



How Mobile Communications Can Improve Collections

Mobile applications and SMS can boost customer repayments at a lower cost than traditional contact methods

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According to a report from Juniper Research, the number of mobile banking users worldwide will reach 530 million by 2013, up from about 300 million in 2011. For banks, this creates new options for mobile communication and interaction with customers, while reducing the load on their call centers.

40% of defaulting borrowers who pay via mobile phone do so within 30 minutes of receiving a mobile payment request. 78% do so within 48 hours.

The opportunity is particularly compelling in collections for a simple reason: Many people do not like dealing with collection agents. Mobile communications allows customers to bring their payments up to date without dealing with an agent or receiving embarrassing phone calls, making this channel far more effective than traditional methods.

Today, few lenders enable their customers to manage payments via alternate channels such as mobile services. However, digital strategies can dramatically improve collections performance. Banks that use these services can significantly increase both contact rates and payments received—with a channel that is vastly less expensive than the traditional call center.

This paper shows how:

- Lenders are taking advantage of mobile services to improve customer communications.
- Digital strategies can boost results in collections and recovery, and reduce costs.
- Lenders can fully leverage mobile services by integrating them into their overall multi-channel strategies.

» INSIGHTS**» Why Mobile Works**

Interactive text, smartphone applications and mobile web provide new and attractive channels that allow lenders to improve customer service, and this extends to an area not generally recognized as customer service: receivables management. Increasingly, lenders are realizing that collections has a heavy customer service function, and that the way customers are treated in collections can affect not only repayment of overdue debt, but also the possibility of a healthy relationship in the future.

While some collections cases require a heavy hand, this approach can often backfire. Many payment problems are temporary and can be resolved relatively easily. Often, even slight changes in the payment plan will put customers in a position to service their credit again. And lenders are even starting to reach out to customers predelinquency, in order to revise payment terms for customers who appear to be in danger.

In order to make contact with defaulting customers, lenders rely on several measures, often taken at the same time: phone calls, letters, emails. The customer can feel bombarded in the early phase of their payment difficulties, which frequently causes resentment.

Interactive SMS and mobile services allow lenders to connect with customers in a much smarter way. Digital services significantly increase the likelihood of establishing contact with customers since most carry their mobile devices at all times. Lenders can even reach customers who are traveling abroad, as well as those who do not want to speak to an agent and screen their calls. This results in a faster settlement of issues and higher customer satisfaction.

» Flexibility and Control Keep Customers on the Mobile Channel

Digital services are particularly effective when customers do not require consultation to solve their payment difficulties. Even with a digital channel, however, many customers may become unresponsive because the plan no longer fits their circumstances. It's important to give customers more flexibility in how they resolve their payment issues.

A smart approach is to offer customers the possibility to submit their own suggestions of what they can pay on a monthly basis. Once the customer sets the new plan up online, the next hurdle is to manage it going forward. Customers resist setting up automatic bank payments or recurring card payments because it doesn't give them the control they require, particularly when they are in difficult financial circumstances. This is often why debit orders and direct debit suffer such low penetration rates for customers with financial difficulties.

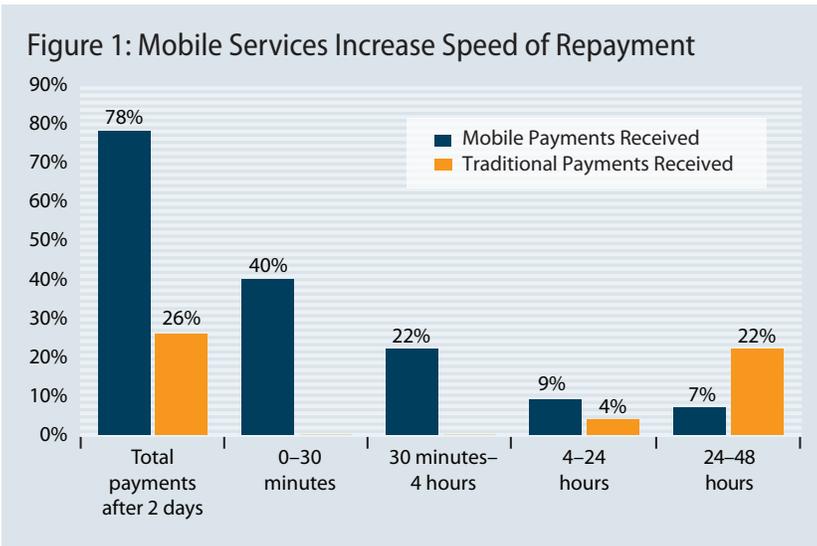
By contrast, when customers can choose from defined payment plan options, such as SMS authorized payments, they retain that desired control. They can make payments conveniently and easily, using an automated service that does not require them to speak to an agent or call an automated voice system.

