The future of default management

Introduction

The ongoing evolution of technology, the global pandemic's reality check on servicing scalability, and significant changes in customer behavior are leading companies to rethink and reinvent their default management systems, services and strategies for the future.

Digital technology advances have generated new platforms for communicating with customers who experience financial hardship, replacing traditional contact methods. The pressure to digitize, coupled with economic uncertainty and increased regulation, is leading companies to explore new approaches for managing customers at risk of default.

As a result, forward-looking companies are reprioritizing and evolving their default management operations. This, in turn, requires revamping their traditional platforms and processes.

This paper explores the future of default management and offers insight into making the transition from legacy to more modern default management capabilities.

Digital technology is enabling new communications channels: The rise of the AI virtual agent

Digital transformation is having a radical impact on default management, opening the door to new communication channels. Digital channels, such as mobile apps and websites, are becoming the preferred channels for a majority of financial customers, replacing traditional call centers.

The proliferation of smart phones, text messaging (SMS and MMS), advanced caller ID, and speech-to-text/text-to-speech also is having a major impact. For example, we now have advanced screening of inbound communications. Nowadays, when you receive a call from an unrecognized number, you can respond with a “can’t talk right now” text message and, if you receive a reply that the number cannot accept a text, you can then block that number.

In addition, the capabilities of virtual agents driven by artificial intelligence (AI) are evolving at an exponential pace. AI virtual agents provide a no-limits scalable workforce and, for basic call management tasks, they can work with customers in the same ways as live agents. The AI virtual agent can connect to a company’s default management system and access the same data, functionality and features as a live agent.

At some point in time, maybe not too far in the future, AI virtual agents will be able to do almost anything a live agent can do. Exceptions to their use might be customers who simply refuse to interact with a virtual agent or high-risk customers (or unusual cases), where additional information might be required which requires the help of a live agent.

Self-service, enabled by digital technology, also is more common these days, even for high-risk accounts. The line between human-to-human customer service and customer self-servicing is blurring.

The user experience for self-service should be intuitive and robust enough to eliminate the need for live customer service agents, except in a small percentage of situations. Research shows that Generation Z, in particular, has a high preference for self-service via mobile apps, websites or text (versus by phone).

Leading companies are investing in these new digital communications channels to connect and communicate with customers who are at risk of defaulting or may already have defaulted. The most effective default management strategies incorporate as many digital communications channels as possible to reach customers in the best way, at the best time, with the intent of helping the customer versus pressuring.

Recommendation:

Invest in a digital, omni-channel service model supported by artificial intelligence to connect and communicate with your at-risk customers.

Data analytics is enabling intelligent customer outreach that is more proactive, as well as “kinder and gentler,” in managing at-risk customers

A common strategy for most companies has been to reach out to customers after they have defaulted, and not before. Today, with vast amounts of customer data available, companies can now assess a customer’s financial situation and create a pre-default risk profile, with the ultimate goal of determining the best course of action for preventing default. Data has become the lifeblood of the default management industry.

Advances in machine learning (ML) and AI have generated previously unattainable super powers in analytics and made them available to everyone. The ability for ML/AI tools to consume massive amounts of data and evaluate those data sets with extremely sophisticated mathematical and statistical models is changing the face of default risk management.

There is a proliferation today of customer data sources both outside of the organization and, in many cases, within the organization. For example, external data aggregators such as Yodlee and Plaid provide financial information on customer behavior outside of the organization, while, internally, there is vast amounts of customer behavior data available from servicing centers, branches, marketing campaigns and spending behaviors in card or deposit accounts.

However, one challenge is the lack of aggregated data sources within an organization. Most internal data sources reside in silos. ML/AI models are only as good as the information they are able to consume, and partial, disparate data yields non-optimal decision points around customer risk.

There are many transformation opportunities in default management made possible by advanced analytics, including the following:

- Identifying customers at high risk of default and recommending mitigation plans
- Reaching out to a customer, not to collect, but to extend help

For customers who are experiencing financial hardship, a collector can share financial hardship programs that would support the customer's current situation. In other words, it can take a proactive and "kinder, gentler" approach with the customer. Many companies, however, are not yet doing this because they lack strong data management and data analytic capabilities.

Regulation also is affecting customer outreach programs by limiting the types of communication. Federally regulated banks face a high bar for compliance while balancing risk and customer management. Robust and advanced analytic programs provide the tools for banks to optimize the balance between regulatory compliance, risk management and customer service.

Recommendation:

Implement a holistic, integrated data management strategy driven by advanced data analytics to gain a better understanding of your customers and their default risk factors.

