Overcoming Debt Management challenges in Financial Services

A Sopra Steria guide to improving collection rates throughout the debtor lifecycle

The world is how we shape it

sopra steria

Introduction

Debt Management for Financial Services organisations is crucial to business success. After all credit is at the heart of most customer relationships. So why after all these years are Banks and Building Societies still finding they have a problem with debt collection? Why are they still overly reliant on costly late stage litigation and enforcement action to force their customers to repay what they borrowed? Why are many customers still dissatisfied with how their Bank or Building Society treats them throughout a collections lifecycle?

There is no one single answer which exists to answer these questions. However if we examine the root causes the reasons are clear; costs associated with the decision making process of borrowing are high, opportunities to improve customer experience exist but have not been implemented correctly, digital transformation has taken place at pace and at scale in many financial services institutions, there still remains caution around change due to regulatory and government pressures to make sure customers are treated fairly and high ethical standards are in place. Throw into the mix poorly executed automated decision making processes and human review time being spent on the larger more complex borrowing tasks, means Financial Services organisations have been caught in a piecemeal puzzle which doesn't satisfy customer, regulatory or business desires.

Whilst many Financial Services organisations in the past 5 years have concentrated on 'digital transformation' of their business and operations sadly collections has been left behind. In many cases the root causes of broken collections processes have not been addressed in terms of understanding customer data throughout the collections lifecycle, an over reliance on legacy IT systems to process applications and repayments, automated decision making processes have been poorly designed and deployed and talent to help with the execution of a collections strategy has not been recruited or retained. Additionally many Banks and Building Societies who have tried to **'digitise'** their collections efforts have found once the initial executive excitement has evaporated, they are left with no other option to but go back their comfortable old ways of doing things – late stage litigation and enforcement.

At Sopra Steria we believe there has to be a better way forward for Banks and Building Societies in relation to the collection of outstanding debts. We believe Financial Services organisations need to develop a debt management approach which improves the collection rate of outstanding debts earlier in the customer lifecycle and takes into account different types of debtors. From our own experience of working with Financial Services organisations we have identified that if successful transformation of the debt management process is going to happen the fundamentals need to be put in place. This means starting with the customer journey and understanding each and every touchpoint they have with your organisation, their data, their expectations, their likelihood to repay and making sure relevant information, educational materials and opportunities to repay are available at each stage of the process.

There is no one easy path to solve all problems associated with the debt management process for Financial Services organisations. But those organisations who take the time to review their existing operations and put debtors at the heart of the solution from the very first interaction with the organisation to the final repayment will discover their efforts will result in improved collection rates, better customer satisfaction and improved profitability as bad debt levels fall.

Sources

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DID YOU KNOW?

- **74,850 homeowner mortgages in arrears of 2.5% of more of the outstanding balance in 3rd quarter of 2020 (1)**
- **Banks had to write off credit card loans of £339 million in March 2020 (2)**
- **The 2019 credit card default rate was 22.9% highest level since 2017 (3)**
- **Outstanding value of residential mortgages loans was £1,513.3 billion at the end of Q2 2020, 3.2% higher than a year earlier (4)**
- **29% of adults have experienced at least one negative change of circumstances in 2020 with 5.6 million struggling to afford essentials (5)**
- **It is estimated there is £10bn corona virus related household debt in Great Britain with 1.2 million people in crisis with a severe debt problem, 3.5 million people showing signs of financial difficulty and 2.9 million people are struggling and worried about making ends meet in 2020 (5)**

Understanding the challenges Financial Services organisations are facing with their existing Debt Management processes

As identified in the diagram on the right hand side of the page, Financial Services organisations are facing several critical challenges which are hampering their debt collection initiatives. When we break this down they can summarised into 7 key areas:

1. Data Collection and Management

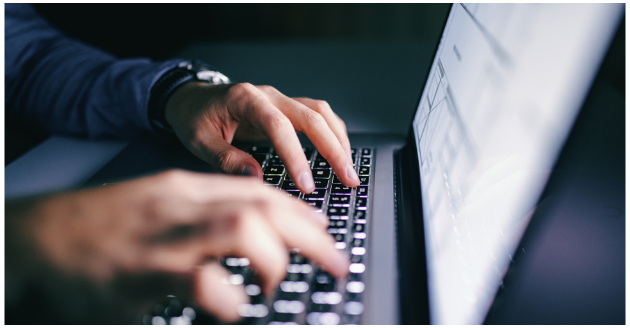
In many cases the Debt Management process is fundamentally broken across a number of industries (not just Financial Services) because data held on each individual is incomplete, is stored in a legacy system which agents cannot access or is heavily reliant on human inputs which could lead to user errors. The knock on effects of not collecting the right data at the beginning of the debt management process is significant and should not be underestimated. By not capturing basic details correctly such as names, addresses, amounts owed, payment due date etc it leads to problems being stored up for later in the cycle resulting in bad debt, non payment or writing off debts against individuals as they cannot be traced. From a debtors 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 challenges Financial Services organisations are facing in relation to Debt Management

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

2. Inefficient Operating Models

Many Financial Services organisations are still over reliant on the late stage collection methods. Even though many have tried to put in place digital solutions to collect monies owed earlier in the lifecycle. Linked to the above data collection and management issues already identified many debt collection teams are understaffed or are not equipped with the right skills to effectively undertake debt management at the litigation and enforcement stage in the process. This has resulted in work related to debt management being sub contracted out to external agencies to fill in the gaps. However it shouldn't be a surprise that many of these agencies do not fulfil their collection promises when they are working from poor data or are unable to access the right systems. Additionally many staff who are placed into debt collection roles do not have the right training to assess a client's situation and offer the best settlement option. Often, collections work is split between multiple departments or operating companies resulting in fragmentation, a lack of scale, and an inconsistent approach.



3. Automated decision making – Friend or Foe ?

Automated decision making has been rolled out by Banks and Building Societies to help them win in the war around "time to decision" for the approval of loans, overdrafts and mortgages. However because many Financial Services organisations have rushed into automating many facets of their decision making approval process at the start of the credit lifecycle they are finding they are approving credit to customers and businesses who are a risky proposition and/or declining credit to individuals and businesses who actually may be a good fit. This has resulted in many risk managers employed by Financial Services organisations becoming wary of fully automated approval processes.

At Sopra Steria we believe there has to be a balance between manual intervention vs automation especially when Financial Services organisations are dealing with millions of approvals for products each day. For automation to truly work long-standing policies and decision processes need to be based on years of root-cause analysis of defaults and assessments of other mitigating factors. Sometimes the data doesn't tell the whole story and other mitigating circumstances are missed in a fully automated approach.

4. Availability of tools

All Banks and Building Societies have credit scoring models. It is a requirement by the industry regulator the FCA to make sure appropriate credit scoring models are in place if they are loaning or providing credit to customers or businesses. But with the race towards "time to decision" being a key factor in the customer decision making process many Financial Services organisations have become over reliant on automated decision making processes which if not built on sound data, insights and customer understanding could mean they are ineffective. The result is the wrong types of customers are being provided with loans, overdrafts or mortgages which are unsuitable or require them to get into even more debt just to make minimum repayments. Additionally once credit is provided to customers many teams who have an interest in the credit management process are finding they are working in silo's and do not have access to experts and tools in data management and analytics which can show each individual debtor, their circumstances, their debts outstanding and their track record of payment. For many years debt collections departments have had to rely on excel spreadsheets, manual updates and people swapping information via file sharing. Giving staff access to the right tools (once data is correct) can have a positive impact on being able to identify debtors who are likely to default earlier in the cycle and put in place education, advice and channels of payment before a debtor reaches the costly enforcement and litigation stage. On the other side of the tooling divide is the debtor experience.

