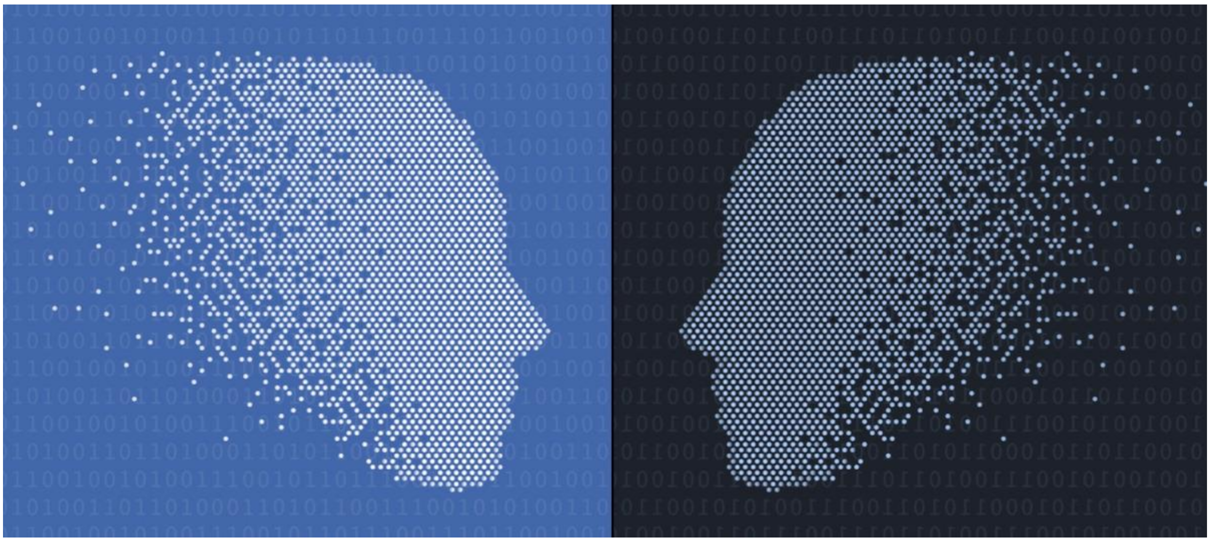
Ceverine **Revolution**



A Tale of Two Digital Collection Strategies

Mehmet Akseki, 11 January 2021

"It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of Light, it was the season of Darkness, it was the spring of hope, it was the winter of despair, we had everything before us, we had nothing before us, we were all going direct to Heaven, we were all going direct the other way—in short, the period was so far like the present period, that some of its noisiest authorities insisted on its being received, for good or for evil, in the superlative degree of comparison only."

In his "A Tale of Two Cities", Charles Dickens uses literal translations of French idioms for characters who cannot speak English and his accommodating the common man was appreciated by neither literary conservatives nor French critics.

J. L. Borges, an Argentine author later remarked that Dickens really "could not write a tale of two cities. He was a resident of just one city: London."

Just as Dickens uses French idioms through the English apparatus, most debt collection agencies use digital strategies as an interpretation (or rather improvement) of conventional collection strategies. It is the curse of capital investment. Once infrastructure is built, change can be achieved only gradually and marginally. Such is the concept of evolution.

We, at Ceverine, like revolution.

BOOK OF THE FIRST: EVOLUTION

Built on solid historical foundations, the UK is a sophisticated credit market by all standards. In particular, we have one of the largest consumer credit markets in Europe. Total household debt stood at £1,688.5 billion at the end of October 2020 and total unsecured consumer debt was £205.5 billion. Average unsecured consumer debt and credit card debt per adult were £3,879 and £1,145, respectively[1].

Equally sophisticated is the debt management sector. As of Q3 2018, members of Credit Services Association (CSA), representing more than 250 debt purchasers and collection agencies, held for collection £61.4 billion debt in 48.8 million individual accounts. Face value of consumer debt held was £23.5 billion. Average consumer collections over the previous two years were £2.2 billion per annum[2].

Let's be clear on one thing: this is the work of an army. 5,284 front line collectors and a similar size of back-office staff were employed in the UK as of the same date to collect, mostly on consumer debt. To provide further context, most debt purchasers and some collection agencies are active in multiple geographies with different language and regulation dynamics, resulting in similar sized troops being stationed in other markets as well as lower cost near-shore jurisdictions. Debt purchasers and collection agencies rely heavily on contact agents to collect and recover consumer debt.

