Building
Tomorrow's Enterprise

White Paper

The Art of Managing "Debt Collections" for the Future

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Abstract

Recent statistics by Federal Reserve indicate that the US debt ceiling has crossed over 16 trillion dollars and as per statistical sources, UK personal debt is calculated to be £ 1457 billion. In this paper, we have put forth methods of analyzing, prioritizing, strategizing and managing delinquent accounts to optimize collection results.

Source: Credit Action (UK); http://www.usdebtclock.org/ (US)

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Industry Trends

Debt collection continues to be an expanding business as consumer debt and delinquency continue to grow. For years, financial and telecommunication institutions have competed with one another to provide mortgages, auto loans, personal loans, credit cards & telecom services. Today they are competing to be the first ones to be paid back.

Much of the U.S. economic growth in the last two decades has been attributed to consumer spending. But now we are learning that the spending has come at an unexpected price - an ever-increasing personal debt. Three factors that have economists most worried:

- Growing number of mortgage foreclosures
- High credit card balances and rising delinquencies
- An all time low savings rate

Given the current economic environment, financial institutions are finding it more challenging and expensive to collect debt than ever before. In the past, troubled borrowers could take out a home equity loan, line of credit or tap into their retirement accounts to repay delinquent loans. Today, however, those retirement account balances have dwindled, credit is tight and home values have fallen so low that homeowners have watched their equity disappear.

Problem Statement

Slow payment has a crippling effect on business; in particular on small businesses who can least afford it. If you don't manage debtors, they will begin to manage your business as you will gradually lose control due to reduced cash flow and of course, you could experience an increased incidence of bad debt. If customers pay late or not at all (bad debts), the company can wind up with insufficient cash to meet its current obligations. If the average age of debtors is getting longer, or is already very long, the possible challenges could be:

- Weak credit judgment
- Poor collection procedures
- Sloppy enforcement of credit terms
- Slow issue of invoices or statements
- Errors in invoices or statements
- Customer dissatisfaction

Recommended Approach

Impact of receivable on cash flow - Making a sale is very important, but collecting the money for the sale is even more important. It does not make business sense to sell a product if you are unable to collect your money. Cash flow can be significantly enhanced if the amounts owing to a business are collected faster.

Empirical and statistical tools are used to segment, sort and prioritize the portfolio and organize collections process .The process of segmentation of accounts in order to apply different collection treatment is based on cost, effectiveness and availability of resources. The key to a successful strategy is to understand business's objectives and resource optimization. Selectively targeting the right collection strategies at the right time increases collections efficiency and reduces delinquency. The following are the some of the key collections strategy;

Proactive Strategy

- Educate the customer about the product features, collections fees and charges
- Establish mutually agreeable payment dates
- Address customer service complaints quickly
- Use positive reinforcement by recognizing & rewarding customers who pay on time

Internal Productivity of the Collections Team

- Determine the appropriate collection procedures
- Select & train team members on techniques & strategies, negotiation skills, handling difficult customers, typical profile of a delinquent customer & verbal cues for communication
- Set clear targets & objectives.
- Create a system of “Incentives for collections”
- On the job coaching of the collectors with specific interventions and action plans

Quality Information Gathering and Management

- Ensure quality of customer information during the initial application process
- Past due reports by collector to be reviewed on a daily / weekly basis
- Risk Management report for monitoring collections performance over portfolio performance and tracking indicators for normalization
- Establish an internal “Past-due Committee” to conduct periodic review of collections performance, strategies & processes.

Customer Segmentation

- Customers who are willing & able to pay
- Customers who are willing but unable to pay
- Customers who are able but are unwilling to pay
- Customer who are neither willing nor able to pay

Operating Culture

- Go paperless and use e-Invoicing for electronic invoices / statements; Increased frequency of sending e-invoices / statements acts as a reminder
- Establishing procedures on uncollectible accounts
- Acceptance of advance mode of payments (converting check paying customers to Electronic Funds Transfer)
- Alignment with the sales team for a joint resolution on complex accounts

Collections Analytics – Statistical analysis can accurately analyze collections portfolio and help determine the most effective strategy for an account at each stage of the account life cycle. Collections analytical tool captures performance measures for every component of the standard collections process and helps increase efficiency. Also, a well defined analytical model can enhance the ability to:

- Predict total value of collections
- Determine rank order for working accounts
- Determine most appropriate strategy and workflow performance
- Increase our overall ability to recover the past due balances
- Provide details on account level results

Collections Center of Excellence

In order to strengthen the capabilities in cash and credit management domain, the right way to go is by setting up a Collections Centre of Excellence (C-CoE). This CoE will bring in rigor and discipline across collectors and build competencies to sustain and deliver best-in-class solutions to the clients. The key objective should be “Empower through Knowledge” – to provide training to personnel to perform seemingly complex tasks with the aid of “metrics driven training programs”, which is done by Industry experts and practitioners with extensive knowledge and experience in Credit & Collections Management.

Collections Center of Excellence has expertise in the following areas:

Competency Development

- Create continuous learning opportunities to enhance domain knowledge across all personnel in the Credit & Collections engagements
- Training, Assessment & Certification of personnel as per the process & client requirements to ensure consistency & continuous improvement

Best Practice Sharing

- Identify & Institutionalize best practices for increased efficiency
- Implementation of best practices across collections processes

Collections Licensing

- Liaise with external vendor & internal legal teams to pursue collections licenses (new & renewals)
- Ensure collections federal regulatory adherence are met & timely license renewal for all solicitation states globally

Standardization & Harmonization

- Focus on business transformation through improvements in business metrics

Thought Leadership

- Develop Industry specific Credit & Collections solutions; engages in developing research papers and report

Conclusion

Consumer Collections is a combination of art and science and is critical to creditor's profitability and cash flow of the organization. In debt collections, interactions with consumers must be planned and carried out with one critical goalincreasing collections and reducing delinquency. In order to achieve healthy and sustainable growth, collections strategies must be planned prior to launching a new program or service. Collections can be effectively managed through execution of proactive strategy, optimization of technology, quantitative measurement and use of analytical tools.

About the authors

Nitin Saxena is an Assistant Manager with Infosys BPO Collections Center of Excellence practice. He has over 6 years experience in the areas of Cash & Credit management, Legal collections; Early and Late stage Collections, Bad debt recovery; Credit analysis and Skip-tracing. Nitin is a graduate in Bachelors of Computer applications from the G.N.D.U. (Delhi).

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