Although many Financial Services organisations have in recent years worked on upgrading their online channels to provide an intuitive customer experience, in many cases functionality, access to key information and the provision of online channels to repay debts are still not fit for purpose. By not providing debtors with the tools they need online many Banks and Building Societies are wasting millions of pounds chasing non payments via letters and phone calls when an email with a link to user friendly digital interface for a self settlement portal could be made available. Additionally provisions need to be made for vulnerable customers who may struggle to understand what payments need to be made and by when. Digital channels combined with physical intervention can help.

To make this a reality analytics tools and a clear understanding of a debtors circumstances is paramount before the right channels for payment can be made available.

5. Access to the right skills and expertise

For too long Debt Management and Collections processes across all industries have been focused on the litigation and enforcement stage. To do this effectively organisations require a specific set of skills and these skills are in high demand as more and more customers and businesses become further in debt. However many of the problems associated with collections process can be identified far earlier in the cycle. To run an effective Debt Management process it is important a number of skills are utilised at different stages of the collections lifecycle. For example at Sopra Steria we believe we need talented people with skills, knowledge and expertise in Data Management, Analytics, Business Process Design, Automation, Finance & Accounting, Customer Experience and Digital Ethics. How many of these skills are your teams missing?

6. Legacy IT systems holding back collections performance

Many legacy IT systems have been running for more than 20+ years in Financial Services organisations. Keeping these systems running so transactions can take place are extremely costly and more importantly were not designed to meet changing customers expectations. Understandably with so much at stake in terms of the volume of transactions of trillions of pounds being loaned, repaid or transferred many Financial Services organisations have adopted a 'risk averse' approach to changing them or integrating them with newer technologies. Alongside the cost factor of maintaining the core banking systems there are government and regulatory pressures which mean keeping banking systems running on old technology has to remain in place. However if Banks and Building Societies 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 in person repayments of loans? Can they intuitively make the right information available to customers at each stage of the collections lifecycle? Can teams tasked with collecting debts gain an accurate picture of the debtor at each stage of the debtor lifecycle?

7. No real cross business collaboration to solve debt management issues

Once a customer is on-boarded how easy is it for their data and information to be passed between departments and what responsibilities does each department have in relation to the customer? Progress in collections transformation can only be made when departments and functions with separate priorities are working together towards a common goal. Quite often at Sopra Steria we see collections efforts being stopped from being truly effective as each department who deals with the customer has different priorities, are resistant to change or do not have clarity on how their efforts impact the customer collections journey. Additionally it isn't just the teams on the ground who need to be joined up in terms of collections efforts. Senior Management teams must be fully aligned and have direct responsibility if a collections process is truly going to work. This is obviously easier said than done especially in large banks with tens of thousands of employees. Quite often simple measures such as clear communications, making data available and hosting joint workshops between teams can solve many of the wider cultural issues and make sure everyone is joined up in terms of the collections effort.

Understanding the Debtors viewpoint

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 cared for and treated fairly throughout the collections lifecycle is crucial to your organisations 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 too making them less likely to pay.

Different types of debt whether good or bad receives different responses by the debtor. Some people hold an unhealthy attitude to growing debt and not facing the issue. 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
- Do not have financial or emotional support to help deal with their debts
- They want to keep up with their social status
- Cannot handle money or the responsibilities which come with it e.g. do not know how to plan for expenses on a daily, weekly, monthly or yearly basis
- Don't believe that getting out of debt is a priority for them
- Trapped by common myths such as debt is 'normal'
- They do not earn enough money to pay off outstanding balances
- Had a recent life changing event and have become financially vulnerable e.g. loss of job due to Covid-19 impact

The beliefs a debtor holds affects their ability to pay and their relationship with an organisation they owe money too. Usually resulting 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 circumstances**

6 debtor personality types (ft.com)

Based on financial psychology and how people deal with their finances:

1. **The Social Value Spender:** makes purchases to boost their self esteem
2. **The Anxious Investor:** love risk but anxious investors and believe they have the edge over others
3. **The Cash Splasher:** more likely to be male and tends to spend money on others visibly
4. **The Fitbit Financier:** constant bank balance checking and track spending
5. **The Ostrich:** rather bury their head in the sand than organise their finances
6. **The Hoarder:** money represents security and abhor risk

The Vulnerable Customer

- Covid-19 has accelerated and exasperated the conditions and triggers for people to become vulnerable or heightened the risk of exposure through the vulnerabilities they have
- We are seeing a new persona of those in bad debt as a result of Covid-19
- Citizens Advice Bureau recently found **27%** of UK households are worried about making repayments during the pandemic
- Those who have been negatively impacted were in the following groups of debt risk:
  - **In problem debt pre-crisis 700,000**
  - **In financial difficulty pre-crises 3.4 million**
  - **New struggling - 970,000 were not in financial difficulty but now are**
  - **2.4 million people believe they are in growing financial fragility**
- It's not just about collecting debt it's the social impact and responsibility of intervention to stop

Housing insecurity — Depressed living standards — Hardship — Increase in health problems — Increase in levels of unemployment — Slow economic recovery

Treating the customer fairly

The FCA has stated that:

- **50%** of UK adults display one or more characteristics of vulnerability
- Covid-19 has created a new vulnerable customer, which will not have been identified as at risk
- Expectation that financial difficulties will increase as a result of Covid-19 and so will bad debt
- All customer groups will need to be handled differently
- Organisations need to ensure customers understand the types of debt help available to them

FCA FINANCIAL CONDUCT AUTHORITY

The role of Digital Ethics in the collections lifecycle

As discussed in the Understanding the Debtor viewpoint section of this paper making sure debtors are treated fairly throughout their lifecycle of engagement with your organisation is crucial. **At Sopra Steria we have a market leading team of Digital Ethics experts to help guide Financial Services organisations through the principles of treating customers fairly. So what do we mean by Digital Ethics?**

"Digital Ethics is a systematic way of defining principles of right and wrong with regards to the impacts of digital technology on society."

In our Digital Ethics work we establish a definition of and framework for ethics related to customers, data and technology that supports business and technology strategy. So why is this important in relation to Debt Management activities?

Customer concern

People are increasingly concerned about how companies and governments are using their data.[1] Organisations can expect increased public pressure, new regulation, and privacy-centred business models to emerge in the near term.

Skills & work

In the age of COVID-19, organisations will feel competing pressures to use automation to reduce costs and to save jobs in a time when unemployment will be high.[3] The digital skills gap will persist even in the face of the pandemic.[4]

Increased scrutiny on privacy

In addition to public concern about data use, the fall-out from GDPR non-compliance is beginning to be felt, with over €158m in penalties issued since the regulations were introduced.[2]
Privacy-by-design will reduce risk of non-compliance.

Degraded, biased decisions

Organisations are increasingly concerned about the unintended consequences of technology such as unwanted bias in decision-making.[5]

Digital Ethics Categories

- Societal Impact
- Displacement, skills & work
- Fairness, equality, diversity & accessibility
- Privacy
- Transparency
- Environmental sustainability
- Safety

Sources

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The ethical building blocks of our proposition

Digital ethics must be considered throughout the technology and business lifecycle.

Our solutions ensure that action on Digital Ethics is not silo'd, but is integrated into your business.

Legal compliance is necessary but not sufficient.

We will evaluate the regulatory context for your Digital Ethics work, and advise on emerging standards and regulations that could influence action; however, we believe a lack of regulation is not an excuse for inaction.

Digital ethics is not just about technology, it is about people and trust.

We will always start by putting people at the centre of the digital ethics journey, whether it's your employees, customers, or communities.

Practical action on ethics drive better outcomes and create business value.

The topic of digital ethics can seem overwhelming, but there are practical actions that any organisation can and should take.

There is no one-size-fits-all approach.

