White Paper

Leveraging Collections as a Customer Retention Tool

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EXECUTIVE SUMMARY

A new strategy is imperative as financial institutions face $44.4 billion in charge-offs. Financial institutions' (FIs) charge-off rates continue on an upward trajectory, fueled by delinquency rates that are at a historic high and exacerbated by unprecedented unemployment levels. At the same time, legislation mandating credit card reform is threatening to squeeze FIs' profitability, transforming collections into an instrumental customer retention tool that is capable of augmenting contributions to an institution's financial health. This report explores the importance of adopting a modern collections strategy, one that is relevant to the current economic landscape and contributes to customer retention.

As U.S. consumers' revolving credit card debt nears $1 trillion, FIs should consider reevaluating collections operations and identifying practices for deriving increased value. This is especially critical during a period of lower-than-average customer acquisition rates. Recent legislation illuminates the reality that FIs' future customers will be neither as plentiful nor as profitable as in the past. With charge-off rates reaching 10 percent as of Q3 2009 — nearly double the average rate of five percent over the past 18 years — banks face the reality of losing a tenth of their portfolios. With even the soundest acquisition strategies, FIs will struggle to overcome persistently high delinquency rates and maintain solid customer bases. Therefore, to ensure long-term prosperity new retention strategies must be embraced.

A Customer-Oriented Collections Strategy Offers Compelling Benefits

Today, many of the 58 million Americans who have debt are carrying delinquent balances for the first time. As most Americans have not historically been burdened by delinquent balances, FIs can capture the value of these *first-time debtors* as past and, potentially, future good customers. This new customer dynamic is one with strategic implications that can be incorporated into today's collections strategies and operations. Deploying a more customer-oriented collections program provides four compelling benefits to FIs, including *(1) collecting more and higher payments, (2) reducing operational costs, (3) decreasing charge-offs and (4) strengthening long-term customer loyalty.*

The first section of this report addresses how today's uncharted economic terrain is quickly becoming characterized by a new profile of the indebted consumer — a previously attractive customer who is experiencing the collections process for the first time. The second section outlines new practices essential for leveraging collections as a retention tool. The first-time debtor profile underscores the need to shift the tone of collections activities from the stereotypical adversarial approach to one that positions the collector-debtor relationship as a partnership. Additionally, there is value in expanding beyond the traditional "call and collect" approach to a full-channel solution that synchronizes less expensive self-serve channels such as Web, interactive voice relay (IVR) and text messaging into the communications mix. Self-serve channels expand capacity while optimizing cost-per-dollar collected. Finally, this report addresses how to measure the success of a new collections approach and highlights some of the expected results of adopting this timely strategy.

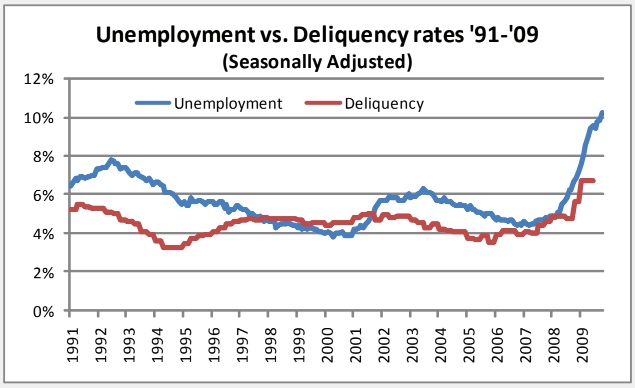
INDUSTRY OVERVIEW: Understanding The New Reality

According to the Federal Reserve, the majority of the nearly $1 trillion of U.S. consumers' revolving debt constitutes credit card liabilities.[1] With unemployment rates at historic levels, it may come as no surprise that approximately 26 percent of Americans are experiencing difficulty in making payments on credit cards, mortgages and other loans.[2] The U.S. Government Accountability Office (GAO) reported, "the percent of credit cards 30 or more days past due in the first quarter of 2009 reached its highest rate in 18 years."[3] With more and more home loans upside down, tapping into home equity is less frequently a viable option than it has been throughout the past decade. In response, consumer debt has reached new levels as credit cards have become a financial crutch for the many unemployed faced with diminished or depleted savings accounts, a prominent factor in high delinquencies. Many have shifted to debit card usage in an effort to rein in spending, while many others have run out of options. The American Bankruptcy Institute reports that, "personal bankruptcies have surged to more than 1 million filings."[4]

