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Imagine the Possibilities: **Collections Yesterday, Today and Tomorrow**

The US economy has come a long way since the global financial crisis of 2008 with delinquency at an all-time low. Now that financial institutions have caught up, many are pausing their efforts instead of trying to get ahead. This white paper examines the collections practices and technology of the past, present and future – inviting banks and credit unions to imagine the possibilities as they cultivate a healthy consumer base and prepare for the challenges and triumphs of tomorrow.

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Introduction

The collection sector has come a long way since the global financial crisis of 2008 caused record levels of "bad" loans, leaving financial institutions struggling with the consequent chaos.

Today, delinquency rates are at an all-time low, and regulation and compliance have been strengthened in an attempt to minimize future risk. Banks and credit unions can seemingly breathe a sigh of relief, having fought and won a difficult battle to overcome soaring delinquency rates and the ensuing new regulatory burden. But what about the next dip?

The British Exit (termed "Brexit") from the European Union has already caused market turbulence.[1] Companies that had started to stabilize after the Great Recession are now re-evaluating hiring and investment plants. It could be a minor setback or it could be the next economic downturn.

The problem is that few financial institutions have been looking ahead, preparing for the next set of economic factors that will cause delinquency rates to rise again.

> Few financial institutions have been looking at how to use the technology available today to prepare for the future and improve their processes, their service, their risk management and their bottom line. They are failing to use this brief interim to get ahead before they fall behind.

1. USA Today. "'Brexit' fall-out: Winners and losers." June 29, 2016.

Collections of Yersterday

The Great Recession and the Impact on the Economy

The 2008 global financial crisis was widely recognized as the worst recession since the 1930s. Although there were several factors that contributed to the crisis, the primary influence was the U.S. housing market. Prior to the recession, as real estate prices increased, many homeowners refinanced at lower interest rates or took out home-backed loans to finance consumer spending. When house prices started to fall, delinquency rates rose – eventually resulting in an annual increase of foreclosure proceedings of 225% in 2006.[2]

The result was that mortgage approvals became more selective, millions of credit cards were revoked, lines of credit dried up and financial institutions abandoned the small business and student loan markets. Car sales, so often financed by loans, also plummeted. In order to prevent a recurrence, the US government increased regulations.

Government Reaction and the Regulatory Burden

In July 2010, Congress passed the 2010 Dodd-Frank Wall Street Reform and Customer Protection Act, placing a much heavier regulatory and risk management burden on financial institutions.

This burden has affected more than just financial institutions. The software vendors that serve the financial services industry have also had to adjust o meet the new regulatory demands. In software releases prior to 2008, many vendors focused their efforts on the management of system views, queues and dashboards, as well as data retrieval. Post 2008, software providers have focused on improving integrations to payment and insurance third-parties in order to increase compliant reporting capabilities. They have also expanded their relationships with outsourced collection and recovery providers so that financial institutions can better balance the increasing workloads without adding staff – all while staying compliant.

However, with such an intense focus on compliance, both financial institutions and many software vendors have lost sight of the endless possibilities technology has to offer. Innovation should be used for more than just ensuring compliance. Technology can also help make financial institutions' business models more efficient and effective. At the heart of it, collections activities are ultimately serving the account holder base – and to have the optimum business model, financial institutions should make sure that they have the highest quality, most efficient and effective day-to-day collection procedures that help account holders and, therefore, the bottom line. That means having and using effective technology that allows you to imagine the possibilities and act on them.

2. RealtyTrac. "More Than 1.2 Million Foreclosure Filings." 2006.

Collections Today

Imagining the Possibilities Byond the Regulatory Burden

Good reporting and analysis empower collectors to better strategize and manage their processes and activities. By measuring the overall health of a car loan portfolio by state, for example, financial institutions can focus on areas that tend to have a lower delinquency rate. Techniques like this will improve overall recovery rates – and the data can also be used to lend better to help financial institutions avoid future collections and delinquency.

As the economy has recovered, home sales have started to rise. Financial institutions should note that there are higher delinquency rates for mortgages in the 40-49 age bracket, with the "under 40s" next. Regionally, New Jersey has the highest delinquency rating in the U.S.[3]

This is invaluable data when it comes to making loan decisions, but most financial institutions store it separately from other information they may have in relation to individual account holders. To get the full business benefit, collection data must integrate with other systems. This means integrating regional data into the "person-level" of the accounts – auto, unsecured loans, credit cards, demand deposit accounts (DDAs).

