

Thrive or Barely Survive? The Megatrends Driving Default Management

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Article Summary: *Consumers aren't just getting more elusive and more demanding of their service providers – they are fundamentally shifting the way they communicate, along with their service level expectations. Organizations who understand and embrace this shift will be the winners of the future in the key default management areas (e.g., collections, loss mitigation and recoveries) as well as other areas like customer acquisition and service. This article explores the reasons behind the shift so that forward-thinking default management executives can take the appropriate measures in time to benefit from the shift at the expense of peers who will be left saying “I never saw it coming”.*

Collections managers have dealt with every manner of challenge through the years: from the effects of lax credit and underwriting policies in the high-growth years to the effects of the recent economic downturn, it has always fallen to collections leadership to come up with new strategies for reaching those in arrears and convincing them to make good on their obligations. For the past several years, however, an industry-wide decline in right party contact rates (and resulting increase in the cost to do business) has defied executives' attempts to revise their approach using traditional methods.

Here's the bad news: the trends underlying this decline are structural and it's only going to get worse.

The good news: there is a solution, but it requires beginning with an understanding of the fundamental issues at play and how they are going to continue to affect our job in collections and customer service.

Let's explore these “megatrends” in our customers' experience base individually and see how they converge to change the nature of the task before us.

1. I'll talk to you, just not by phone

No matter how you approach it, customers simply aren't as willing to engage on the phone as they used to be. Some people actively avoid phone contact, screening all of their calls and choosing to speak only to the people they want to talk to and leaving the rest of us to try in vain to engage with them. Mobile phones, with their Caller ID display, as well as an increasing number of digital handsets in the home, mean that most consumers know (or

have a pretty good idea) who is calling them at all times. Underlying this trend, there is both a generational shift and a societal change in attitude.

While it's easy to observe younger folks who are less and less interested in talking on the phone and much more likely to text, tweet, Facebook post, instant message or even email, there is a broader shift¹ from one-on-one communications being the default to acceptance of one-to-many being the norm. From a societal point of view, this multi-tasking behavior is gaining acceptance as consumers increasingly choose their method of communicating and only choose the phone to converse with someone known or expected. **The new guiding principle seems to be “why should I call you back or talk to you now (i.e. what's in it for me to do so)?” which poses unique challenges for collections and loss mitigation operations.**

2. I'll assess my options... by myself

Today's consumer is bombarded with opportunities to gain information and arm themselves with more data from all quarters: newscasters, editorialists, talk show hosts, politicians, nearly everyone appends to their presentation the instruction to “call this number for more information, check out this web site, watch this video/program, listen to this expert,” etc. In this age of rampant and easy-to-access information, it is no surprise that consumers are increasingly interested in educating themselves

before making any decision. This includes who, and how much, to pay when they're confronted with a shortage of cash-flow or temporary financial drought. What is less obvious is that **this self-education has become more and more a necessary pre-condition to gaining the consumer's confidence.** When the subject is pre-emptive action such as loan modifications, it is even more imperative that we find ways to give them insight as to why we need to engage them and why it would be in their own self-interest to respond.

3. I demand superior customer service

Faced with more competition, service providers in industries as different as airlines and financial services are coming to the same conclusion: they must provide superior customer service to differentiate themselves and gain -- then retain -- more customers (although, as a frequent traveler, the airlines' degree of success in achieving this goal deserves its own article!). The proliferation of added features, perks, and options has convinced consumers that they can demand superior service at every point in their consumption cycle. Consumers' expectations have been raised not only in the services and choices they are given, but also in the degree of control they can exercise over their circumstance. Look no further than banking, where many retail bank customers never venture into a branch after opening their account (many now perform this activity on-line, too). Even while they're in collections, then, debtors expect excellent treatment -- and they have a long memory for those instances where they are not.