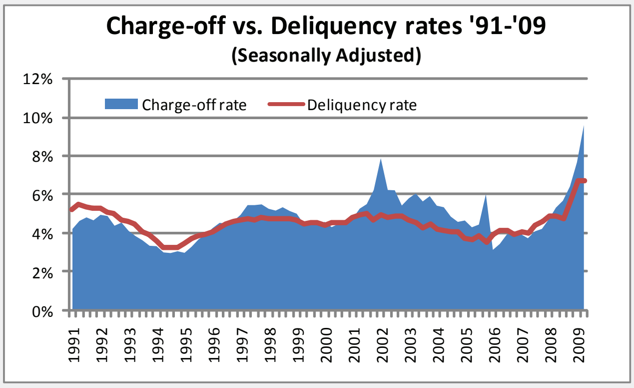
Three primary factors are pushing issuers to seek innovative ways to maintain profits. These include soaring rates of charge-offs, the slowing pace of payment card account openings and new constraints imposed by the Credit Card Accountability, Responsibility and Disclosure (CARD) Act.

Delinquency Rates Spur 25-Year-High Charge-Off Rates

The Federal Reserve recently reported that delinquency rates and charge-off rates of the 100 largest FIs for consumer loans have skyrocketed (see Graphs A and B). Credit card delinquency rates of 6.71 percent, as of Q3 of 2009, are up from an average of 4.3 percent in 2007.[5] At 10.43 percent, credit card charge-off rates have soared enough to dramatically reduce FIs' profitability.[5] A recent report estimated 2009 charge-offs for the leading card issuers: "Based on current bank card delinquency trends, TowerGroup expects that 2009 net charge-offs…could exceed $71 billion (USD), which would be more than a 30 percent rise from 2008."[4]



Graph A: Correlation between unemployment and delinquency rates[5/22]



Graph B: Correlation between charge-off and delinquency rates[5]

Historically, delinquency rates and charge-offs are tightly correlated and directly fueled by unemployment figures, a key factor contributing to cardholders' financial solvency. Today, in a knee-jerk reaction, many customers previously perceived as attractive but now deemed high-risk, are being dropped from many institutions' portfolios, or are being treated to the traditionally harsh and aggressive collections practices that could cause them to flee to other companies in the future. This is a potentially short-sighted strategy with long-term repercussions. An opportunity exists for FIs to strengthen relationships with their share of the 58 million American consumers burdened with debt, especially the first-time debtor segment.[2]

New Credit Card Offers Are On The Decline

According to a March 2009 Javelin Survey, the number of consumers who use credit cards declined from 97 percent in 2007 to 72 percent in 2008.[6] According to Stephen Clifford, Vice-president of Financial Services at Mintel, "With reduced funds available for lending and increased loan losses, credit card issuers had no choice but to drastically cut direct marketing for new cards during 2008."[7] The dramatic decrease in card volume reflects three key factors: *(1) consumers' migration to alternative online payment channels, (2) the reining in of credit extensions in response to market contraction and restrictions imposed by the CARD Act, and (3) issuers' attempts to maintain profitability while mitigating risk by shifting from mass communications to fewer and more highly targeted offers.*

The CARD Act Poses Challenges For FIs

The CARD Act is intended to protect consumers from "abusive" credit card practices by eliminating unfair rate increases, preventing unfair fee traps and requiring card issuers to communicate "in plain language."[8] Unfortunately, some of these same rate increases and fees are the very tools that have traditionally been used by card-issuing FIs to generate billions of dollars in revenue, rebalance risk and maintain portfolio profitability. The CARD Act requires FIs to incorporate transparency, accountability and mutual responsibility into credit card practices — imposing new constraints on their ability to maintain profitability. Specifically, it forces issuers to price products and calculate risk more accurately from the outset.