> The increased visibility into the account holder's history not only delivers better service but also helps mitigate risk by identifying potential warning signs earlier.

3. Mortgage Bankers Association of America. "National Delinquency Historical Report". 2012.

Imagine the Possibilities

Conquering the regulatory burden and digging into the data is just the beginning. Technology can increase productivity by automating and improving the business processes that underpin an organization's ability to execute its overall strategy. There are four current trends banks and credit unions can pursue today.

1 | When you focus on productivity

The first is that organizations are using technology to motivate employees. The right software program, configured to your financial institution's business processes, can follow progress and offer immediate reinforcement or coaching to keep performance on track. Similarly, business managers can use performance metrics and analytical reports to set or redesign strategy. These analytical reports could have helped raise awareness for financial institutions ahead of the 2008 crisis, as they not only offer insight into account holder behavior but also improve the overall level of accountability of collectors, originators and the management team.

The technology has to be user-friendly or else productivity will decrease. Key points to consider when evaluating a collection system are:

- How intuitive and navigable is the graphical user interface
- How easily key information is accessed
- The type of information needed for collection activities and how it should be organized

2 | When you increase visibility

The second trend is the "person-level view" which grants collectors the ability to view all account holder information in one single repository. This includes consumer, real estate loans, deposit and share drafts, credit cards, leases, commercial, small business loans and any other type of asset the financial institution manages. The status of that account (whether it is past due, negative balance, repossession, bankruptcy, legal, foreclosure, real estate-owned or charge-off recoveries) is paramount to capturing key information about the account holder's portfolio.

The level of visibility is what distinguishes one collection platform from another. The most up-to-date technology offers collectors a 360-degree view of the account holder relationship, including all joint and co-signer arrangements, through flexible imports and standard core processing integration. In this way, financial institutions and their employees gain a better understanding of the account and how to assist recovery.

The system should allow the financial institution to control how much and what data is visible to the collector. Finally, from an audit-tracking standpoint, it should retain the information for as long as needed with plenty of data storage so all data is referenceable if auditors inquire about certain information.

> For example, in today's volatile market, especially with the uncertainty surrounding the EU and "Brexit", which has already sent ripples through the U.S. stock market, financial institutions should take advantage of technology's ability to show visibility into trends within their own account holder base.

With a system that offers total transparency into the data, financial institutions can look for warning signs like hefty withdrawals from savings accounts. Identify where your account holders' pain points are and reach out to build that relationship. By capitalizing on this data, banks and credit unions can cultivate healthy behavior among their account holder base, offering financial advisory services and expanding wallet share.

3 | When you mentain consistency

Just as analysis and reporting are vital to optimizing business performance, so too is consistency. All too often, processes such as bankruptcy, repossession and fraud are undocumented, making consistency impossible. But technology can be used to track all documents and drive specialty procedures. This not only benefits the process, but also the employees and the financial institution at large. Compliance also becomes simpler when the system can track timelines and identify when a milestone is overdue so that the appropriate action can be taken.

4 | When you engage in the wider ecosystem

In today's market, account holders have access to an increasing number of different lending opportunities: credit card debt, mortgage, student loan, overdraft and consumer finance. Often these accounts are spread over a number of different providers. To streamline processing, financial institutions should integrate external systems into their collection ecosystem. Integration needs to be not only seamless when it comes to business processes, but also to providers such as mortgage and card portfolio processing systems, letter printing fulfilment vendors, recovery agencies, insurance companies, auto dialer platforms, skip tracing and payment processing services.

These needs should be front-of-mind for collectors when they are improving their systems and processes ahead of the next rise in delinquency rates. Those that do will be in a position to raise an early alarm and possibly prevent another crisis.

Collections of Tomorrow

Imagine the Possibilities Beyond Collections Today

While there are plenty of areas where financial institutions currently have the ability to expand their current collection strategy, it's important to continue to imagine the possibilities beyond what exists today. There are three trends that have begun to emerge.

The new demographic

As the now primary generation in the U.S. workforce, Millennials are starting to replace baby boomers as target clients for financial institutions. However, they have very different expectations that require fresh business processes and technology. And as a trend that is growing into a societal pillar, the new demographic requires financial institutions to address distinct new challenges.