It's not just that the bar has been raised for the provision of service itself, but **the downstream implication is that our failure to meet the customer's service expectation in collections can undermine our chances of keeping the customer.** The notion of Collections as a Customer Retention vehicle is the subject of another whitepaper co-

written with Julie Austin of Total System Services, Inc. (TSYS)² -- see bibliography or visit www.cmccagile.com to download a copy. Whether trying to maintain the customer relationship for follow-on business, trying to influence the customer's choice of which bill on the stack to pay first, or engaging the customer to consider a loss mitigation offer, **default managers need to understand the customer's service level expectation and do everything possible to use that knowledge to their advantage.**

4. I will respond on my own schedule and time

In addition to the services and degree of control they have, consumers are no longer willing to wait for bank branches that are open 9-3 Monday to Friday. Why should they? ATM's offer 24-hour convenience, many banks have opened online branches and full- or partial-service branches in locations like supermarkets. So consumers are able to get whatever they want, whenever they want it -- even while they're mobile -- and expect to be able to choose the time and place where they get it (between 20-33% of visitors to our clients' self-service web sites occur outside of call center hours of operation). **Consumers will continue to demand this in the future -- our challenge is to provide for it in a way that also meets our collections objectives.**

5. You won't find me using any single medium

Along with consumers' aforementioned aversion to one-on-one phone conversations³, another easily observable trend is the explosion of alternative ways consumers can communicate: web sites, blogs, social media, instant messaging, email, mobile web, text messaging, interactive video (think iPhone 4 Face Time), mobile instant messaging, to name a few! A consequence of the proliferation of ways that consumers can be reached is, in media terms, greater fragmentation of the audience. **Since no one medium is sufficiently broad to be able to provide the**

coverage we need, we will have to cost-effectively conduct our collections interactions across a wide range of media to meet our goals.

Thought Leaders are already leveraging comprehensive self-service dialogue:

- A super-regional bank is deploying multiple different contact methods in addition to their outbound collections calls; they are driving almost as many previously “non-contactable” customers to transact via the web as customers they’ve been able to contact – effectively doubling their reach
- A top -ten retail bank is increasing their recoveries significantly by coordinating communications from agents, IVR, letters, and email to reduce costs and increase their recovery rate substantially.
- A private label card issuer is receiving more than 50% of their recoveries payments from debtors who have never spoken with an agent, opting instead for one of several self-service options.
- A major home equity lender is leveraging its comprehensive self-service dialogue to achieve a 43% productivity lift while improving pull-through rates on loan mods.
- A large utility is using coordinated text messages and emails to drive customers to a self-service website to pay their overdue bills and avoid write-offs, to the extent that payments far exceed the cost of the new communications and have opened up a new profit source.

6. Look now or I’ll be gone

Our customers are harder to locate now than ever. Not only do they normally move more often for work, the challenging economy is creating dramatic population redistributions. Anyone who has looked at the skip tracing tools available today versus even five years ago will realize that **the**

challenge faced by collections shops has increased substantially, and that finding a *good* phone number or mobile address is much harder than finding many phone numbers. We shouldn’t expect this trend to reverse anytime soon. Phone number mobility isn’t the only challenge; recent statistics on email addresses show that the longevity and accuracy of a person’s electronic address is decreasing and will likely continue, as customers arm themselves with more ways to be reached (or not). So Email, while a productive channel for reaching customers, must be coupled with preference capture and easy-to-access update capability in order to be most effective.

7. I’m untethered – even in my house

With the increased mobility of consumers and the proliferation of communications alternatives, we have seen a rapid decline in the number of households who even maintain a land line number at all⁴. According to FCC data, the number of U.S. (land line) home phones peaked at 141 million in 2000 – by the end of 2008 that number has dwindled to 78 million! This challenges us to reach those people who use a cell phone as their primary number⁵, both because we can no longer count on their phone number as any indicator of where they reside (for call time compliance), but also because it increases the difficulty of knowing when/how we can engage with them. This trend is unlikely to slow or stop -- our regulators’ insistence on raising constraints on how we can reach out to customers on their cell phone will make this task ever more difficult, and requires us to **pay careful notice to Express Consent capture and tracking of who has given us permission to reach them on what number(s)/address(es).**

8. Dash my expectations at your peril

We all have experienced truly exceptional service, where the positive feeling for our service provider rises exponentially. Unfortunately, much more often we have experienced the opposite. There is

tremendous advantage to demonstrating to our customers that we're taking action to make working with us more convenient, with more options, more control, more cost-effectiveness, etc. than the others who are vying for their time and money⁶. Customers reward us for demonstrating increased service by paying our bills first, using our services more, buying more of our products – and they punish us when they perceive that others are doing a better job. **The key is taking steps that get us – and keep us -- on the “top shelf space” in their mind.**

