The economic impact of Covid-19

People-led debt collections

Why putting customers first is now more important than ever

September 2020

EXPERIAN INSIGHTS

Using the power of data to help you

ADAPT, SURVIVE AND THRIVE

Contents

Executive summary

The Covid-19 pandemic, and subsequent recession, has had a dramatic impact on the financial wellbeing of many consumers and business.

The increased financial pressure and hardship some customers are facing increases the risk of debt accumulation and missed payments, leading to increased volumes for Collections teams.

Furthermore, as payment holidays and furlough periods expire, businesses will need to understand:

- who can afford to start paying their credit agreement again?
- who could afford to pay some of their credit agreement back?
- who requires an extention to their payment holiday?
- who is already close to delinquency and needs help?

Understanding the size of the problem and having the right tools and processes in place early will be key to protecting customers and businesses.

In this paper, we explore the strategies needed to prepare for, and mitigate, the impact of rising arrears on collections processes. We'll navigate the causes of change, the challenges these are presenting and the benefits which could be recognised from implementing certain strategies.

8.3m
people in the UK were already over-indebted before the pandemic[3]

9.6m
In August, 9.6m british workers were on furlough leave[4]

500,000
around half a million people away from work receiving no pay due to the pandemic[1]

34%
of the population experienced a decrease in incomes from March to June[2]

-23%
Job vacancies are the lowest they've been at any point since the Vacancy Survey began in 2001

730,000
number of employees who were no longer on UK payrolls in July compared to March 2020[1]

28%
of UK adults believe their financial situation has worsened in the last 3 months

100%
if 10% of payment holidays go bad, arrears will double by 2021

[1] Office for National Statistics - Labour Market Overview, UK: August 2020
[2] On a sample size of 19 million UK consumers
[3] https://www.fca.org.uk/news/speeches/financial-system-support-recovery
[4] https://www.statista.com/statistics/1116638/uk-number-of-people-on-furlough/

Situation analysis

Current challenges	Impact		
	Financial	Customer	Operational
Economic impact and employment uncertainty will likely cause a sharp increase in non-performing loan levels and overall provisioning. The current climate is very likely to impact the predictive power of existing analytical models.	✓	✓	
The demand on operational resources will increase significantly, with contact level volumes increasing for both servicing and qualification as a result of the payment moratorium related demands.	✓		✓
Forward looking risk and affordability assessments now critically important to identify whether a borrower is likely to be able to repay rescheduled payments once moratorium period ends. Timely and accurate identification of those unlikely to restore credit-worthiness and in turn structuring tailored treatments, will not only ensure compliance, but will also provide a competitive advantage.		✓	✓

Implications and actions

Enriched predictive modelling

Urgent need for policy adjustments with ongoing assessment and re-calibration; this is particularly relevant for regulatory measures as impact felt immediately by financial organisations. Robust predictive models incorporating alternative and transactional data can help answer the regulatory challenges, while protecting against future compliance issues.

Proactive prevention using EWS

NPL and forbearance triggers must now be forward looking. Therefore early warning signals are critical to identify potential high risk segments based on behavioural data. The current crisis is emphasising early warning signals increasing importance in its ability to reduce overall provisions.

Increase digital touchpoints

Implementation of a quick and effective triage system to identify and channel customers into corresponding treatment "pools" with increased digitisation of touchpoints. This digitalization of customer interactions and workflow means more customers are serviced with a tailored treatment whilst manual resource can focus on more complex cases.

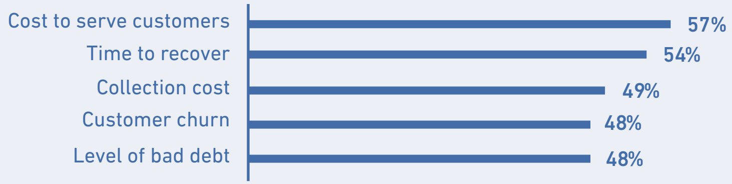
Customer-centricity, speed to spotting vulnerable or at-risk customers and the need for early warning signs

More than three-quarters (75%) of decision-makers believe their organisation is effective at seamless and fast onboarding of new customers, while a similar number (75%) say they're effective at targeting and winning new customers.

But a sizeable number, representing nearly a third (30%) of decision-makers, admit they're ineffective at identifying at-risk customers.

It's clear therefore that existing early warnings signs are not working and continue to be a critical challenge for around a third (27%). This trend is only expected to get worse as peoples financial situations rapidly change in the current climate. The pandemic has led to those who were already financially vulnerable to be more so and some customers are experiencing financial hardship for the very first time.

