Whitepaper

ContactEngine
A NICE company

Collections – prevention is better than cure

Introduction

A customer entering the debt collections process is never a good thing for a business – it is expensive to chase payment, and, if unsuccessful, a significant loss can be made too (in the US, the average price paid by the debt buyer is 4 cents per dollar of the debt face value).[1]

This paper explores the issue of customer debt and how the latest advancements in customer service technology can be applied to reduce the cost of collections, increase repayments, and prevent customers entering the collections process in the first place.

1. https://www.ftc.gov/sites/default/files/documents/reports/structure-and-practices-debt-buying-industry/debtbuyingreport.pdf

There are two types of collections

To better frame this paper, it is worth highlighting that there are two types of collections:

- Where a creditor, such as TV/broadband provider or credit card issuer, believes its customer to be behind on payments and the creditor still owns that debt
- Where the creditor has sold the debt owed by a customer to a collector, who then tries to collect the money owed

While some aspects of this paper will be relevant to debt collection companies that have purchased debt from a creditor, it is primarily focused on the steps before this happens, i.e. where the creditor still owns the debt.

Most collections processes follow a similar path

Before looking at the collections process itself, we must first consider how customers end up in a debt situation in the first place. Broadly speaking, there are three categories in which customers will fit:

1. **They are deliberately avoiding paying**
   The customer knows they owe money, but does not intend on paying it back, even if they have the money to do so. This might either be out of principle (such as not agreeing the debt is legitimate), or because they are attempting to 'game the system'

2. **They can't pay**
   The customer would pay the debt if they could, but they simply don't have the funds available to do so and, worse still, may be too embarrassed to speak to you about it

3. **They don't know they need to pay**
   Where the customer is unaware of the debt (for example, where a customer believes they have already made payment, or didn't receive the bill because of incorrect or out-of-date contact details being held)

If a business could better understand the category in which each customer sits, then it could adopt a more sophisticated and tailored approach to collections. However, it is nearly impossible to know in advance which category a customer sits in, especially if it is their first time entering the collections process. The collections process is therefore typically one-size-fits-all, progressing through an escalation process such as that shown in the extracts below from BT's (the largest telecommunications provider in the UK) code of practice for billing and debt collection:

If you regularly have problems paying your bill in full or on time, or if we think there's a high risk that you won't pay your bills, we may recommend that you use a more structured way to pay.

We may offer one or more of the following solutions.

- Repayment plan. This will help you to pay the amount you owe over an agreed period. We may give you a BT Payment Card so you can make payments in instalments. When we agree the repayment plan, we'll take your past payment history into account.
- Restricted service. We may ask you to agree to have your service restricted to incoming calls only until the end of your repayment plan, if we believe this will help you to avoid a larger debt building up. In this case, we won't charge for reconnecting the service.
- Monthly Payment Plan. The amount you owe can be included within your Monthly Payment Plan payments, so you can spread the amount you owe. But we may ask you to make a payment upfront, depending on what's best for you.
- Call My Bill. This is our automated service on 0800 854 608 (this call is free from your landline). It allows you to check – between bills – how much you're spending on calls.
- View My Bill. It's like Call My Bill but it's online – go to bt.com.

Call barring for premium-rate services. These types of calls may have added to your payment problems.

If you can't pay your bill and you haven't talked to us about it, we'll try and contact you by phone, SMS or email. We will also suspend your service and you won't be able to use our network until you pay any outstanding balance.

If this happens, we may also:

- add a termination fee to your account in line with your terms and conditions;
- pass on your details to a debt collection agency who may add their own charges and fees to recover the debt; or
- notify credit reference agencies that you've missed payments (the information can be used by other lenders and will affect your credit rating and ability to gain future credit).

If we don't get your payment immediately after sending you the first reminder, there are some steps that we will take.

- Remind you that the payment is due. We may do this through a variety of methods such as an automated voice call, text message or email.
- Send you a reminder letter at least seven days before we plan to disconnect you.
- Charge you a late-payment charge.
- We may share information about your debt with other organisations that give credit.
- We will restrict access to your services. This means you won't be able to use BT Broadband or BT TV, you may still be able to receive calls. You won't be able to make any calls apart from emergency calls to 999.
- We will eventually restrict your ability to receive calls if you still don't pay.