Today's Collections Customers Defy Traditional Risk Models

What characteristics define the stereotypical collections customer? Most often it is those customers deemed to be a credit risk based on their higher propensity for defaulting on payments. These credit risks are most frequently identified by reviewing one or all three of the credit bureaus' reports that reveal a customer's payment behavior, whether or not payment is made, and the timeliness of payment. Traditionally, a typical collections customer's credit history is peppered with negative records, such as unsteady employment, liens, late payments, bankruptcy filings and previous collection records. These credit events contribute to lower than average credit scores and are the tell-tale signs of a higher likelihood of default.

*First-time debtors are proud of their (previous) financial responsibility, demonstrated through their holding of multiple credit card accounts, car loans, mortgages and student loans — all reflected by their respectable credit scores. When implementing strategies to reengage these customers, recognize that it's not that they **won't** pay, it's that they **can't pay right now.***

By contrast, the current economic climate has ushered in a wave of first-time debtors — customers who may be delinquent for the very first time, are unaccustomed to such an uncertain financial state, and don't fit within the typical risk profile, or the criterion upon which institutions' predictive risk models have

The Typical Collections Customer

A typical collections customer's credit history is peppered with negative records. This includes unsteady employment, liens, late payments, bankruptcy filings and previous collection records. The lender or issuer has clear indicators of the high level of risk.

The New Collections Customer

The profile of a first-time debtor:

1 > Previously not identified as a high-credit risk

2 > Demonstrated financial responsibility through timely payments

3 > Holds multiple credit card accounts, car loans, mortgages and student loans

4 > Attained respectable credit scores in the past

been patterned during the past few decades. Many may have had a delinquency in their past, but in general their records — up to now — have been characterized by very few negative records and a history of paying their bills on time. These are consumers hard hit by the credit crunch and who no longer have a safety net, as evidenced by future dated payments, post-dated checks or distinct changes in payment patterns. Many may be depending on credit cards and accumulating mountains of debt, an embarrassing predicament.

Retaining Today's Delinquent Customers: More Asset Than Liability

A FI's collection strategy and capability to handle the sheer volume of cardholders with debt will affect its future profitability. Upon market recovery, first-time debtors have a high probability of continuing as loyal customers. Retaining these customers is a potentially profitable strategy, given that customer acquisition is costly and new regulations are squeezing FIs' margins on newly acquired account relationships. Maintaining these customer relationships may seem costly in the short-term or risky over the longer-term, yet customer satisfaction is potentially rewarding to the tune of $1,000 per customer. J.D. Power and Associates recently reported findings from The 2009 Retail Banking Study: "Moving the customer service satisfaction rating just 5 percent from 'satisfied' to 'highly satisfied' has the bottom-line impact of adding $1 billion in deposits for every million customers."[9]

PARADIGM SHIFT: Collections As A Customer Retention Tool

Retention: More Efficient Than Acquisition

While customer acquisition is a standard measurement of success for a FI's card programs, maintaining existing customer relationships continues to be more cost effective. A recent report from TowerGroup estimated that, "the cost to replace one bank card customer ranges from $160 to over $200, and issuers that work with their customers through this difficult period will retain those customers for life."[4]

Debt Collection Techniques Top Consumer Complaint In 2008

Previous strategies and techniques for collections efforts were based on the profile of the stereotypical debtor. Collection shops' procedures — whether for internal, first-party or third-party organizations — typically entailed contacting customers regarding delinquent payments with an informative tone, initially. Over time, the tone may escalate with the use of more aggressive tactics. Data from the Federal Trade Commission (FTC) identifies debt collection practices as one of the most common complaints recorded in 2008.[10] Of the 104,642 collections-related complaints filed, the top five included: *"(1) misrepresentation of the amount or legal status of a debt; (2) excessive telephone calls; (3) telephone calls from collectors looking for other individuals; (4) use of obscene, profane, or abusive language; and (5) threatening to sue if payment was not made."*[3] While some of these tactics are illegal and not used by many collection operations, such aggressive tactics are perceived to be widespread despite being inappropriate for nearly all debtors.