Through our research we asked how specific metrics have performed over the last 12 months



Three reasons why people-led collections is the right approach:

1

It lets you enhance conduct and customer experience

The success of your collections strategy isn't just about returns on investments – it's about doing the right thing for your customers. Not just to support FCA requirements, but also to build stronger, longer-lasting, more mutually beneficial relationships and cement your reputation as a fair, socially responsible business. This is even more important given the current economic climate.

2

It can increase your collections success

A people-led approach lets you create bespoke repayment plans that take customers' specific needs and preferences into account. It helps ensure payments are both affordable and appropriate under FCA criteria. It also helps you to dramatically improve customer experience, which in turn helps you maximise collections success rates and provide sustainable returns.

3

It's based on fast, automated decisions

Understanding customers' specific needs and preferences and building individual treatment plans may sound like a labour-intensive, time-consuming approach. In fact, it's the opposite. Today's automated technologies and workflows deliver this level of personalisation for you, quickly and at scale.

33%

collections and the ability to spot at-risk customers continues to pose enormous challenges for businesses

Currently the data collection from debtors to diagnose the breadth of problem is a Q&A process. This is:

On average the data collection can take 45 minutes of talk time to complete

Prone to errors and inaccurate figures as customers may not have the necessary data

A poor customer experience, lots of questions and stress

Resource intensive, the cost of collecting this data through Q&A process is between £40-£80

Right now, many organisations are still typically blighted by siloed-thinking with mixed customer messages and approaches - for instance marketing versus collections. But it's possible to win a competitive advantage with the adoption of faster on-boarding, predictive analytics to help consistently offer the most appropriate products and early identification of key lifestyle changes.

Our research proves the importance of a good customer experience in collections. Nearly 50% of customers said they'd switch provider if they had a bad debt-collection experience, while, one in three say they would pay more promptly if the experience were better.

Key benefits of people-led collections

In the following sections, we overview the main benefits of people-led collections strategies and the advantages over a traditional approach.

Increased personalisation, with fewer manual interactions

To be able to take large volumes of customers' specific circumstances, needs and preferences into account, organisations need automated collections solutions that can create a single view of the customer in near real time.

People-led collections delivers this by collecting and analysing customer data from a range of sources, including new and non-traditional data. With the right decisioning technologies in place, this data can be reviewed on an ongoing basis, allowing you to detect any changes in customers' circumstances and pre-empt any potential repayment difficulties by adjusting their payment terms.

As well as being more efficient, this pro-active approach to customer management helps more customers to avoid a formal collections process. In fact, we believe that with accurate affordability assessments and careful management throughout the lifetime of the relationship, no customer need enter collections.

