The Impact of Optimising and Digitalising Collections

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GCC

Alvarez & Marsal
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Despite positive economic sentiment and growth prospects, increases in lending, post COVID, in GCC indicate a maturing credit cycle. Increased cost of living and broad inflationary pressures signal that that lenders will profit form digitalizing their collections operations in advance of a looming increase in non-performing loans (NPLs).

In this article, A&M takes an in-depth look at the main reasons why lenders should be investing in their collections operations, as well as the key takeaways and next steps required to drive this optimisation and ensure success.

Key Takeaways

1 Drivers for Optimisation

Given current economic pressures in GCC and changing customer behaviours, optimising collections is a sound investment. Acting now helps mitigate rising delinquencies and maintain competitiveness.

2 Benchmarking Works

Use the extensive A&M data pool of over 10,000 recovery curves to identify amount of the collection leakage and drive the optimisation of your collections operations.

3 Tangible Benefits

Optimisation and digitalisation delivers measurable results, as proven with positive benefits which shows at least 20% increase in cash collections and 15% reduction in costs.

Affordability Is Under Stress At This Point In The Credit Cycle

As traditional methods lag in efficiency and effectiveness, now is the opportune moment for lenders to optimise collections to stay ahead of incoming credit risks, and the competition.

We see a build-up of risk at this stage of the credit cycle due to levels of indebtedness, comparatively high interest rates, and inflationary pressures leading a rise in cost of living. Together, these factors are straining affordability most notably for lower- and middle-income segments.

Given this backdrop, the credit cycle is at a critical juncture with an increasing number of customers on the brink of financial distress. Proactively engaging at-risk customers through digital channels can reduce numbers lapsing into default while digitalising front-to-back collections journeys delivers hard benefits.

Moreover, the global shift towards digital banking has created a customer base that prefers digital-first interactions. This shift necessitates a move away from traditional contact methods, such as outbound calls, which are increasingly ineffective.

Instead, digital channels like email, SMS, and mobile apps, which align with customer preferences, offer more effective means of engagement and higher resolution rates. Implementing these digital strategies is crucial as delinquencies rise and the demand for resilient collection operations grows.

Challenges Faced By Lenders With Existing Collections Operations

While there is an urgent case for change, most lenders face a variety of challenges with their current operations. Taking stock of these to acknowledge the starting point for this digital transformation is critical to understanding as-is limitations and correctly scoping the overall transformation plan.

Labour-intensive And Manual Processes

Most lenders still rely heavily on manual, paper-based processes for collections, making it difficult to scale operations and respond swiftly to the increasing volume of at-risk accounts. These outdated practices not only reduce operational efficiency but also hinder the ability to implement proactive measures. Small adjustments to these processes could yield significant improvements in efficiency.

Misaligned Contact Channels

Despite customers' growing preference for digital communication channels, many collections operations continue to depend on outbound call centres. This approach is often seen as intrusive, especially for customers already facing affordability challenges, and can exacerbate their financial stress.

Furthermore, the traditional reliance on voice calls and letters has become increasingly ineffective. Customers today, particularly those who are digitally savvy, prefer to manage their finances through self-service portals and digital channels. These customers are significantly more likely to respond positively when contacted through their preferred channels, leading to improved payment rates and customer satisfaction.

Challenges Faced By Lenders With Existing Collections Operations

Regulatory Compliance Pressures

While Central Banks have given explicit guidance to lenders, few have automated these requirements into digital services. Financial institutions must adhere to specific requirements such as prior consent and opt-out options, transparency and disclosure, timing and frequency etc.

Customer-centricity Deficit

Lenders know that when it comes to at-risk customers who lapse into default, these can be categorised into several different segments:

- Those who are willing and able to pay
- Those who are willing but unable to pay
- Those who are able but unwilling to pay
- Those who are neither willing nor able to pay

Each of these segments require appropriately tailored and personalised communication, especially during financial hardships. However, current collections strategies often fail to segment customers effectively or tailor interventions to their specific needs, resulting in suboptimal outcomes for both the lender and its customers.

Underutilisation Of Data Insights

Lenders are not fully leveraging data to understand the reasons for their underperformance. With the use of A&M propitiatory data lenders can benchmark performance and recognise where leakages occur. Only then can an effective strategy be devised to mitigate those flaws. Once these flaws are recognised, lenders can create an effective strategy to increase in collections.

Use of **A&M** Proprietary DATA

Through its extensive experience as an acquirer of NPL portfolios, A&M developed benchmarks and proprietary methods to identify operational issues and areas for improvement.

A&M enjoys market leading position, with >10,000 recovery curves across various portfolios in EMEA.

Our recovery benchmarking methodology can be applied to unsecured consumer and credit card loans, effectively identifying data driven insights to uplift collections.

