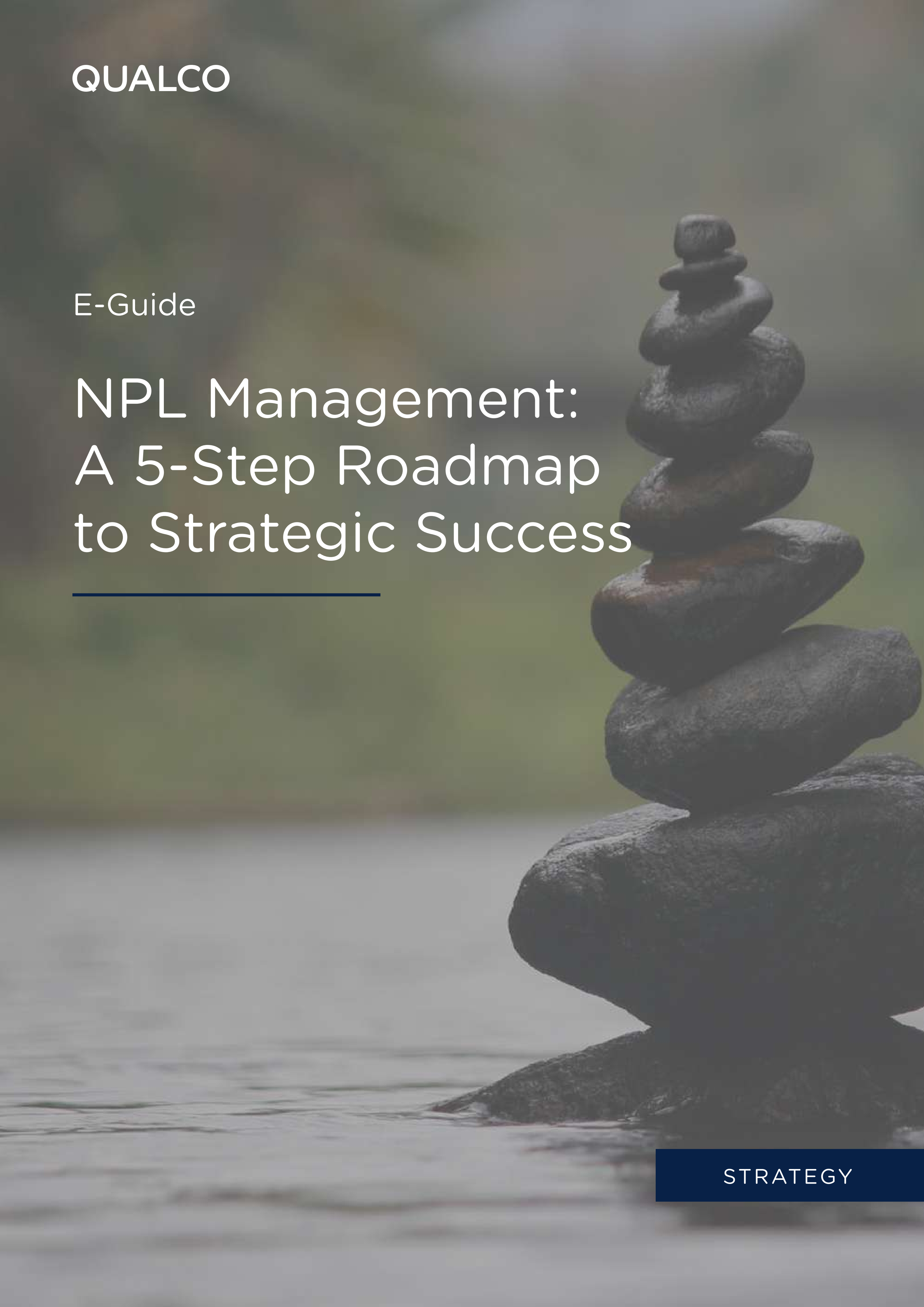


QUALCO

E-Guide

NPL Management: A 5-Step Roadmap to Strategic Success

STRATEGY

CONTENTS

FOREWORD

"The customer experience lies at the heart of collections. Getting it right is essential in today's debt collection environment."

In the past creditors may have been reticent about investing in their collection and recovery operations, preferring to focus on new product development and customer acquisition.

Today, the collections environment is recognised as a crucial aspect of the credit process – with the ability to minimise losses and deliver an individual experience that protects the brand and retains desirable customers for the future.

As credit has expanded and lending controls have relaxed since the financial crisis, overdue accounts have again increased. Simultaneously, regulation in this area has changed significantly, in favour of high-quality customer experiences.

The result of this customer focus is that compliance standards and requirements have become more onerous in the last decade. Some debt holders have had to rethink old systems and procedures, finding that they were no longer up to the job of properly managing their debt portfolios.