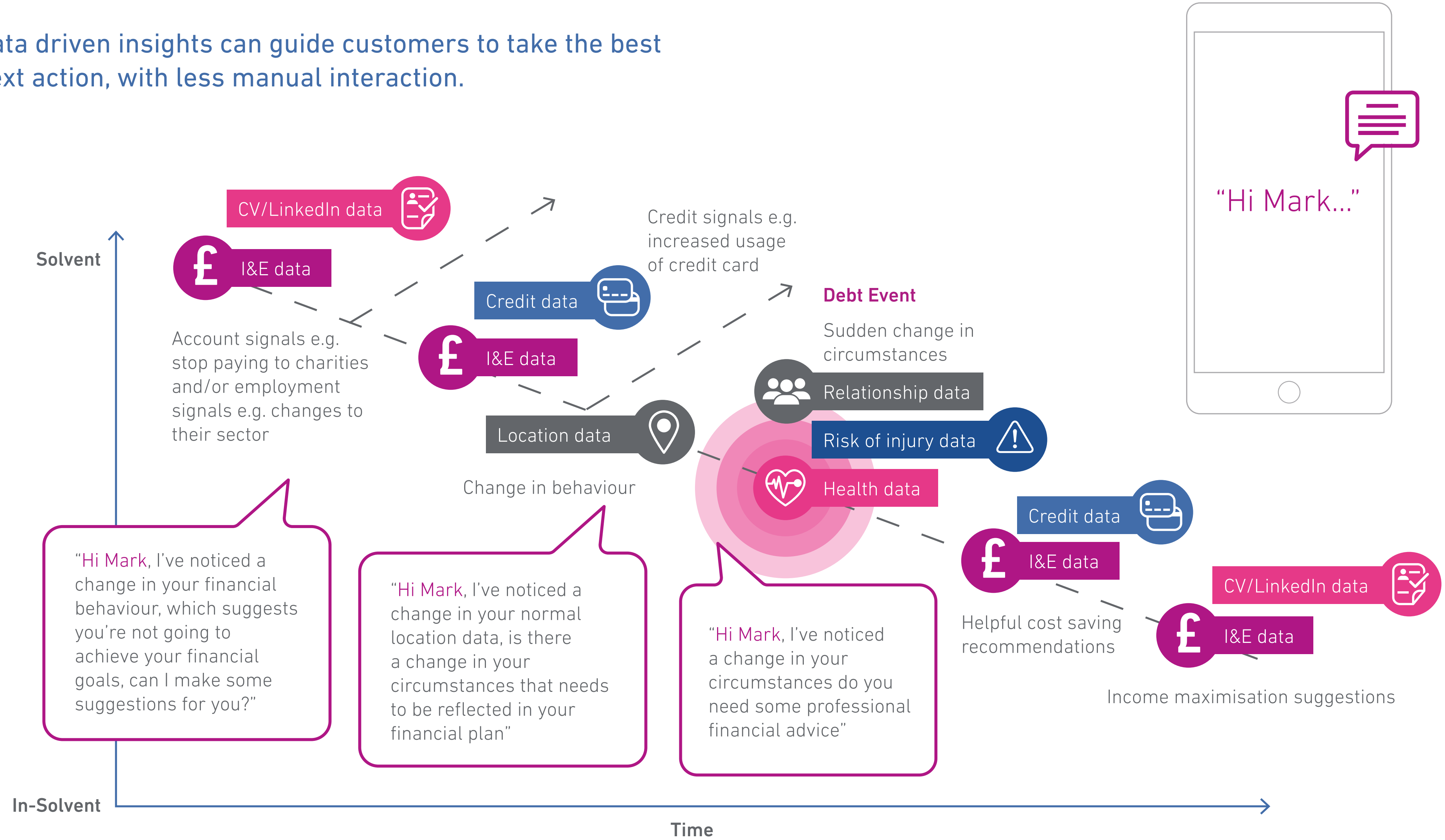
Npower, a UK leading utility company, used a people-led collections strategy to deliver a sustainable 8% reduction in losses due to bad debt, while also significantly improving customer satisfaction.

"We needed a solution that was going to cover our full customer lifecycle. Experian were able to offer us this through PowerCurve. This means we are able to apply a consistent approach to our customers from point of onset through to collections. The data flows consistently across each of the deployments and helped us manage our customers in the most effective and efficient way."

Stephen Banks, Head of Credit Risk, Npower

npower

Data driven insights can guide customers to take the best next action, with less manual interaction.



Improved affordability assessments for better customer experiences

A successful people-led collections strategy results in fair and appropriate repayment plans that are never unaffordable for your customers. It improves the collections experience for customers and supports compliance with the FCA's fair-treatment rules.

Against the current economic backdrop, there's a need to assess affordability on a wider scale, including for customers who haven't historically needed intervention. This should include combining affordability and credit data to make comprehensive assessments of borrowers' financial position and credit stress.

Another big advantage to combining data is that you can see when a customer's ability to repay increases and help them reduce their debt and overcome their financial difficulties more quickly.

To achieve this level of customer support, you need access to accurate, up-to-date and granular data about customers' financial circumstances.

Traditional data, such as credit bureau data, can be overlaid with other internal or external data sources – from council rental data to that from utilities and retail partners – to understand individual customers better.

In the future, it may also be possible to ingest and analyse data from customers' social media accounts and other online sources to understand their spending habits more fully. Access to this kind of data allows you to create budgeting and spend-control apps that help you to support customers through times of financial difficulty, and to ensure that collections requests are always appropriate and affordable.

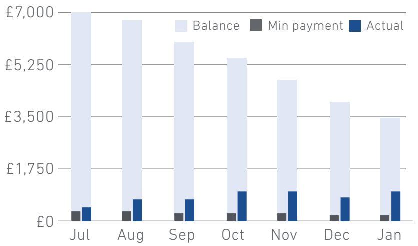
> For a more in-depth view of affordability in a post-coronavirus world, download our paper.
>
> [Unlocking affordability: A pivotal tool on the road to pandemic recovery]

Can you differentiate your consumers with the same credit profiles to produce better segmentation and mitigate risk?