9. I expect instant gratification

In all of our interactions as consumers, we are being trained to expect quicker and quicker turnaround: one is bombarded by offers to “order now online, or call this toll-free number right away” whether during late-night infomercials or print ads in magazines. The customer service industry has continually strived for “one-call resolution” as a prime measure of effectiveness, and as consumers once we experience it we thirst for it in all our interactions. Debtors are no different – when they provide new information about their situation or circumstances, they expect to receive consideration in the form of a revised offer, or education on their options in light of the new information, or at least an explanation why the current offer still makes sense. Many advocates of collector-controlled judgmental

offers cite this need to react on-the-fly as their motivating factor in dramatically empowering agents, but then express equal frustration about the tendency to see settlements and other resolutions that regress toward the floor limit. **A better approach would be to couple more effective training of this vital resource with reduced judgmental leeway, providing collectors robust ways to incorporate new information and to make individualized offers most likely to meet the debtor's expectations and ability to pay.**

10. I expect you to know me, because I matter

The culmination of all of the above trends is this: consumers don't care that they're harder to reach and have multiple different touchpoints – they still see their dialogue with you as one conversation. They do not understand why service providers seem incapable of having a single conversation with them across all of those touchpoints. **When they see providers leveraging technology to “know” them (when and how to reach them, and with which offer) in ways reminiscent of the local grocer and branch banker, they react with strong customer loyalty.**

Editor's note: the above list of trends is representative of the views of ALL ages, incomes or other demographics and is not skewed to a single or clearly-delineated subsegment⁷.

Implications for Default Management Operations in the Future

Our “dialogue” with customers is inevitably being drawn away from merely collector-to-debtor and toward a highly fragmented series of interactions over a number of communications media (including, but by no means limited to, collectors) over time. This implies a number of new and vexing challenges:

- we must be able to combine the disparate threads of interactions into single ongoing conversations;
- we must deal with an exponentially greater level of complexity in doing so;
- we have to find better and more robust computing models to incorporate the exploding amount of data these complex multi-threaded interactions entail; and
- we must find ways to empower strategists to control this broader-than-just-agents communication challenge, but do so without ignoring or devaluing collectors' impact.

At the end of the day, it's still about "getting the right offer to the customer" – but now, it becomes "getting the right offer to the right person at the right time using the right combination of touchpoints".

Combining disparate threads of interaction into a single continuous dialogue means much more than after-the-fact analyses of what happened last month. It requires capturing data on each and every interaction (what was offered, whether the customer reviewed it, and how they responded) normalized into a cohesive picture of what took place, in what sequence, with what outcome, by customer -- to be able to adapt.

Giving your decision scientists access to an exponentially greater complexity of data inputs and options means crunching an enormous data set and still providing a timely decision at the agent desktop system. Enhancing the training and oversight of agents in this environment cannot be understated: when conversations do occur, the agent still only has about 5 seconds with the customer to win their trust.

The sheer size and complexity of the data model we are describing requires more computing power than exists in traditional premise-based collections systems. Just providing an updated agent system by start of each day (including daily dialer/letter/IVR files) is already daunting; such data and decisioning power implies computing and database capacity along the lines of the linearly-scalable Google system.

Empowering strategist-controlled execution of offers, treatments, and contacts is the only viable way to deal with the explosion in complexity described in this paper, including your scientists' best models and all the data available about the customer. Using agents as the primary decision point (when faced with any volume of accounts) will likely result in lower collections: it forces operations to simplify treatments, when what is most effective is highly-segmented treatments targeting each debtor. Meanwhile, regulators prefer more measurable/enforceable actions to the individual judgments of collectors.

Deploying expert collectors appropriately within a strategist-controlled environment means motivating and financially incenting them to leverage the self-service channels alongside their conversations in order to realize the most efficiency gains. The agent has to become the delivery person of the message, rather than the decision-maker on the right offer. Empowerment is the crucial step of giving agents the chance to take the fullest advantage of the entire dialogue, not just their individual conversation.