Every organisation has to take action appropriate for its industry, strategy, values, culture, geography and risk approach. We help to navigate the challenges, not impose our answers.

Accuracy

Customisation

Collaboration

Accessibility & Service Quality

Efficiency & Effectiveness

Technology ethics

Data ethics

Service ethics

Treating Customers Fairly

Principles on AI Guidelines for Measuring Trust

WEF Ethical AI Guidelines

Ethics guidelines for Trustworthy AI

Standards for Ethical Technology

Key considerations throughout the Debt Management collections process

From Sopra Steria's experience in helping Banks and Building Societies with their collections efforts we believe the existing debt collection model many departments deploy is actually the wrong way round. So what do we mean by this? Quite often when we start exploring collection rates and non payment of outstanding debts it is due to poor data collection methods, an over reliance on automated decision making and a lack of understanding around different debtor persona's early in the collections lifecycle which hinders debt collections teams efforts later in the cycle. Many Financial Services organisations are still focused on chasing debt at later stages. If administrative errors from employees and data input into IT systems has been poor at the very beginning of the debt management lifecycle how are the final stage debt collection teams supposed to collect the debt in a timely and efficient manner?

Before we start to explore systems, processes and skills required by staff to collect payments, the right data collection and management methods must be in place. This means at first contact with any customer or business key information needs to be captured, inputted into systems correctly and checked for accuracy. By capturing the data early in the collections process customer risk profiles can be created and then updated throughout their relationship with the organisation. In turn this can help to create the right approach for the debtor and offer them the appropriate access to educational materials, payment methods and information when they need it. This is likely to result in better collection rates and an improved relationship with each customer at each point of contact.

Collections Lifecycle Stage	Acquisition and Onboarding	Customer Monitoring and Management	Early Collections	Bad Debt
Key activities	• Define credit risk in each debtor strategy • Collection of the correct customer data related to the debt • Development of comms strategy linked to debtor personas based on analytical insights • Making sure automated decision making processes are based on robust principles	• Identification of high risk non paying customers early in the life cycle • Ability to offer debtors tailored programmes for payment • Provision of education materials and guidance for debtors • Minimisation of bill shock by keeping the debtor up to date at all times • Development of a variety of payment methods which rewards the early payment of debt	• Segmentation of customers by risk profile • Adoption of different collection strategies through the deployment of a CX strategy aligned to debtor persona's • Ability to adapt collections levers to the need of different customers • Increase opportunities to pay by making customers debt information available across different organisational channels not just the collections department	• Use data and analytics to understand can't pay vs won't pay debtors • Find the most appropriate exit strategy for the debtor and the organisation • Make sure fair customer outcomes are at the heart of the final collections decision

Key Enablers for an effective collections process in Financial Services

Integrated IT Systems – Cross Department Collaboration – Automated Routing Systems – Performance Management for Staff – Incentives and Channels available for Debtors to Pay – Standardised processes and measures of success – Compliance/Benchmarking with industry standards – Central unit for collections available across all customer interactions

Figure 1 – Suggested activities which need to be undertaken at each stage of the collections lifecycle by Financial Services organisations

How Sopra Steria aligns it's Debt Management Services to the collections process

At Sopra Steria we have designed a Debt Management process which takes into account an organisations needs in terms of timely collection and a debtors requirements at each stage of the lifecycle. Our model can be implemented or tested at any stage and contains 5 distinct parts:

Total care for Debtors and Clients → Collect more through Analytics → Cost less through Process and Systems

Enhanced Analytics

Using our data and analytics capabilities we can help you to identify risk profiles throughout a debtors relationship with your organisation resulting in:

- Tailored intervention approaches for different customer groups
- Improved data, information and reporting for management teams
- Better accuracy of predictions on who is likely to default
- Give you the ability to build a 360-degree view of different customers and their payment habits
- Build capabilities to set up alerts related to changes in individual circumstances

