InDebted

Debt collection predictions for 2023

Introduction

The World Bank has warned that the global economy will come 'perilously close' to a recession this year, while increasing inflation and rising interest rates will undoubtedly impact delinquency rates of creditors around the world. Now more than ever, it's time for credit providers to reassess their collections strategy to ensure it can withstand the whirlwind we're all about to see in 2023.

Part one: Preparing your collections for a potential recession

Lachlan Heussler
Chief Financial Officer

What have we learnt from recessions in the past?

Over a decade on from the global financial crisis (GFC) that plunged the world into a tailspin of economic downturn, the symptoms of rising interest rates, unemployment spikes, and widespread inflation are starting to show once again. Using delinquencies as a barometer, the stress on markets worldwide can be seen:

- During the first half of 2022, non-mortgage delinquencies rose in most regions.
- In Australia, personal loan delinquencies (30 days past due) were at 3.13% - the highest level since the pandemic.
- Consumer loan arrears have also increased in the US, exceeding delinquency levels pre-covid.

Rising delinquencies can be an indicator of what's to come for the global economy, but how can credit providers adopt a collections strategy that meets modern consumer expectations, while securing your commercial needs when the course changes to an unfavourable direction? The overarching lesson from the GFC is that preparedness is essential. Keeping a close eye on changes in the consumer landscape, taking steps to increase institutional resilience, and strengthening your collections capabilities is critical now more than ever.

Let's take a closer look at the essential elements needed in today's climate for a recession-proof recoveries strategy, and why early adoption is a necessity.

1. The rise of omnichannel communications, combining traditional and digital channels

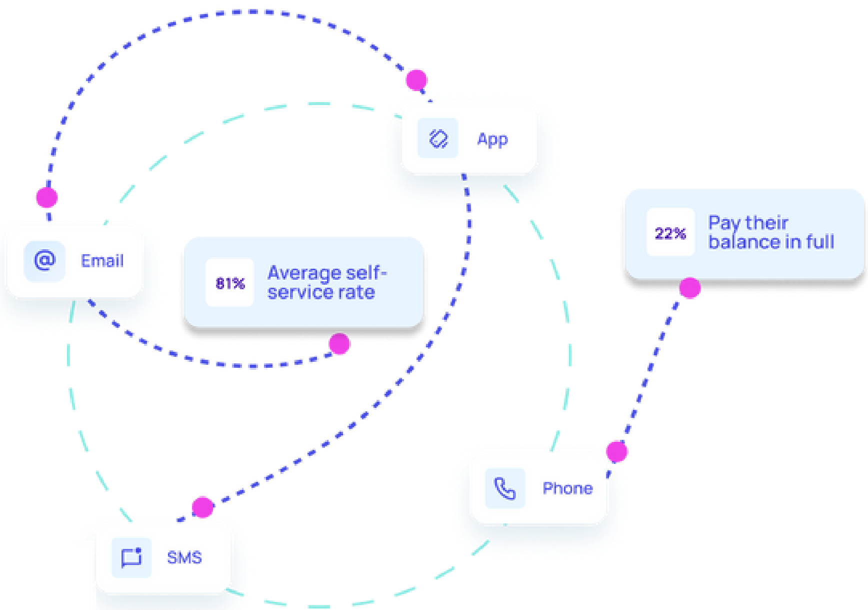
A 2019 McKinsey & Company study showed that across high and low balances, more credit card customers prefer to resolve their debt through digital channels rather than traditional methods like phone calls. This was most significant for balances that were 30 days past due (DPD), with 23% more customers making partial or full payments using digital methods.

The increase in remote working since the pandemic has amplified both the consumer need—and expectation—for services at convenience. Particularly in the post-pandemic landscape, driving maximum engagement in collections means meeting customers via the channels they interact with on a daily basis.