Poorly-coordinated and inefficient legacy systems, combined with minimal staffing levels and insufficiently experienced people, are becoming a feature of the past, as creditors realise the value of a different approach.

Now there is 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 also bringing on board people with strong backgrounds in collections and recoveries. The value of doing so is clear in terms of return on investment (ROI).

These developments often spring from a comprehensive review of their entire strategy. What starts as a conversation about a specific area quickly evolves into more widespread change.

In the UK, 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 seeing many creditors reducing their external debt collection supplier base to retain sufficient oversight and decrease 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 is wasted if the data used is incomplete or out of date.

But the tools are at hand to make significant improvements. The following E-Guide will inspire you 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 at Qualco UK

SPEED READ:
Why the right data and skills strategy is crucial for governance, compliance, and credit management

Rich, deep data is the bedrock of a successful collection and recovery operation. Businesses must bring together all available internal and external data sets and integrate them in one collection management system.

But while data is vital, it is not everything. Experienced, well-trained and professional staff are needed to connect with customers on the phone.

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 and other specialisms. Overall supervision is critical to compliance, success measurement and fair treatment of customers.

This means the brand is protected and enhanced 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.

INTRODUCTION

"In many credit businesses, the right strategies for systems and people have not been set."

When it comes to collecting overdue accounts, the clear, overarching regulatory message is that the customer must be treated fairly and ethically.

Setting out a clear strategy for people and systems that can be executed and monitored effectively is vital.

The Financial Conduct Authority in the UK offers detailed information on how to approach and manage the customer relationship and the rights of the customer. Businesses that provide credit products and facilities must put the customer at their heart.

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 at all points of communication, from telephone, e-mail and text to 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.

The expansion of credit that has occurred since the financial crisis means more credit is being granted to consumers by businesses and lenders. 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 vulnerable to underperformance and future interest rate rises so 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 E-Guide discusses how creditor organisations can go about building the skills and competencies within their own workforce to enable better governance, compliance, and credit management.

Strategy-setting will allow businesses to maximise their returns by drawing on best practice in customer service and data use. A bespoke strategy means the collection process can be tailored to the individual business concerned.

While it is important to increase the rate of recoveries in a cost-efficient way, ensuring customers are fairly treated is essential. Treating customers well protects the company's brand and reputation as well as preserving the relationship for the future. This applies to banks, telcos, retailers, utilities and debt collection agencies (DCAs).

Creating a culture of customer service in a debt collection environment means customers can be rehabilitated and retained, with a positive impact on profitability. Setting a strategy that takes account of this paves the way for success.

THE TOOLS TO INCREASE PRODUCTIVITY AND COLLECTIONS EFFECTIVENESS

The UK's Financial Conduct Authority sets out Principles for Businesses (PRIN) in the preamble to its ***Consumer Credit Sourcebook*** (CONC). Among them are:

- **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.

According to the Bank of England, there has been a steady increase in consumer credit since the financial crisis. ***The Money Charity*** says people in the UK owed £1.548 trillion at the end of July 2017. This is up from £1,489 trillion the previous year – an extra £1,033.06 per UK adult.

Credit providers need to be prepared to cope with the inevitable rise in overdue accounts. The following five steps offer a roadmap for success.

STEP 1 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 held is inaccurate, incomplete, out-of-date and sits on incompatible legacy systems.

Technology can resolve these basic issues. It can be cloud or internal server-hosted, working across platforms and integrating 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 outstrips most credit providers' legacy systems where typically far less detail is available.

These technology tools also integrate call centre 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.

STEP 2 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 and extended their compliance teams, often they have not increased the number of collection and recovery professionals working 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 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 and circumstance.

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 means it makes financial sense to retain existing customers where possible.

Both staff and technology are crucial in increasing the level of net recoveries. Unless investment is made in both areas, recoveries may languish. Careful monitoring of 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 businesses from the effects of non-compliance penalties. It will fulfil values of social responsibility and reinforce the credit provider’s brand.

STEP 3 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?
- 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 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?
- 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 steps are to be taken to stay abreast of new regulation and respond to changing market conditions?

STEP 4 How to implement the strategy

Having decided on the strategic issues, implementation follows, with the deployment of high quality technology, processes and staff.

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 will be at the highest levels. Rich data, coupled with refined modelling, increases the likelihood of achieving high rates of collection success.

Data and processes 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.

Continuing training of all staff is a necessity. Regulatory measures across the financial services sector are evolving and increasing 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.