Our expert team deep dives into collection processes to diagnose reasons for leakages and recommend actionable remedies.

Benchmarking
Leverage A&M's recovery curves to understand portfolio underperformance and identify uplift potential.
Assess state of digitalisation.

Phase 1: Optimisation
Propose and initiate short term initiatives that rapidly increase cashflows from recoveries

Phase 2: Digitalisation
Roadmap for digitalisation and long-term successes including an implementation plan and support

Phase 1: Optimisation and Quick Fixes

Finding Immediate Recovery Pockets/Leakage

Identifying un-managed, under-managed or mis-managed customers enables our clients to quickly tap into new sources of cash flow.

Fix Parameters and Processes

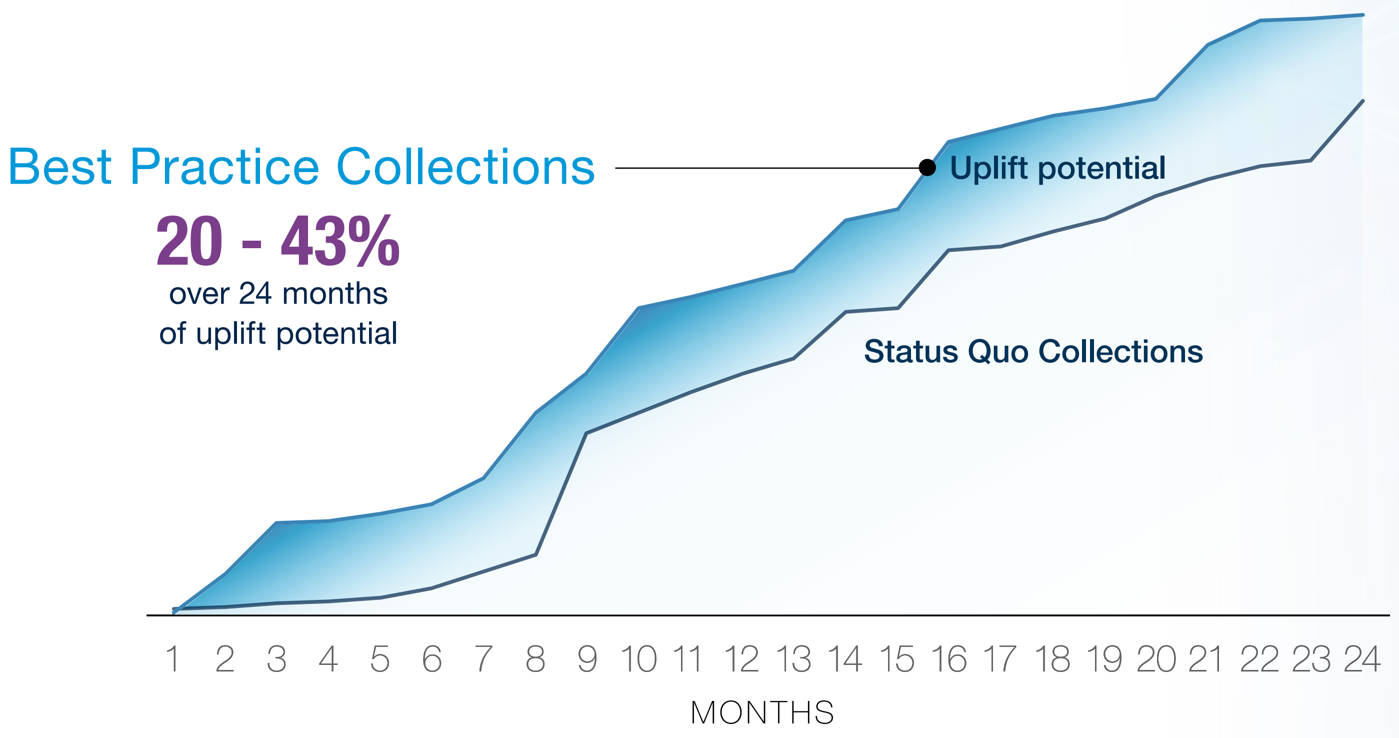
We audit the institution's processes and IT systems to identify and fix potential IT bugs, optimise collection processes and propose different higher-impact collection strategies.

Introduce Advanced Campaigns

Introducing campaigns that allow for early involvement of defaulted customers, offer flexible repayment plans and are communicated clearly often increase repayments and customer satisfaction rapidly.

Significant Uplift Potential

Detailed benchmarking based on our internal models can scope potentially lost collections, while our short- and long-term actions allow for cumulative uplift potential of 20 – 43% over 24 months.



