# 5 myths in debt collections

## that lenders need to debunk in 2023

This ebook debunks common myths related to debt collection processes and how AI/ML powered SaaS platforms like Credgenics can be deployed to overcome potential roadblocks.

# Industry overview

The need for a data-driven and value-based system that fosters faster debt collections and improves operational efficiencies is intensifying rapidly. Lending institutions need to reimagine their debt collections processes as they try to balance competing priorities in a constantly evolving landscape. 2022 witnessed a sizeable surge in personal credit, which according to a report*, grew at an annual rate of 18 percent, double the rate (9 percent) from July 2020, before the pandemic reached its peak.

Consumer debt has increased in every category, including vehicle, mortgage, and credit card debt, which were major contributors to this spike. Housing loans surged nearly INR 4 trillion since July 2020, while outstanding auto loans rose by almost INR 2 trillion. Additionally, debt categorized as "other personal loan" in the report increased by INR 2 trillion.

These numbers underscore the dire need to transform customer follow-up and recovery strategies. The role of FinTech organizations and neo-banks has never been as integral to the lending ecosystem as it is now. Lenders need to place greater emphasis on customer experiences, using agent performance indicators as a measure to improve recovery and resolution mechanisms. Consequently, there will be a boost in the overall collections rate.

*Source: RBI Report June 2022

# Myth #1

## Aggressive pursuit of borrowers is the most effective loan collections strategy

### Myth-buster

As per the Fair Practices Code (FPC) outlined by the Reserve Bank of India, intimidation or harassment of borrowers through relentless phone calls at odd hours can have massive implications for lenders. These instructions apply to all commercial banks (including regional rural banks), cooperative banks, Non-Banking Financial Companies (NBFCs), Asset Reconstruction Companies (ARCs), and other financial institutions.

Instead of an aggressive approach, lenders can delve into human behavioral sciences, and adopt the right communications strategy to recover debts more effectively.

### Recommended Strategy

## Aligning digital strategies with compliance priorities will help establish effective communication with customers.

AI and data-led technology solutions ensure compliance and governance while customizing conversations. Digitization enables flexibility in customer-preferred channels and time.

- ML-based risk indicators proactively flag high-risk customers and assist agents in aligning their contact strategies.
- Omnichannel communications synchronize conversations across traditional and digital channels.
- Real-time dashboards and reports analyze the communications workflows, providing a full audit trail.
- Conversational AI is used for soft nudges without intimidating the borrower.

RBI issued instructions in Aug 2022, barring recovery agents from resorting to intimidation of borrowers and calling them between 7 pm and 8 am.

According to a report*, 73.47% of users who receive too many notifications label them as spam. This calls for a systematic method to disseminate notifications to inform debtors of the repayment date.

*Source : Business of Apps: Push Notifications Statistics (2022)

# Myth #2

## Digital collections will replace live agents making phone calls

### Myth-buster

Digital debt collections cannot wholly replace agent-based approaches, nor can they cannibalize this revenue stream. A hybrid approach involving digital channels and agent-based contact ensures the integration of digital and traditional touchpoints. Adopting such an approach will, in turn, facilitate consistent and personalized messaging and make more options available for customers to connect through their channel of choice, thereby increasing contact rates.

### Recommended Strategy

## AI, ML, and analytics will automate repetitive tasks like follow-ups, and reminders, and enable agents to have more bandwidth for complex collections cases.

According to a Boston Consulting Group (BCG) report*, the use of self-service digital channels in banking surged by 20% at the beginning of the pandemic and is fast becoming the preferred channel for placing service requests.

When service issues arise, customers contact their assigned banking professional, who can assist in expediting the digital request placed. This confluence of digital and human control is needed to achieve operational efficacy. Repetitive communication tasks like emails, chats, and calling can be automated, thereby enabling agents to focus on accounts with the highest repayment probability.

- Automatic allocation of loan accounts to the agents based on pre-set rules increases customer connect.
- Real-time insights on borrowing cycles and past interactions via SaaS platforms drive contextualized interactions.
- Collections chatbots and voicebots can handle first-level queries, directing complicated cases to human agents.
- AI-based Predictive Dialer enables swift movement of allocating agents between conversations with minimum idle time.