Scoring today is still a snapshot based on trade data

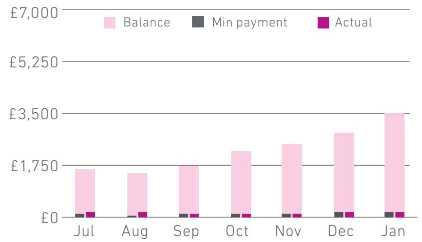
BALANCE
£3,500

Scoring tomorrow will include 'direction', resulting in a score that differentiates, based on historical payment trends of up to six years



Month	Balance	Min Pay Due	Actual
Jul	£7,000	£350	£500
Aug	£6,750	£338	£750
Sep	£6,000	£300	£750
Oct	£5,500	£275	£1,000
Nov	£4,750	£238	£1,000
Dec	£4,000	£200	£800
Jan	£3,500	£175	£1,000

- Paying well over minimum payments
- Demonstrated ability to pay
- **No payment stress**



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- Making minimum payments for the last three months
- Actual payment vs. minimum due is decreasing over time
- **Increasing payment stress**

More effective customer communications

Today's customers are used to communicating with their service providers through a range of traditional, online and mobile channels. And they have strong preferences for how they want to communicate with you.

To meet and exceed their expectations, you need to understand the channels and communications methods that specific segments and individuals prefer – whether that's SMS, email, telephone calls, IMs or chatbots – as well as what time of day they would like to be contacted.

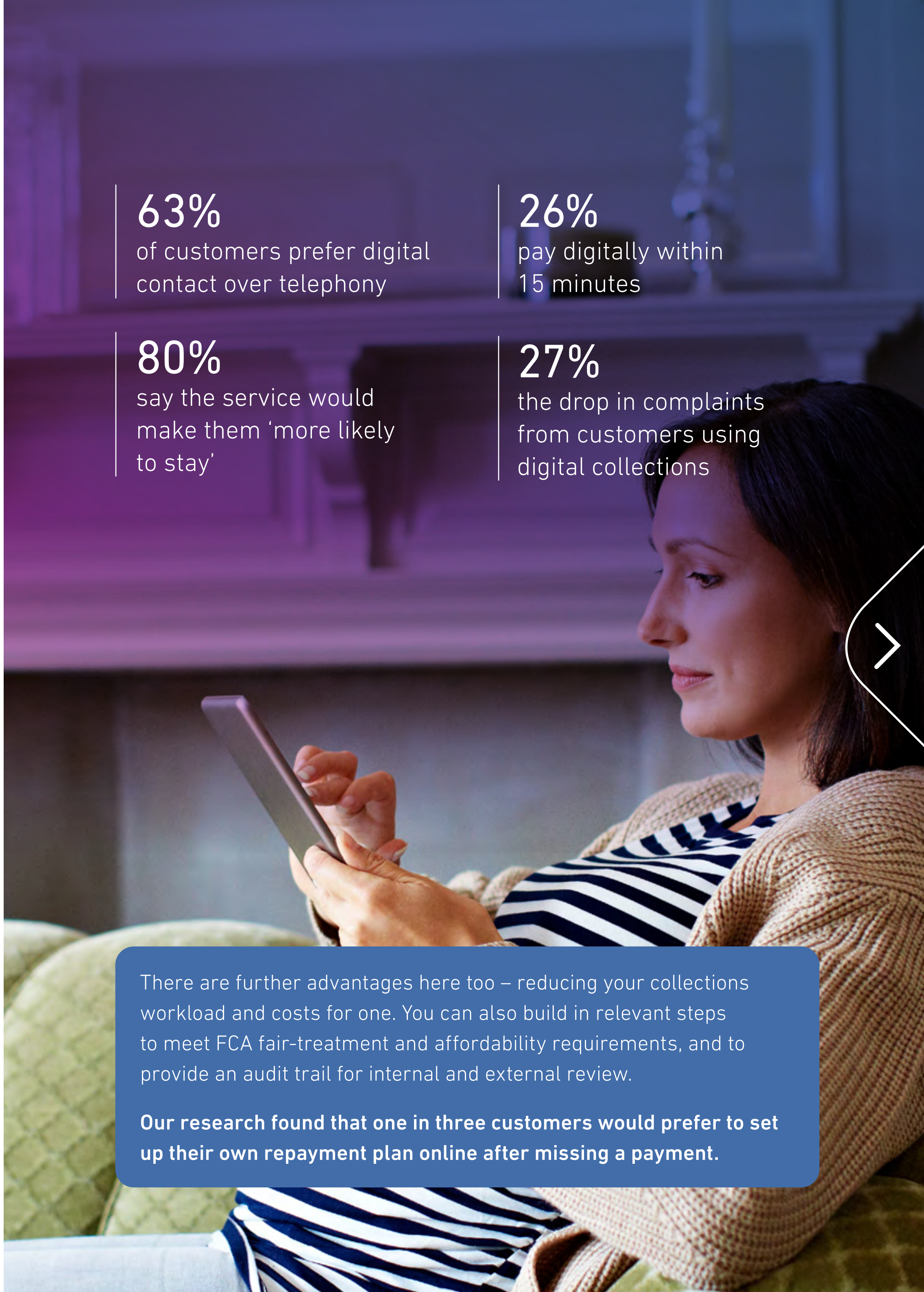
With these kinds of insights, you can contact customers on their terms, making them feel valued, improving their experience, and helping you optimise your contact strategy and collection success rates.