> *"The cost to replace one bank card customer ranges from $160 to over $200, and issuers that work with their customers through this difficult period will retain those customers for life."*[4]
>
> *TowerGroup*

Responding To The Rise Of First-Time Debtors

A new study, *The Vulnerable Middle Class: Bankruptcy and Class Status,* details the previously upwardly mobile middle class' 100,000 filings for personal bankruptcy each month in 2007.[11] For 2009, bankruptcies were forecasted to reach 1.5 million.[11] The study's findings emphasize that those dealing with financial instability are not those customers typically considered high risk. Most likely, first-time debtors are unfamiliar with how to address a deteriorating financial situation. While some of the aggressive collections practices described above may comply with the Fair Debt Collections Practice Act (FDCPA), these practices will not likely move today's debtors to action. Faced with a surge in first-time debtors, a customer-focused strategy is often a more rewarding approach for issuers. Heavy-handed approaches, aggressive tones or harassing tactics do not resonate with the new wave of debtors.

Customer-Focused Means The Right Strategy For *Each* Customer

An approach that allows collectors to display empathy toward the customer's dire financial situation while offering a highly personalized solution can provide great value to FIs. Two of the most important factors to address when creating a more customer-focused collections strategy are changing aggressive tactics and leveraging a full-channel approach — one synchronized across all customer touch points. The treatment of delinquent customers is directly correlated with satisfaction, loyalty and financial performance; and, while the balance between retention and collections is challenging, it deserves more than a "one-size-fits-all" approach. Implementing a highly segmented approach to collections allows FIs to leverage terms and offers appropriate to a customer's associated level of risk, taking into account their ability to pay and acknowledging their perceived willingness to pay.

Over time, optimization of collections tactics based on each customer segment's payment patterns will improve overall recovery performance, mitigating the risk of a shrinking bottom line. FIs that provide customers with assistance in navigating

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the complex debt landscape through negotiation by offering online payment channels and flexible payment programs will generate more kept promises to pay. FIs will also recover a higher percentage of debt while retaining future reliable customers. According to several TSYS clients, more than 50 percent of cardholders evaluating payment programs on an online collections platform enroll in payment programs or make an immediate payment. Additionally, payment plans supported by an integrated response management system result in the recovery of more payments. While approximately 80 percent of these payments are future dated, automated payment reminders have contributed to a 92 to 98 percent payment keep rate.[12]

Benefits of Collections as a Customer Retention Strategy

Short-term benefits:

1 > Immediate impact to bottom line

2 > Collect more and higher payments

3 > Fewer settlements

4 > Reduction in charge-offs

Long-term benefits:

1 > Strengthen customer loyalty and retention

2 > Cross-sell new product offers upon customers financial solvency

3 > Drive future financial performance

Customers' Adoption Of Self-Serve Channels Highlights Importance Of Synchronizing Collections

According to Nielsen's Online Global Study, 167 million Americans access the Internet from home.[13] Today, at least 64.1 million Americans access products and services daily through mobile Web applications that enable them to check bank balances, read daily news or secure restaurant reservations.[14] Customers of all ages are digitally engaged, yet it is important to note that it is the "digital millennials" — a demographic defined as the most digitally connected generation in history — that are coming of age.[15] These 82 million current and future banking customers are expected to soon outpace the baby boomers.[15] They are highly connected and are fluent and at ease with online DIY (Do It Yourself) tools.[15] As consumers look to engage with brands on their terms — any time or anywhere — customer service touch points must evolve to meet these consumers' adoption of new self-serve channels. To improve engagement with debtors and increase efficiency, reach and recovery, collections efforts should shift focus from contact via multiple channels in which each interaction is an isolated event to synchronization of contact efforts across all customer touch points. Value will be derived through a positive lift of near-term financial health and long-term profitability.