*Source : BCG report : Redefining Customer Service For the Future

# Myth #3

## Debt collections technology does not yield desired results

### Myth-buster

Though technologies like AI and ML modeling are complex at the back end, SaaS-based platforms like Credgenics manage this complexity, enabling lenders to focus on their collections targets. The real-time dashboards designed for anyone on the operations team help to improve team productivity, and the digitized, automated workflows make collections faster and more manageable. The natural outcome is higher operational efficiency along with improved recovery rates.

### Recommended Strategy

## The World Retail Banking Report* suggests that platform-based banks can achieve twice the amount of operating profits, higher market values, and a healthy growth rate.

Return on investment can be significantly expedited through extensive on-ground support backed by an agile methodology and transparent client communication. Integration with CRMs, loan management systems, APIs, and third-party apps, will resolve the challenges of information silos.

- Automated workflows can lead to more accurate batch operations.
- Process digitization breaks down information silos and integrates the tools, systems, and data used in the collections journey.
- Self-service portals enable borrowers to pay via digital payment channels on customized terms leading to faster resolutions and recoveries.
- Automatic case allocations, auto-dialers, and field force tracking enables agents to meet their targets faster, adding to the RoI.

*Source : World Retail Banking Report 2020

# Myth #4

## Debt collections is a one-size-fits-all process

### Myth-buster

Borrowers have different communication styles, demographics, and payment struggles. Hence, personalization in the debt-collections process has a positive impact on the lenders' relationships with them. It ensures that borrowers are not intimidated, and their lenders take a humane approach to help them resolve their debts.

### Recommended Strategy

**As per a PwC report*, more than 80% of respondents have deployed chatbots to make customer servicing easy, 56.5% have deployed AI virtual assistants and 43.5% have implemented AI for customer journey personalization.**

A holistic, 360-degree view of borrower data, and their spending behavior will help lenders create relevant and personalized repayment plans and communicate these plans over customers' preferred communication channels.

On-time and faster collections depend on the lender's ability to predict how their borrowers are going to respond to any communication. The availability of real-time data at a lender's disposal can be converted into insights and translated into appropriate collections strategies. Redefining the buckets based on recovery chance, delinquency days, and different communication channels can help lenders choose and adopt a targeted approach.

- ML-based insights make collections borrower-centric.
- Region-specific SMS and voice message campaigns help increase customer engagement.
- Controlled intensity of reach outs and predicting the right time to contact result in increased resolutions.
- AI improves agent-borrower engagement with timely and contextual calling.

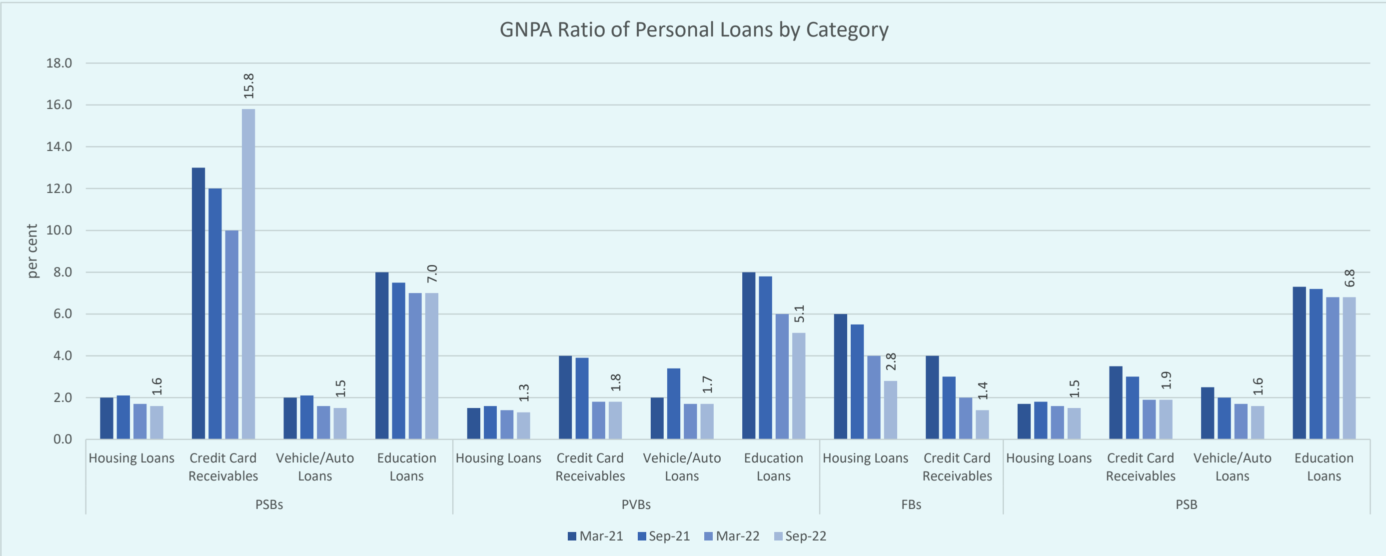
*Source : PwC Survey : Indian FS AI Adoption Survey 2021