Phase 2: Digital Transformation

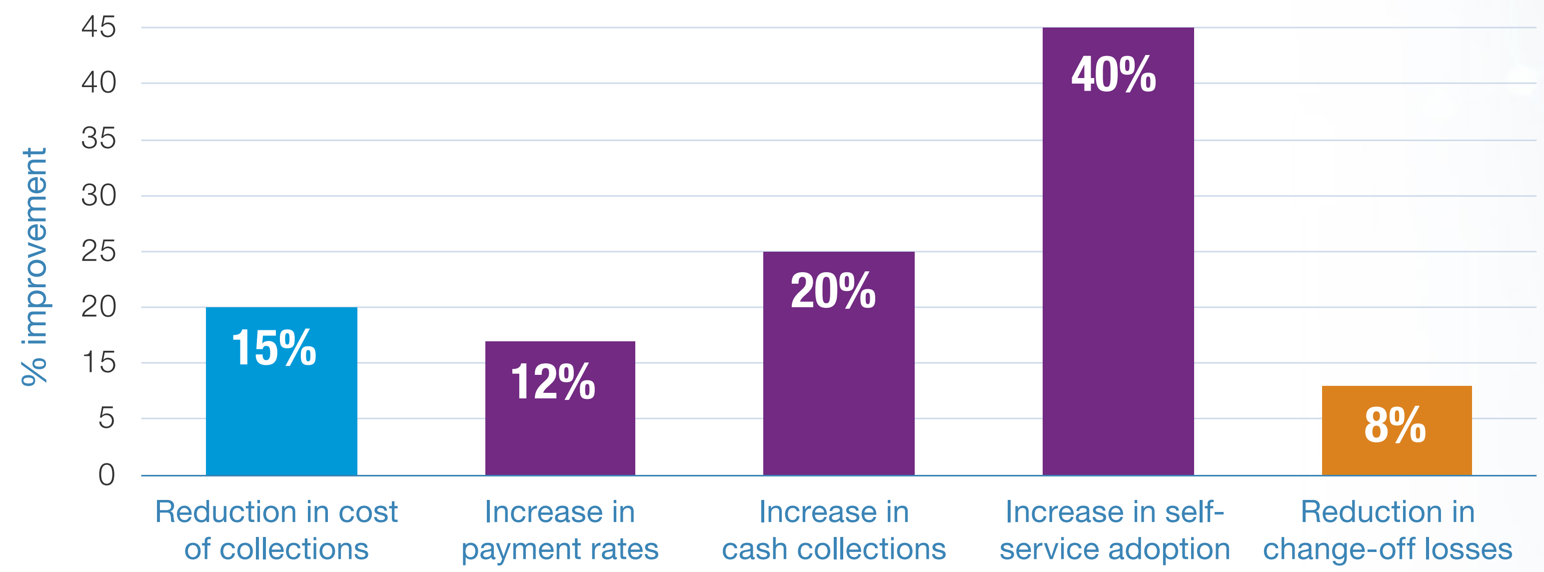
To date, we see lenders having focused their digital transformation investment on digitalising their onboarding journeys and account management services.

This presents an unexploited and relevant chance to digitise collections. Although the specific benefits differ for each organisation, our study underscores a range of Key Performance Indicators that, when incorporated into a comprehensive digital transformation initiative, can significantly improve collections efficiency by +30% or higher.

As a result, the business case for transforming collections is both financially attractive and, when executed well, low risk.

Digitalising collections operations offers compelling payback potential driven by value creation levers

Improvements in operational efficiency and cost savings through digitalization



Source: A&M analysis and research

Value creations

- Automation of collection processes — A
- Digital engagement strategies — B
- Build and operationalize analytics and insights — C

From our experience, a well-conceited digital transformation program is driven by 3 value creation levers that are managed within an overarching organizational change methodology

A **Well-conceived** Digital Transformation Program

From our experience, a well-conceived digital transformation program has a minimum of five workstreams that are managed within an overarching organisation change methodology.

Illustrative Benefit KPIs[3] Below:

Automation

Workstream 1:

Automation Of Collections Processes

30%
Increase In Efficiency

3x
Increase In Monthly Instalment Payments

Engagement

Workstream 2:

Digital Engagement Strategies

40%
Increase In Efficiency

5%
Reduction In Cost Of Collections

12%
Increase In Payment Rates

Operationalise

Workstream 3:

Build And Operationalise Analytics And Insights

8%
Reduction In Charge-off Losses

20%
Increase In Cash Collections

15%
Reduction In Non-performing Loans (NPLs)

Compliance

Workstream 4:

Regulatory Compliance Integration

Iteration

Workstream 5:

Continuous Iteration And Improvement

25%
Improvement In Customer Satisfaction Scores

50%
Reduction In Time To Market For New Strategies

[3] Sources: Alvarez & Marsal research, multiple sources.