Three of the top five collections-related complaints — excessive telephone calls, telephone calls from collectors looking for other individuals and use of obscene, profane or abusive language — are completely mitigated by self-serve channels. This reduced exposure will result in additional bottom line improvements as litigation expense is reduced.

Collections As A Customer Retention Tool Provides Short- And Long-Term Benefits

Customer satisfaction is a predictor of the endorsement of and commitment level to a particular brand or institution.[8] A July 2009 report from Mercator Advisory Group found that, "If the customer is 'highly satisfied' with her/his experience, not only is that person 50 percent more likely to listen to the entire subsequent pitch, but that person is 200 percent more likely to actually accept a new product offer than if he/she were 'dissatisfied.'"[16] This philosophy applies to back-office operations, such as collections, which has the opportunity to be a valuable customer touch point for FIs.

> *"The object of the shift in collection practices is to keep certain card members active and, over time, they turn out to be really good long-term customers."*
> *Daniel Henry*
> *American Express, Chief Financial Officer*

A change in approaches toward collections from aggressive and limited payment programs to segmented communications and collection offers based on a customer's risk level, along with flexibility in negotiating payment terms, will positively affect an issuer's financial health. Additionally, it will build customer loyalty over the longer term. According to Daniel Henry, American Express' Chief Financial Officer, "The object of the shift in collection practices is to keep certain card members active and, over time, they turn out to be really good long-term customers."[17] A paradigm shift from collectors' often-used "show-me-the-money" tone to one of empathy and mutual problem solving can provide value to the organization in several ways, including collecting receivables more efficiently, capturing a higher portion of debt, deepening customer loyalty and, ultimately, increasing customer retention and its subsequent enhancement of profits.

Viewing collections as a customer retention tool and adjusting operations accordingly is a compelling approach. In the short term, it immediately impacts FIs by allowing them to collect more and higher payments and reduce overall charge-offs. Over the long-term, a positive collections experience focused on the customer, instead of solely on debt recovery, strengthens customer relationships and loyalty. This strategy will pay off when many of these customers regain financial solvency, resulting in stronger future financial performance during a time when obtaining new accounts will remain challenging. Developing a communications program that reminds customers of the favorable terms negotiated during their time of financial distress will further contribute to customers' positive sentiment toward the issuer.

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MAKING RETENTION A KEY PART OF COLLECTIONS:
What Needs To Change?

While the benefits of operating collections as a retention strategy are compelling, potential short- and long-term risks do exist. Two evident short-term risks include, retaining the wrong customers and negotiating overly lenient payment terms that are detrimental to the institution's portfolio and that potentially outweigh the benefits of retention. Over a longer period, retaining the wrong customers may lead to charge-offs that hurt financial performance should those customers not return to financial responsibility. In order to avoid or mitigate these potential risks, it is imperative that FIs implement key operational changes supporting this shift to a retention-focused strategy.

Identifying And Evaluating New Risks

The multi-million-dollar question is predicting which of today's debt-laden customers will continue to be your organization's good customers. Evaluating charge-off risk against long-term profitability varies from one FI to another. Profitability is the primary determinant, which could be calculated on the basis of a single product, multi-product, or net present value (NPV) over several periods versus an annual profit measure. Another important aspect is developing a criterion for recognizing a first-time debtor. Identifying who will in fact be an attractive customer in the future involves evaluating the debtor's customer profile, such as the duration of the customer relationship, length of time on the books, historical revenue generated, and one's risk score prior to the recession.

Working with a delinquent customer to increase loyalty is a balancing act. Practically speaking, a limit exists on when the account must be charged-off. Tactically, clear limits need to be set based on the segment targeted — such as "no later than 45 days after initial contact" — for locking down an agreement or a modification.