Technology Driving Consumer Finance

UK's consumer credit market is no dummy. Consumers adopted digitalisation quite dramatically. In January to February 2020, 76% of adults in Great Britain used internet banking, increasing from 30% in 2007 and 73% in 2019[3]. The rise of digital in banking is not only incontestable but also inevitable. We have several 'branchless' banks and multiple alternative consumer lenders, who utilise digital channels aggressively. Venture capital financiers invested $3 billion into 263 UK fintech ventures in 2020 and, despite the C19 interruption, the first half of 2020 saw $1.8 billion invested into 167 fintech companies[4].

Debt purchasers are among the best equipped in the debt management ecosystem. Hoist Finance, one of the top debt purchasers in Europe investing heavily in digital models, announced in their Q3 2020 report that self-service amounted to 19% of payments across markets and 30% in their 'best' country. Is that enough to improve returns to shareholders, and more importantly, is that enough to give the customers the experience they deserve?

The proverbial "blending" strategy and contact centres.

Agents are held to collection targets. Performance pressure harnessed by manager supervision and training. Regardless of how polite and how well trained the agents are, they are fully motivated to get the debtor to pay. A debt purchaser needs to meet it own debt service commitments, cover operational expenses, replenish purchased debt inventory and provide a certain return to its investors. A collection agency needs to recover monies to get paid.

Is the contact centre approach necessary or is it a drug the users are hooked on? Kodak was so hooked on revenues from photo film, chemical and paper, it missed out on digital photography, a technology that it invented in 1975[5]. Purchasers and collection agencies already have contact centres. They cannot shut them down, bear restructuring costs and dramatically change management and customer processes. Organisations, capital structures,

[1] Source: The Money Charity, "The Money Statistics", December 2020. https://themoneycharity.org.uk/.
[2] Source: Credit Services Association.
[3] Office of National Statistics, "Internet access – households and individuals, Great Britain: 2020".
[4] Source: Innovate Finance, "H1 2020 UK FinTech Investment: "Positivity in the pandemic despite drop in fundraising", 27 July 2020.
[5] Source: Forbes, "How Kodak Failed", 18 January 2012.

return profiles are built around them. So, they pursue a blended strategy: filter as many 'easier' cases as possible through digital strategies, capture the rest through contact centres. Blend the results, blend the costs, explain to investors: Tomorrow will be more digital, less contact centre. It will be better…

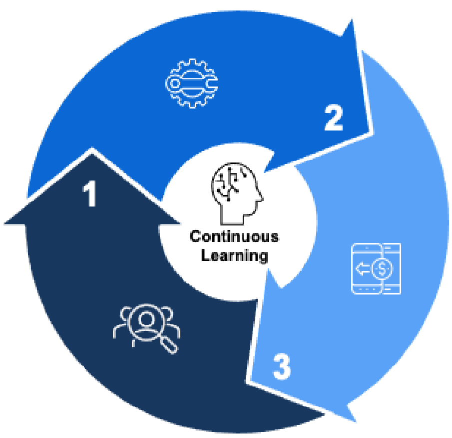
Newspapers went through a similar phase when the digital wave hit. It was impossible to change from paper to digital overnight. It was impossible to say: let us have fewer paying readers and less revenues and less people working for us. And traditional newspapers pursued the only strategy left for survival: blending. A blended offer of print media and digital publishing. Blend the results, blend the costs, explain to investors. It was a painful period. For journalists, for readers, for investors.

Daring entrepreneurs cut through the mess. The result was the likes of Huffington Post. And they worked. Inevitably.

Retail banking is going through a similar transformation. Branches shrinking, digitalisation increasing. Barclays, HSBC, Lloyds, RBC and Santander vs Atom, Curve, Monzo, Revolut and Starling Bank.

BOOK OF THE SECOND: REVOLUTION

All revolutions start by an act of resistance. Our 'resistance' targets three 'villains' in the current system: (1) coercive dialler or messaging strategies that result in customer churn; (2) technology used only for financial gains; and (3) high collection costs. We address these in with a three-pillar strategy that has digital at heart.



