Sopra Steria Research Report

Transforming the Debt Management process

5 key areas of focus for an improved collections service

The world is how we shape it

Introduction

Debt Management is a complex topic. Different industries, teams and professionals involved in collections have tried, and continue to use different plans, approaches and processes to tackle the problem of outstanding debts in their organisation. However, many organisations are still struggling to deliver the customer experience consumers demand. They're also struggling to recover the monies owed to them, relying on late stage collection methods for outstanding debts. In many cases the data, systems and processes are not joined up. This leads to tactical, short-term solutions which won't achieve the desired outcomes for debt management.

At Sopra Steria we believe the short term tactical approaches to debt management, combined with an overall lack of focus across the collections process is holding many organisations back from collecting monies owed to them, and delivering excellent customer experience. In our experience of helping a wide range of organisations to improve their debt management processes and collection rates, we believe the existing debt collection model many organisations deploy is actually the wrong way round.

So what do we mean by this? Collection rates and non payment of outstanding debts is often due to poor data collection methods and a lack of understanding around different debtor personas at the early stages of the collections cycle. This lack of data and insight early on obstructs debt collection efforts later in the cycle.

Creating a slick user experience, including digital self-service options, will provide good outcomes for customers who are therefore likely to show increased loyalty to the brand.

Debt Management Market Survey

But we didn't just want to use our own experience as basis for industry change. We wanted to discover and uncover the real reasons why many Collections departments are struggling to achieve their objectives at each stage of the collections process. In 2021 we surveyed 100 technology decision makers involved in their organisation's collections process to find out what is really holding them back from achieving their organisation's Debt Management objectives.

Let's take a look at the **results from the survey.**

Key Findings from Sopra Steria 2021 Debt Management Market Survey

85% of organisations believe there is significant room for improvement in how they use analytics in the collections lifecycle

67% believe they only have moderately effective processes and methods available to help them understand different debtor personas

61% of organisations only have basic digital channels available for debtors to repay throughout the collections lifecycle

49% believe legacy systems and manual processing is holding their collections teams back from collecting debts owed

34% believe competing priorities and no single joined up approach to debt is stopping them from collecting monies owed

1. Data and Analytics

The importance of data and analytics in an effective collections process

In many cases, and in many industries, the debt management process is broken. Data held on each individual is incomplete or out of date. Data is held in a legacy system which agents can't access. Processes are heavily reliant on human inputs and likely to experience human error. As we can see from the survey results, poor data quality and a lack of access to important data throughout a collections process, is preventing many organisations from being able to effectively undertake debt management decisions.

The repercussions of not collecting the right data at the beginning of the debt management process are significant and shouldn't be underestimated. The same goes for data that isn't regularly updated.

Not correctly capturing basic details such as name, address, amount owed and due date right at the start of the lifecycle leads to problems being stored up for later on. This results in bad debt, non payment or needing to write off debts against individuals as they cannot be traced. Not to mention the cost of identifying and correcting these mistakes.

From a debtor's perspective it also looks like poor service management as plans, communications and payment channels cannot be tailored to their needs. Before any updates to processes or the purchasing of new tools takes place it is recommended all debt collections teams first of all assess where their data is, how accessible it is and what actionable information and analytical insight they can take from it. Only by having the right data foundation in place can the rest of the debt management process start to be improved and higher collections rates achieved.

