

Customer Centric Collections and Scoring

_by Murray Bailey

Customer rather than account

Banks and some large lenders have customers who have multiple products. It can therefore be frustrating to both the customer and the Collections team to find that there are multiple contacts when the customer is in arrears. The concept of customer centric collections is by no means new and yet many organisations are still a long way from achieving this objective.

The issues are primarily around the systems and organisation, although the complexity of handling the payment is an additional problem. Legacy systems tend to be vertical, delivering functionality specific to the requirements of the product. Whilst the fundamentals of collections activity are the same, each product has its nuances. For example Mortgage collections systems tend to be simpler with more focus on individual treatment and re-establishment of bank payments whereas a small revolving facility will rely on a high degree of automation and clever segmentation to identify the most effective early action, channelling accounts into the dialler only when the probability of payment following a letter falls below a certain level.

Modern systems allow for strategies to be segmented at product level and can even be set based on combinations of products. Middleware is also available so that the benefits of a customer view can be achieved without the need to replace legacy systems, thus saving time and money.

The organisational issue is also a temporary hurdle. If the business is willing to move to a customer view, rather than operate in silos, then the culture will be ready for change. However, if the business is not ready, you will find the politics will block your efforts. The willingness must come from the top and successful companies have found that the gradual progression towards a customer centric solution works best. Even before systems are compatible, staff can be cross trained and share goals. And when systems are available, the migration may be one product at a time. This provides the operation with the ability to learn and tune the system on lower risk portfolios before attempting to link in more complex systems.

Pros and Cons

Let's deal with the downside first since there is only one. It is complexity. It would be nice to make a single customer contact and obtain a single payment that could be assigned to the products automatically. However this is no simple calculation for this assignment. In addition there is no simple risk assessment of customers with multiple products. How do you view the long term customer with a large mortgage that is in order, but is two months in arrears on his credit card in comparison to the customer who is paying the minimum on his up-to-date credit card, but misses his

mortgage instalment. We will look at the issue of combining risk assessment later. For now we will consider the upsides.

Some organisations start down the customer centric road with the motivation of reducing overheads. Having a single team provides economies of scale. In addition there are the benefits of flexibility – larger numbers of staff mean that deployment to areas requiring attention doesn't necessarily mean that another area will suffer. Cross training and staff development and progression are also benefits associated with a larger combined team.

There will be customer relationship benefits associated with the one-call approach. In addition, the reduced contacts will result in lower collections costs as letters and calls are combined. However these financial benefits pale in comparison to the opportunity to reduce write-offs. A rigorously executed customer centric strategy can deliver large improvements to the bottom line. By a better assessment of the customer risk and probability of loss, companies have seen write-offs reduce by up to 25%.

Approaches

So how is it done? The biggest mistake that companies make is to try and do too much too quickly. The key to success is to ensure that the three key elements are ready: the people, the systems and the strategies. The best companies see the development of customer centricity as a progression.

There are three stages of the development of customer centric collections. The most simple is to provide a flag to the agent so that when they are working an account they can see that there is another product. However access to the detail of the other product is manually intensive, requiring a 'hot-key' between systems.

The second stage continues with an informative approach rather than one that is data driven. Here the agent is provided with the other product details without the need to hot key. This approach may commence with silos, but addresses the ability of the agent to more easily enter into a discussion about the customer's complete relationship with the bank. The progression of the solution is therefore to enable the agent to take actions that can be applied to all of the range of products rather than the single account.

There is a third approach is to consider the holistic position of the customer and design the collection strategy at the customer level. To achieve this solution, the organisation must have mechanisms and models in place to assess the customer so that the strategy can be determined at the customer level.

The full article is available in "Consumer Collections and Recoveries" edition 2, available via Windsor CME at www.windsorcme.co.uk/whitebox