Measuring And Selling The Benefit Internally

Selling the value of a customer-centric approach to collections is challenging, since many issuers are skeptical about the assertions of "giving a little to receive a little more". In other words, offering targeted reductions in payments owed by the debtor can lead to decreased charge-offs. Ideally, the derived value of negotiating and providing more flexible offers requires measurement between a control and test group. The downside to measuring the effect on customer retention over the long term is the substantial time investment required to pinpoint customer behaviors associated with loyalty, such as more payments or enrollment in other products.

Taking A New Tone To Lift The Bottom Line

As delinquencies rise, it is important to emphasize that first-time debtors are unaccustomed to speaking with collectors. Even more so, they will tend to remember how they were treated and make future decisions based upon these interactions.

The new tone for collections consists of five overarching practices. First and foremost is an analysis of the mix of first-time debtors versus repeat offenders to gain a clear understanding of the audience. This increases the effectiveness of targeted messages, including the tone and the communication channel preference, whether letters, IVR, text, e-mail or Web. Second is the shift from collectors' often adversarial tone to one of mutual respect with an emphasis on partnership and collaboration. Enabling a level of empathy toward the customer's financial struggles will empower collectors to identify and present appropriate payment offers and terms — the third practice, which includes offering the debtor an individually-targeted payment program specifically oriented toward their situation. Fourth, this new tone for collections should not be limited to calls made by collectors. Rather, with a full-channel strategy, the tone and messaging should be integrated across the entire spectrum of communication channels, including letters, Web layouts, messages and agent contact. Finally, ongoing customer contacts at the appropriate time should remind customers of their value to FIs. For example, this "retention marketing message" must be carried through in program acceptance confirmation documents, continuing to remind the borrower of the effort being made to work with them toward a continued mutually satisfactory result.

In order to support the new approach and tone, organizations depend on the effectiveness of collections representatives who require a significant investment by FIs in areas such as goal setting, training and incentives. For a functional discipline with job turnover rates in the double digits, this investment is essential for increasing agent motivation and productivity, which, in turn, contributes to higher levels of customer satisfaction.[18] According to the GAO, some of the larger issuers' collection departments, consisting of 800 to 8,000 collectors, offer training programs covering new or revised collection policies, messages and offers, along with any new regulatory issues, that range in duration from two to ten weeks.[3] Costs associated with training programs of this duration and breadth could be between $1,000 to $2,000 per collector; no doubt a substantial operational expense.

Outsourcing to a third party, one focused on providing service to multiple issuers, can significantly reduce expenses. When evaluating an external partner to ensure program success and

Benefits of Technology Enabling a Full-channel Solution

1> Leverages lower cost channels identifying the right channel by customer segment

2> Self-serve options increase reach and lift collections payments 10-40 bps

3> Reports a consolidated view of all channel interactions supporting optimization of cost per dollar collection

4> Provides better customer experience lifting retention levels

5> Reduces write-offs and improves operational efficiency shifting operating costs from FTE – 15-20% reduction efficiency, one should seek a third party with talent that holds deep industry knowledge and follows streamlined processes. Employing third-party agents with lower relevant skills can lead to perceived savings, but in the long run it proves more expensive; therefore, it is imperative external resources adhere to the same level of training standards and hold similar capabilities as an in-house team. This ensures strategic alignment with business objectives and good customer orientation, preventing any long-term repercussions such as decreased loyalty as a result of lowered customer satisfaction.

Another consideration for reducing expenses is leveraging lower cost channels such as the Web and text messaging. These self-serve options provide an entity complete control over the tone and delivery of messages, thus ensuring alignment with business objectives and retention strategies at a much lower cost.

