The economic impact of Covid-19

People-led debt collections

Why putting customers first is more important than ever

June 2021

EXPERIAN INSIGHTS

Using the power of data to help you

ADAPT, SURVIVE AND THRIVE

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Executive summary

The Covid-19 pandemic has had a dramatic impact on the financial wellbeing of many consumers and businesses.

The increased financial pressure and hardship some customers faced and may still be facing increase the risk of debt accumulation and missed payments, leading to increased volumes for collections teams.

Furthermore, as payment holidays and various Government support programs ended, businesses 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 helps protect 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.

3.5m

Australian workers were supported by JobKeeper in the first 6 months[1]

800,000

Australians deferred their loan repayments by July 2020[2]

900,000

Australian businesses were supported by JobKeeper in the first 6 months[1]

3.05m

Australians withdrew $37.8b from super by December 2020 to help with expenses during the pandemic[3]

975,000

jobs were lost in 5 weeks after Australia recorded it's 100th case of Covid-19[4]

30%

of Australians reported a reduction in their personal income due to Covid-19[5]

53%

of Australians cut down on non-essential expenses in response to the financial impact of Covid-19[5]

25%

of Australians cut down spending on essential items in response to the financial impact of Covid-19[5]

[1] Reserve Bank of Australia - How many jobs did JobKeeper keep? - Jul 2020

[2] Australian Banking Association - Banks enter Phase Two on Covid 19 deferred loans - Jul 2020

[3] Australian Tax Office - Covid-19 Early release of super report - Dec 2020

[4] Australian Bureau of Statistics and the Australian Tax Office - May 2020

[5] Australian Institute of Family Studies - Families in Australia Survey - Nov 2020

Situation analysis

Recent challenges	Impact		
	Financial	Customer	Operational
Economic impact and employment uncertainty could result in a sharp increase in non-performing loan levels and overall provisioning. The predictive power of existing analytical models is likely to be impacted.	✓	✓	
The demand on operational resources increases 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 are important to identify whether a borrower is likely to be able to repay rescheduled payments once the 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 Early Warning System (EWS)

Delinquency and hardship triggers should be forward looking. Therefore early warning signals are critical to identify potential high risk segments based on behavioural data. The recent crisis emphasised the increasing importance of early warning signals 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 digitisation 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 the financial situation of customers 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 the ACCC's Debt Collection Guidelines, 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 the ACCC's Debt Collection Guidelines 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.

37%

of Australian businesses aren't confident in the effectiveness of their existing analytics models for collections decisions

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 was better.

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 and expensive comparative to digital or automated options.

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 onboarding, predictive analytics to help consistently offer the most appropriate products and early identification of key lifestyle changes.

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.

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 ACCC's Debt Collection Guidelines.

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.

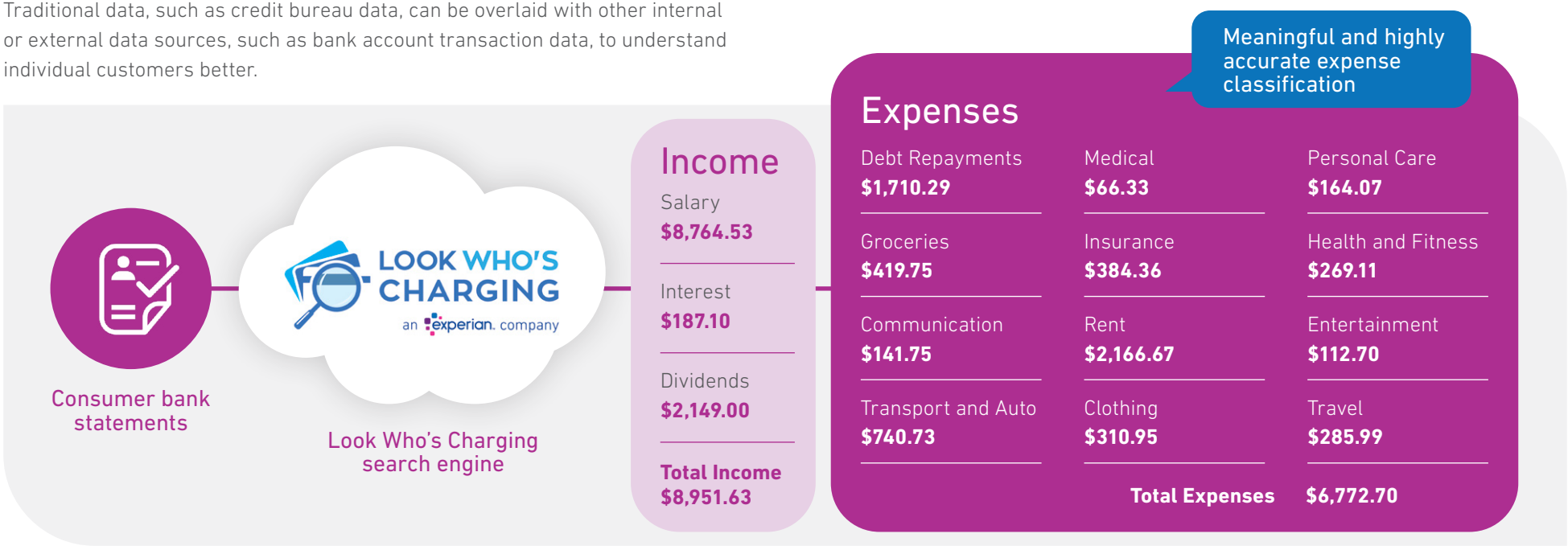
To achieve this level of customer support, you need access to accurate, up-to-date and granular data about customers' financial circumstances.

