SMARTCollections: How AI can transform collections through hyper-personalised and customer-centred services

With the emphasis increasingly on enhancing the customer experience and cutting costs, banks are asking how they can improve the efficiency and effectiveness of their collections operations. Using data and AI, banks and debt collectors can now recreate the customer experience – and reimagine business operations that support customers and drive better, faster resolutions.
Executive summary

The impact of COVID-19 has impacted millions of businesses and individuals personally and financially, leaving many struggling to meet repayment demands. Despite government support schemes aimed at mitigating economic disruption, debt levels continue to rise steadily, leaving many in financial distress.

This is driving an increased focus from regulators and an expectation that banks support and protect customers experiencing difficulties in making payments. At the same time, banks need to ensure they have robust credit risk management in place to prevent fraud and losses. Collectively these challenges are fuelling the need to automate and revolutionise the industry’s current debt collections approach.

Often complex, inefficient and dated, these approaches are at odds with customer expectations for greater speed, flexibility, accessibility and choice in a digital-first world. Leading banks and creditors have for some time been looking to data and artificial intelligence (AI) to transform how their operations are run.

These technologies have already significantly improved customer experience and helped deliver efficient advances in various areas, such as leveraging machine learning (ML) to detect fraudulent and abnormal financial behaviour, and lowering operating costs by limiting exposure to fraudulent material.

Now, these approaches need to be applied to debt collections, maximising the potential that data and AI can have on the whole debt lifecycle and enabling personalised experiences for customers.

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1 Source: www.tradingeconomics.com/united-kingdom/households-debt-to-gdp
2 Source: www.reuters.com/article/britain-credit-regulator-idINKBN2672AM
3 Source: https://research.aimultiple.com/fraud-detection/
The need to tackle the challenge ahead

Prior to COVID-19, a booming credit market with low default rates limited the stress on collections systems. That has now changed. In the wake of the pandemic, many banking customers are struggling. The impact on the economy has been severe, with the UK suffering the biggest drop in economic output in 300 years⁴. The underlying statistics make grim reading and highlight the challenge ahead:

- The proportion of people who report having been made redundant/unemployed has surged from 1 in 10, to 1 in 5 (6% of the adult population)⁵
- Household debts to GDP are at historic highs at 87.7% of GDP, with average amount of debt owed in the UK in 2020 is £9,246 per person⁶
- Jobs are being lost in many sectors, with retail and hospitality particularly hard hit⁷. More than 1 in 10 people report new debt having been caused by a reduction in income because of being put on furlough⁸.

The result? Large numbers of customers desperately need support. Many are facing financial difficulties and are struggling to meet borrowing commitments, which is reportedly leading to serious mental health and well-being challenges⁹.

A tightening of lending standards highlights the increase in delinquency risk ahead. Financial regulators, focused on the economic and social impact of the pandemic and the potential increase in customer vulnerability¹⁰, are taking steps to ensure consumers are supported. New regulations, such as the Debt Respite Scheme (‘Breathing Space’) Guidance¹¹, which provides legal protection from credit action for up to 60 days, have been introduced with a clear expectation that banks will step up and provide support before payments are missed. There is now an expectation that banks will provide tailored support to minimise stress and anxiety for customers who face payment difficulties due to COVID-19¹².
Furthermore, we live in an era where digitally native businesses have set a very high bar in the way they deliver customers experiences\(^\text{13}\). To deliver the all-round support and service needed, banks are now expected to have a deeper understanding of the needs of each individual customer.

Most banks, however, still have limited insight into their collections customers as individuals. This creates challenges and results in a sub-optimal customer experience. Without real insights banks struggle with even basic activities such as identifying the best way to contact a customer and failing to appreciate the link that ‘contact via preferred channels’ can have on metrics such as ‘customer propensity to pay’.

So while a Netflix can predict which video you will watch the moment the current one ends, banks struggle to predict how likely a customer is to pay over the next 30 days. This is mainly due to the overreliance on outbound calling contact centres. Despite having made significant investments in systems in recent years, many banks are still dependent on manual approaches, with siloed and often redundant technologies. The set-up is easy to dial down, as shown by implementation of ‘payment holidays’ in record time to help customer impacted by the pandemic. However, scaling back up could represent a big challenge. With a rapid rise of call volumes, poor right-party contact, and usual difficulties in scaling people-intensive call-centres, existing deficiencies and operational flaws could be exposed.