Key findings from the survey

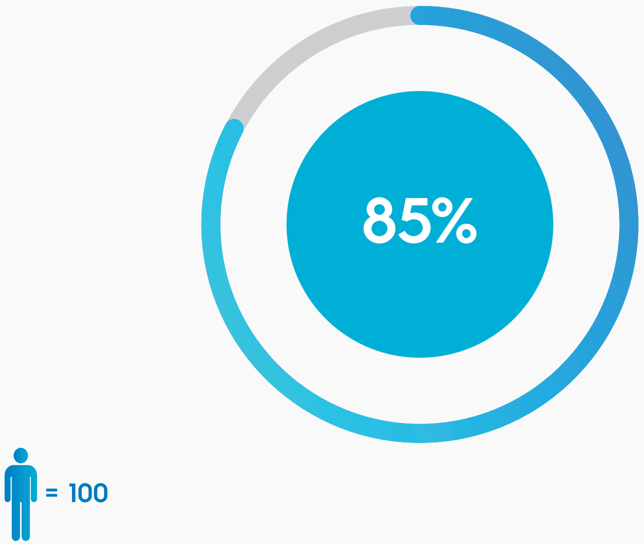


FIGURE 1: RESPONDENTS AGREEING THERE IS ROOM FOR IMPROVEMENT IN THE USE OF ANALYTICS TO SUPPORT DEBT MANAGEMENT

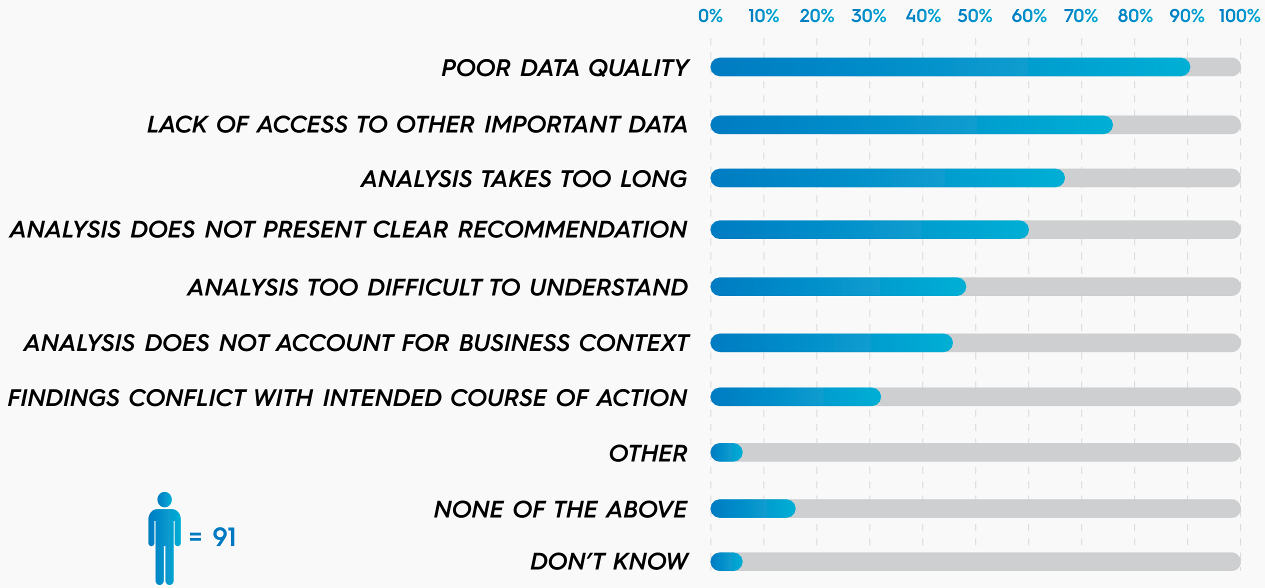


FIGURE 2: TOP REASONS WHY ANALYTICS IS NOT EFFECTIVELY INFORMING DEBT MANAGEMENT DECISIONS

Source: UK Market Intelligence Survey, Sopra Steria, 2021

Build data and analytics capabilities to identify risks and tailor interventions

The use of rich customer data, combined with the right algorithms, better models and enhanced processes can enable more accurate predictions. With the right data you can discover who is most likely to default on a debt earlier in the collections lifecycle, and how best to secure their payment. So we know the benefits of good customer data, but why is it that 85% of respondents highlighted that there's room for improvement in the use of analytics to support their debt management processes?

Quite simply when we drill down deeper into the results of the survey we discover analytics is being used in many cases as an afterthought or in a siloed fashion only at specific stages of the debt management process. This siloed approach combined with poor data quality, management and access means many organisations are setting themselves up to fail as soon as a customer signs a credit agreement.

To overcome these challenges organisations need to take the time to fully understand their different data sources available to them on different customers or businesses who owe money to them. For example how a customer interacts with your organisation at different touchpoints will give your collections teams insight and knowledge into how they are likely to behave throughout a collections process. As a starting point do you know how often a customer phones your helpdesk, visits your website, or has a face to face interaction with one of your staff?

Management teams often only have sight of debt when it becomes problematic or is impacting company cashflow. By utilising specialist skills in data and analytics management teams can access reports on demand and have a current picture of the debt landscape before it's too late.