Interestingly, the same McKinsey research also identified a subset of credit card customers with larger overdue balances on financial products who prefer traditional contact methods, with the following attributes:

- 44 years-old and above
- Pay their balance in full
- Have never used their account digitally or via an app

This tells us that while digital channels are key to meeting consumer expectations and enabling them with more autonomy and convenience, collections providers need to be responsive to the channels people prefer - even if that is the more traditional route. Whilst the self-service rate for customers referred to InDebted has increased across the UK, US, Australia and Canada (peaking at 91% in the US during 2022), approximately 1 in 5 customers contact our Customer Service team for support or guidance. Interestingly, the highest proportion (22%) of such interactions were customers who wanted to pay their balance in full - aligning with McKinsey's own research.



Omnichannel customer experience

Considering the needs of consumers means providing options beyond purely digital or traditional only engagement, and being available to provide omnichannel support for consumers wherever and whenever they need it. As the number of delinquent accounts rise and customers need increasing levels of support, it's essential to have a multifaceted offering that provides a preferred communication option for all customer types.

2. More focus on customer experience

During times of economic crisis, considered customer communications are essential. This applies to debt collection more than most, as both a highly regulated and stigmatised industry. The need for empathetic & customer-focused messaging extends beyond regulatory requirements, but has also been proven to drive 40% higher engagement and conversion rates. From consumer research conducted in 2022, InDebted found that 1 in 2 UK adults have encountered harassment or aggression from debt collectors. This contributes to the typically low debt collection average engagement rate of below 1%, high complaints, and a generally poor industry reputation.

In the face of uncertainty, raised tensions also give rise to sudden policy amendments and legislative changes. After the 2008 crisis, we saw sweeping reforms brought into the financial sector, including the Consumer Financial Protection Bureau in the USA, stronger banking regulations in Australia, and the Financial Services (Banking Reform) Act in the UK. During the pandemic, restrictions were placed on escalating recovery practices. The golden thread between them all? Global recessions trigger an amplified focus on protecting those in debt from entering further financial difficulty.

Agencies that place the customer experience at the centre of their practice will be in a stronger position to manage the surge in overdue accounts expected in 2023. Where the vast majority of collectors will be forced to retrospectively unpick harmful practices, credit providers should look closely at their collections partners' current processes and communication with customers.

3. Increased use of personalisation, replacing segmentation as a key liquidation lever

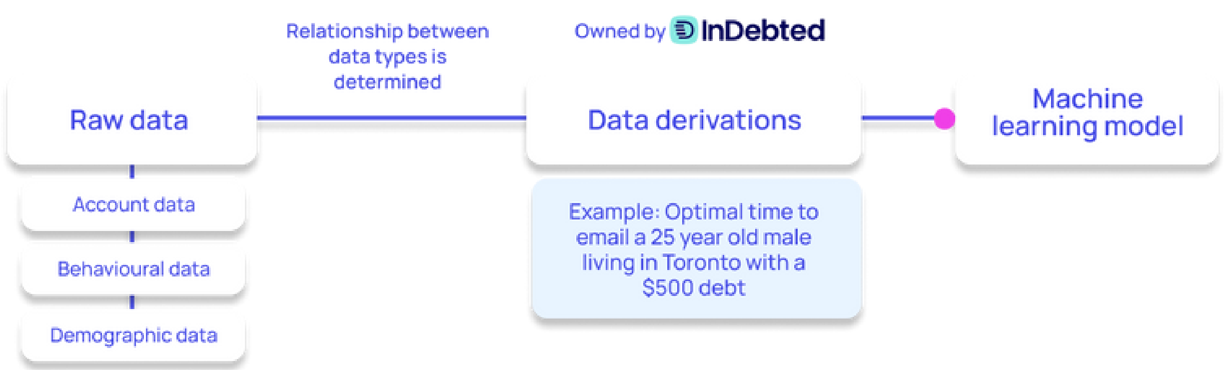
In the last five years, segmenting customer profiles has been cited as an industry advancement in recoveries, where collectors will segment customers based on demographic traits such as age or location. Once segmented, collectors drive increased conversions by targeting different collections tactics to specific groups. While progress or innovation is always a good thing, it's time for recoveries professionals to go deeper in their use and application of data.

