WHITE PAPER

Reimagining Collections in Financial Services Using Customer-first Strategies

Abstract

Collections is inherently one of the most challenging yet crucial functions for any financial institution providing credit. Financial institutions often tread a thin line between keeping the collections costs low and increasing debt recovery on one hand, while ensuring complete regulatory compliance on the other. This paper discusses the challenges faced by banks on the collections business and ways to address it while minimizing the volatility created by external factors.

The Collections Landscape

Among the numerous functions in the banking sector, default collections continues to be one of the major challenges for banks due to lack of digitalization, limited number of experienced collection agents, growing delinquent accounts, template based strategy, and poor productivity (see Figure 1). And the COVID crisis will further exacerbate the situation – the loss of income and rise in job loss due to the pandemic will drive up delinquency among credit card and mortgage customers. Overall, most banks are likely to witness a surge in the number of default accounts across segments, signaling a liquidity crisis.

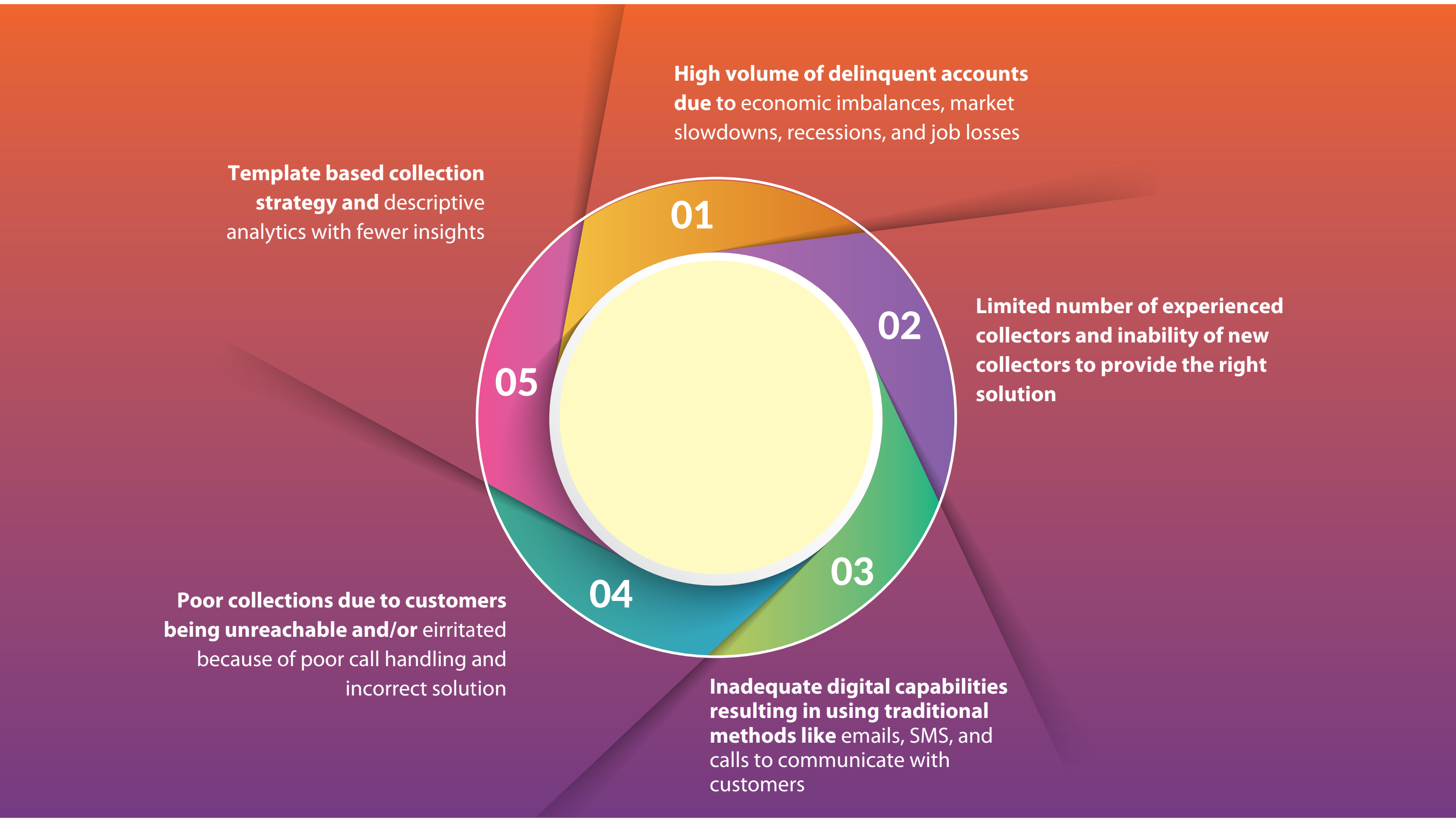

Figure 1: *Collections Challenges Facing Banks*

Managing the deepening collections crisis calls for a reimagined approach to recovery without losing grip on the five key focus areas for banks that include:

Unlimited Collections Bandwidth

Increasing number of default accounts and limited manpower often forces banks to prioritize the accounts to be collected. With increasing liquidity threat, banks can no longer be selective with respect to collections. This means they will need to find ways to overcome the constraint of fixed number of collection agents and at the same time improve the collections coverage.