The opportunity to offer self-service option

Automated decisioning opens the door for self-service options that allow people to set up repayment plans based on the same parameters that would be used in a call centre.

One key reason for pursuing a self-service strategy is to reduce customers' anxiety. Our research found that one in three customers would prefer to set up their own repayment plan online after missing a payment.

Of these, 61% justified their decision based on the convenience of making online payments. But many customers in collections would also prefer to avoid talking to members of staff. They could be reluctant to discuss their financial difficulties with a stranger, or find it hard to have that conversation when surrounded by colleagues or family members.



63%
of customers prefer digital contact over telephony

26%
pay digitally within 15 minutes

80%
say the service would make them 'more likely to stay'

27%
the drop in complaints from customers using digital collections

There are further advantages here too – reducing your collections workload and costs for one. You can also build in relevant steps to meet FCA fair-treatment and affordability requirements, and to provide an audit trail for internal and external review.

Our research found that one in three customers would prefer to set up their own repayment plan online after missing a payment.

Collections decisions that minimise negative customer impacts

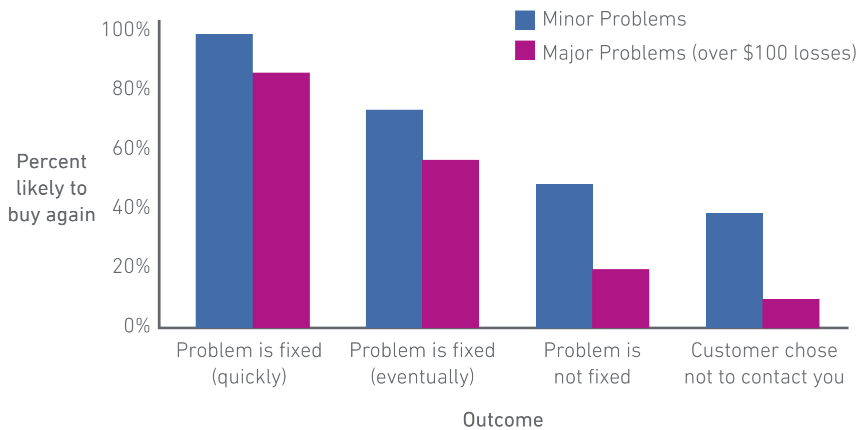
A personalised approach to collections also helps to minimise negative impacts on your customers' lives and businesses.

Where an asset-based recovery strategy may trigger a customer's car to be repossessed, a people-led strategy would consider the broader impact of taking the car away. It could be, for example, that the repossession could prevent the customer from working and meeting other financial obligations, making it a counter-productive decision.

Recent Experian research shed light on customers' payment priorities. We found that monthly mortgage payments are the top financial priority for 70% of people, with energy bills coming second (44%). Credit card bills and mobile phone bills are next on the list at 25% and 33% respectively, with loan payments consistently coming last as the lowest priority payment.

Based on these findings, you can more accurately assess a customer's ability to repay and implement a plan that takes all of their other financial commitments and priorities into account.

Will customers who encounter problems buy from you again?