Creating bespoke, personalised approaches for every single customer through data science and machine learning is a level up from segmentation - and one that many agencies are failing to keep pace with. With customers increasingly accustomed to targeting and personalisation in their day to day lives, digital debt collection must evolve its use of data accordingly to keep up with, and anticipate consumer expectations.

To make way for higher liquidation rates through personalisation, recoveries professionals can leverage customer insights using data science. Does your internal team or collections partner use data to understand insights such as:

- Are women aged 25 living in Toronto more likely to respond to an email sent at 2pm on Monday afternoon?
- Do men aged 40 based in San Francisco with a credit card balance of $3,000 prefer to pay their balance in full or set up monthly payment plans?

It's not just the insights we can gain from data, but more importantly, it's also in how they're applied. Machine learning is a form of data science that is becoming increasingly popular in creditors looking for a modern collections provider. Here's an example of how it works, taken from our own machine learning model which personalises email send times.



How machine learning models are generated at InDebted

Once the model has received the raw data, it processes the information to determine the relationships between the different data types. This produces data derivations which predict the optimal email send time according to the specific characteristics and behaviours of an individual customer. These data derivations are unique and owned by InDebted, as they incorporate historical data from over 2 million customers. Due to the nature of data science, as more customers are referred to InDebted's product, the model will continually learn and produce even more precise recommendations.

Our product will then automatically contact the customer at their personalised email send times, optimising the likelihood of conversion for every message sent. This seamless integration between our machine learning models and Collect product means that utilising our data insights is effortless; establishing automated intelligence. Since its release, this particular machine learning model has increased payment conversions by 20%.

4. Using collections insights to drive strategy will become a top priority.

As the economy enters into a new equilibrium in 2023, creditors must ask themselves whether they're receiving the maximum return from their existing collections providers - where 'return' refers to far more than amounts collected.

Credit providers globally will be finding ways to reignite revenue and find their footing within a changing consumer landscape. Partnering with a collections agency that can offer industry expertise and new insights into your delinquent account holders is key to understanding how your customers (and your business) are being impacted by what's happening around them. This means equipping your teams with a superior understanding of how your customers are interacting with their debt in order to make informed, strategic decisions.

Our client portal provides answers to questions such as:

- What groups of customers have set up payment plans in a specific month?
- Is there any seasonality when customers find themselves missing payments?
- Has there been an increase in full payments from a particular customer segment?

These insights can be filtered out internally to develop your understanding of your unique customer behaviours. Powered by real customer insights, your teams will be in a stronger position to stay responsive to their needs in the present while planning for the future - a position that cannot be understated in a challenging economic environment. Whilst other digital collectors may provide regular reporting, InDebted's client portal provides the ownership and oversight you need, at your convenience.

5. The need for rapid scalability to support an influx of customers in recoveries

With more consumers defaulting, collections departments without a scalable solution will be vulnerable to falling underneath the weight of rising delinquencies.

The surge of customers with overdue accounts needs to be met with an appropriate response, however for most agencies this requires an increase in their dominant collections provision - agents. An over-reliance on headcount and call centre operations means any rise in workload can only be managed with more staff to carry out calls or send letters, which becomes increasingly challenging in an economic downturn. Where we are witnessing budget and headcount reductions across all industries, traditional collections departments will quickly find themselves overextended as account volumes increase.

In stark contrast, an intelligent collections solution can handle an influx in accounts in real-time, without hiring additional staff. As a digital-first model, customers are engaged automatically once they are referred into the product. Perhaps even more impressive is the model's cyclical learning, as the more customers our collections product engages with, the more accurate the data science becomes. Coupled with a stable investment into the product's development, an intelligent collections solution offers both greater efficiencies and longevity for credit providers.

Summary

Essential elements needed for a recession-proof recoveries strategy:

1. Omnichannel communications that combine traditional and digital methods
2. More focus on customer experience
3. Personalisation to replace segmentation as a key liquidation lever
4. Collections insight to drive strategy
5. Rapid scalability to support an influx of customers in recoveries

Part two: What do our industry experts think?