The New Rules Of Debtor Engagement: The Full-Channel Solution

Research from TowerGroup highlights that the current credit card issuer collections approach entails attempting "…to call more than 90 percent of all delinquent credit card accounts."[4] Not much has changed in this regard in the past few decades — the prevailing logic has always been that "it takes a collector, talking to the delinquent debtor, to get the money to come in…" In fact, the overall doubling of penetration rates, industry-wide, has been accompanied by an actual decline in overall contact rates. When unable to reach customers by phone, simply calling more often merely increases the costs associated with making contact. This myopic approach overlooks new channels for reaching debtors and their proven effectiveness in making it easy for customers to pay in the way that is most convenient and comfortable. Vijay D'Silva, a director and co-head of the payments practice at McKinsey & Co. Inc., was quoted in a recent article: "Simply, the call-and-collect approach doesn't work as well as it used to, especially if you're competing against other lenders for the same dollar."[17]

Full-channel Solutions Outperforms any Single Channel

> Agent-averse debtors respond to virtual channels.
> Over 60% of payers have no agent contact
> Multi-channel solution outperforms traditional calls by 20%
> Longer payment plans result in recovering more payments – 80% of which are future dated.
> Over 92% of system payment reminders are kept
> Web visitors become payers
  – 18-25% pay immediately
  – 45-57% also schedule future payments
> Offering a payment program is effective - $30 million payments initiated

Source: TSYS Collections & Recovery

Contrast this with the fact that over 50 percent of total internet users, or approximately 97.5 million people, now engage in online banking.[19] Other self-serve channels are on the rise too. According to Mercator Advisory Group, "Text messaging traffic in U.S. financial services applications now exceeds 12 million messages per day."[20]

Consumers are changing the way they communicate with everyone else — the question is whether collections operations will take advantage of this trend or be undone by it. Customers hold distinct communication preferences — whether e-mail, text, voice messages or a combination thereof. A debtor's decision to access self-serve channels is in itself an indication of willingness and ability to pay. Solely providing customers with multiple channels for engagement is not the solution. Providing customers the option to engage with multiple channels continues to constrain each customer interaction to a single and isolated event versus the cumulative view of the customers' responses and pattern of interactions with the institution. The value of using a full-channel solution isn't limited to improving engagement with debtors; it also provides a single vantage point that allows an agent full access to their customers' dialogue with the institution. Additionally, it allows synchronization of messaging and offers for payment program to each customer, however they choose to engage at different touch points. TSYS users report that deploying a synchronized communications program across all channels, including IVR, dialer, Web, e-mail, text and letters, outperforms a traditional call and collect approach by more than 20 percent — and despite its lower cost, yields more dollars collected.

A Full-Channel Solution Increases Recovery And Optimizes The Cost Per Dollar Collected

The combination of the sheer volume of delinquent accounts and continual emergence of new customer communication channels requires a new approach to collections — a more agile and integrated solution. A full-channel solution provides four benefits that support FIs' operational efficiency. First, virtual channels extend access and reduce costs associated with agent conversations. They enable an organization to both quickly and cost efficiently scale up or down to meet fluctuating market conditions. Second, the first-time debtor phenomenon has shaken decades-old predictive models. A full-channel solution provides FIs the ability to analyze channel effectiveness by segment and to contact more customers with specifically-targeted, offers. Third, as channel preferences are identified and optimized, customer response rates increase. Finally, this approach improves the overall customer experience, leading to increased loyalty levels. Clearly, a full-channel solution offers a strong value proposition.

TSYS users report that deploying a synchronized communications program, across all channels including IVR, dialer, Web, email, text and letters, outperforms a traditional call and collect approach by more than 20 percent and at a lower cost.

Expanding Capacity — Quickly And Efficiently

A significant number of additional collectors or agencies are needed to handle today's volume of delinquencies. A synchronized full-channel solution quickly and cost effectively

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expands capacity, limiting incremental expenses associated with full-time employees. This approach can reduce significant capital investment in new technologies, while recovering a higher percentage of debt and reducing charge-off rates. A comprehensive full-channel collections solution offers expanded and consistent communication and payment options through self-serve channels. Alongside agent conversations in a single integrated platform, a customer is able to initiate or engage with an issuer based on one's preferred communication method. Such a solution allows for scaling up to meet higher capacity demands while eliminating excess capacity issues upon scaling down.[21] Additionally, virtual channels have proven effective in encouraging "agent-averse" debtors to respond through them. Clients report that more than 60 percent of payers in early delinquency stages have no agent contact at all, and report that 33 percent of their debtors visit self-serve channels during non-call center hours. While call centers are limited to certain hours, these alternative channels provide 24-hour access, seven days a week.