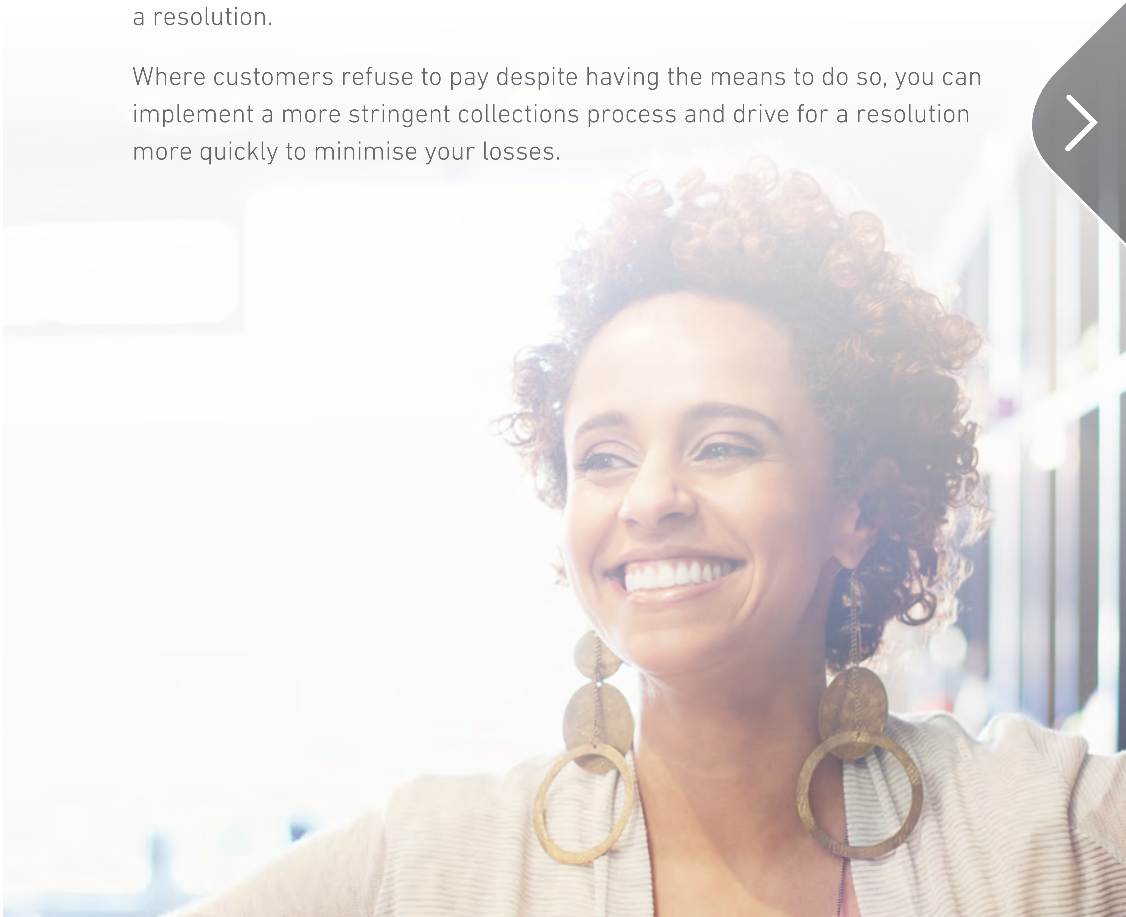
Source: Strategic Customer Service. John A Goodman.

Differentiating between customers who can't pay, and those who won't pay

A missed loan payment or an unpaid bill can signal that your customer may be in financial difficulty, but it's also possible that they just forgot to pay or were unaware of the due date. On the other hand, some customers prefer not to repay what they owe, despite having the means to do so.

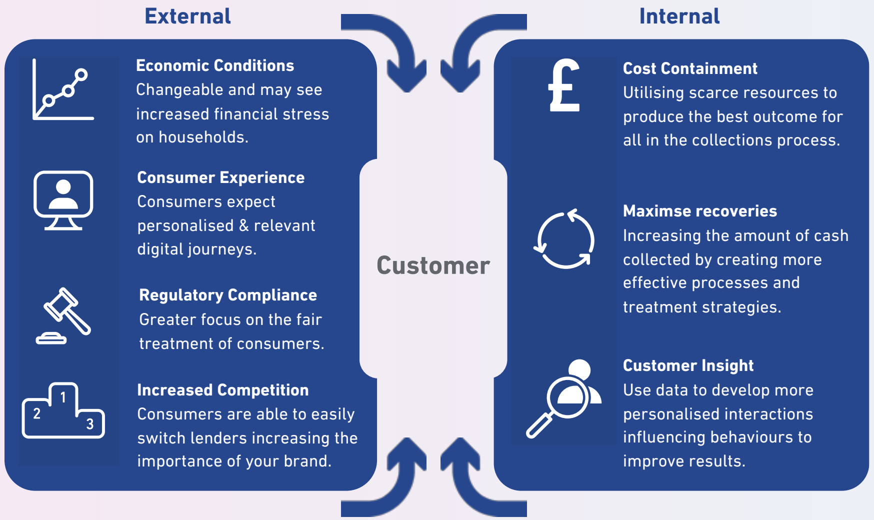
A people-led collections approach helps you to distinguish between these customer types and put an appropriate collection journey in place. Customers in genuine financial difficulty will appreciate your personalised approach to helping them, while customers who won't pay will at least be aware that you fully understand the situation – which may eventually lead to a resolution.

Where customers refuse to pay despite having the means to do so, you can implement a more stringent collections process and drive for a resolution more quickly to minimise your losses.