The high degree of Millennial education brings with it an excess of student loans – already mounting toward the prominence among delinquencies. The Filene Research Institute reported that between 2004 and 2012, the number of student loan borrowers increased by 70%, pushing student debt up by approximately 25% and prompting some industry experts to describe it as the new sub-prime.

Filene also reported that 42% of Millennials state that debt is their biggest concern. For financial institutions, this has big implications: borrowers who have a student loan are more susceptible to delinquency on their other loans and accounts.[4]

Statistics like these show the importance of a comprehensive view into accounts to better assess their standing. With more Millennials inhabiting the financial landscape, banks and credit unions need the technology to handle the onslaught of these new types of delinquent loans. Business processes need to be incorporated into collection solutions to drive better loan collection efficiency. In addition, as more student loan holders fall behind on payments, financial institutions need to improve their strategy. This will involve connecting with Millennials in their native territory – which is increasingly through flexible channels.

Gartner Research shows that smartphone sales are soaring, with young adults having the most mobile devices of any demographic. Based on current trends, account holders are going to start expecting to be able to manage their delinquent accounts on their mobile phones. They'll want to access balance updates, monitor disputes, make payments, pursue resolution and receive notifications of due payments.[5]

These advancements will require collection departments to support duties that normally would be handled by different departments such as customer service, account holder complaints or requests.

All of this demands integrated digital systems that can track multiple loans and produce data that can be accessed via any channel.

4. Filene Research Institute. "Student Lending: Challenges and Opportunities for Credit Unions." 2015.
5. Gartner Research. "Gartner Says Smartphone Sales Surpassed One Billion Units in 2014." 2015.

> "Silos – and the turf wars they enable – devastate organizations. They waste resources, kill productivity, and jeopardize the achievement of goals.
>
> Patrick Lencioni, Silos, Politics and Turf Wars

Big and small data

When captured, formatted, manipulated, stored and analyzed, big and small data can help an organization gain useful insight into account holders and improve overall operations. Without a doubt, using big and small data will also lead to better predictions – and better predictions will yield better decisions.

Lynn Ridenour, senior director at Nuance Communications, recently identified two over-arching ways that big data and predictive analytics will be used to redefine collection technology.

The first is **personalization** – using technology to tailor each interaction based on what is known about the account holder in the context of past experiences. Personalization includes rendering content in the user's language of choice, communicating over their preferred channel or having overall awareness of recent communications that might be relevant to the dialogue, such as an appointment with a mortgage officer or a past due bill.

The second is **anticipatory communication**. Intelligent systems will anticipate what account holders want and and pre-emptively engage with them. For example, helping avoid a late payment. When financial institutions can do this, they will not only be providing a valuable service but will deflect inbound calls and stop issues from escalating, keeping costs down.[6]

6. Nuance Communications. "Serving the multichannel banking customer - are you ready?" 2015.

But before reaping big and small data's potential, a financial institution must first have an effective system. This means planning an IT infrastructure that can support the organization's unique vision. In order to be more competitive and proactive, and less reactive, the technology must be future-proof, empowering the organization to maintain relevance and continue to expand its strategy. Just as importantly, this system needs to be able to keep up with ever-evolving compliance regulations.

Collision of Systems

The final trend that credit unions and banks are experiencing is the collision of systems. Driven by the consumer desire to perform transactions regardless of channel, organizations looking to provide a seamless experience also want fewer systems and a consolidated workplace. While vendors have begun to address this, there are many more opportunities for advancement. And now the technology exists to actually achieve this goal – one universal system for the universal employee –imagine the possibilities.

Conclusion

The technology exists to help financial institutions monitor and control delinquency rates on their loan portfolios. But too few are investigating its full potential. While account holders aren't yet at the point of demanding omni-channel services, it won't be long. And when they do, financial institutions will need the right technology to provide to them.

The high level of student debt is affecting the financial priorities of Millennials and is contributing to a national debt crisis in the US. Combined with an ever-changing marketplace, recently shuddering under the impact of the uncertainty of the global market, it is more important than ever to have the right technology and strategy in place.

The key to avoiding a repeat of the sub-prime crisis is to use big and small data analysis at every point across every transaction to better predict, communicate and advise. While business is good, financial institutions should spend time looking at their processes and re-evaluate and improve areas to drive better efficiency so they are prepared for the inevitable next wave of financial challenges.

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