Default management investment is on the rise, requiring technology partners to keep pace

Digital transformation and economic pressures are driving increased investment in default management solutions. Increasing digitization combined with the economic effects of the global pandemic and other economic headwinds are pressuring companies to reprioritize default management.

In response, leading technology partners are likewise evolving their default management solutions to meet the growing demand for transformation.

Companies looking to modernize and transform their default management business should seek a technology partner that offers the following capabilities:

1. **Business understanding:** It is important for a technology partner to know and understand what is driving the current transformation in default management, along with the collector's particular business and operations.
2. **Innovation:** Find a partner with solutions that feature innovative capabilities, including end-to-end life cycle coverage, real-time functionality, micro-services, APIs, single touch integration, user-friendly interfaces, workflow automation, interoperability, etc.

3. **Integration:** Choose a partner that can offer an integrated default management platform. Default management solutions tend to be monolithic in their technology architecture. Customer interaction should span across a set of independent business services that integrate seamlessly across the entire servicing platform. As a result, the system can extend in real time to the customer via customer interaction applications. In addition, mobile app, website and text features become an integrated part of the main system. With this level of integration, when main system updates take place, the customer immediately sees them. The ultimate goal is a fully integrated system that automatically manages the end-to-end default management life cycle, minimizing the need for live agents and manual processes.

4. **Reduced complexity:** What does it cost to implement a change in terms of money and time? If making a change costs hundreds of thousands of dollars and takes longer than six months to complete, than a technology partner's solution is too complex. Today, plug-and-play and low-code/no-code capabilities significantly simplify solutions, making them easier to evolve and maintain.

5. **Reduced total cost of ownership:** Simplified solutions not only reduce complexity but also the total cost of ownership.

6. **Faster time to market:** Simplified solutions speed up time to market.

7. **Customer journey expertise:** Seek a partner that understands the customer journey of financial hardship. A partner should be able to articulate that journey and easily make adjustments based on unique aspects of its client's customer journey.

Recommendation:

Find a technology partner with proven experience in delivering the seven key capabilities outlined above.

Does your current default management platform fit the bill?

Legacy platforms typically collect account information, group accounts that are similar, and assign those groups to collectors for handling through nightly batch processing. This effort often begins when a customer's account becomes past due.

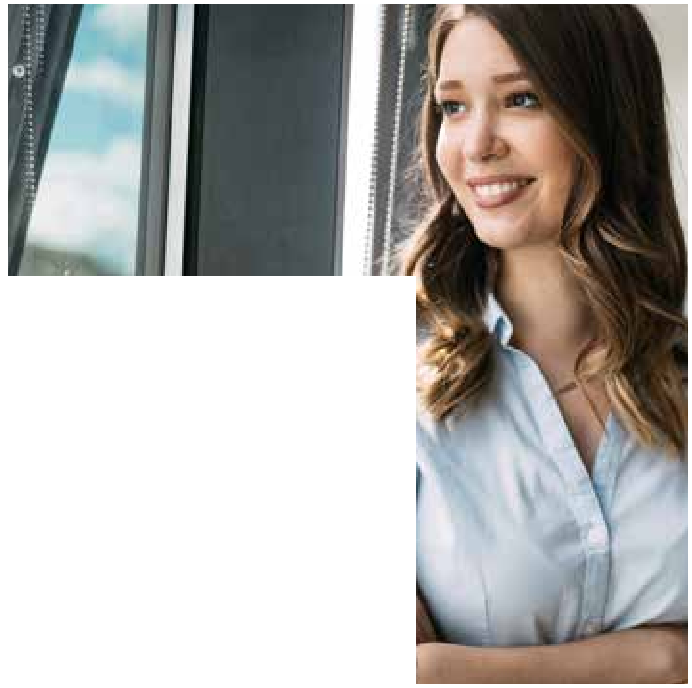
Today, however, this traditional approach is no longer adequate. Rich data and real-time processing can provide a complete and accurate view of each customer account 24/7. With this view, risk factors for default can be identified in advance and preventative measures taken.

Circumstances affecting a customer's ability to pay can arise at any time, despite the customer's ongoing willingness to pay. A modern default management system enables collectors to identify these changing circumstances through customer-specific data and proactively reach out with support when the risk of default increases.

Reinventing default management requires the boldness to pursue technology advances that transform traditional processes into dynamic customer journeys driven by intelligent analytics. A partner with the right business knowledge, data expertise and digital technologies can help collectors move forward into the future of default management with confidence and success.

Recommendation:

With the help of the right technology partner, evaluate your current default management strategy, systems and processes and develop a transformation roadmap to help you take full advantage of the benefits of digitization and data in modernizing your default management business.



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