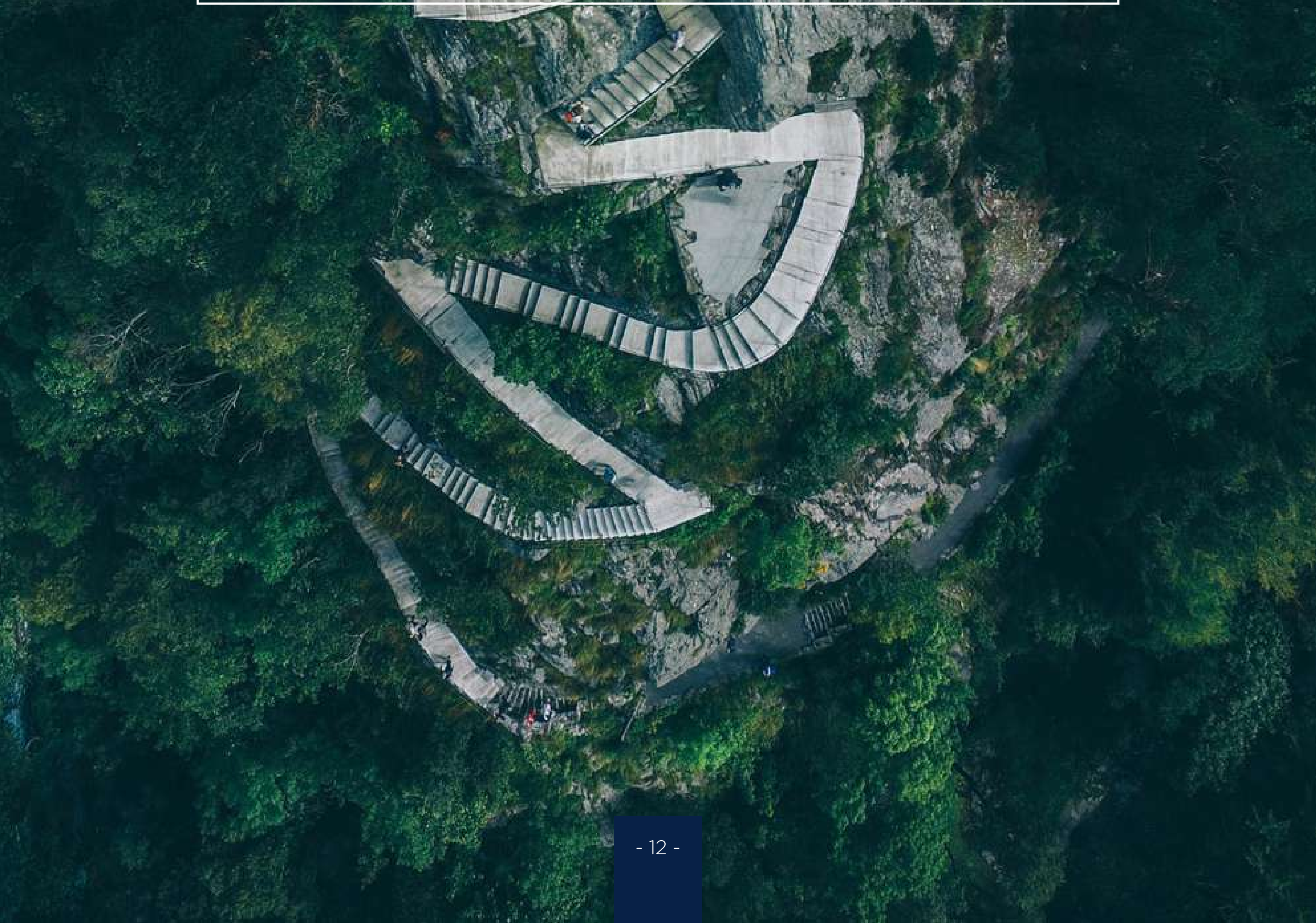
As time goes on and more information is gathered about what achieves success and what doesn’t, the process can be further enhanced.

STEP 5 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.



“Incompatible legacy systems and poor basic levels of data on customers reduce recoveries by internal and external recovery teams”

Organisations that offer credit products are facing higher levels of arrears.

According to UK debt charity Stepchange, the average unsecured debt for its clients increased for the first time in eight years in 2016. In the first half of 2017 this trend continued and average unsecured debts rose from £14,251 in 2016 to £14,367. The number falling behind on household bills has also risen.

Profitability is hampered when there is underinvestment in collection and recovery operations. Debts are provided for and then only written back when recoveries are achieved. Without up-to-date debt management systems and well-trained staff write-offs will burgeon. The potential returns from high quality collections operations more than justify investment.

Yet incompatible legacy systems and poor basic levels of data on customers will reduce success levels for internal and external recovery teams.

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 UK 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 tracked 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 added value 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.

Ready to implement a successful C&R Strategy?

I want to increase collections rates, now!

Five steps to strategy success

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

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

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

4 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.

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

*To learn how QUALCO can help you adopt advanced debt portfolio management technology, visit the **QUALCO Collections & Recoveries**.*

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 in-house and outsourced basis.

BOOK A DEMO

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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