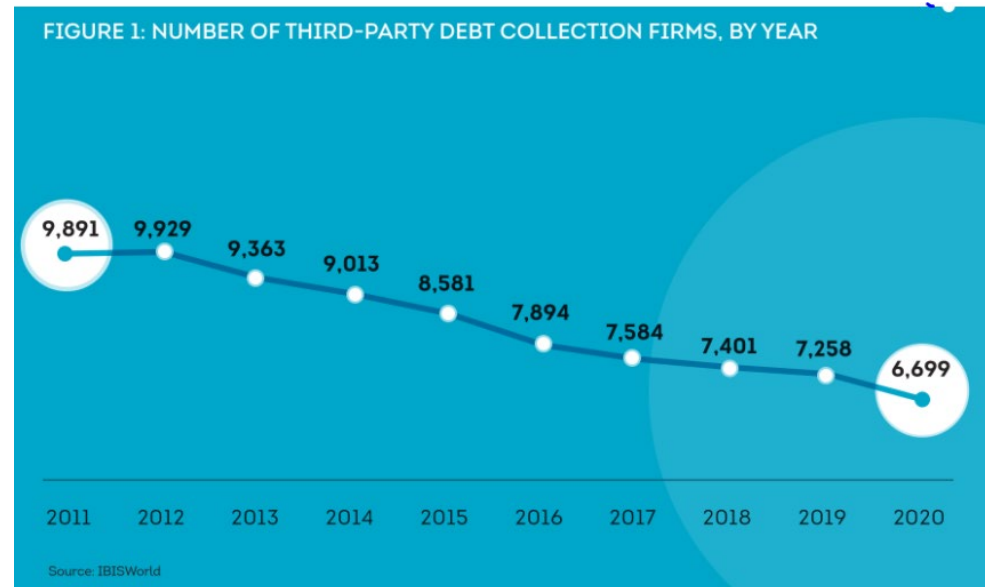# Collection Strategy Optimization and Agency Efficiency

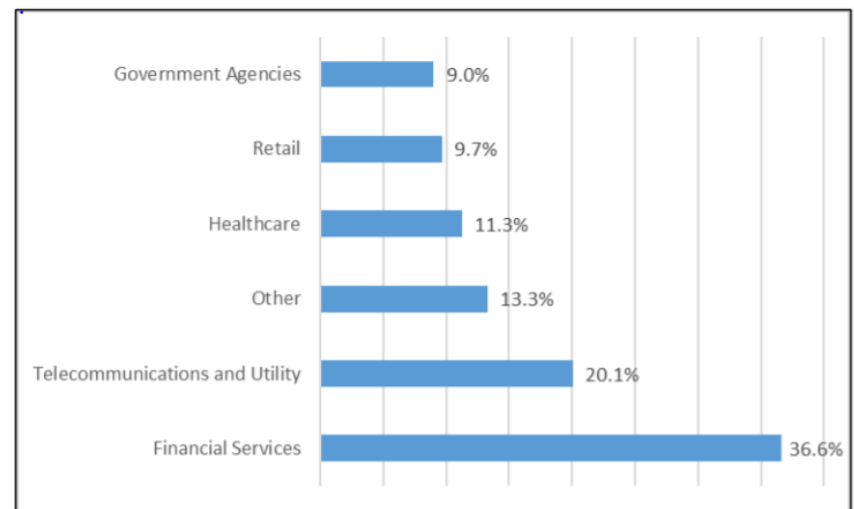Joseph Conlon
Director, Operations
CCMR3
10/14/2021

ARM Industry During COVID

- In 2020-2021 the collection industry saw unprecedented economic disruption caused by the pandemic

- Companies had to deal with shifting to remote work environments

- Creditor and Regulatory changes during pandemic on what can be worked

- Economic downturn that could last several quarters. Infusion of stimulus no longer safety net for the consumer.