Traditional data, such as credit bureau data, can be overlaid with other internal or external data sources, such as bank account transaction data, to understand individual customers better.

Enriched and categorised income and expense data allows you to create budgeting and spend-control apps that help you support customers through times of financial difficulty, and to ensure that collections requests are always appropriate and affordable.

Personal financial management apps currently allow consumers to monitor their financial wellbeing, and in the future, will also have the inbuilt ability to identify and act on the next best action, which in a debt solution will provide consumers with flexibility of payment places, performance monitoring against their plan and expected shortfall mitigation.

Automated affordability assessments are enabled via data capture (for example through a consumer's PDF statement formats and digital data capture) and real-time categorisation of income and expenditure. Open Banking will enable increased access to consumer consented data, enabling further automation in an even more secure manner with less friction for the consumer.



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, Instant Messaging (IM) 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%

pay digitally within 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 the ACCC's Debt Collection Guidelines 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

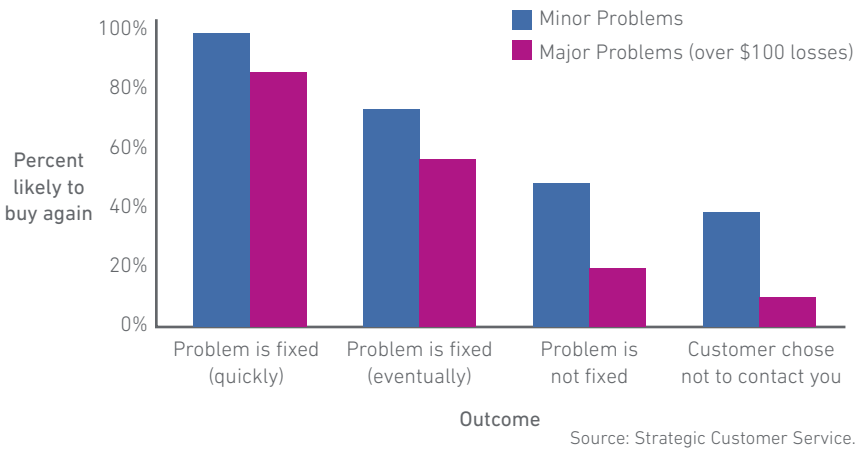
A personalised approach to collections also helps to minimise negative impacts on your customers' lives and businesses.

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?



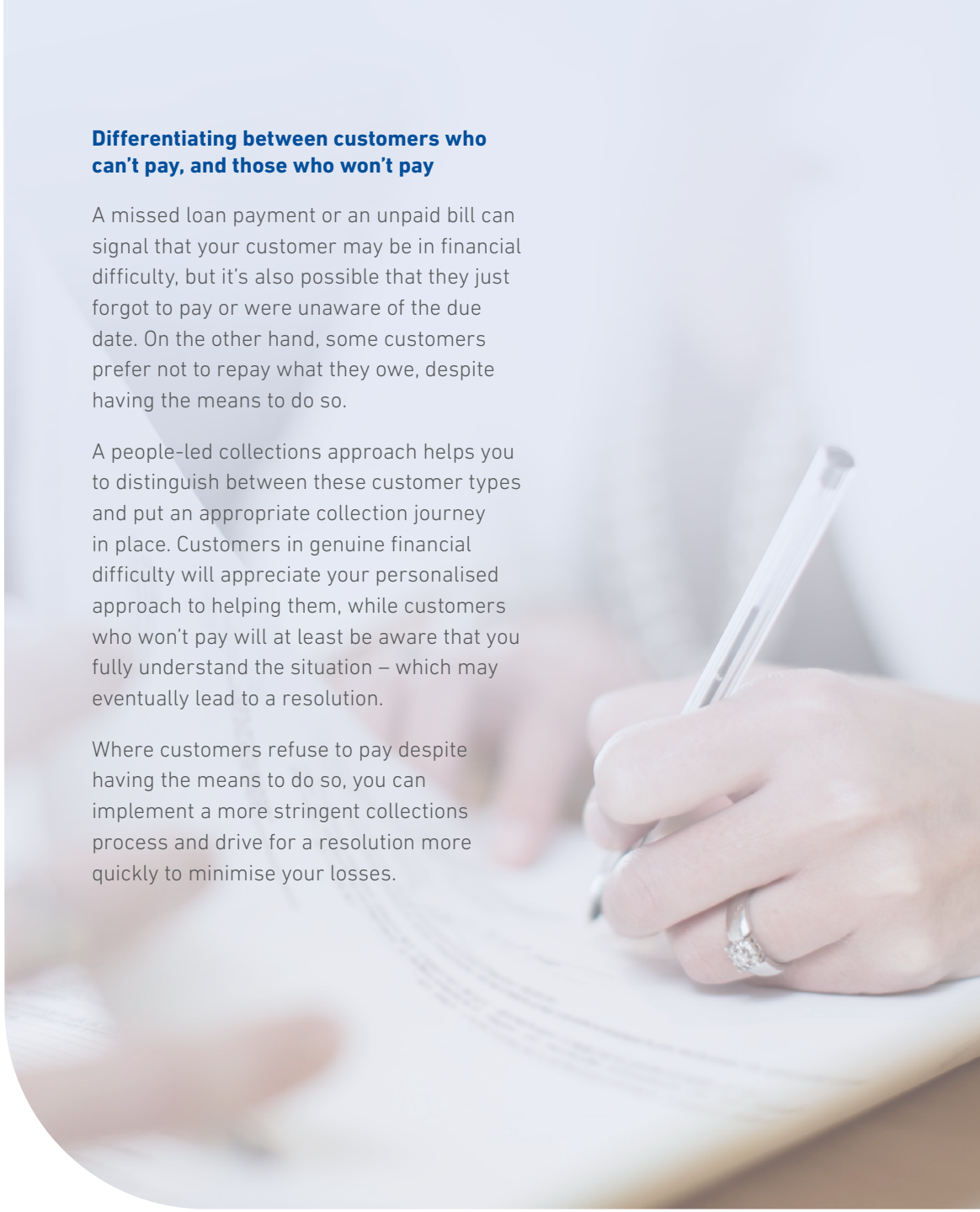
Source: Strategic Customer Service. John A Goodman.