Lifting Performance With Targeted Offers

Not only do self-serve channels eliminate time constraints and provide attractive options for customer engagement on their terms but, if implemented well, allow institutions to present debtors with personalized communications. These elements contribute to the increased propensity for customers to enroll in and adhere to payment arrangements. Web visits account for as much as 20 percent of weekly payment volume. A high percentage of Web site visitors become payers, according to users, with approximately 18 to 25 percent paying immediately and an additional 45 to 57 percent initiating future dated payments as part of a payment program. This performance is a function of the segmented offers and programs made available to debtors.

Leveraging Analytics Optimizes Channel Performance

To successfully manage a synchronized full-channel collection operation, integration is critical. An integrated solution addresses issuers' challenges by quickly maximizing operational efficiency, whether allowing them to meet capacity needs or enabling segmented communications. A response management system evaluates and leverages analytics based on previous interactions in order to identify the preferred and most effective channel for each customer segment. Channel optimization can decrease costs while lifting response rates, leading to more "kept" payment promises and dollars collected. This has been shown to lift collections payments by as much as 10 to 40 basis points, which ultimately optimizes the cost per dollar collected.

Measuring Success: A Look At The Profitability Of A Delinquent Portfolio

Each organization needs to evaluate success against its distinct organizational objectives. First and foremost, it is essential to derive a baseline of the expected losses against which future performance can be measured. Variations in market conditions make it difficult to compare achievement on a year-by-year basis, thus it is important to compare success to industry performance levels. In the case of a collector's effectiveness, change must be measured against peers to evaluate progress.

One key metric is maximizing the NPV of the portfolio. A particular challenge is that cost, in terms of concessions made in enrolling a customer in a payment program, must be weighed against the benefits, in terms of future profitability arising from card usage and loan payment terms — both of which are somewhat arbitrary, so each requires definition. Other organizations may define success based on meeting objectives, such as reducing the number or percentage of charge-offs versus the dollar value of payments collected and committed through payment programs, increasing the number of customers in longer-term programs, or measurement of the re-default rate of customers who received special programs. The latter of these would be a longer-term measurement and challenge, one complicated by its comparison to the short-term cost of any special payment programs.

CONCLUSION: A Customer-Oriented Approach To Collections Contributes To Retention

Collections can and should be leveraged as an instrumental customer retention tool, one capable of augmenting contributions to an institution's financial health. In today's new economy, leveraging collections as a customer retention tool is beneficial to FIs for four key reasons. First, the ability to retain customers is essential to meeting new market and regulatory pressures that are making new customer acquisition more costly and increasingly risky. Second, the CARD Act will eliminate billions of dollars of industry revenue generated by charging fees and rate increases. Maintaining margins and meeting shareholders' expectations will increasingly require seeking operational efficiency, increasing reach while limiting costs, and chipping away at mounting charge-offs. Third, FIs that change their tone and address debtors amicably will maintain customer relationships over the long term and reap the rewards of their deepened loyalty and profitability. Fourth, offering self-serve channels will heighten debtors' engagement with FIs, ultimately leading to increased collections and reduced charge-offs. As FIs look to expand their capacity to address collections, synchronized integration of the full array of self-serve communication channels is a solution proven to deliver results.

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ABOUT TSYS COLLECTIONS & RECOVERY

The TSYS Collections and Recovery System addresses banking collections and recovery needs, including pre– and post–charge collections and asset sales. It also offers an integrated dialer and voice recognition unit (VRU), which are cost–efficient and effective methods to implement account strategies.

TSYS (www.tsys.com) is one of the world's largest companies for outsourced payment services, offering a broad range of issuer- and acquirer-processing technologies that support consumer-finance, credit, debit, healthcare, debt management, loyalty and prepaid services for FIs and retail companies in the Americas, EMEA and Asia-Pacific regions.

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