Is your Data and Analytics function aligned to the collections process?

- **Is the right data being collected at the start of the collections lifecycle?**
- **Is debtor data available to all staff throughout the collections lifecycle?**
- **Can you gain insights from debtors and process data to improve operational performance?**

2. Understanding debtors

Do you really understand your debtors and their behaviours?

In addition to the inefficiencies within many organisations regarding Debt Management we also need to consider the role of the debtor. The treatment of the debtor and making sure they are supported and treated fairly throughout the collections lifecycle is crucial to your organisation's success. The reason why many Debt Collections processes fail or they go to the expensive litigation and enforcement stage is because debtors quite often feel mistreated, ignore the constant chasing or lose respect for an organisation they owe a debt to, making them less likely to pay.

Different types of debt, whether good or bad, receive different responses from the debtor. However, for many people debt is a fact of life and in many cases they need to prioritise their debts each month. People fall into debt for many reasons including:

- they don't want to make sacrifices to their current lifestyles
- they want to keep up with their social status
- they don't believe that getting out of debt is a priority
- they don't have the financial or emotional support to help deal with their debts
- they can't handle money or the responsibilities which come with it
- they're trapped by common myths such as debt is normal
- they don't earn enough money to pay off outstanding balances
- they don't know how to plan for expenses on a daily, weekly, monthly or yearly basis
- their income might only just cover basic living costs

The beliefs a debtor holds directly impacts their actions towards managing their own debts, combined with their ability to pay and their relationship with/feelings towards the creditor. These factors influence the initial response from the debtor that can very well reflect their mindset throughout the debt lifecycle. This usually results in one of the following responses:

- **Those who want to pay and can**
- **Those who want to pay and can't**
- **Those who won't pay whatever the circumstance**

So if better debtor treatment could result in improved collection rates, why are many organisations still not giving enough attention to investment in debtor risk profiling and providing the education, support and repayment channels debtors are crying out for?

Key findings from the survey

VERY EASY
WE CAN EASILY IDENTIFY DIFFERENT RISK PROFILES DATA
8%

MODERATELY EASY
WE CAN IDENTIFY SOME RISK PROFILES FROM DATA
66%

NOT EASY
WE CANNOT EASILY IDENTIFY RISK PROFILES FROM DATA
15%

DON'T RISK PROFILE
WE DON'T DO ANY RISK PROFILING
X
4%

= 100

FIGURE 3: HIGHLIGHTS FROM THE SURVEY – CAN YOU EASILY IDENTIFY DIFFERENT CUSTOMER RISK PROFILES

Source: UK Market Intelligence Survey, Sopra Steria, 2021

What are the areas you should focus on to better understand your debtors?

Debt is a highly sensitive, emotive and possibly embarrassing topic for many. The majority of debtors do not like to admit they have a problem and prefer not to talk about the topic. In the vast majority of cases many would prefer digital methods of communication in seeking a resolution. But to be able to make available the right digital tools, education, advice and information, debtors need organisations to understand more about them in the first place.

Experience shows that those organisations who approach digitally aware debtors through email or text rather than a phone call can improve payments received rates earlier in the collections lifecycle. Well-designed customer journeys help prevent bad debt by making it easy for customers to update contact data, switch between digital and other channels, and settle their accounts via self-service web tools. A good payment plan option addresses an individual's needs, and enables automated decision making, whilst creating little or no administrative burden.

Questions to help you understand your debtors better

- Do you understand the different debtor groups which exist in your organisation?
- Where is most of your engagement with debtors focused?
- Do your teams know why debtors may be experiencing hardship or be unwilling to pay?

3. Digital Repayment Channels

Why they need to be available, accessible and easy to use

Many collections departments are understaffed, lack digital skills or are heavily reliant on manual intervention to make sure debts are repaid on time. Additionally, a large proportion of customers in debt do not respond to traditional collections methods. For example, how many customers answer their mobile phone first time when an agent calls them about an outstanding debt from an unknown or withheld number? Combined with a lack of in house skills, and debtors ignoring traditional engagement methods, there's a third factor in play - the regulator.

Regulatory pressure has made cold calling and letter sending less effective in recent years. Many organisations are wary of increasing contact frequency through traditional channels as they fear they could be perceived as harassing customers and exacerbating behaviours which make customers fall into the vulnerable category. Additionally, during Covid-19 we have seen a real shift to digital channels for financial transactions by customers. This makes it a perfect storm for collections departments who want to collect outstanding debts but feel constrained by customers wanting to pay by digital methods. There's also a fear the regulator could come down hard on them if they are seen to encourage or incite behaviours which make a customer vulnerable.

Key findings from the survey

RANGE OF DIGITAL PAYMENT METHODS AVAILABLE TO CUSTOMERS

27%

SOME DIGITAL METHODS TO REPAY AT EARLY STAGES OF COLLECTION PROCESS

61%

NO DIGITAL PAYMENT METHODS AVAILABLE TO CUSTOMERS

X

2%

FIGURE 4: DOES YOUR ORGANISATION CURRENTLY PROVIDE DIGITAL PAYMENT METHODS FOR CUSTOMERS TO REPAY THEIR DEBTS?

= 100

Source: UK Market Intelligence Survey, Sopra Steria, 2021

It’s time for change

From the survey results we can clearly see digital collections methods still have a long way to go to be available, accessible and easy to use for customers with outstanding debts. By not giving customers digital options to repay what they owe, at a time which suits them, many organisations are simply storing up problem debt for themselves. Moving to meet these changing customer preferences won’t be easy. But collections teams have to act now. They have a real opportunity given that Covid-19 has paved the way for customers to become more comfortable using digital methods for managing their finances.

As identified in the Data and Analytics section of this article, these skills and capabilities need to be embedded across the collections lifecycle. For any digital repayment project to work, customer groups need to be identified who are likely to use digital channels for repayment. By using analytics capabilities to identify those customers who can ‘self-help’, customers will feel more in control of their outstanding debts and feel they have a better relationship with the organisation they owe a debt to.

‘Digital first’ customers actually don’t mind being contacted via email, text message or an alert when they log into the collections portal – they actually prefer it to an agent giving them a call or a physical piece of post landing on their doorstep. To make digital collections a reality, customer journeys need to be designed with integrated touchpoints which offer a customer the opportunity to pay via the channels they use and are comfortable with.

By taking the time to understand the channels a customer interacts with, your organisation’s tailored messaging for each stage of the process can then be designed and used depending on the time left to repay. Also, by understanding how a customer responds to different messages and aligning it with their digital interaction experience, more debts will be able to be collected earlier in the lifecycle. Customers will feel the organisation really does understand them, their behaviour and propensity to repay.

Finally, and probably most importantly, the design and delivery of a digital repayment channel cannot happen without the right systems and processes being in place. For many organisations this will mean restructuring their collections model based on anticipating and responding to customers’ needs. The benefits of restructuring to a digital channel model will include better customer relationships through more personalised communications via the channels customers proactively want to use to solve outstanding debt issues.

Are your digital channels really customer ready?

- Is the ability to pay via digital channels available to debtors?
- Are omni channel communications being used?
- Are the right policies and procedures in place to satisfy regulatory requirements?

4. Legacy Systems

Overcoming legacy systems and manual processing dilemmas

Many legacy IT systems have been running for more than 20 years. Keeping these systems running so transactions can take place is extremely costly. More importantly they weren't designed to meet changing customers' expectations.

Understandably, with so much at stake in terms of the volume of transactions and the millions being repaid, many organisations have adopted a 'risk averse' approach. They're avoiding undertaking changes to systems or integrating with newer technologies. Alongside the cost factor of maintaining the core systems there are government and regulatory pressures.

However if organisations are serious about improving their debt management processes they need to review the cost vs benefit factor of upgrading their existing IT systems and asking themselves the difficult questions around; Can the existing IT systems and processes support online collection methods? Can data easily be transferred across the organisation? Are the systems helping or hindering customers in relation to online, mobile and phone repayments?

From our survey results we can clearly see this is a significant issue facing the industry with 49% of respondents stating that legacy systems and manual processes were holding their organisation's collections teams back from being effective.

Key findings from the survey

LEGACY SYSTEMS & MANUAL PROCESSING	COMPETING PRIORITIES BETWEEN DEPARTMENTS	LACK OF CLEAR, ACTIONABLE DATA & INSIGHTS
49%	34%	29%

= 100

FIGURE 5: FROM THE TECHNOLOGY DEPARTMENT'S PERSPECTIVE, LEGACY SYSTEMS AND MANUAL PROCESSING IS THE BIGGEST BARRIER TO EFFECTIVELY SUPPORTING DEBT MANAGEMENT. TOP 3 REASONS CHOSEN FOR WHY COLLECTIONS PROCESSES ARE BEING HELD BACK – FEEDBACK FROM THE IT TEAM.

Source: UK Market Intelligence Survey, Sopra Steria, 2021

Make digital transformation a reality

Digital transformation used to be an industry buzzword. However during the Covid-19 pandemic many organisations have been actively reviewing their digital transformation strategies to see how they can improve legacy systems, the end user experience and make sure their staff have access to the data and information they need to undertake their job roles effectively.

Understanding the different roles your IT systems play in the debt collections process is just the starting point. It is about developing your IT systems in the right way to make a debtor's interaction with your organisation as easy as possible.

Many organisations (as we can see from the survey results) are hampered by legacy systems not joining up with each other and still relying on manual processes to make things work in the collections space. Improving and upgrading legacy systems, and adopting a robust automation strategy linked to debt management outcomes, can significantly reduce operating costs.

However, to make digital transformation a reality, collections departments need to be realistic around programmes of change. Quite often there's an over reliance on legacy systems or manual processes. So teams involved in significant technology modernisation adopt a 'big bang' approach and try to solve all their problems at once. From our experience at Sopra Steria we have discovered those collections departments who undertake incremental programmes of change, aligned to specific business and technology objectives actually enjoy better results. Additionally, by adopting an incremental approach to change, should anything go wrong or need to be fixed, it is easer to do so with a smaller programme of work rather than a large all encompassing change transformation project.

Questions to help you review your existing legacy systems and processes

- **Are the right skilled people available to undertake activities at each collections stage?**
- **Can MI be provided to teams and senior leaders at each collections stage?**
- **Is access to the right tools and technology available to enable a smooth collections process?**

5. Measuring performance

Identify and manage the right performance indicators to further understand and improve the collections process

As already discussed in the introduction section of this article, many organisations are still over reliant on late stage collection methods. Even though many have tried to put in place digital solutions to collect monies owed earlier in the collections lifecycle.

All organisations who offer credit or need to take payments have varying types of credit scoring models. But how effectively are they being used? Can they easily assess if a customer is vulnerable or potentially vulnerable? Can they use the credit scoring tools to inform decisions around whether or not they think a customer may need some help at different times of the debt lifecycle?

Many organisations have also become over-reliant on automated decision making processes/tools to send bills, reminder letters, text messages and emails to pay. However if the tools and automated processes are not built on sound data, insights and customer understanding it could mean they are ineffective and actually wasting money on reminders that are either not going to be actioned or even seen by the customer.

From our survey findings we can clearly see that over two thirds of organisations which responded believe their existing processes, data and models are moderately effective at understanding their debtors. 'Moderate' quite simply isn't good enough. In order for debt management processes to be effective, they need to be measured and managed effectively.

Key findings from the survey

EFFECTIVENESS OF PROCESSES & DATA TO UNDERSTAND DEBTOR CIRCUMSTANCES

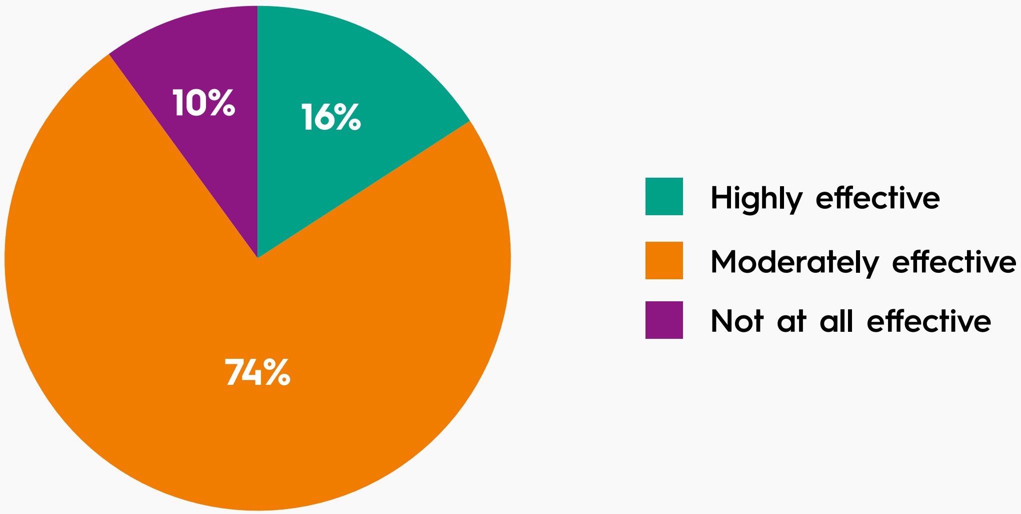


FIGURE 6: ORGANISATIONS ARE NOT BENEFITTING FROM PUTTING CUSTOMERS AT THE HEART OF THE COLLECTIONS LIFECYCLE

Source: UK Market Intelligence Survey, Sopra Steria, 2021

Identify and manage the right performance indicators

For any Debt Management process to be deemed a success the right KPI's (Key Performance Indicators) need to be put in place. This means monitoring relevant metrics such as; Number of customers assigned non-standard collection strategies, Value of aged debt overdue, Profile of outstanding debt by customer type. Not just the amounts collected at the 'bad debt' recovery stage.

Your staff need to be aware of their impacts on debt collection performance and be rewarded for helping customers pay on time or settling outstanding balances. To do this requires a change in mindset for many organisations. A more cohesive, collaborative working culture between departments who interact with the customer will need to be created and maintained. By giving staff accountability to help debtors pay and offer suitable resolution methods, debts are likely to be settled earlier in the cycle with less administration costs involved.

Additionally, if undertaken correctly, the debtor will feel understood and not overwhelmed through traditional channels such as letter and phone at the litigation and enforcement stage. Instead the debtor will feel they are building a relationship with your organisation at every touchpoint.

Questions to help you design a debt management strategy with the right measures of success

- Do you have the right collections KPI's in place?
- Are triggers in place for when debtors fail to pay at target dates throughout the lifecycle?
- Do your teams know why debtors may be experiencing hardship or be unwilling to pay at each stage?

In Summary

KEY CHALLENGES organisations are facing in relation to Debt Management

- Incorrect data being collected at the start of the collections lifecycle
- Automated decision making processes not fit for purpose
- Too much emphasis on late stage costly litigation and enforcement action
- Broken customer journeys in terms of digital repayment options
- Over-reliance on legacy IT systems for processing repayments
- Contact strategies still reliant on letter/phone calls not digital methods
- Siloed focus on collections by different departments
- Recruitment and retention of the right staff to enable each stage of the debt recovery process
- Collections department KPI's not linked to organisational objectives

Where should organisations focus on first for IMPROVING their Debt Management Process?

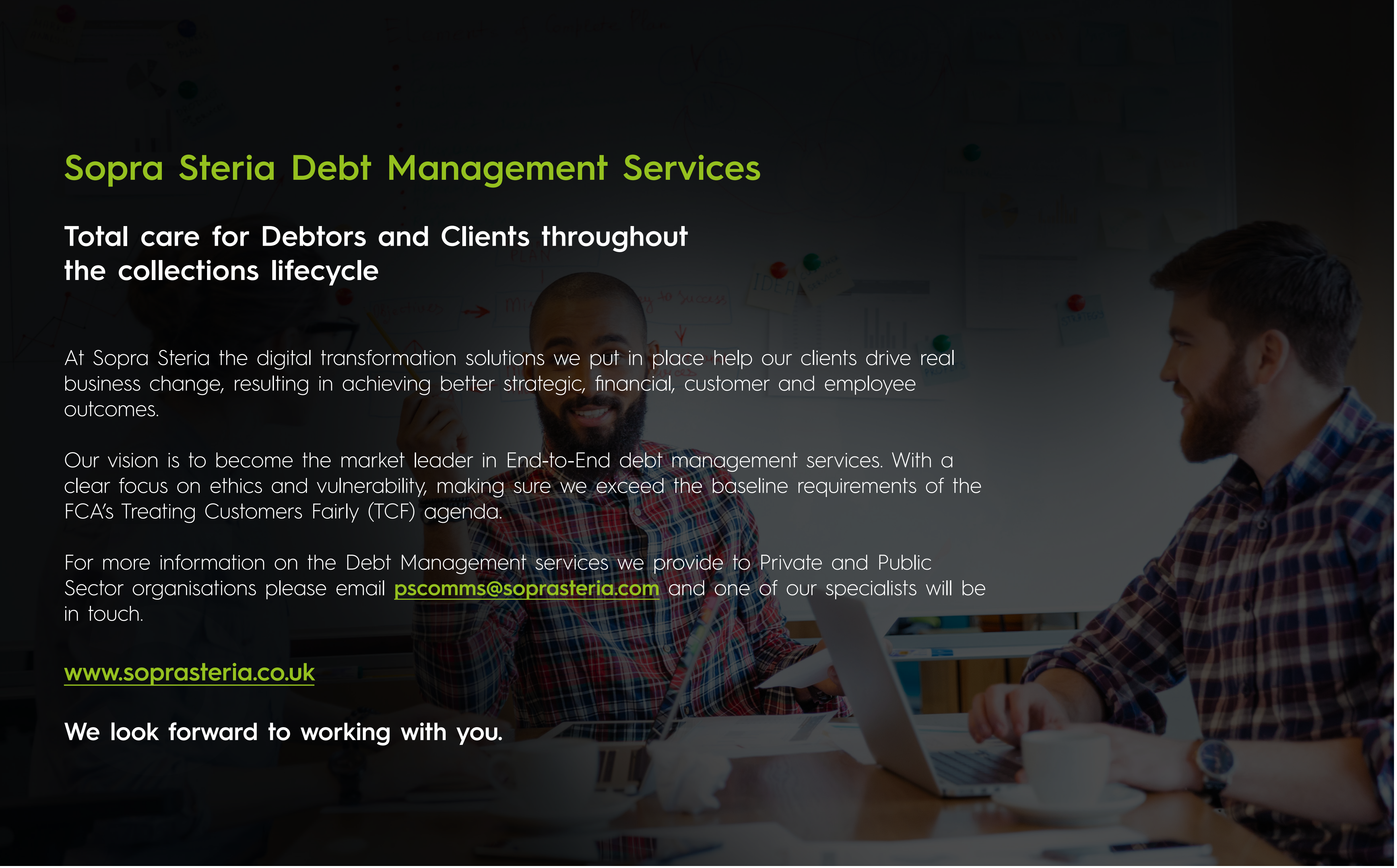
- Develop a Debt Management strategy with debtors at the heart of it
- Make sure access to the right tools, skills and capabilities is available
- Build robust data and analytics capabilities
- Make digital transformation and automation a reality
- Identify and manage the right performance indicators

Final Thoughts

In this article we have examined where Collections teams are struggling with their debt management approaches and key actions they need to undertake to improve them. It's clear from the evidence of our recent survey that current short term tactical approaches to debt management need to be improved. The skills, processes and capabilities underpinning debt management practices, which are needed to collect monies owed, also need to be improved if debt is to be reduced earlier in the lifecycle. Improvements should be implemented so that debtors feel supported and engaged at each stage.

To prevent bad debt, reduce operational costs, and make sure debtors are supported at every stage of the collections lifecycle, the 'right' structured collections process underpinned by data and analytics needs to be put in place. This needs to be aligned with a service management model including monitoring and overseeing of collections activities both in house and by third parties. By examining the debt supply chain from initial credit offer through to litigation and enforcement, organisations will be able to identify where supplementary services, processes and technologies can be used for further improvement.

Organisations should take the time to revisit their existing debt management methods, identifying gaps in data, technology, systems, skilled staff and debtor treatment. Those that do will be better placed for the future.



Sopra Steria Debt Management Services

Total care for Debtors and Clients throughout the collections lifecycle

At Sopra Steria the digital transformation solutions we put in place help our clients drive real business change, resulting in achieving better strategic, financial, customer and employee outcomes.

Our vision is to become the market leader in End-to-End debt management services. With a clear focus on ethics and vulnerability, making sure we exceed the baseline requirements of the FCA's Treating Customers Fairly (TCF) agenda.

For more information on the Debt Management services we provide to Private and Public Sector organisations please email pscomms@soprasteria.com and one of our specialists will be in touch.

www.soprasteria.co.uk

We look forward to working with you.

The world is how we shape it