Early results from UK lenders indicate that flexible digital payment plans receive high acceptance from customers, even among those previously classed as "won't pay/high risk." A survey conducted by the UK-based mobile solutions specialist Telrock shows that approximately one in four debtors configures his/her payment plan using a web portal instead of contacting a consultant, and that many in the late-stage buckets sign up and stick to their plans. The survey also indicated that, after the default on a receivable, roughly 14% of newly generated payment plans were created via mobile web services using smartphones or tablets such as the iPad.

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» **Mobile Payment Boosts Response Rates**

By giving customers more control and making it easier for them to pay, many more of them pay within a much shorter time frame. State-of-art mobile payment systems can not only manage standard customer payments, but also payment plans.



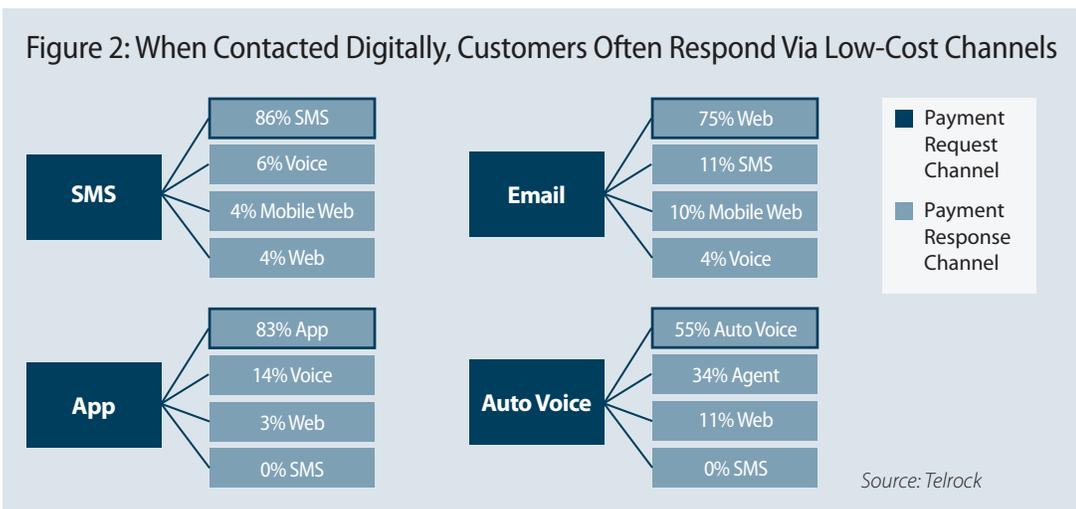
A survey of banking customers conducted by Telrock indicated that defaulting borrowers pay more quickly when approached via mobile services and offered a mobile payment platform.

These systems also feature a two-way text messaging system that allows payment via regular mobile phones. Alerts are sent to customers as payments are due, and customers can authorize payment just by replying to the SMS, paying in real-time without any need to provide card details. Payment reminders go straight to their pocket, as it were. While these payments are quick and convenient, for security reasons it is vital that any mobile offerings are compliant with the Payment Card Industry Data Security Standard (PCI DSS).

Mobile services often achieve better results than standard strategies. Among Telrock's lending clientele, 40% of borrowers who paid via their mobile phone did so within 30 minutes of receiving the alert to their mobile, and 78% within 48 hours (see Figure 1). When compared to traditional strategies, only 26% of customers who paid did so within 48 hours of receiving their bill through the mail.

» **Migration from Phone Channel Reduces Costs**

A digital strategy also enables lenders to migrate customers who normally would use the call center and make payments over the phone to mobile, where they pay quicker and need less attention. Most customers can be spurred to action if successful contact is made. This fact is important to both lenders and customers, because SMS and social media drive lower costs and provide a better customer experience.



When approached via digital channels, most customers also answer via a digital channel rather than more expensive options like telephone services.

In fact, the cost of managing payments through websites, SMS, social media or mobile apps is about a quarter of that for automated voice and about a tenth of that for straight agent payment. The prerequisite for a successful mobile strategy, however, is that the customer is provided with attractive back channels, feedback functions and interaction options. In these cases, contacts can relatively easily be shifted from phone to less-expensive digital channels (see Figure 2).

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» Adapting to Customer Preferences Requires Integration

A digital strategy for collections will address how to interact with customers via websites, two-way interactive text messages and mobile applications on smartphones or tablets. Digital solutions can even include social media as a means to alert customers and allow them to respond, although use of this channel needs to be carefully managed to avoid setting off alarm bells around privacy.