Increase in Collections Agent Productivity

Collections is often a catch-up game with a large number of delinquent accounts and lesser number of experienced collectors with high success rates. Optimizing the time an agent spends on collections calls is also an important parameter that must be managed to boost productivity.

Personalized Collection Strategy

The collection strategy used to handle individual customers must be based on their profiles and hardship categories. However, even though most banks have rule based classification engines that provide arrangements for certain categories of delinquent customers, the rules are largely generalized. The inefficiencies resulting from such a templatized approach, coupled with the lack of historic delinquency and customer repayment behavior data limit banks from prescribing personalized recovery options. Banks needs an intelligent engine to carve out a customized collections strategy for each customer.

Customer Experience Management

Collections historically has been associated with negative feelings in customers. An effective collections process materializes in an environment of trust and mutual respect – aspects that might take a back seat in the stressful situations encountered by both customers and collectors in the new reality. The increase in the collections volume to be handled may put the collectors under stress, potentially leading to a negative customer experience, and consequently, reputational damage to the banks.

Regulatory Compliance

Government and central bank regulations mandate against offensive language, false or misleading communication, contacting customers at inconvenient times, and asking for personal information during a collections discussion. However, stressful situations may lead agents to override these restrictions resulting in disciplinary actions on the bank.

Reimagining Collections with AI, Analytics, and Automation

The time is ripe for banks and financial institutions to leverage technology and address the short- and long-term challenges. Let's explore a few technological interventions that can transform the collections function.

Virtual Collection Agents

Chatbots and virtual banking assistants backed by artificial intelligence (AI) technologies (see Figure 2) are seeing increasing traction in the digital transformation journey of major banks. However, while chatbots and virtual agents might seem to be an attractive alternative to the human workforce, banks must remember that collections is extremely human-centric where sensitive handling of customer emotions is critical. Hence, merely replacing human agents with virtual bots may not be the answer. In our view, developing a hybrid collections workforce comprising the right mix of human and virtual agents may be a more effective solution. Human collectors can handle sensitive interactions with customers in higher delinquency buckets or those that prefer talking to a human collector. Virtual bots can be deployed to manage mild delinquency cases, especially for basic functions like informing customers regarding their overdue balance, missed payments, payment collection methods, setting up direct debits and reminders, and so on.

Additionally, virtual agents can act as collectors' digital assistants, where the collector can invoke the digital assistant to gather the required information relevant for the call, thereby avoiding the need for navigating multiple screens or performing complex calculations. Virtual assistants can also suggest the appropriate action (next best action) to be taken for a specific customer depending on the nature of the account, history, past success rate, and so on. The advantages of such a hybrid workforce include increased collections bandwidth to action on a large number of delinquent accounts, higher collector productivity, and consistent, personalized collection strategies.

