a case of looking at the revenues that can be derived, the costs of collecting in-house vs externally and the qualitative benefits when it comes to approach and rehabilitation.

Lenders have a huge volume of debt to reduce. While the European Commission reported in March 2018 that NPLs are declining, in some countries they remain at a high level following financial crisis. In Q1 of 2018 the overall non-performing loans ratio was 4.81%, down from 5.90% the previous year. However, Greece, Portugal, Italy and Ireland had non-performing loan ratios of 45.28%, 16.22%, 10.78% and 10.61% respectively.

High levels of non-performing loans are a threat to the financial system and restrict new lending. The European Central Bank has enhanced its supervisory approach, declaring its intention to assess individual banks and consider the age of NPLs and collateral held in a bid to avoid a further build-up. Collecting all loans in-house is an insurmountable task, so effective partners are needed to share the burden.

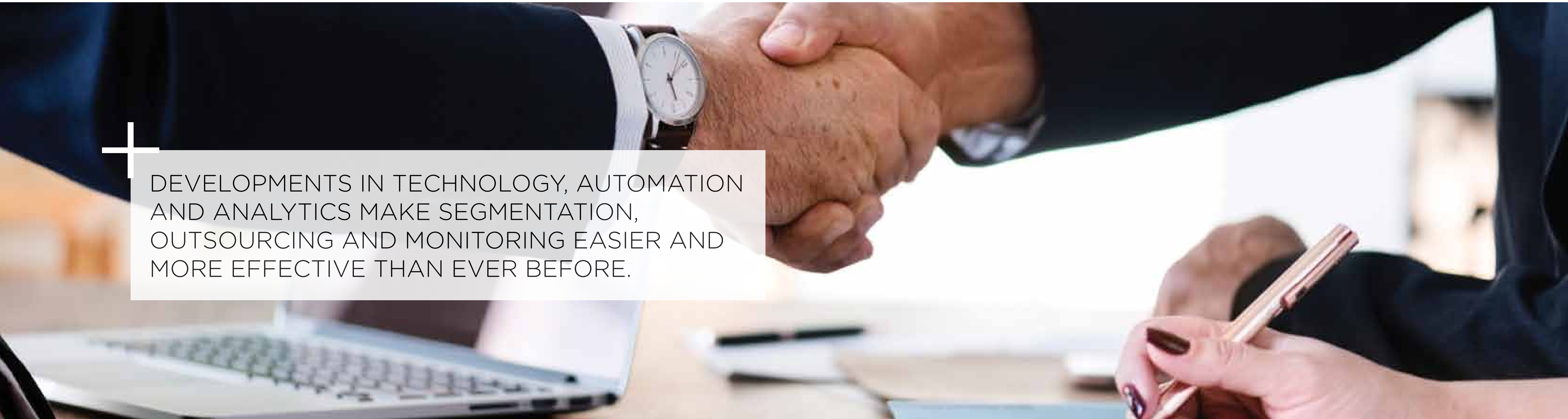
Fortunately, developments in technology, automation and analytics make segmentation, outsourcing and monitoring easier and more effective than ever before. Lenders can deploy systems to help them choose the right partners to collect on their accounts and the most suitable accounts to pass to each firm. This increases collections, improves the customer's experience and accelerates their financial rehabilitation.

Depending on the business, a lender can deploy their own resources in different ways. Some may choose to outsource the most difficult and complicated cases, while others prefer to handle these in-house. Managing a panel of collections firms using sophisticated technology gives flexibility and provides access to cutting-edge approaches and experience.

Regulatory change has raised standards in collections. Those leading the way are working ethically, forming relationships with customers, establishing their circumstances and capabilities and building sustainable, fair repayment plans. Often, they are the ones best placed to succeed in this – taking a diplomatic and unemotional response.

Success is best achieved by:

- **Weighing the internal cost of collections vs external agencies**
- **Gauging the enhanced collection benefits of employing expert DCAs**
- **Effectively segmenting customers and accounts**
- **Tailoring segments to appropriate agencies**
- **Using sophisticated monitoring capabilities to assess performance**



QUALCO SYSTEMS

QUALCO COLLECTIONS & RECOVERIES

QUALCO Collections & Recoveries helps firms manage high volumes of non-performing assets effectively and compliantly. The technology uses data-driven analytics to predict customer behaviour and optimise treatment strategies. It manages debt portfolios through the entire lifecycle, from performing accounts to early delinquency and recoveries.

The solution supports all banking products, from unsecured debt to mortgages and SME loans, as well as non-banking debt, such as telecoms, utilities and retail accounts. QUALCO Collections & Recoveries is used by creditors, debt purchasers and debt servicers to manage accounts on both an inhouse and outsourced basis.

QUALCO DATA-DRIVEN DECISIONS ENGINE (D^3E)

The **QUALCO Data-Driven Decisions Engine** platform operationalises portfolio modelling and drives strategy optimisation.

Built on a combination of flexible data warehousing technologies, state-of-the art infrastructure, and advanced data mining and machine learning techniques, QUALCO Data-Driven Decisions Engine, gives you the opportunity to effectively bring predictive insights to your daily operational processes.

For more information visit:

QUALCO Collections & Recoveries
&
QUALCO Data-Driven Decisions Engine

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QUALCO

QUALCO is an expert provider with more than 15 years' proven experience in enabling clients to take control of customer data across the entire credit lifecycle. Whether you are looking to modernise your internal collections platform, delve deep into the analytics of your entire debt portfolio to drive future strategy, or harness the power of external service providers, QUALCO has a solution to help you drive efficiencies and streamline your collections and recoveries operations.

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