A Well-conceived Digital Transformation Program

Workstream 1: Automation of Collection Processes

Digitalising collections involves automating repetitive and manual tasks, enabling lenders to scale their operations efficiently. Automation tools can manage payment reminders, negotiate repayment plans, and handle routine customer queries, freeing up human resources for more complex and empathetic interactions.

Automation not only increases operational efficiency but also ensures consistency in customer interactions. By leveraging robotics and AI, lenders can reduce the need for manual interventions, allowing staff to focus on higher-value tasks that require human empathy and judgement.

Workstream 2: Digital Engagement Strategies

Lenders should develop and implement digital engagement strategies that cater to customers' preferences and needs. This includes creating self-service portals, deploying AI-powered virtual financial advisors and using data-driven insights to personalize communication. Proactive notifications and reminders through digital channels can help maintain customer engagement and prevent defaults.

Digital-first strategies should focus on increasing customer autonomy through self-serve options and continuous feedback loops. The goal is to create a seamless, empathetic, and tailored customer experience that aligns with the evolving preferences of digitally engaged customers. This approach has been shown to significantly reduce costs and improve customer satisfaction.

Workstream 3: Build and Operationalise Analytics and Insights

New data sets and better tooling to apply AI and ML techniques enable lenders to upgrade data driven decision making and identify at-risk customers before they enter the collections cycle. By incorporating advanced analytics within Early Warning Systems (EWS), lenders can integrate transaction data, credit bureau reports, behavioural scoring models, and macroeconomic indicators, and offer tailored support such as loan modifications or financial counselling before at-risk customers enter the collections cycle.

Incorporating advanced analytics within EWS not only improves risk identification but also enables more strategic management of collections. These systems should be designed to operate with agility, allowing for rapid model recalibrations and the integration of new data sources, ultimately leading to more responsive and accurate customer interventions.

Workstream 4: Regulatory and Compliance Integration

Ensuring that digital collections processes are fully compliant with local regulations is paramount. Lenders must integrate compliance checks into their digital platforms, ensuring that every customer interaction adheres to regulatory standards. This not only mitigates the risk of penalties but also aligns with the broader regulatory objectives of consumer protection.

Workstream 5: Continuous Iteration and Improvement

The digital transformation of collections is not a one-time project but an ongoing process. Lenders should adopt a test-and learn approach, continuously refining digital journeys based on customer feedback and performance data. This iterative process ensures that the collections strategy evolves in line with changing customer behaviours and market conditions.

Agile methodologies and cross-functional teams are key enablers of continuous improvement. By fostering a culture of rapid iteration and collaboration, lenders can stay ahead of emerging risks and customer expectations, ultimately leading to more resilient and effective collections operations.

How A&M Can Help?

Alvarez & Marsal can set you up for success on your digital transformation journey.

Our team has extensive global experience in NPL portfolio and platform transactions, both buy and sell side, as well as NPL platform (Servicer) set up. From this we have developed a set of benchmarking capabilities to evaluate the performance improvement of as-is portfolios and respective collection processes.

We identify leakages and tactical ways to resolve these. At the same time, we will define a strategic future-state digital transformation roadmap to uplift the performance of your collection's operation going forward.

Next Steps

1 **Evaluate Current Operations**
Assess your current collections processes to identify gaps and opportunities for optimisation, define uplift potential, focusing on data analytics, customer segmentation, and digital channels.

2 **Propose Short Term Initiatives**
Define Remedial Action Plan (RAP) for closing collection leakages.

3 **Execute, Pilot and Expand**
Develop a clear plan for digitalising collections, prioritising early warning systems, digital engagement, and automation, with specific goals and timeline.

Execute RAP and test digital strategies through pilot programs, refine based on results, and then scale successful approaches across the organisation.

4 **Invest In Tools And Talent**
Equip your team with the necessary skills and technologies, including advanced analytics platforms and automation tools, to drive the transformation.

5 **Pilot And Expand Monitor And Adapt**
Continuously track performance, gather feedback, and adjust strategies to stay aligned with market changes and customer needs.

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Companies, investors and government entities around the world turn to Alvarez & Marsal (A&M) for leadership, action and results. Privately held since its founding in 1983, A&M is a leading global professional services firm that provides advisory, business performance improvement and turnaround management services. When conventional approaches are not enough to create transformation and drive change, clients seek our deep expertise and ability to deliver practical solutions to their unique problems.

With over 10,000 people across six continents, we deliver tangible results for corporates, boards, private equity firms, law firms and government agencies facing complex challenges. Our senior leaders, and their teams, leverage A&M's restructuring heritage to help companies act decisively, catapult growth and accelerate results. We are experienced operators, world-class consultants, former regulators and industry authorities with a shared commitment to telling clients what's really needed for turning change into a strategic business asset, managing risk and unlocking value at every stage of growth.

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