Collection Services:

How has the crisis changed the role of Contact Centres?

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Overview:

Business relations have changed in the past four years, such that presently payment practices tend to be more lax around the world. Even markets where payment periods have traditionally been short are experiencing an increase in late payment and credit default instances.

Within this context, companies in all industries have been forced to **re**design the debt collections strategy. **Talent managment, experience and** performance are the key words when it comes to a high-quality debt collections service and companies are now tapping into outsourcing solutions to help them solve collection problems.

Introduction

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The challenges posed by the past 4 years on the world economy have resulted in a transformation of the models and dynamics that govern business relations. Consumerist behavior, however curved, remains a strong driver of a market where services continue to be tremendously important – except the nature of the services demanded is rapidly changing.

Inscribed within the present reality of tight budgets and diminished profits, previously acquired debt and even new commitments can become daunting prospects for debtors. This applies across the full stretch of the economy, from private individuals burdened with exceedingly large credit card or mortgage repayment bills, to commercial enterprises caught in the logistics of preserving their cash flow, servicing their debt and maintaining a good relationship with their suppliers. The natural consequence of this situation is the marked increase of late payment and arrears visible around the world in recent times.

As a matter of fact, a close inspection of payment practices reveals that, while the global economy has recorded a gradual recovery from the recesses of 2009, payment periods continue to increase at a steady rate. This circumstance is not only evident in regions where historically credit settlement has always been conducted within long lapses of time, such as Italy, Spain or Greece, but also in markets that traditionally have been known to operate within relatively short payment periods, such as Hong Kong, where during the final quarter of 2011 less than 35% of the companies have been able to comply with their payments within the stipulated 30-day period.[1]

Far from exceptional, late payments have become just another factor, albeit a crucial one, to compute in the equation of business management. According to Intrum Justitia, European businesses wrote off a total of 312,000 million euro during 2011 due to bad debt or late payments, amounting to 2.7% of all transactions.

[1] Source: Dun & Bradstreet "Payments Practices Study 2011".

Worrying as those figures might seem, the reality is that this represents just a fraction of non-performing loans in the market.

For evident reasons, the financial sector has been hit particularly hard by the rise in instances of unserviced debt and has therefore been burdened with a large proportion of the weight of the problem. For instance, according to numbers released by the Spanish Central Bank, the percentage of defaulted loans held by the country's financial institutions reached 7.5% in November 2011, with a total volume of 134,143 million euro.

Indeed, a report published by Pricewaterhouse Coopers in February 2012 estimates the non-performing loan (NPL) portfolio held by financial institutions in the United Kingdom to consist of over 160 billion Pound Sterling (200 billion euro), while the combined economies of Belgium, Ireland, Portugal, Spain, Italy, Germany and the United Kingdom feature non-performing loans worth in excess on half a trillion euro – a figure that closely mirrors the previous year's, despite the fact that the balance of NPL portfolios has shifted, with reductions in Ireland and Germany being offset by increases in Spain and Italy.

The magnitude of these numbers already points towards the importance of establishing a clear and efficient line of action to deal with any eventualities that might arise in relation to the collection of outstanding bills. Nevertheless, the proportion of businesses defaulting on their credit lines is such that a new element has been brought to bear great significance in the process of debt collection: client retention.

Traditionally, debt collection had been perceived as a confrontational activity where debtors were forced by any means available to fulfill their contractual responsibilities. However, increasingly high ratios of credit defaults, together with ever more complex circumstances surrounding such breaches, have engineered a transformation both in the way debt collection is conducted and in the ultimate goals the process is meant to achieve.

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Naturally, the main objective continues to be the collection of outstanding bills. Nevertheless, an important additional dimension of the interaction between the two parties has been identified as companies seek to maintain their relationship with clients in arrears, even as the debt collection process is underway. In order to achieve this, the nature of the exchange involved in debt recovery has had to evolve from the previous model of stern exaction to a sympathetic dialogue between partners conducting business as usual.

Outsourcing vs. In-house.

The obvious ramifications of the progression described above have been the development of specialized units designed to deal exclusively with debt recovery. In this respect, the service has already come to form part of the wider market strategy of most sizable companies in the western world. However, there is a clear conceptual rift between the corporations that have endeavored to include the debt collection service within their commercial activities and those that have opted for the external option, outsourcing all related issues to customer relations specialists.

Within the financial segment, for instance, there is a clear preference to keep debt recovery in-house, reverting to external agencies only as a last resort. Many others, however, consider that the benefits of engaging a team of specialists to deal with a delicate situation outweigh the possible drawbacks, and have therefore opted for outside solutions. In Spain alone, more than 800 companies specialize in the collection of outstanding debt for their clients, handling a total portfolio in excess of 71 billion euro and generating close to 560 million euro for their business.[2]

Companies that opt to outsource their debt collecting services see one primary advantage in appointing external specialists for their needs, and that is a substantial reduction in costs. On average, the

[2] Source: DBK, "Empresas de Gestión de Impagados", July, 2011.

majority of companies report savings of at least 30 percent within a year of implementing outsourcing solutions to their strategy.

But the amount of resources that need to be devoted to debt collecting duties is not the sole driver for outsourcing the service: time is also a pivotal consideration for companies seeking assistance in this respect. Due to dilated payment periods and the increasing number of customers falling into arrears, companies these days are keener than ever to avoid protracted and costly processes. Therefore, a truly successful debt collecting strategy must stipulate a timely resolution to the situation, as well as a satisfactory one.

It is for this very reason that contact center outsourcers have emerged as the most suitable providers of the service, because their experience and expertise in the area of customer relations has enabled them to incorporate debt collections into the portfolio of activities they already perform for their clients. Thus, the call center industry has seen a tremendous rise in the demand for comprehensive customer care services, spanning the full lifeline of the client's relationship with the company.

Therefore, within the hugely competitive environment of customer care, operators have identified an advantage in widening the scope of their services and meeting the needs of their clients by taking the traits that lie at the core of their business model and implementing them for credit recovery purposes.

Indeed, one of the top-five reasons clients have cited for engaging external customer support operators is the flexibility they offer. Hence, the ability to provide a variety of services through professionally trained, engaging, responsive, efficient and sympathetic agents is rapidly becoming a necessary condition to excel in the customer care sector. Similarly, the capacity to shift the emphasis from one service to another according to the specific needs of the client while maintaining uniform standards of quality represents an added value, highly prized by companies.

Because, ultimately, when it comes to debt collection what clients expect from contact center operators can be boiled down to the following six items:

- Increased ratio of debt recovery.
- Swifter resolution to conflicts.
- Reduced ratio of the client turnover.
- Increased ratio of client retention and fidelity.
- Reduced ratio of financial delinquency, credit losses and write-offs.

Characteristics of Debt Collection Service

The evolution of the collections services in the past few years has prompted the development of a sophisticated and highly customized service offered by companies such as Sitel, which fuses modern technology and traditional one-on-one interaction with highly trained agents in order to achieve the best possible results.

Whether the service offered is restricted to the collection of debt or spans the full length of the customer's relationship with the client, there are three basic principles that lie at the core of any debt recovery service: innovation, differentiation and performance optimization.

From the approach used by human agents – who must always be engaging, though firm, sympathetic but authoritative – to the technological products that provide a simplified and more efficient platform wherefrom to conduct the process, innovation remains one of the most distinctive features of a successful debt recovery service.

In this respect, technology is another of the factors that is quickly shaping the future of the debt recovery industry. Developing specialized Interactive Voice Response (IVR) solutions, for instance, is an efficient and cost-effective way of conducting simple strategies of debt collection. However, and despite the palpable reductions in operational costs offered by IVR solutions, the jury is still out on them, particularly in view of the importance of individualized strategies, adjusted to the conditions and characteristics of each client, within the industry.

Regardless of the specifics, every debt collection service must feature a number of basic elements to guarantee the minimum levels of quality. These include:

Payment Reminder

- Client analysis and segmentation.
- Carry out calculations to proceed with collection.
- Automated calls and passive contact (letter and/or certified notice).
- Proactive contact through various avenues: email, fax, SMS, telephone, IVR. Etc.

"First Party" Collection

This model generally involves agency acting under the name of its client in order to carry out the debt collection process. Among others, its main characteristics are:

- The use of multiple avenues: email, SMS, telephone (through an agent or IVR), letter, etc…
- The goal is to preserve the customer relationship while bringing the customer current by maximizing the amount of dollars collected segmentation process.

"Third Party" Collection

This model generally involves agency acting under the debt collections agency name in order to carry out the debt collection process.

- Uses email, SMS, telephone (through an agent or IVR), letter, etc…
- The goal is to maximizing the amount of dollars collected and recover the bad debt

Sitel offers a comprehensive debt recovery service that encompasses the entire process, from prevention collections strategies to pre and post charge-off collections. Equipped with highly professional and versatile agents and operating a thoroughly researched methodology, Sitel seamlessly combines advanced technological solutions with the human face of debt collection. Additionally, the popular Premium service enables clients to follow the progress of their cases online, providing a valuable interactive tool to carry out the necessary adjustments with minimal fuss and total immediacy.

Debt collection is a delicate issue that carries high levels of risk, as well as tremendous prospects of rewards. Left to the specialists, it is a process that can bring great benefits for companies, not only in terms of recovery of bad debt. So much can be surmised from the results obtained by Sitel for its customers, who on the whole have registered an improvement of 8 percent in their contact center targets and as much as 20 percent in their collection ratio. With more than 2.5 million euro collected monthly, Sitel proves that as well as attaining higher ratios of success and more cost effective solutions, outsourcing debt collection services can minimize the damage affected on the business relationship by an awkward situation, using an agreeable negotiation to strengthen the ties between the creditor and its debtors. Given the present environment, few could say that is not a valuable proposition.

For more information about Sitel and a case study of this services visit: www.sitel.com/collections

About Sitel

Sitel is a global Business Process Outsourcing (BPO) leader that meets clients' customer care and transaction processing needs by providing world-class solutions from over 60,000 associates in 155+ facilities located in 27 countries.

Sitel provides clients with the strategic insight, scale and diversity of offerings to ensure the best return on their customer investment. For more information, please access www.sitel.com.

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