CONCLUSION

- 1. The consumer is changing, and we can't put the genie back in the bottle.**
2. Before long, the traditional methods that have been eroding slowly in effectiveness will reach a tipping point where the organizations who haven't embraced the future will be trampled by it.
3. The increased complexities and diversity of debtor expectations will continue to drive the need for a comprehensive approach to managing a single, synchronized dialogue.
4. These in turn will demand greater computer power and programmatic logic to be able to give strategists a handle on all the complexities involved in executing these dynamic strategies.
5. The need for greater strategist control and the idea of maintaining fully empowered agents are not contradictory – both need to be synchronized precisely within the confines of the multi-threaded, multi-dimensional collections strategies required to address the trends we have been discussing. It can be done, but requires an exceptionally clear vision of the oncoming future.

About Collections Marketing Center, Inc.

Collections Marketing Center, Inc. (CMC) pioneered the industry's first completely virtual, adaptive collections platform providing comprehensive self-service strategies geared toward all types of account holders spanning credit cards, mortgage and home equity loans, student loans, phone and utility bill payments. The FlexCollect[®] platform combines advanced decisioning technology, a marketing focus and responsiveness to changing consumer behavior to optimize results for creditors in their credit risk, default management and loss mitigation operations. For more information, visit www.cmccagile.com or call (302) 230-9262.

Sources

1. This is not just a teenage problem. In May, the [Mental Health Foundation](#) released a report called *The Lonely Society?* Its survey found that 53% of 18-34-year-olds had felt depressed because of loneliness, compared with just 32% of people over 55. The question of why was, in part, answered by another of the report's findings: nearly a third of young people said they spent too much time communicating online and not enough in person. (Source: *The Guardian*, Saturday August 7, 2010, "Social Networking: Failure to Connect" by Tom Meltzer)
2. [Leveraging Collections as a Customer Retention Tool](#), by Julie Austin and Vytas Kisielius, January 2010
3. The FCC has reported "the United States continues to lead the world in average minutes of use per subscriber" – individual customers in the U.S. use five times the number of minutes as the average European subscriber. (Source: CTIA – *The Wireless Association, Wireless Quick Facts, 100 Wireless Facts, 2009.*)
4. More than one of every five American homes (20.2%) deserted their landline telephone service and now rely exclusively on wireless service. Approximately 18.4% of all adults (more than 41 million) live in households with only wireless telephones. A total of 18.7% of all children live in households with only wireless telephones. Adults living in (30.9%) or near poverty (23.8%) were more likely than higher income adults to be living in households with only wireless telephones. Nearly one of every seven American households (14.5%) received all or almost all calls on wireless telephones despite having a landline telephone in the home. Approximately 35 million adults (15.4%) lived in wireless-mostly households. (Source: *Wireless Substitution: Early Release of Estimates From the National Health Interview Survey, July-December 2008, Department of Health and Human Services, National Center for Health Statistics, May 2009.*)
5. Wireless subscriptions have risen from 33.8 million in 1995 to 270.3 million in 2008, a 699.7% increase. Wireless penetration for the U.S. population has increased from 13% in 1995 to 87% in 2008. It took more than 21 years for color televisions to reach 100 million consumers, more than 90 years for landline service to reach 100 million consumers and less than 17 years for wireless to reach 100 million consumers. (Source: CTIA – *The Wireless Association, Wireless Quick Facts, 100 Wireless Facts, 2009.*)
6. Americans will spend 9% more with companies that provide excellent customer service, [according to](#) recent data from [American Express](#). A majority of Americans report that quality customer service is more important to them in today's economic environment (61%) and will spend an average of 9% more when they believe a company

provides excellent service. (Source: J.D. Power and Associates 2010 U.S. Wireless Customer Care Performance Study – Volume 2. Study is based on responses from 9,690 wireless customers who contacted their carrier’s customer care department within the past six months. The study was fielded from January through June 2010.)

7. Mobile Marketing Association article on wireless usage by age group. The importance of mobile phones continues to increase among all age groups - as usage of features and applications related to mobile marketing (such as text-messaging) become more mainstream, [according to](#) the third-annual Mobile Attitude and Usage Study by the [Mobile Marketing Association](#) (MMA).

Wireless usage increased significantly from 2006 to 2007. Almost eight in ten adults now use a wireless phone, as do six in ten teens, the study found:

