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Rethinking Debt Collection Strategies: A Paradigm Shift in Approaching Modern Customers

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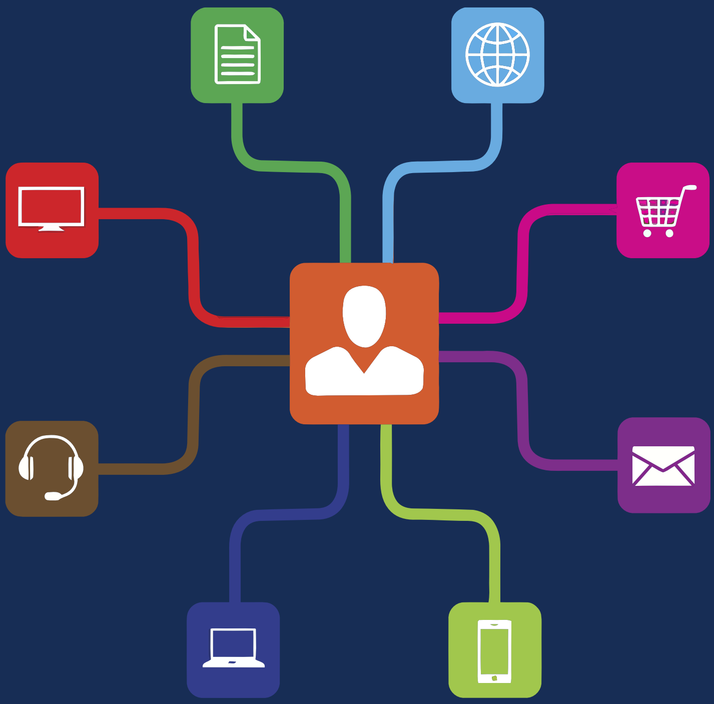
The current macroeconomic landscape prevents millions of consumers from paying debts on time, which raises delinquency rates and significantly increases debt collection activity. Organizations can choose to manage their debt collection internally or outsource it to an expert third party, reallocating resources to core business functions. In either case, companies need to embrace their entire customer journey, employing the latest technology to enhance each interaction and maintain customer loyalty.



Global Economic Landscape: a Boon for Debt Collection

Collectors face an evolving and challenging landscape involving decreased savings, rising interest rates, and inflation. The global lending market, bolstered in part by the aftermath of the COVID-19 pandemic, generated a staggering $18.8 billion in revenue in 2022, showing a 2.6% average annual growth between 2017 and 2022[i]. For perspective, the United States (US) household debt in March 2023 hit $17 trillion, marking a new record. [ii] Credit card debt, student loans, and medical bills are the top three sources of debt, and approximately 28% of US citizens and 78% of Brazilian families have at least one debt under collections.[ii,ivi] Similar patterns are evident across the world.

As delinquency rates increase and local regulations become tighter, the intricacies of effective collection magnify. Each country requires a different approach to stay compliant, impacting when, where, and how to contact debtors. Moreover, companies worry that collecting debt might not be a welcomed experience for the consumer and could, consequently, jeopardize the overall customer experience (CX). The crux is to balance debt collection endeavors with a positive, personalized CX that keeps customers returning.

Despite their efficacy in collections, traditional debt collection agencies often fail to cater to these nuanced customer experiences, neglecting the overarching customer journey. However, specialized CX service providers seem to be cut to the task, as they have necessary expertise in managing the entire customer lifecycle, and in recruiting and training the right type of talent. In fact, many providers are leveraging the moment. Frost & Sullivan forecasts that debt collection will lead the growth in CX outsourcing market services with a compound annual growth rate (CAGR) of 6% to 7%, from 2021 to 2028, varying by region.

Redefining Debt Collection for the Contemporary Consumer

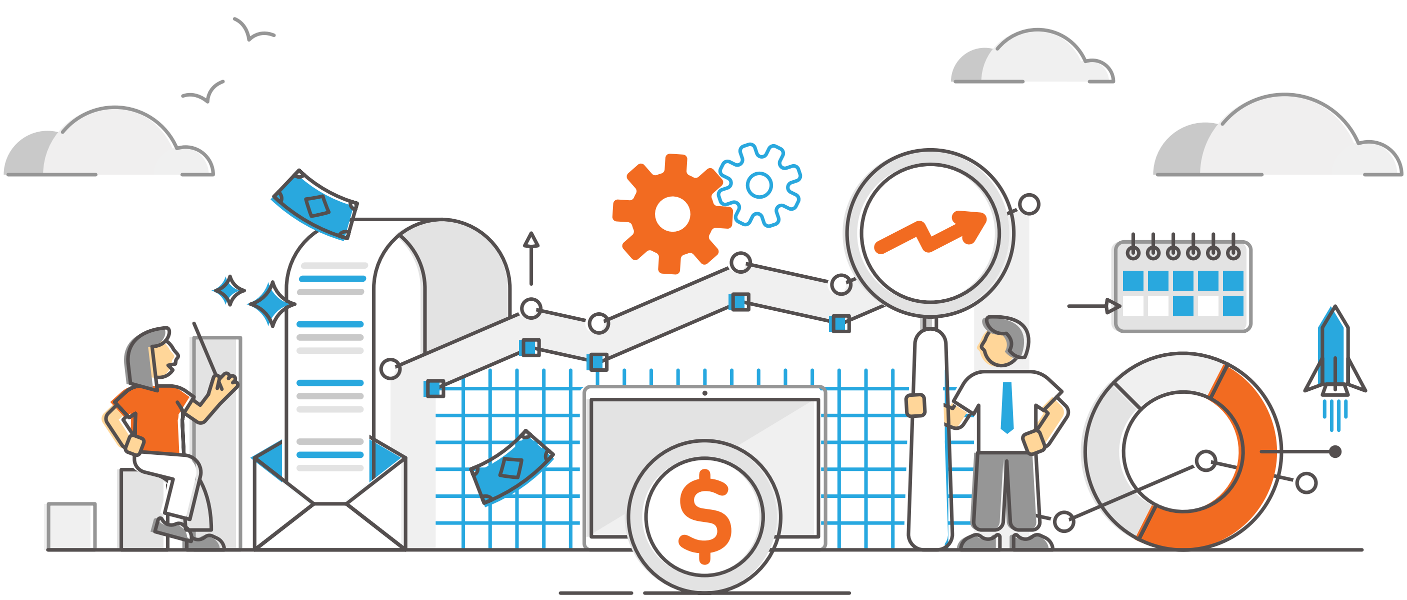
The antiquated one-size-fits-all approach to debt collection is no longer enough. Gone are the days when an organization would notify customers that they must pay a determined amount by a specific date. Modern customers expect tailored interactions: they wish to be engaged at opportune moments, through their preferred channel, with payment flexibility reflective of their financial capacities, including options for payments. This alone can lead to a more than 10 percent increase in payments, according to McKinsey & Company. In fact, customers contacted digitally make 12 percent more payments than those approached via traditional channels.[v]

Providers must leverage myriad technologies to deeply know every customer and effectively tailor their tactics for each individual. AI-based analytics are fundamental to hyper-personalizing collections, as they allow companies to understand customer behavior, financial position, geographic location, and contact preferences, and to tweak their approach accordingly. This digital-first approach leads to a 5x increase in customer engagement, 15% costs reduction, and 25% increase in resolution rate in collections over 30 days past due[vi].

Furthermore, generative AI and conversational tools based on natural language processing (NLP) are paving the way for massive self-service, particularly in early-stage collections. This is a powerful tool to reduce costs and improve efficiency, and businesses must make all self-service means available to customers to delay human intervention as much as possible. Yet, a human agent must always be available to provide the empathy and case-by-case understanding often needed

Conclusion

In the face of the evolving global economic climate marked by dwindling savings, mounting interest rates, and high inflation, organizations must bolster their debt collection strategies. With rising delinquency rates anticipated in the forthcoming months, the need becomes more pressing. The pivotal decision lies in whether to expand in-house capabilities or partner with expert third parties. Regardless of which option they choose, one thing is sure: traditional collections are no longer enough. To thrive in this environment, organizations must master an increasingly technology-driven activity and focus on compliance, empathy, and overall CX.



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