We may automatically divert any calls you make to us so that we can talk about how you can pay your bill.

While each of these approaches involve notifying the customer of their debt, their options, and the consequences of ignoring it, they all rely on the customer initiating action: either picking up the phone, opening an app, or logging onto a website.

2. https://www.bt.com/bt-plc/assets/documents/about-bt/policy-and-regulation/our-governance-and-strategy/codes-of-practice/billing-and-debt-collection/billing-and-debt-collection.pdf

Now, think about those categories of customers again:

- If you have no intention to pay, then you might just ignore communications and the creditor will just keep chasing
- If you can't pay, you might be too embarrassed to pick up the phone to explain your circumstances and instead ignore the communication hoping it all just goes away
- If you didn't know you needed to pay, then it might be that letters/emails/texts/calls just aren't reaching you (e.g. being sent to an old address/number)

The trouble is, in each of the scenarios above, the creditor will have no choice but to assume each customer falls into the first category – no intention of paying – even though that isn't necessarily the case.

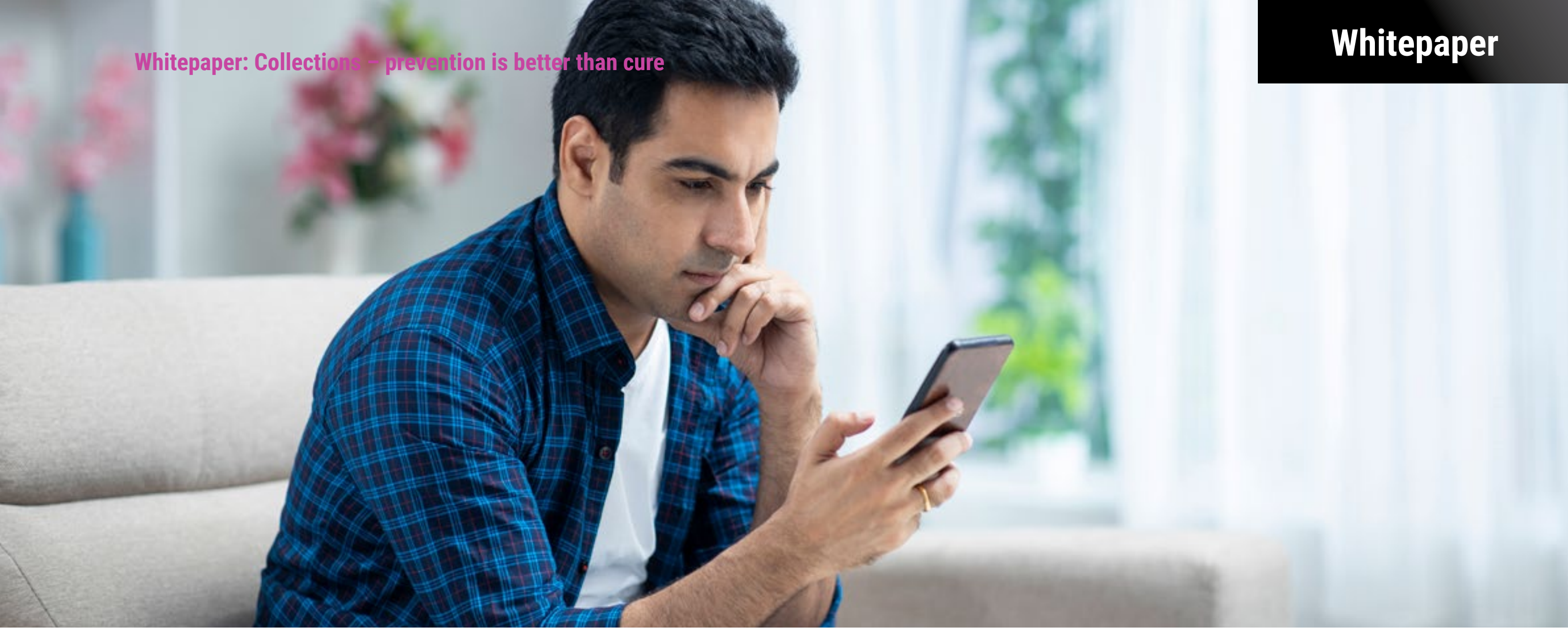
This need not be the case. The latest customer service technologies can remove the barriers to customers engaging with the debt process, which leads to better outcomes for both the customer and the creditor alike.