Strategic Advice and Guidance

By having a deep understanding of the challenges surrounding Debt Management processes in Banks and Building Societies we can enable you to:

- Understand where digital transformation initiatives can help improve debt management models and processes
- Identify areas in the debt management value chain to reduce operating costs related to collections activities
- Provide advice and guidance on how your department can tailor it's debt management approach via our expertise in customer experience
- Build the right educational literature and offer support channels to citizens early in the debt management cycle
- Give you access to commercial models for the resolution of debt earlier in the lifecycle

Early Stage Debt Recovery

Develop the right debt management processes and make sure your objectives are aligned to industry standards:

- Maximise recovery using automated processes prior to delinquency status reached
- Segment customer groups via payment profile, credit scoring and demographic group through data and analytics
- Design and implement different collection methods through the deployment of a CX strategy aligned to debtor persona's
- Increase opportunities to pay by making customer debt information available across all channels not just the collections team

Later Stage Debt Recovery

Through our In house Debt Collection Agency (DCA) function with a focus on Treating Customers Fairly we can:

- Offer debtors tailored programmes for payment
- Make educational materials and advice channels available via any device
- Use data and analytics to understand can't pay vs won't pay debtors and move to final stage if appropriate
- Make sure fair customer outcomes are at the heart of the final collections decision process

Litigation and Enforcement

Working with FCA authorised industry experts we will:

- Only where necessary push for litigation and enforcement
- Make sure debtors have had access to educational materials and charity partners
- Offer final opportunity to pay through digital channels
- Outsource final debt collection to specialist FCA agencies if required

What actions can Financial Services organisations take to understand their debtors better and improve recovery rates?

As discussed in this paper the challenges associated with the collections lifecycle for Banks and Building Societies may appear to be difficult to overcome. However there are some practical programmes of work which if started today with the right suppliers could see improvements in collections rates within a short timescale they are:

Build data and analytics capabilities to identify risks and tailor interventions to individual debtors

The use of rich customer data combined with the right algorithms, better models and enhanced processes can enable predictions with much greater accuracy who is likely to default on a debt earlier in the collections lifecycle and how best to secure payment from them. One important source of data often overlooked is how a customer interacts with your organisation at different touchpoints. For example do you know how often a customer phones your helpdesk, visits your website, or has a face to face meeting with one of your staff? By collecting this kind of information along with external data from when the customer first applies for a loan, overdraft or mortgage you can start to build a 360-degree view of an individual customers approach to debt, their relationship with your organisation and payment habits. Additionally this information can help to build different debtor segmentation models and allow your staff to make decisions about the types of payment options they could potentially offer a debtor aligned to each individuals circumstances.

Make digital transformation and automation 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 debtors interaction with your organisation as easy as possible. For example do you know which systems underpin your credit scoring, segmentation, collections, credit decisions and fraud prevention? Many Financial Services organisations 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. By exploring options to improve and upgrade legacy systems along with an automation strategy linked to debt management outcomes your organisation wants to achieve, operating costs can be significantly reduced, debts can be settled earlier in the lifecycle and the overall 'customer experience' through digital channels can be improved. Additionally improvements can be made covering debt overview, payment support, renegotiation, and customer support.

Create the right communications channels to improve responsiveness

Experience shows that those organisations who approach digitally aware debtors through email or text rather than a phone call or letter 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 settlement option addresses an individuals needs, and enables automated decision making, whilst creating little or no administrative burden.

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, Percentage of accounts in Dunning Process Cycle time for dispute resolution per month, Percentage of invoices disputed by customers per month. Not just the amounts collected at the 'bad debt' recovery stage. Staff should also 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 will require a change in mindset for many departments in Banks and Building Societies. 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 cared for and not hassled/chased through traditional channels such as letter and phone at the litigation and enforcement stage. Instead the debtor will feel they have built a relationship with your organisation at every touchpoint and be more willing to pay when prompted rather than waiting until it's almost too late.