Prioritising collections investments to achieve the best outcomes

Using data from across your portfolio, a people-led approach can help you to identify customers who are most likely to repay what they owe in the shortest possible timeframe. This enables you to prioritise your collections investments in areas likely to deliver the greatest returns, helping you to minimise losses and ultimately improve your bottom line.



> "Artificial intelligence technologies now allow human agents to be replaced with virtual assistants powered by advanced analytics. These can look at a customer's specific case and design a repayment plan around their ability to repay."

Increased success for small business collections

For most lenders, small business debt accounts for a major percentage of the collections workload. However, because the smallest businesses are typically associated with just a few individuals, it could make sense to apply a people-led collections strategy to bring this kind of debt.

That way, you'll be able to understand the root causes of their financial difficulties, as well as their debt profiles. This can help you to decide whether to approach collection directly with an individual, or to employ a more business-focused strategy.

In many cases, business debts are owned by sole traders, who stand to lose everything if their business fails. Likewise, directors of the smallest limited companies often put up personal assets – including their family homes – to secure business loans.

These factors make micro-business debt much more akin to personal debt in terms of the emotions involved and, often, in terms of the kinds of communications and repayment plans needed to foster excellent customer experiences. By bringing these kinds of arrears into your people-led collections environment, you may be able to increase your success and create more customer loyalty and trust.

There are also ways to extend self-service options to small business owners, helping you to increase automation, reduce administrative workloads, and deliver even better customer experiences.

In the future, as open banking expands into business transactions, this data plus other non-traditional data sources will help you to understand customers' situations even more fully, and to see where the lines between business debts and personal debts are blurred.

Monitoring with automated next best actions can help customers get the best, personalised treatments. This can be seen in a Personal Finance Management (PFM), but one designed with an inbuilt ability for identifying, and acting, on the next best action.

Monitoring

- Continuous automated daily monitoring
- Ongoing financial planning including goals:
  - Daily expenses (food, clothes, travel etc.)
  - Holidays
  - Transportation (cars, motorbikes etc.)
  - Rent/Mortgage
  - Education
  - Retirement etc.
- Income maximisation (benefit assessments and search for unclaimed assets)

Next best actions

- Switching assessment
- Sweeping account set up
- Insurance review (general and life)
- Pension assessment
- Deals highly personalised and relevant to you
- Rewards
- If in a debt solution then:
  - Flexible plan
  - Performance monitoring against plan
  - Expected shortfall mitigation etc.

The benefit of Open Banking in the collections environment

Open banking promises to revolutionise customer interactions across many industries, particularly in onboarding.But can it help you to create even more sophisticated collections solutions?

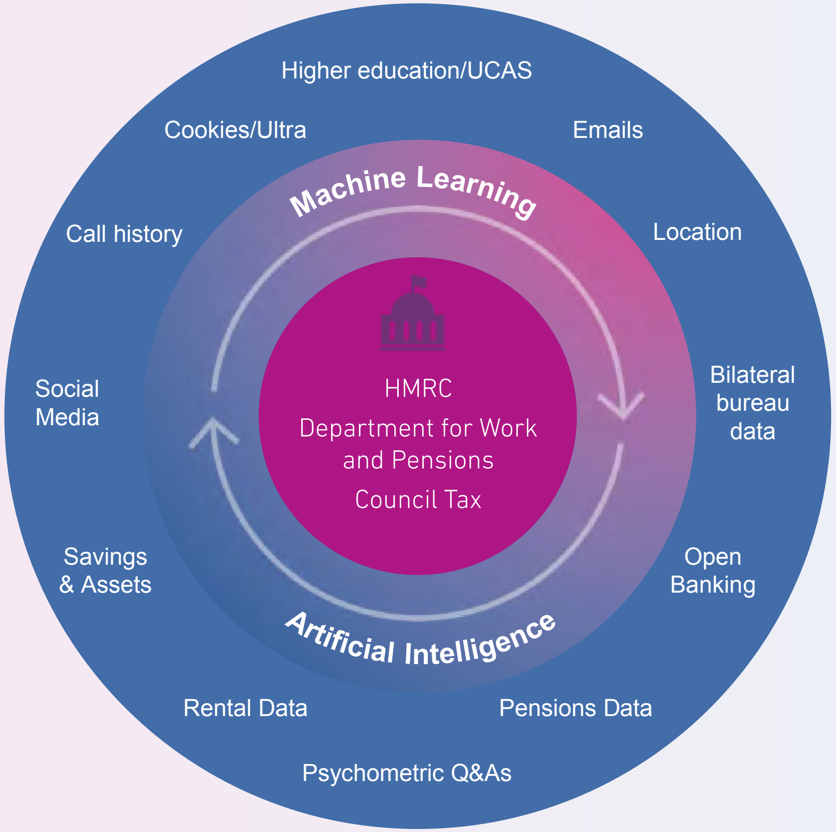
The answer is yes, one day it will. But open banking isn't the only non-traditional data source with the power to enhance customers' collections experiences.

