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Analysis

Future of Collections 2021

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Biography

Bruce Curry is a vice president for collections and recovery consulting and sales at FICO (https://www.fico.com), helping clients across Europe, the Middle East and Africa improve performance in collections and recovery. Bruce has worked directly with dozens of businesses in 27 countries across EMEA and APAC.

Before joining FICO, Bruce held successive senior operational management positions over 16 years with Barclays vehicle asset finance (Dial Contracts), Marks and Spencer Financial Services and Royal Bank of Scotland Cards. Prior to his commercial career Bruce undertook a successful career in the Armed Forces where he worked across the world in many varied roles.

In April 2020, Bruce was named to the Credit 500 Hall of Fame by Credit Strategy magazine. Read more of Bruce's advice for debt collectors at www.fico.com/en/blogs/author/bruce-curry

Keywords Uncollectable debt, Distressed household wallets, Responsive communications
Paper type Opinion

Abstract

The impact of the COVID-19 pandemic will continue to shape the strategies of collections and recoveries for years to come as credit grantors, consumers and governments battle the after-effects. They will need to adopt new flexible strategies in order to weather the storm. In this article, the author sets out his predictions for the collections industry in 2021 and the strategies that must be adopted to face the challenges ahead.

Introduction

Throughout the pandemic, we have discussed the debt tsunami crashing over most of the world. Unfortunately, 2021 will bring the after-effects, as credit grantors, consumers and governments try to work through a flood of uncollectable debt. Even if the myriad of vaccines fix the health crisis, they won't fix the economy. The impacts of the pandemic will be here for a long time, perhaps even permanently.

Continued negative confidence will put pressure on interest rates, and the currency exchange

Inflation may rise, and if it does it will impact the most distressed household wallets. Households will need to survive on borrowing – combine that with lower incomes and you have a perfect storm.

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If that's the case, I see several things happening:

- Credit grantor failures. Some Tier 2 lenders will go to the wall, as they won't be able to afford the debt on their balance sheets.
- Low profits and high losses for credit grantors that survive.
- Increased provisions, reduced capital, less ability to lend.

All this will raise the question: Whatever capital I have got, how much can I lend to borrowers who have a low confidence on their own financial prospects, and are unsure if they should borrow or not? How can I get that right? Those credit grantors that know how to truly optimize have the chance to be winners. They can optimize the use of their capital and who they lend to. But they will need to be utterly forensic, because they cannot afford to lose a small bit of the small amount of capital available.

Regulators will want more tolerance, but many credit grantors will be unable to afford it

Another challenge for 2021 will be managing regulator expectation. When you have loans that are not profitable, and the regulator wants you to take the loss, you will push those loans to the debt resolution space. Bounce back loans and CBILS[1] (Coronavirus Business Interruption Loan Scheme) are a good example – they are an issue for banks, and a big political issue. It is not just regulators who will push for tolerance, the government will as well.

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It is very likely, therefore, that there will be a move from an empathetic to a toxic-assets view of debt – and this makes the servicing side hugely significant. Debt collection agencies will have a massive advantage here. Banks cannot recruit enough people to service this debt, so the DCA market will expand massively.

Preparing for the storm

While some functions of the banking industry carried on throughout the pandemic in a manner close to normal, this was not an option for debt collection. In 2020 we had to seriously change the way we did business. This will, undoubtedly, need to continue in 2021.

Debt collection has been the 'poor relation' in financial services. It has fallen behind other banking services in terms of investment in technology and improving practices. In hindsight this was clearly a mistake and one which has made the current crisis nearly impossible to manage for many institutions.

However, the resilience of the sector should be admired and provides strong foundations for facing the next challenges.

Deep dive to find the vulnerable customers

Right now, it is essential to identify and separate economic victims - vulnerable customers - from 'regular' collections customers. To do this, a deep dive is necessary to capture the correct data.

The data should describe:

- Level of dependency on credit – card utilization, renewal of UPLs;
- Financial morality – transactor not revolver, direct debit payer, early settlements of UPLs, takes advantage of interest-free offers, low LTV, lower than average balloon payment in terms, number of credit lines, changes in card transaction spend type and velocity;
- Credit stress – number of new applications for credit internally and at bureau, frequency and degree of overdraft facility;
- Financial stability – industry, occupation, earning potential, stability (number of address and telephone number changes).