Tim Collins
Chief Compliance Officer

With over 20 years experience in the collections industry, Tim has been at the forefront of emerging technology and its impact on both customers and clients. Currently he serves on the ACA Innovation Committee, and was past Chair of both the ACA Federal Affairs Committee, and the ACA International MAP Committee. As InDebted's Chief Compliance Officer, Tim ensures that our intelligent collections product provides an exceptional experience for customers, adheres to global compliance and security requirements, while generating maximum return for clients.

Here's what Tim's expecting for the year ahead.

1. We're in the age of privacy

Personal data is sold approximately 700x every day in the United States.

Protecting customers in debt in 2023 means securing their information and guaranteeing their privacy. Especially in the United States, where a stronger shift towards robust security measures and the introduction of new regulations is expected.

2. Borderless partnering within booming sectors

The global buy now pay later market was worth $22.86bn in 2022 and is estimated to reach $90.51bn by 2029.

Credit providers will be looking to limit their outsourced partnerships with a focus on streamlining and efficiency. Engaging a sole collections provider who offers scalable, compliant services in multiple markets will be essential to reduce costs and maximise recoveries.

3. Data science is the new oil

Over 50% of US collection agencies say they are already using machine learning technology or are considering adoption.

Machine learning is the new engine. As adoption of technological advancement continues, progressive agencies will leverage information from customer interactions to enhance their collections practices and improve recovery rates. Machine learning will set the sophisticated collectors apart.

Part three: What did we learn from debt collection in 2022?

Josh Foreman
CEO & Founder

Last year, we saw the rise of digital collections across the global industry - particularly with the introduction of Regulation F in the United States. Digitisation was a top priority for all agencies - even the more traditional operators. However, while I still have optimism, when we put the definition of 'digital' under the microscope, we start to see a vast discrepancy in its definition. The spectrum starts at generic emails sent as 'digital campaigns' to automated lists, to advanced technical solutions that harvest meaningful customer insights, with a multitude of offerings in between.

Dishearteningly, a 2022 report by Transunion found that only 41% of all US debt collectors utilise self-service capabilities, and over 90% still use phone and physical letters as their primary communication methods.

The willingness to adopt methods like SMS and email is there, however for most large and small agencies, the introduction of true digital - or even collections intelligence - requires investment, specialist teams, and presents an abundance of new operational challenges. To add further complication, consumer expectations have now developed past purely email and SMS into the realm of self-serve. At this point, many collectors have missed the boat entirely.

Currently, 81% of InDebted's customers resolve their debt with no human interaction. We also have the industry's highest performance metrics for customer engagement, customer satisfaction, and overall liquidation. This demonstrates that today's consumer expects the ability to manage their account at their convenience, and by not providing this option, debt collectors limit their customer experience, conversion capability and overall recovery performance.

A disparity in service definition makes finding the right collections partner a minefield for credit providers in 2023. Digital debt collection has been the buzzword of 2022 - although the term has been applied somewhat loosely by many collections providers. This has the potential to distort an appreciation for the true power of digital channels, empathetic communications, and data science as the key to true collections intelligence.

Ultimately, determining the right partner for your collections needs means vetting beyond due diligence and delving into practices, attitudes towards transparency, and an appetite for change. The constant in debt collection is knowing that consumer expectations and behaviours will continue to evolve - and in order to support them through uncertain waters, credit providers need a collections partner who can keep up with these expectations in order to truly recession-proof their recoveries.

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About InDebted

InDebted is changing the world of consumer debt recovery for good.

Nobody can change the fact that debt happens. But we can change the experience of being in debt, by creating a better way for businesses to support customers who fall behind. Our Collect product delivers up to 40% increased recovery performance, while being the world's highest rated debt collection solution for customer experience.

Rooted in three key pillars, Collect is trusted by businesses around the world to generate increased recoveries, faster liquidation, and empowered customers. It's omnichannel across digital and voice; uses personalisation from the world's largest source of data science on how to maximise collections performance; and offers a better customer experience with more options, more flexibility, more autonomy.

InDebted was founded in 2016 by our CEO/Founder Josh Foreman and is operational in five key markets including Australia, New Zealand, The United States, Canada, and The United Kingdom.

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