Removing the barriers to customers engaging with the debt process

Until recently, the focus of innovation in customer service has been on better handling inbound customer interactions (think chatbots, knowledge management, natural language IVR, self-service, etc.). Outbound capabilities simply haven't received the same attention, leading to creditors being "*reliant on an approach centered around traditional non-digital contact methods*".[3]

Even today, outbound capabilities typically only comprise one or more of outbound diallers blindly calling customers in the hope they pick up, one-way emails, hardcopy letters, and SMS notifications asking the customer to contact the company about their debt – in other words, they each rely on the customer making the effort to trigger a corresponding inbound interaction to arrange repayment. Those customers that are aware, willing, and able to make the payment will of course do this (albeit perhaps not as quickly as would be liked), but all the others will not.

3. https://www.mckinsey.com/business-functions/risk/our-insights/the-customer-mandate-to-digitize-collections-strategies



However, innovation in outbound customer service is now gathering pace, with Gartner forecasting that "*by 2025, proactive (outbound) customer engagement interactions will outnumber reactive (inbound) customer engagement interactions*".[4] This is in part driven by the availability of more customer data, which allows companies to build predictive analytics and design proactive interventions. Yet is is also driven by advancements in proactive (outbound) communication capabilities – the latest proactive (outbound) technologies turn one-way notifications into conversations that engage the customer and enable them to take actions without the need to generate any inbound interaction.

To demonstrate just how powerful adopting cutting-edge proactive (outbound) communication capabilities can be in increasing the efficacy of collections, consider that a leading North American communications service provider realized a 22% increase in dollars collected and a 20% reduction in days to pay by using ContactEngine to engage its customers in automated, proactive (outbound) digital conversations.

Why proactive (outbound) conversations transform the efficacy of collections

There are four key reasons why ContactEngine's automated, proactive (outbound) digital conversations transform the efficacy of collections.

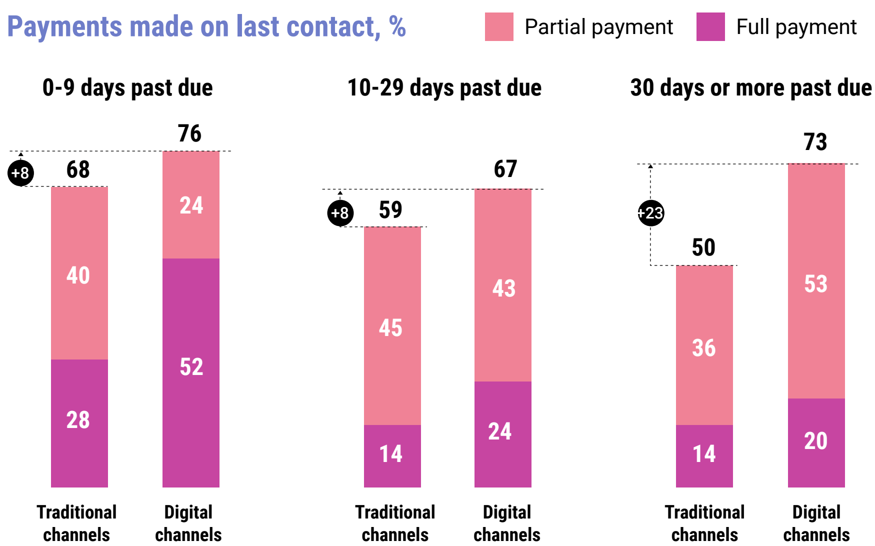
The first, and arguably most important to acknowledge, is that there remains a stigma about being in debt – a recent survey found that 53% of respondents in debt do not talk about it with anyone.[5] This could cause a customer that has fallen behind to hope that next month they'll be in a better position to repay, rather than call in and arrange the more prudent option of a repayment plan. Engaging customers in a proactive (outbound) conversation enables them to interact with a computer rather than a human and set the repayment plan up in the conversation, which removes any embarrassment and increases the likelihood of them taking the prudent option. This is not simple speculation – studies have shown that "people are more open with automated tools because they believe computers don't judge".[6]