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.

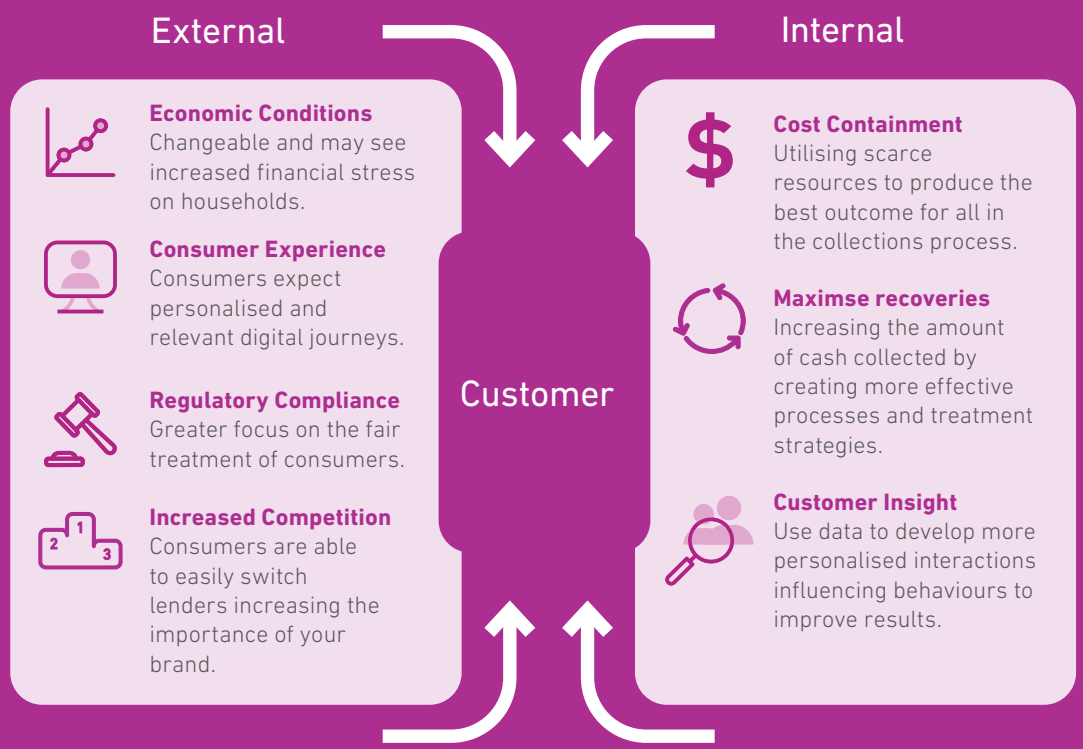
A people-led collections approach helps you to distinguish between these customer types and put an appropriate collection journey in place. Customers in genuine financial difficulty will appreciate your personalised approach to helping them, while customers who won't pay will at least be aware that you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

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

- Comprehensive affordability assessment
- Widen eligibility
- Improved risk scores
- Tailored credit offerings
- More accurate income estimation

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

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.

Stay up to date with our latest thinking, by bookmarking our thought leadership portal at **experian.com.au/insights**

To learn more about how we can help with collections visit:
experian.com.au/debt-collection

Read our supplementary content:

3 steps to optimise your debt collections process with a data quality solution

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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 nationally.

To understand more about the breadth of market-leading capability Experian has, please contact us.

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