# Myth #5

## Digital collections is only meant for large lenders and banks

### Myth-buster

Digital collections is suitable for all types of lenders, including Banks, NBFCs, FinTech lenders and ARCs- resulting in a significant reduction in their bounce rates. Apart from expediting resolutions, borrower segmentation enables the lenders to prioritize telecalling, field operations and legal actions on these accounts, resulting in improved operational efficiency, reduced costs of collections, and streamlined team performance.




Source : RBI Financial Stability Report, Chapter II: Financial Institutions: Soundness and Resilience. December 2022

### Recommended Strategy

## India's debt collection software market* is expected to touch over $272 million by 2027 from the $175 million recorded in 2022, inferring to the adoption of collections technologies by several lenders.

- With SaaS-based platforms, lenders can streamline and manage their loan recovery workflow, including litigations, communications, and analytics.
- AI and ML-driven collections analytics reduce the calling cost.
- Lenders using digital channels ensure strict adherence to compliance and regulatory requirements for debt collections.
- Digital collections allow contact control while choosing the timing and frequency of interactions.

*Source: Research and Markets Report, March 2022

# The big picture

## Building a debt collections journey by leveraging digital and data, is the best approach to deliver a future ready experience.

Many best-in-class collections teams are already implementing innovative strategies and insight-driven practices to help their loan customers achieve their payment goals. Credgenics debt collections and resolution technology platform is scalable and easy-to-use. It has been designed to empower lenders to reach, retain, and engage their customers and effectively provide them with an elevated experience that triggers a win-win scenario for both lenders and borrowers. Automation and debt collections technology is an effective and more dignified way to help borrowers in resolutions with speed and simplicity.

Lenders need to deploy their debt collections strategy in 3 areas in order to reap the maximum benefits:

### Monitoring

Credgenics Collections Analytics uses ML models and data analytics to assess each borrower's situation to recommend a targeted reachout strategy, predict bounce rates and ensure collections strategy optimization.

### Retention

Credgenics digital collections ensures perfect optimization of communications channels while maintaining borrower satisfaction levels for recurring business by using a combination of digital technologies, AI, and ML.

### Engagement

Credgenics collections platform uses real-time dashboards to give a holistic view of the loan accounts and ascertain the best strategy for collections across multiple stage buckets.

> Credgenics provides an end-to-end collections platform which comes with unique capabilities including multi-channel digital communications, click-to-call, auto-dialers, skip tracing, collections analytics, CG Collect - field collections mobile app, Billzy digital payments, legal management system and dashboards.

**About us:**

Credgenics is the leading provider of Loan Collections and Debt Resolution technology platform to Banks, Non-banking nance companies, FinTechs, and ARCs worldwide. The AI-powered SaaS-based platform has been recognized as the #1 Best Selling Loan Collections Platform in India by IBS Intelligence in their Annual Sales League Table 2022. Credgenics works with 80+ customers and handles USD$2 bn NPA stage retail loan book value, USD$6bn delinquent stage retail loan book value. It manages 22 million retail loans worth USD$16 Bn and sends 60 million digital communications every month. With Credgenics, lenders have increased resolution rates by 20%, improved collections by 25%, reduced collections cost by 40%, reduced collections time by 30%, and improved legal efficiencies by 60%.

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