Broadening the data picture for even greater personalisation

New data sources are providing an ever-more detailed picture of customers' financial needs and circumstances. These include rental data, telecoms data for phone and internet contracts, utility payments data, car loan data and other information that gives us an accurate, multi- layered view of a person's circumstances. All of this will add to people-led collections capabilities, helping to ensure every repayment plan is personalised, appropriate, fair and effective.

We have identified many data opportunities that will help the market

New and alternative data sources can be hugely beneficial in understanding your customers. Open Banking – bank account transaction data – can be one asset that can revolutionise how you manage each case.



What transactional data will mean for you

- Enables the generation of transactional data insights through **advanced analytics and ML**
- Game-changing impacts across on **customer propositions, engagement and decisioning**
- Create value **across the lifecycle**

Originations

Credit Risk

- COMPREHENSIVE AFFORDABILITY ASSESSMENT
- Widen eligibility
- Improved risk scores
- Tailored credit offerings
- More accurate income estimation

Fraud Risk

- Detection or fraudulent transactions / anomalies
- Track of spending DNA
- Notifications and fraud alerts

Customer Management

- Increased up and cross sell
- Pre-approval of offers
- Proactive retention strategy
- Customer lifestyle segmentation
- Notifications and spend alerts

Collections

- Improved segmentation
- More effective customer engagement
- Personalisation of offers and terms
- Improved collection scores
- More accurate notifications and alerts

15

Gaining customer consent

A people-led collections approach requires the collection and aggregation of many different data sets. While some of this is available through the bureau, some – such as open banking data – is only available with explicit customer consent data. How do you get customers to trust you enough to share their personal data?

As we've said before, it's all about a value exchange – explaining how the data is used to provide a better experience or outcome. The challenge is that different customer segments and customers in different situations will be motivated by different value exchanges.

For example, customers who've suffered problem debt and are now recovering will be more drawn to services that speed up their rehabilitation. Rather than letting them rehabilitate slowly over time, look at ways to improve their credit score immediately, and help them access affordable credit products at personalised rates. Another example would be encouraging customers in originations to provide more ongoing personal financial data, in exchange for personalised interest rates.

While some customers will see data use as an invasion of their privacy, those who do consent are likely to have a good experience, leading to a growing adoption of the practice through word of mouth.

This isn't about a quick fix – rather, you'll need a long-term strategy. For help devising these value exchanges, you could work with us to cocreate a digital experience and journey.

Being able to understand data, and what it can tell you, will be hugely beneficial when it comes to ascertaining what the best action is.

The time for people-led collections is now

As we have seen, people-led collections helps you to understand customers' individual circumstances and needs to a far greater degree. It lets you differentiate between customers who can't pay and those who choose not to, and even between customers who forgot to make a payment.

Critically, it also allows you to also identify and support people who are vulnerable, and understand the unique circumstances that are impacting their lives and finances.

Appropriate and affordable solutions help you increase the sustainability of your collections strategies, maximising your returns on investment over time. What's more, the data analytics that supports people-led collections allows you to create personalised support plans at scale. This helps you reduce your operating costs, while also ensuring fair, consistent collections processes for all customers, across all channels and touchpoints.

Self-service options also help you to maximise efficiency. With Experian research showing that one in three customers would be more comfortable setting up their own repayment plans online, self- service is a key technology for improving customer experiences and building stronger, trust-based relationships.

The good news for organisations is that the traditional and non-traditional data sources and advanced analytics tools needed for people-led communications are available today. This means that you can act fast and gain significant competitive advantage through building better relationships, formed through added and relevant value to each individual customer.

It allows you to create personalised solutions that give every customer the support they need and deserve. Whether they're in the collections process already or, even better, to help them avoid it in the first place.

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The insight contained within this report is prepared using research performed on both Experian data and external data sources, in addition to market research. All sources, unless referenced, are from Experian insight.

The information contained within this report is designed to help businesses manage the complexity brought by a national crisis - and is a summary of key areas and capabilities. Experian are making this information available, in the public interest, to help firms' understand the breadth of change and requirements needed in order to better support, and protect, consumers and businesses nationally.

To understand more about the breadth of market-leading capability Experian has, or to access further detail on the impact of Covid-19 on consumers, business and lending portfolios - please contact us.

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