

Collections & Recovery Technology: Rethinking the Status Quo

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Have you asked a seasoned professional in accounts receivable management if they've ever experienced the confluence of economic shifts and legislative changes we're facing today? You would be hard pressed to find an agent, risk manager or anyone else in collections that isn't trying to rethink how to effectively connect and collect.

Today's reality for the Collections & Recovery (C&R) industry is dramatically different than pre-2008 conditions. A rapidly changing regulatory environment, fragmentation of communication channels and evolving consumer attitudes have unleashed new challenges and opportunities for government agencies, healthcare organizations, financial institutions, retailers, collections agencies and other organizations collecting and recovering debt.

While the surge in regulatory changes continues to exert additional pressure for collectors and C&R organizations, recent reports illustrate significant changes in year-over-year debt levels. Student and auto loan balances show double-digit increases and a year-over-year increase in credit card balances not seen since 2008. As credit becomes more available, balances rise and debt levels increase.

More credit, higher debt levels and expanded compliance requirements mean only those organizations deploying strategies that engage multiple data sources, contact channels and analytics have a good chance to succeed. It requires an analytically driven mix of tools to keep pace.

Is your organization in a position to do this?

Leveraging best-of-breed technology reduces loss, collects more and puts you in a position to succeed. Here's what you need to know to do it correctly.

Take a good look at your existing Collections & Recovery software platform. Is the technology you're using too outdated to keep up with best practices?

If you've not updated your core platform or made significant changes in order to accommodate mobile and social media channels in the past five years, you're at a technological disadvantage compared to the competition. Your core C&R software platform should be built on an open architecture, which makes it easy to accommodate new technologies and easy upgrades.

An open architecture facilitates system functionality, configurability, security and scalability. If you've been unable to take on new business because the integration process is too demanding or costly, perhaps it's time to consider a new platform.

Define your current infrastructure to better understand how it should be updated.

The details of your underlying system infrastructure are critical to C&R success, which is why it's worthwhile to take the time to uncover exactly what's in your current infrastructure. System performance, backup memory and recovery, hardware

and software specifications, maintenance and other aspects should be reviewed and analyzed.

If you're looking at workarounds, manual processes and complexities no staff member can explain and might not fully understand, your system is costing you more time and money than you can measure.

Review the integration process.

Integrations with new business files, dialers, third parties, accounting systems and more should be organized and easily managed no matter the complexities new files can present. Because a wide range of work is required to perform integrations, you need to discuss and document past history, code components and other specifics so you can learn how to do these internally.

When considering an upgrade or new collections platform, be wary of any vendor that doesn't give you the tools to move data in and out of the system on your own. Good, stable integrations are the basis to any future growth, and the use of new technology makes integrating with any file significantly less cumbersome.

Are you optimizing your processing?

Are you contacting debtors via preferred channels? Are you targeting resources to the right accounts? Can you accurately predict debtor reaction to a variety of treatments? Changing consumer attitudes, the rise of social media and the threat of regulatory penalties hamper all of these efforts.

As a result, you need new capabilities to identify and target areas for improving debt management. Optimization helps strike a balance between loss reduction, resource challenges and operational constraints.

Modeling, assessing and deploying strategies to meet business objectives drives gains across the entire debt collection engagement lifecycle. You need analytic capabilities and new technology to do this.

On-premises or cloud deployment?

Your C&R processing should be available to you on-premises or via cloud deployment. Although many enterprise organizations prefer on-premises, many are moving to a cloud environment, too. The advantages, from reduced capital expenditures, flexibility and ability to scale, enable you to take advantage of complementary applications, tools, data and partners.

Focus on your reporting needs. Can you create the reports you need yourself?

If you're a collections agency, look at how you meet the exact needs of your existing clients and ensure your collections process meets all other reporting requirements. If you're a first-party collector, identify the specific information required for the reports you need, frequency of publication and other significant criteria. Are your information needs, offering Key Performance Indicators, being met?

All vendors offer reports that look similar to existing reports; your job is to make sure they use the same data and produce the same results. This effort includes what vendors have written, "canned" reports that come with the system and reports your team has created. Any state-of-the-art system will be using a relational database, putting tools at your disposal in order to create reports yourself. If you're looking to save money, this capability is key.

Create a list and description of custom development.

Over time, custom development affects all aspects of the day-to-day functions of a mature system. Documenting these modifications is critical to moving beyond them. It's common practice to contract with vendors to make changes to the core functionality. It requires the same kind of time and expertise to recognize what's been done and how this translates to a new, more updated system.

While many of the features you're looking for in a new system may be available, don't expect them to all be there. For example, in student loan collection, rehab payment plan types differ from system to system. A complete review is necessary to improve processes and ensure all business needs are met in the new architecture. Lists and descriptions make this process much more productive.

Understand regulatory and compliance requirements.

Changes in the political environment and increased security requirements drive legislative changes and industry regulations. Understanding the current business processes affected by these regulations is critical. Any new system you consider should provide mechanisms for accommodating existing regulations and the flexibility to adapt to future needs.

It's possible some regulatory and legislative requirements are buried in code in your current environment. Be prepared to document your needs and to understand how a new system accommodates these needs, too.

Outline month-end requirements for yourself, your vendors and clients.

Like the reporting scenario mentioned earlier, no two businesses manage month-end processing in the same manner. Are your month-end needs being routinely met? Although generally accepted accounting principles are typically similarly presented within many systems, market verticals and client requirements invariably place varying, specific demands on invoicing and reporting.

As with all aspects of the application, the entire invoicing process must be documented for individual payments through invoicing and client accounting. The details of these processes should be thoroughly reviewed, no matter if you are a first or third party collecting and recovering debt.

Do you know what your collectors are communicating to debtors?

Real-time monitoring of potential violations is a critical area that can make or break collection activities. Indexing, searching and analyzing content from recorded conversations gives you detailed performance statistics on every debt collector you employ.

Call analysis typically leads to an increase in the percentage of calls asking for a promise to pay, a focus on successful techniques and more targeted collector training. Ultimately, the technology deployed gives Collections & Recovery organizations the opportunity to dramatically lift collection performance.

A rapidly shifting C&R landscape

For the first time in five years, market verticals saw notable year-over-year change*:

- Student loan increased more than 11%, from \$794 billion to \$884 billion.
- Total US student loan increased to \$1.2 trillion.
- Auto increased over 10%, from \$745 billion to \$846 billion.
- New loans and new credit year-to-date reached a five-year high in May 2013.
- Total new credit between January and May 2013 is the highest since 2008.
- Consumers utilizing new state insurance exchanges are expected to swell the number of high cost-sharing deductibles, increasing revenue risk and debt collection for healthcare providers.

C&R behaviors targeted by regulators

The Consumer Financial Protection Bureau continues to focus on high risk areas:

- Complaints
- Convenience Fees
- Payment Processing
- Privacy
- Electronic Fund Transfers
- Litigation Practices
- Time-Barred Debt
- Fair Lending and Equal Credit Opportunity Act
- Customer Communications

*Source: ACA International

It's never been more important to create a best practices environment, structure efficient processing and remain compliant as you work to meet and exceed collection and recovery goals. The time to look at evolving technology is now.

FICO currently supports more than 500 Collections & Recovery clients around the world, across a variety of industries. To learn more about FICO® Debt Management Solutions, please send an email to info@fico.com or use the phone contacts below.



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