Take an agile incremental approach to debt management transformation

Different departments are likely to have dissimilar processes and attitudes towards debt management. This will create tensions when redesigning collections processes. Quite often many collections transformation projects fail because of individual silo'd teams simply doing what's best for them not the wider organisation or the customer they are serving. An agile project delivery approach can help to overcome many of the barriers which exist. Collaborating across functions can help to balance customer-journey vs business objectives with relevant decision making and risk controls in place. It also enables critical-path IT-development work into the control of the agile team so rapid iteration and testing of journeys, data integrations, and results can happen. Agile teams gather feedback early as they work in "sprints" so ideas which are not going to work can be discarded early and focus can be switched to these programmes of work which are going to make the biggest difference to the customer and the organisation. It is suggested a cross functional team with equal responsibilities is created with appropriate decision-making authority, tasked to deliver certain improvements to specific deadlines via **"sprints"**.

Start the cultural shift in responsibility

Progress in debt management transformation can only happen when departments with different priorities set their differences aside and work on a common set of goals. Senior Management teams should take the lead on this and act as an example and guide towards the desired end state or goal. At Sopra Steria we believe any cultural shift in attitude towards collections starts at the top. But as it works its way through the organisations pyramid it is important that members of staff at each level feel empowered to make decisions, ensure their fellow colleagues are bought into the programme of work and that results are communicated in a timely and relevant manner.

Make Automation work for your organisation

When was the last time your collections and sales teams came together to examine the automated decision making processes which exist within your organisation regarding lending products? As a starting point long-standing lending processes and the automated decision checklist should be examined by both teams to evaluate if it is accepting the right types of customers, collecting the right information and ultimately making the right decisions for customers and the organisation alike. An automated decision making process for lending products is by design made up of thousands of different criteria's. While this exercise is likely to be time consuming and costly, the opportunity cost of making thousands of wrong decisions should be factored into the business case for review. Start by testing the most common scenarios to see if the automated decision making process is correct and if errors are made rectify them in order of importance.

Final Thoughts

In this paper we have identified that Debt Management for Financial Services organisations is intrinsically linked to future success across customer retention, profitability and the efficiency of operational processes.

Collections teams in Financial Services organisations need to make change happen now to prevent future losses. It is widely accepted that Collections teams find it difficult to reduce losses at the late enforcement and litigation stage. Instead of procrastinating about change, making cosmetic changes to the customer experience or going back to the old ways of doing things, Collections departments need to start embracing new methods of collection, make available educational materials to debtors and put debtors front and centre of their collections strategy before any systems, process or personnel changes take place.

It is suggested Collections teams start their transformation journey to early debt recovery by measuring lead and approval times in the credit process and identify potential pain points across data, systems, customer understanding, legacy IT systems, the communications strategy and the right sequences for automation. Then review against future desired state in terms of KPI's linked to the collections process and what the organisation wants to achieve.

By having a clear view of the future target state for collections in your organisation, leaders of Collections teams can then look to motivate staff and start to make real progress against their future objectives. They can also stop transformational efforts which only make short term improvements or do not transform the relationship with debtors at each stage of the debt management lifecycle.

To prevent bad debt, reduce operational costs, and make sure debtors are cared for at every stage of the collections lifecycle the 'right' structured collections process underpinned by data and analytics needs to be put in place. Then supplementary services, processes and technologies can be identified for further improvement. At Sopra Steria we believe those Banks and Building Societies who take the time to re-visit their existing debt management methods today and identify where gaps exist in terms of data, technology, systems, skilled staff and debtor care 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 ethical debt management services. With a clear focus on ethics and vulnerability, making sure we exceed the baseline requirements of the FCAs Treating Customers Fairly (TCF) agenda.

For more information on the Debt Management services we provide to Financial Services organisations please email **pscomms@soprasteria.com** and one of our experts will be in touch.

www.soprasteria.co.uk

We look forward to working with you.

The world is how we shape it

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