4. https://www.gartner.com/smarterwithgartner/top-customer-service-and-support-predictions-for-2021-and-beyond/
5. https://lowell.co.uk/about-us/lowell-s-blog/financial-health/hidden-debt-why-we-don-t-talk-about-our-debt-problems/
6. https://www.bbc.com/worklife/article/20160412-truth-be-told-were-more-honest-with-robots

The second is that, unlike legacy one-way outbound communications that ask the customer to take an action in a separate channel (call this number, log on to the website, etc.), a proactive (outbound) conversation not only notifies the customer of the debt, but engages them in a conversation that makes it simple for them to repay the debt or arrange a repayment plan right there and then within the conversation itself – making the process effortless for the customer.

The third is that it enables the customer to easily challenge the debt or advise that they aren't the right customer to be talking to. By enabling the customer to easily respond, they are more inclined to quickly inform you about things like the account quoted doesn't belong to them, or that they don't even have an account with you (this happens more than you might think due to contact detail quality issues). These responses can then be swiftly investigated and corrected so the right customer is notified of the debt.

The fourth is that digital channels are used instead of traditional ones – the use of digital channels (text, email, apps) have been shown to be more effective than traditional channels at achieving payment of past-due balances, as shown in the graph below taken from a 2019 McKinsey study on lender recovery rates:[7]



Contacting customers through preferred digital channels improves effectiveness most significantly in the 30-plus days past-due segment.

Source: McKinsey & Company

The benefits of adopting a proactive (outbound) approach to engaging customers in the collections process need not be limited only to those customers in the collections process – the same proactive (outbound) approach can be used to prevent customers entering the collections process in the first place.

7. https://www.mckinsey.com/business-functions/risk/our-insights/the-customer-mandate-to-digitize-collections-strategies

Prevention is better than cure

A key technology driving the ever-increasing number of proactive customer interactions is predictive analytics. In the case of collections, these would be tools that can predict when a customer is likely to enter into debt based on patterns in data, such as amassing a high spend on a credit card unusually quickly, a series of missed bill payments, or perpetually only making the minimum repayment required.

By linking cutting-edge proactive (outbound) conversational capability such as ContactEngine to these predictive tools, it becomes possible for a data trigger to engage customers in conversations that are tailored to the predicted outcome, and that help steer them to a preventive course of action, such as offering a cheaper and more suitable deal for them, access to financial education courses, agreeing a credit limit reduction, and so on. While it is of course impossible to prevent all customers entering the collections process, the idea here is simple – prevention is better than cure, meaning it is far better for everyone if as few customers as possible enter the collections process in the first place.

Conclusion

If you think about it, collections and sales are fundamentally similar. Both are about convincing a person to pay you money. However, unlike sales, collections is usually a negative experience for a person, rather stressful, and potentially embarrassing. At best, the nature of the typical collections communication approach (that relies on a one-way notification triggering a corresponding inbound interaction from the customer) does nothing to make the experience any easier. At worst, it makes the experience even more challenging and stressful.

This is not to place blame on individual companies, as their communication capabilities can only be as good as the technologies available to them. Instead, it is the result of a lack of investment and innovation in outbound customer communication technologies, meaning that until recently a one-way notification through a digital channel was seen as cutting edge.

Thankfully, innovation in outbound customer communication technologies is now gaining pace. ContactEngine is at the forefront of this innovation, providing companies with the technology to turn one-way notifications into proactive (outbound) conversations that not only notify the customer of the debt, but engage them in a conversation that makes it simple for them to repay the debt, or arrange a repayment plan right there and then within the conversation itself.

By adopting the latest innovations in outbound customer communication, and in particular that provided by ContactEngine, not only can companies reduce the cost of collections, increase repayments, and prevent customers from entering the collections process in the first place, but also making it a win-win for all.

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About

The report is published by ContactEngine Inc.

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ContactEngine is a Conversational AI technology that enables brands to proactively engage customers in conversations that fulfill business objectives. ContactEngine automates outbound customer engagement across all channels and generates unique insights into the changing patterns of communication by applying demographic and intent analysis, linguistics and ground-breaking artificial intelligence principles to mass volumes of raw data. ContactEngine transforms the way global brands engage with their customers — saving brands millions and making their customers happier.

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