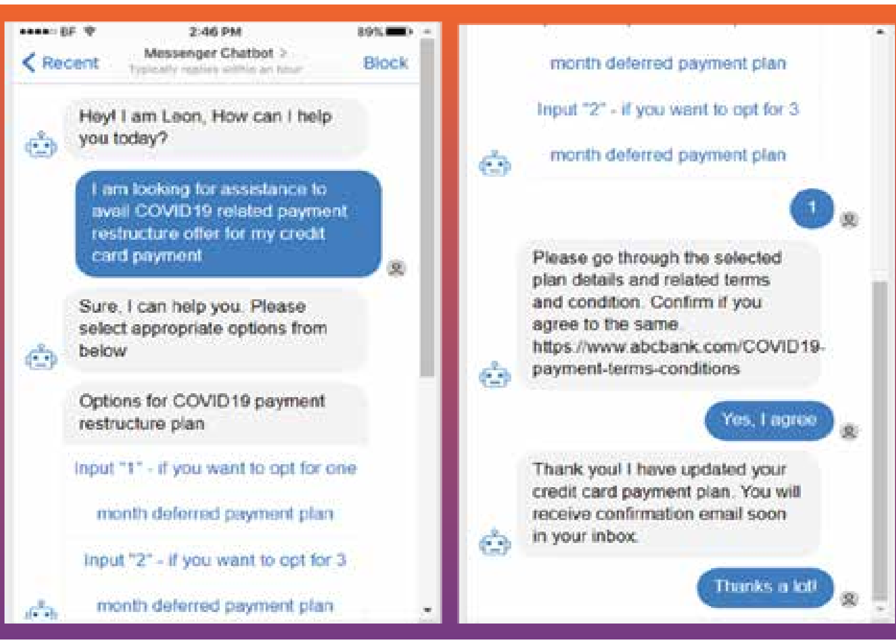

Figure 2: *Illustration of Virtual Collector Bot*

Advanced Analytics

For a major global bank, we performed an analytical study of its collections function, which revealed some crucial insights:

- 88% of calls made to accounts delinquent for less than 60 days were unproductive
- 93% of calls made to accounts delinquent for more than 60 days were unproductive
- 33% of calls made to accounts delinquent for less than 60 days were self-cure accounts
- 23% of calls made to accounts delinquent for more than 60 days were self-cure accounts

Both these categories of calls – unproductive and those made to self-cure accounts – result in poor and inefficient use of collectors' time. Clearly, the current system of prescribing collections strategies based on pre-defined static rules and customer segmentation is falling short, often due to lack of personalization.

We believe that an analytics-driven strategy that enables banks to tailor collection plans for individual customers will have a higher chance of success. A robust predictive analytics engine that takes into account past repayment behavior, successful contact instances, customer responses and success rate, customer demographics, spend patterns, and so on can help build a reliable prediction model to identify customers that will respond positively to calls from collectors. Such a model will have the capability to provide customized prescriptive solutions to proactively increase the efficiency of collections based on parameters such as the right time to call, the right channel (SMS, email, phone, etc.), identification of self-cure accounts, and so on.

Thus, adopting an analytics-driven, right time-right channel-right customer approach – contacting the right customer at the right time through the right channel based on analytical insights – can help banks increase collections from delinquent accounts. This approach is cost-effective as it uses channels like SMS, email, and virtual agents for self-cure accounts, thereby limiting human collector intervention to complex accounts or customers that are likely to respond only to human agents. An analytics-driven approach can increase overall collections efficiency, enhance collector productivity, and enable a personalized collections experience.

Automated Call Monitoring

Most banks monitor less than 5% of the collection calls for quality and compliance since it is a manual and labor-intensive activity. This not only breeds quality and compliance issues but also leads to banks missing out on improvement opportunities, resulting in increased customer complaints. An AI-based automated call quality monitoring solution with the capability to provide real-time feedback and alerts on agent actions while on call and generate call quality reports to analyze collector performance to ensure timely remediation can significantly improve customer experience. Real-time feedback on call quality, conversation speed, and call etiquette can substantially increase the quality of customer interactions and provide a frictionless, superior customer experience, while improving regulatory compliance.

Transforming the Collections Experience for the New Reality

Next generation contact centers are seeing a major shift toward reducing human effort and leveraging technologies such as AI and automation to transform operations and provide a richer customer experience. In the new reality, collections voice operations, traditionally associated with a negative customer sentiment, will see a shift to digital channels.

With customer experience surpassing price and product to become the new battleground across industries, banks that are looking to win should take their collections function more seriously than ever. Given collections is an extremely sensitive, human-centric function, rather than focusing on an end-to-end digital solution, banks should craft a hybrid collections strategy with the right mix of human agents and digital tools to achieve superior business outcomes.

About The Authors

Kumaravelu I

Kumaravelu is the industry advisor and transformation head in the Banking, Financial Services and Insurance (BFSI) business unit at TCS. Over the past 27 years, he has worked with multiple global banking and financial services clients. Kumaravelu's current responsibilities include transformation, innovation and strategic initiatives in the US and LATAM regions.

Santhosh Kumar Ravindran

Santhosh is a domain specialist and transformation consultant in the Banking, Financial Services and Insurance (BFSI) business unit at TCS. He has more than 19 years of experience in leading strategic and transformation initiatives for global banks and insurance companies. Santhosh's current role involves consulting, technology research and trend analysis and innovation for TCS' leading BFSI clients across the US and LATAM regions.

Venkateswaran Mrithinjayan

Venkateswaran is a solution architect in the Banking, Financial Services and Insurance (BFSI) business unit at TCS. Over the past 14 years, he has worked on various strategic and back office transformation initiatives for global banks and insurance clients. He has worked extensively in conceptualizing and implementing innovative solutions using artificial intelligence, machine learning and machine vision, low code application development and other next-gen technologies for TCS' leading BFSI clients across the US and LATAM regions.

Contact

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