FIGURE 1: NUMBER OF THIRD-PARTY DEBT COLLECTION FIRMS, BY YEAR

9,891   9,929   9,363   9,013   8,581   7,894   7,584   7,401   7,258   6,699

2011   2012   2013   2014   2015   2016   2017   2018   2019   2020

Source: IBISWorld

- FY2019 ended with $203 billion in outstanding collection balances (see figure 1)

- 89.2 million consumers currently have at least 1 collection trade line on their credit report

Figure 1. Debt Collection Major Market Segmentation by 2019 Share of Revenue

Segment	Share
Government Agencies	9.0%
Retail	9.7%
Healthcare	11.3%
Other	13.3%
Telecommunications and Utility	20.1%
Financial Services	36.6%

Source: Rohan Jaura, *Debt Collection Agencies in the US*, IBIS World, Industry Report 56144, December 2019, p. 16.

- U/E rate skyrocketed during pandemic, causing government intervention to help consumers maintain financial obligations
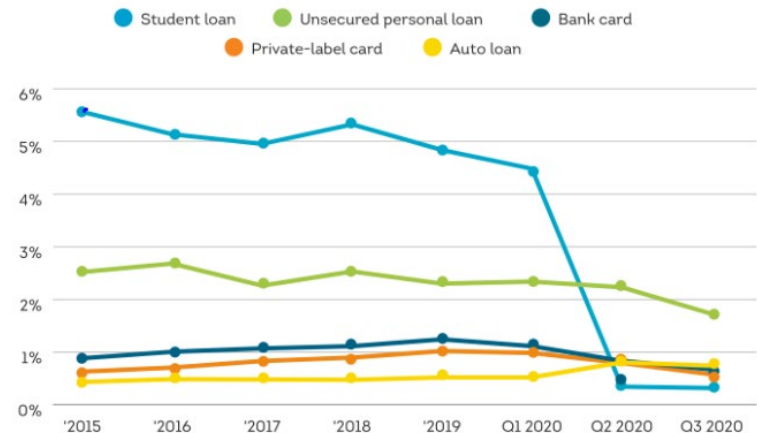
US seasonally adjusted unemployment rate, January to September 2020

14.7%   13.3%
            11.1%
                10.2%   8.4%
                            7.9%
3.6%   4.4%
    3.5%

Jan   Feb   Mar   Apr   May   June   July   Aug   Sept

Source: US Bureau of Labor Statistics

- 90-Day delinquency rates on consumer loans didn't see the same trend in correlation with pandemic level U/E, compared to the last 5 years of consumer data.

90-day delinquency rates at year end (2015 to 2019) and by quarter (2020)

● Student loan   ● Unsecured personal loan   ● Bank card
● Private-label card   ● Auto loan

6%
5%
4%
3%
2%
1%
0%
   '2015   '2016   '2017   '2018   '2019   Q1 2020   Q2 2020   Q3 2020

Source: TransUnion

- Why is this important to a Creditor?

- Industry consensus is that delinquent account volume is going to skyrocket in 2022, as economic relief dries up.

- CFPB regulations will make it even harder for an agency to contact a consumer, which is why it is crucial for your Agency to have a technology driven, strategic approach to recoveries.

Collection Strategy Optimization

- Regulatory changes will force collection agencies to pivot their strategic approach.

- CFPB's new debt collection rules are set to go into effect 11/30/2021.

- New regulations, such as the "7 in 7" rule, will have a significant impact on agencies contact rates.

- Making sure every outreach communication counts (call, text, email)

- Segmentation and Prioritization is key. Whether utilizing an outside agency or in house data scientists, creating machine learning predictive recovery models will ensure you are allocating your resources appropriately.

- So what is Machine Learning AI and how can it help to improve collections?

VS

- In simple terms, ML is a type of AI that utilizes algorithms to analyze patterns in historical data sets, and apply that self-learning analysis to future placements/data without the need for human intervention.

- Utilizing data science to drive your strategic workflows and decisions on collections, gives agencies and financial institutions unlimited flexibility.

- How so?

Top 6 Strategic Improvements using ML models

1. Contact Optimization is key!

- Communication channels can be analyzed to suggest the best mode of communication , to increase RPC rates, and determining what the best time is to reach out to that consumer

- Being able to understand what a consumers preferred method is immediately allows the collection staff to feel more comfortable on the call, because it takes away some of that initial friction that you're calling about a past due debt.