1. **Data Analysis and Customer Segmentation with Continuous Machine Learning**
   - Capacity to pay.
   - Willingness to pay.
   - Tracing, messaging, legal and other strategies allocated to profiles.

2. **Automated Workflows Driving Customer Journeys and Executing Digital Communication Campaigns**
   - Tailored customer journeys.
   - Automated workflows driving customer experience.
   - Code-driven compliance.

3. **Digital-first Execution**
   - Focusing on amicable resolutions.
   - Sustainable and socially responsible.
   - Escalations to customer-care agents.
   - Minimising infrastructure costs.

Modelling data and using AI allows us to understand customers, their financial circumstances and what they respond to. Each customer is then assigned a particular journey and customised offers. Customer response and collection results then feed back into the next iteration of the model where the segmentation is refined and improved with each turn, yielding inevitably better results. While data provided by clients provide a strong basis for modelling, using a digital ecosystem, we get to track a much broader set variables and behavioural data. Given the wide range of inputs and variables a data scientist can experiment with, the room for improvement is vast.

The specific profiles assigned to each customer trigger a specific automated contact campaign using email and text messages, informing the customer of the debt and balance to be serviced, asking them to self-service by logging into the self-service platform using a desktop computer, a tablet or a mobile phone. The self-service platform offers the full set of options to make payments, express difficulty to pay, work out financial capacity and access tailored payment plans. The idea is to ensure the customer journeys have broad coverage of customer circumstances and minimise journeys that end up requiring actual human intervention. This is one of our key differentiators.

Socially Responsible Collections

Most sector participants argue that customers need and want human contact. Dialling customers and escalating cases to contact centre agents are effective methods. But it is expensive. Let's assume the cost to collect over the self-service environment is less than 10% of the amount collected and the agent infrastructure adds another 20% on top. Can one allocate part of that 20% to incentivise the customer to self-service? The answer is most of the time yes. The result is lowered cost, happier customer experience and lower complaints.

An equally important cost is that of customer attrition. The moment a lender invites a debt purchaser or servicer with dialler strategies, they inevitably lose a large number of those customers. They simply do not want to get collection calls. Worse yet, there are examples of customers in hardship falling into depression and deteriorating mental health as a result of intimidation.

Many of struggling customers come back as healthy borrowers and remember the lender that handed them over to the company that kept calling when they were with their kids, associates, parents. My guess is, the next time they borrow, get a credit card, open a business account, they will choose another bank. In the meantime, their former lender will spend fresh capital on pursuing new customers.

Using agents is not only expensive but also creates capacity constraints as each agent has a limited capacity to handle a certain number of cases per day. Automated self-serve ecosystems have no such capacity constraints. A large part of the customer journeys can be automated, and customers can be incentivised to stay within the automated universe.

Excessive financial costs come back to customers across the entire value chain. It comes back in the form of higher cost of debt, lower amount of credit available and, in collections, in the form of higher pressure and less resources available to support financial difficulty. Having expensive infrastructures reaching them for collections is a luxury *they* have to afford. Incentivising customers to self-serve not only reduces costs and capacity constraints but also provides a dignified experience removing pressure and anxiety from the equation. It provides an environment where the customer can draw on procedural and legal information to make informed decisions and where they can resolve their debt with customised options available to them.

This is the roadmap to a socially responsible and sustainable solution.

BOOK OF THE THIRD: ROMANTIC REALISM

The target is not forcing an all-digital strategy on customers, but to find the best balance, centred around a digital strategy. There will always be a case that falls outside all envisaged customer journeys. It will have to escalate to a person. We will resolve it and make sure a case like that won't require human intervention in the next iteration. This is not a digital story written on paper with ink and a pen. This is a digital story written in ones and zeroes.

A journey to self-driving cars does not start by forcing everyone to the back seat but setting the targets and controls right for the experience. We will continue to have driver controls on self-driving cars but they will be purpose-built for autonomous journeys with minimal envisaged intervention, not traditional cars, which can deliver a couple autonomous tricks that 'improve' driver experience. The results and progress achieved in the two cases are as different as night and day.

Ceverine is born digital. We allow for human intervention, but we pursue a digital strategy. We use all the technology available to us to deliver the best outcome for both our clients and their customers. We are socially responsible. Our service is sustainable. We are the resistance. Join us.

The revolution has started.

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