

6 Actionable Steps to Improve Retail Bank Collections & Recovery

6 Actionable Steps to Improve Retail Bank Collections & Recovery

Recent events have put collection and recovery departments to the test and forced them to become more inventive. The classic motto “If you don’t call, you don’t collect” is still as true as ever. But just ensuring the call is made is not enough in an increasingly competitive arena, where customers often have debts with several financial institutions and simply cannot satisfy all of them.

The banks that have risen to the challenge have either restructured their internal Collection & Recovery (C&R) organizations or rethought their collection strategies – usually both.

Approaches that have emerged from this period of intense pressure were summarized in the EXUS whitepaper **“Collections & Recovery: Meeting the Needs of a Changing World”**. This guide takes it one step further, providing retail banking collection and recovery professionals with actionable tips to start improving their operations from today forward. With these steps, you will be on the path to achieving collections and recovery excellence.

1. Divide action into phases, progressing according to clear rules:

The right communications and actions for customers in the early delinquency stage are quite different from those required when litigation is involved. Collection activity calls for progressive pressure to be exerted on the delinquent customer. To ensure the right pressure is applied consistently, at every collection stage, collection activity has to be segmented into phases, usually defined as soft, pre-litigation, litigation, and recovery (written-off accounts). Each phase will be characterized by a consistent collection approach for the customers involved, and by the operation of a specialised unit within the bank’s organization.

During the early phases, the bank is trying to work out a solution in cooperation with the customer, giving high priority to the protection of the customer relationship. The aim is to minimize the number of cases moving through to the later stages, where the focus shifts from protecting the customer relationship to protecting assets and minimizing losses. Conditions for moving from phase to phase must be predefined and clearly stated, though some ad hoc management is always required. The rules for advancing must not be dependent solely on the number of days of delinquency, but must also factor in product and customer risk information.

2. Combine the pool approach with assigned ownership:

Before the implementation of automated outbound calling technology, most collection operations assigned accounts to collectors ‘from the cradle to the grave’. In other words, collectors ‘owned’ accounts from the time the accounts fell into collections until they were charged off. This approach offers some important advantages. For example, collectors can apply progressively firmer collection tactics in a logical sequence as accounts age, as the collectors become familiar with particular customers and accounts. Collectors may also become familiar with customers’ specific situations, allowing them to be creative in working out payment arrangements. This approach also means that all collectors are cross-trained in handling all delinquency levels and most collection issues.

On the other hand, this approach has three main disadvantages, apart from the fact that a dialer cannot be used. Accounts are often segmented by billing cycle, alphabetical order or some other random grouping, and the number of accounts assigned to each collector may vary widely, making it difficult to

measure and compare performance between collectors. Collectors may ignore difficult situations or customers they do not like. And if a collector has planned or unplanned absences, it can be difficult to ensure that the accounts assigned to him are worked adequately.

The alternative approach, using a pool of resources to which accounts are dynamically distributed, offers some clear benefits. Collectors do not choose which customers to work on, planned or unplanned absences are easily dealt with, and collectors become specialized in the specific segment to which they are assigned and become proficient at identifying solutions to bring an account up to date. Given the industrialization that is possible with the pool assignment approach, it is generally recommended for soft collection in retail environments, while ownership assignment is usually preferable for handling corporate accounts or hard collection and litigation management.

3. Put in place centrally defined collection tools:

The object of collection is to obtain an agreement to repay the overdue amount, followed by fulfilment of this agreement. Repayment agreements can take several forms, depending on the delinquency stage that has been reached. For example, in the soft phase, agreement may take the form of a single Promise to Pay or a repayment plan under which the overdue amount is repaid by fractions, with no change to the credit contract. For the pre-litigation phase, a repayment plan may stipulate that the overdue amount is to be repaid by fractions with a discount – again with no change to the credit contract – or with a restructuring of the credit contract. Acceptable Promises to Pay have to be clearly defined in terms of the amount to be repaid and the delay in repaying, the rules on qualifying a Promise to Pay as kept, partially kept or broken, and the acceptable repayment plans for soft and pre-litigation, restructuring, and consolidation situations.

4. Provide effective and targeted communication scripts:

Every agent contacting a customer is representing the bank and should be helped to convey the right message and handle customers' arguments effectively. Scripts should be created that take account of the customer's profile and level of delinquency and that promote the bank's code of ethics. Simple repetition of similar messages in successive phone calls or mails is counterproductive. Scripts should generally provide a detailed walkthrough of the communication and should include an introduction, a discovery phase and an involvement phase, incentives, and appropriate replies to arguments that may be put forward by the customer.