The data is all available, from a call, collections systems, or in communication systems. Now it must be used as a basis for how customers are treated in 2021 and beyond. It is also vital to take an even more detailed look at finances, household balance sheets and cash flow, specifically.

When available, Open Banking should be used to carry out accurate affordability assessments. Credit bureau data and other behavioural indicators will highlight trouble with current debt, as will the use of forward-thinking analytics to detect the effect of incremental debt on default risk.

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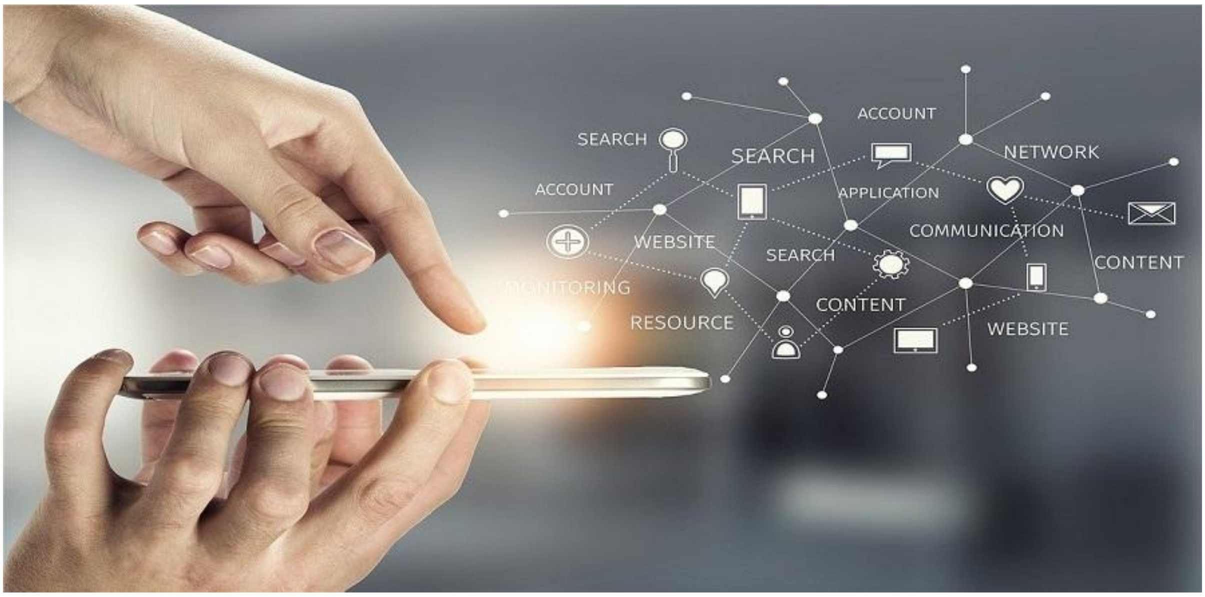
Segmentation is a vital and dynamic process, and too much of it is done 'by hand' today, using very few criteria; this creates large and crudely defined segments. Decision science teams need to provide regular insight as to what they are seeing and how these insights should influence customer treatment decisions.

Move to omnichannel, responsive communications

How to communicate with customers must also be addressed. The best customer engagement strategies are always led by the customer. Organizations must, therefore, be able to change their contact strategies quickly to enable customers to auto-resolve on omnichannel platforms, including auto voice, iSMS/WhatsApp, digital direct API, email, mobile app, online or through edocs. It's only truly omnichannel when customers can leverage all and any channels to self-serve or engage with the creditor 24/7/365.



Necessity is the mother of adoption

In the current crisis, you will hear people say that "necessity is the mother of invention." The difference for collections and recovery is that the inventions have been around for some time and have been proven in several markets. For us now, necessity is the mother of adoption.

Reference

[1] https://www.british-business-bank.co.uk/ourpartners/coronavirus-business-interruption-loan-scheme-cbils-2/