Figure 3: Default Payment Rules

A well-defined digital strategy takes a customer’s preferences into account, in order to create a customer-centric dialogue and workflow. This requires integration of mobile services with a collections system that can automatically determine which texts to send, make strategy changes and define the right moments when those communications are sent to the customer (see Figure 3). For maximum efficiency and repayment, the collections system should have the ability to accept mobile payments.

The next step in coordination is integration between the mobile services, the collections system and the lender’s customer management system. This helps ensure that customer contact will be conducted in a concerted manner, orchestrated between the collections and customer management system. Customers will be able to easily switch from one payment or communications channel to another, since all channels will always have the current status of the relationship.

Figure 4: Message Selection Tailored to Customer



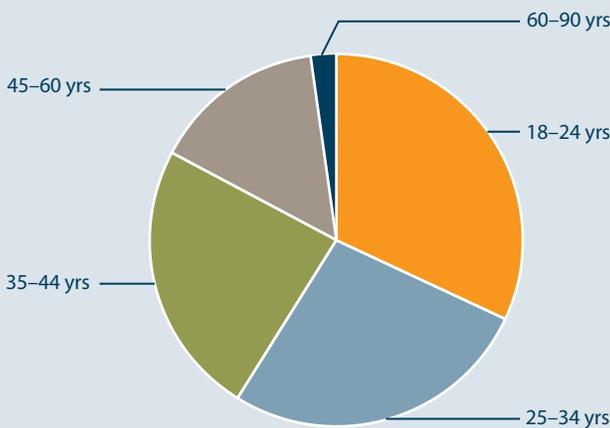
The collections system also coordinates which messages to send when, based on a customer’s recent activity. An example is shown in Figure 4.

Here’s an example of how the integration works:

1. For an overdue customer, the collections system triggers the mobile service to send a text message requesting payment.
2. This directs the customer to a website to set up a payment plan, which can be presented to the customer based on the business logic of the collections system; the customer may use web chat to ask questions of a live agent, and then complete the payment plan.
3. The customer could also be given the option to manage the payment plan through two-way interactive texting and make payments by text.

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Figure 5: Mobile Payment Service Users by Age



Source: Telrock textDebit Users

Mobile services are most popular with younger age groups, though usage is growing across all ages.

- The decisions about which channel to use to contact the customer, and what payment plan parameters to offer, are made within the collections system.
- Any payments made, either through the website or through SMS, are instantly registered by the collections system, and communicated to the customer management system.
- Based on the customer's overall standing and new payment plan / debt situation, the customer may now receive different treatment from a customer management perspective.

State-of-the-art collections systems, such as FICO® Debt Manager™ Solution, already feature integration with multi-channel mobile and web technologies. Such systems can also improve the use of mobile services through customer segmentation that determines which customers are most likely to use these services. This may be based on age; mobile services are still most popular among younger customers, though usage is growing across all age groups. It can also involve additional factors, including the customers' expressed preferences and past successes with other contact channels.

Benefits beyond collections

The potential to leverage mobile services in client communications and decisioning extends beyond collections strategies. Forward-looking lenders have begun exploiting similar approaches across the credit lifecycle.

In originations, lenders are making it easier for customers to apply for products using their mobile devices. Digital strategies are also being used in card fraud management. By integrating mobile technologies with a lender's fraud detection system, it's possible to send cardholders a real-time SMS alert when there is a suspected fraud breach of their accounts. Customers can then instantly verify whether a specific transaction is indeed fraudulent and even manage their fraud affidavits online. This improves fraud detection accuracy and reduces the likelihood that a lender will aggravate customers by blocking card accounts in the case of a false positive.

Opportunities also exist in customer management, through integration with a lender's customer management system. For instance, several major banks have begun using mobile services to inform customers when they are near their credit limits, and when appropriate, offer credit line increases. For SMS credit line campaigns, the banks have seen a 30% increase in response rates, compared to previous paper-only approaches. In addition, when interactive SMS was added to direct mail promotions, 45% of responses came via SMS. In email promotions, 90% of responders chose to do so using web/mobile web services. These results validate that mobile communications are highly desirable options among bank customers.

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» Conclusion

Lenders that expand their digital strategies with mobile payment services can profit enormously. But real success will depend on the lender's ability to offer various interaction options, compelling text messages, SMS payment options and mobile self-service payment plans. Integration between mobile services and collections systems, and, if possible, customer management systems, will be a critical success factor for lenders who wish to drive down costs while collecting more and improving customer service.

Learn more:

- Listen to the prerecorded webinar: ***Changing the Collections Game with Self-Service and Mobile Technologies***
- Subscribe to the ***FICO Banking Analytics Blog*** for ideas and strategies to increase collections efficiencies and improve other aspects of performance

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