5. Select external agencies carefully and monitor them closely:

Use of the external resource of a debt collection agency (DCA) typically results from cost/benefit analysis of this approach in comparison with carrying out the operation internally (unless local regulations direct otherwise). If the bank eventually decides to outsource accounts, a thorough selection process should take place. This should not be based solely on price. It should involve research into the relevant market and the agency's organizational structure, systems, contingency plans, financial strength, and customer base. Its reputation and experience in the specific sector should be examined and due diligence should be carried out to establish whether the agency is capable of providing the collections service that is required. There should be an assessment of the agency's technical infrastructure (phones, systems, dialers etc) and, of course, price will always be a relevant factor. On-site visits should always be part of the selection process.

After selection, the drafting of appropriate contract terms is the most critical step toward successful cooperation. The contract should include a description of the services and the bank products to

be assigned. It should also include a detailed description of the phone calls, covering the bank's expectations, the assignment/recall process, assignment files management, PTP–RTP description, and the bank's notifications and controls. Fees, penalties, and conditions for audit should be agreed and binding SLAs should be imposed. After setting up the arrangement, the bank needs to monitor the DCA's compliance with all the agreed terms, as well as its performance. If more than one DCA is used, this makes it possible to make comparisons and provide additional incentives. It also provides the option to adopt a rotation strategy, so that accounts are not assigned and retained by a single agency, which often proves to be an efficient and effective approach.

6. Measure performance and provide incentives for your collectors:

Collection agents are the means through which a collection strategy is mainly applied, and their performance must be closely monitored. Through monitoring and measuring, the supervisor recognizes collectors' strengths and identifies opportunities for improvement. Normally these areas are related to understanding the technology, system applications, product knowledge and specific skills required to perform effectively in a collections call centre. Collectors need feedback about day-to-day performance to know that they are doing their job effectively. Receiving supervisory feedback also demonstrates to them that others are interested in what they are doing. When performance is satisfactory, feedback improves self-esteem and personal competence. When opportunities for improvement are identified, a foundation is established for future development, training, and behavioural changes, so that the collector can be helped to succeed. In best practice operations, most collectors are eligible to receive monthly individual and team performance-based rewards, recognition, and incentives.

These programs often rank collectors by the quantity of promised vs collected payments and the quality of the collection effort, and lay stress on continuous improvement, using dynamic goals that do not allow collectors to slip into complacency. Incentive and reward programs and competitive base pay levels will help the bank attract and retain the best collections representatives. Rewards may be monetary (usually around 10–15% of the monthly salary, and not exceeding 20%, so as not to create an atmosphere of entitlement) or non-monetary (e.g. clothing vouchers, parking spaces, gift certificates for book or music stores, dinners out, and weekends away). In either case, incentive programs must be appealing, simple, and based on achievable targets.

Given the different maturity levels at which a bank starts its effort towards implementing best practices in collections, the following general guidelines may help:

- Improved collections start from improved customer acquisition processes (identifying and managing risk at its origination).
- If your organization is not mature in collections, start small with a long-term goal and make step-by-step improvements to processes and systems.
- Allow for manual overrides of strategies (to ensure appropriate handling of exceptions), but with careful monitoring (to assess the effect to the credit quality and operational costs).
- Invest in continuous learning (test and learn – champion challenger).



About EXUS

EXUS is an international enterprise software company specializing in credit life cycle management. EXUS was founded in 1989 with the vision to transform the complex software industry, making it simple, accessible and exciting. Our products have been designed through a deep understanding of our customers' needs and in line with our purpose to simplify complexity and enable intelligent action.

Through our corporate headquarters in London, our offices in Athens and our partners, we support financial institutions, telecom operators and utilities companies around the world to improve their credit risk management efficiency, increase confidence in their strategic decision-making, and achieve success in demanding and competitive markets.

EXUS Financial Suite

"EXUS Financial Suite" (EFS) is our comprehensive suite of software applications that manages credit risk along the whole lifecycle of accounts, from the moment of

disbursement until write-off or debt sale. EFS helps organisations in 30 countries around the world to identify and treat credit risk early, perform efficient collections, manage legal proceedings and recoveries and gain detailed insight into portfolio evolution, collections strategies and resource efficiency

EFS was rated **"best-in-class"** solution for collections in the first ever global technology analysis of loan collections systems by leading industry analyst issued by CEB – GARTNER.

EXUS also received the **XCelent Depth of Customer Service Award** from Celent in 2019. Based on customer feedback, EXUS was ranked highest amongst all global vendors participating in the study and in the top right quadrant for breadth of functionality and advanced technology

We'll be happy to hear from you and provide any assistance in the email below info@exus.co.uk

Gain collections insights every week by subscribing to the [EXUS Collections Blog](#).

For up-to-date collections news, follow us on: [LinkedIn](#)