2. Improved efficiency amongst collection staff

- Technology driven decisions on which consumers should be assigned to which collection agent.

- Analyzing of historical data allows models to look at an agents historical performance, RPC rate, most successful communication channels.

3. Recovery Prioritization!

- All companies want to maximize recoveries on their receivables and not let that debt age without a significant portion recovered.

- Utilizing ML allows agencies to identify consumers with the highest propensity to pay, based off numerous data and macro-economic attributes, and prioritize which consumers should be reached out to first.

4. Speech Analytics and Brand Protection

- ML speech analytics software has the ability to evaluate a consumer or agents speech, sentiment, and context of the conversation

- Recorded conversations can be analyzed for future improvements amongst the collection staff. Management staff should utilize the analytics of these calls for trainings.

- Queries building should be used to monitor Client and Regulatory requirements.

5. Strategy Flexibility

- ML assists in analyzing efficiencies of particular strategies, to determine which ones produce the most return.

- Allows Companies and Agencies to pivot if a specific strategy is not working. Often times, collections departments and agencies get stuck in their old ways, and do not want to attempt alternate approaches to recovering funds.

6. KPI Transparency

- Collection departments or outsourced agencies should be able to provide KPI transparency, regardless of whether or not they utilize machine learning to drive there recovery strategies.

- Creating dashboards provides the most transparency to board members or senior management, to show gains in the collection effort.

- Scorecards should be used for outsourced agencies to measure KPI data and regulatory requirements. How are they performing to your standards?

Digital-First Communication Strategy

Why?

- Digital Technology is everywhere, and is used in every aspect of life. Consumers are more comfortable than ever using these digital channels, suggesting that lenders and collection agencies that provide smarter, more interactive, and more personalized services will perform better than their less responsive peers.

- Forward-thinking collections organizations are adopting new communications technologies and operational strategies that allow optimal outreach for maximum ROI

Digital-First Communication Strategy

- Strategic communication via digital channels enables more efficient interactions in many situations and can also increase the effectiveness of phone communications.

- Agencies that do not adopt digital first approach are submitting to REG F to not maximize there RPC rates. Collectors making 1 call per day for 7 days will drive down RPC rates and recoveries, especially without ML models in place to determine who to call when.

- 90% of Gen Z use digital channels as their channel of choice, with only 10% choosing voice.

- 84% of Millennials prefer digital channels, with only 16% preferring voice.

- Nearly half of GenX (49%) prefer digital channels as their channel of choice. The other half prefer voice but their numbers are diminishing.

- Baby Boomers still opt for voice over digital—and even that is rapidly changing

EMAIL

- What full service solutions can and should be provided to the consumer or a part of your recovery strategy?

- SMS

- Email

- Robust Payment Portal

- Live Chat

Challenges

- REG F requires "reasonable" opt-out features

- TCPA guidelines require consent, unless utilizing a vendor that offers CLIQ functionality (SndRght)

- Most popular email domains and mobile carriers allow consumers to filter out undesired messages

- One major mobile carrier has software built in to block these types of messages

Questions to ask your Agency

1. <u>**Do you have the data and the infrastructure to get it done?**</u>
   - Data is key, and everything starts with the data that is provided to an agency, or the data obtained at loan or account origination.
   - Passing consent, preferred method, date of service is important to your agency for their digital strategy.
   - Regulatory guidelines are very strict surrounding SMS and Email, and infrastructure needs to be in place to make sure those requirements are being captured

2. How do you measure success rate of a digital campaign?
   - Are they are mostly driving inbound calls through digital outreach or does the consumer have robust self-service omni channel approach to resolve their account?

3. What % of accounts are resolved through digital channels (text, email, direct payment portal access)

Best Practices Overview

- Use analytics to assess your accounts receivable portfolio and drive your recovery strategy.

- Be flexible and have the ability to pivot when recoveries are on the decline or not yielding the expected recovery rate.

- Embrace the digital first approach to contacting consumers

Questions?

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