CREDIT CONTROL JOURNAL and ASSET & RISK REVIEW is published by House of Words Media Limited.

The current issue and full text archive of this journal is available at **https://www.creditcontrol.co.uk/**

Analysis

Collections in the Aftermath Of COVID-19

Bruce Curry

Bruce Curry
Vice President –
Collections, Recovery
Consulting and Sales
FICO

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, 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 Data, Treat Customers Fairly (TCF), Profile behaviour, Collection strategies, Customer engagement
Paper type Opinion

Abstract

The tumultuous change – in health, job security and, consequently, personal finances – caused by the COVID-19 pandemic is likely to shape the strategies of collections and recoveries for years to come. In this article, the author examines the challenges those responsible for collections currently face – and some of the long-term game-changers the current crisis could potentially deliver.

Introduction

The world of debt collections is facing a perfect storm of challenges currently from addressing customer communications in a largely 'working from home' environment, to systems agility and data quality. Focusing on the immediate and pressing need is inevitable, but taking a step back to look to the future is also vital to ensure that any data collected now will enhance long-term strategies.

Data is key … what is the key to unlock the data?

The truth is, this period will create a lot of data and organizations need to capture the right data, understand it and where it will be needed further down the line.

Across many EMEA markets – even before COVID-19 became part of our daily vocabulary – debt collection had been forced to focus on delivering the right outcome for the customer under the FCA's Treating Customers Fairly (TCF)

CREDIT CONTROL JOURNAL and ASSET & RISK REVIEW is published by House of Words Media Limited.

The current issue and full text archive of this journal is available at **https://www.creditcontrol.co.uk/**

initiative, rather than focusing as it did in the past, on how soon and how quickly funds can be collected with little regard to the impact on the customer. Now in order to meet TCF processes, having access to the right data and insight is a key driver.

This is, undoubtedly a lesson learnt from the 2008 financial crash. But there were other things that were not done during global financial crisis of 2008 which must be addressed now to ensure that lenders and their customers can emerge with mutual loyalty still intact.

In particular, the lending sector failed to:

1. Identify the customers who would not have been in collections were it not for the financial crisis. Today, that would mean the customers entering collections purely because of COVID-19.

2. Understand how these particular customers would perform compared to those individuals perpetually in debt:

   (a) Their behaviours were not profiled, nor how they differed in a collection situation;

   (b) Their behaviour just before they came into the collections area was not profiled;

   (c) Their likely return to financial good wasn't profiled and their financial morality wasn't assessed.

As a consequences of not doing the above, lenders didn't change:

- Segmentation
- Strategies
- Treatment paths
- Policies
- Solution range

Two years before the 2008 crash, the average return to financial good was 2.5 years. So, if a customer had gone into collections, going through the whole collections and recovery process, and then finding the debt had been sold on to a debt purchaser, it was typically 2.5 years from the point of entering collections to when the debt purchaser would be able to get into a routine payment habit with the indebted customer.

Two years post the crisis, that period of return to financial good had reduced to nine months. This is because the customers who rolled into collections as a result of the 2008 financial crisis were actually good customers, with a short-term payment problem. They have a very different financial morality profile and are soon back in employment and earning again hence returned to a good status.

CREDIT CONTROL JOURNAL and ASSET & RISK REVIEW is published by House of Words Media Limited.

The current issue and full text archive of this journal is available at **https://www.creditcontrol.co.uk/**

Fast forward to today, treating the customers who are now facing financial stress as a direct consequence of COVID-19 with the right outcomes will generate a lifetime of loyalty. However, there is one very important difference this time round. Unfortunately, the scale of vulnerability in both the short- and long-term appears greater.

Planning for the next stage

Currently operations are simply trying to deal with the huge increase in customer calls, driven by the respective relief and earning protection programmes across the different EMEA markets. The volume of incoming calls is not the only challenge. Lenders and debt collection agencies have been trying to maintain business continuity in the face of a significant reduction in their workforce, as well as the challenges of home working for those still able to work.

But not withstanding those pressures, it is important that somewhere in the business, a team is asking:

1. What do I need to do today to make sure, in the not too distant future, that we are well-positioned to manage what will be a far larger collections portfolio than we planned to have? and,

2. How do we do this without hemorrhaging future good customers, or creating bad customer sentiment?

These two factors alone will determine how rapidly and how strongly an institution’s collections team comes out of crisis. It's fair to say those that don’t carry out the right action today could still be blaming the crisis when, in fact, it’s long gone.

Creating scalability

In particular, there should be a focus on digital customer engagement to ensure scalability and a frictionless, secure journey for the customer, as well as releasing pressure on the classic call centre workforce. The attitude towards information capture also needs to change.

Capture important information today that you would not have chosen to capture in the past. When the initial tidal wave of customer calls starts to lessen, there will be large books that need to be worked. Collections, risk and operations executives will need to have the data that helps them:

- Understand the differences between COVID-19 related debt and non-COVID related debt.

- Identify the customers that classic collections risk analytics apply to and those for whom it is redundant.

- Determine the likely return to financial good profile by customer cohort data, including:

    - Were they in a protected industry?

CREDIT CONTROL JOURNAL and ASSET & RISK REVIEW is published by House of Words Media Limited.

The current issue and full text archive of this journal is available at **https://www.creditcontrol.co.uk/**

- What circumstances drove their reduction of income? For example, was it:
  - Furlough and if so with what degree of protection?
  - Redundancy?
  - Sickness?

- What has been the true level of impact on disposable income – can open banking support and validate the impact?

- What is their likely return to good given their household dynamics and industry sector?

Organizations may be doing all this already. But the current situation is different – for instance, in the past governments may not have offered wage and business protection programmes.

Using the data

When things do start to normalize, those that have captured the information so that they can prioritize who to contact, with what expectation, can take the lead. Clearly it will be impossible to call all the customers on day one. But avoiding calling a lot of the customers in the wrong order will ensure costs are not wasted and the goodwill gained when providing blanket forbearance as asked for by the customers, local politicians and regulators, is not eroded.

It's natural when facing a large wave to start swimming fast, but sometimes it's best just to slow a little and ride with it. Customers will be expecting tolerance from the lender and the lender should ask for the same in return. It's better to take a bit of time and ensure the right outcome for both parties. Strengthen that upfront IVR message and let them know there will be time to resolve their concerns. Those that have never been in collections will be the first to want to get out of it!