So, with a debt storm approaching, many banks find themselves under-prepared, trying to manage high customer expectations on one side and unforgiving regulators on the other.

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\(^{4}\) Source: [www.ft.com/content/96e19af6-88b3-4e8d-bc3e-a72be1160d3c](http://www.ft.com/content/96e19af6-88b3-4e8d-bc3e-a72be1160d3c)


\(^{6}\) Source: [www.tradingeconomics.com/united-kingdom/households-debt-to-gdp](http://www.tradingeconomics.com/united-kingdom/households-debt-to-gdp)


\(^{8}\) Source: [www.money.co.uk/guides/covid-debt-index](http://www.money.co.uk/guides/covid-debt-index)

\(^{9}\) Source: [www.bbc.co.uk/news/uk-wales-55904379](http://www.bbc.co.uk/news/uk-wales-55904379)

\(^{10}\) Source: [www.moneyandmentalhealth.org/why-were-backing-breathing-space/](http://www.moneyandmentalhealth.org/why-were-backing-breathing-space/)


Empathy and debt collection might not appear to go easily hand in hand. But increasingly, debt collectors are tasked with helping and supporting customers, and an empathy-driven approach can greatly improve opportunities to support customers, increasing customer loyalty while driving results. When we understand the challenge a debtor is facing, debt collectors can assist them in finding the right solutions.

By using data and AI, and designing algorithms with predictive models in new ways, debt collectors can revisit their whole engagement strategy for collections. These technologies can analyse an immense amount of data, providing insights on customers and how to manage at-risk accounts.

Understanding data is the key to identifying trends and anomalies and leveraging AI can help debt collectors with messaging, timings and tone to help improve collections rates and improve the customer experience. Additionally, AI and machine learning systems can be regularly retrained, constantly improving accuracy as new data and insights are incorporated. Early adopters of these technologies are seeing significant results in terms of increased recovery and productivity rates, and real-time call quality assurance adherence.
SMARTCollections: Next-generation collections operations

Cognizant’s SMARTCollections is a framework that uses data and AI to enhance banks’ current systems and processes – improving their ability to support and retain customers while managing costs. The framework comprises of three components: Segmentation, Personalisation and Assistant, which are backed by our Data model and ingestion framework. Together these components provide risk scores, identify customer segments, and build new models essential for an enhanced, smarter, collections strategy:

**Segmentation** - Dynamic risk segmentation, leveraging not just lag indicators like account details and past payment delays, but also incorporating forward indicators to enhance collections. This enables banks to build dynamic, behaviour-based risk models that take account of new, and super-variables, rather than having static models driven primarily by time in delinquency.

**Personalisation** - Our patented Evolutionary AI platform, LEAF, generates and enhances any neural network, making deep learning applications more powerful and broadly applicable to all the business requirements. This allows for a personalised engagement strategy that customises contact approaches and optimal payment plans to each customer, based on advanced segmentation and willingness to pay. Agent personality and strengths are dynamically matched with the appropriate customer segment to increase the probability of payment and help in building deeper, trusted customer relationships.

**Assistant** – Uses intelligent real-time language processing to generate conviction scores that complement propensity-to-pay scores. Detecting willingness to pay soon (with intent confirmed through sentiment analysis) allows banks to identify clusters of similar debtor profiles to classify those that will/won’t/might pay with a more effective contact strategy and/or targeted offers.

**Data model** – Cognizant’s predefined set of data features with requisite business glossary to expedite implementation.
The SMARTCollections framework augments existing debt management operations by injecting new intelligence to deliver a smarter, more efficient operation with debt management and support in upstream and downstream processes. The framework is designed with ethical AI front and centre. That means ensuring that no data is scored if it is likely to lead to bias in any way. This protects banks’ reputations and aligns with the need for responsible AI – a key area that is coming under increasing scrutiny (from both the regulators, and the public).

By taking a more human-centred view of the collections process, data and AI can provide new opportunities for hyper-personalisation across the whole debt lifecycle. The impacts can be transformational – in terms of cost savings, greater agility, and more empathy for an enhanced customer experience.

**Figure 1: SMARTCollections functional flow**

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**Benefits from an empathy-driven approach to customer engagement for collections:**

- **10-20bps** increase in NPS score
- **5-20%** productivity increase
- **5-15%** increase in recovery
- **50-100%** real-time call QA adherence.
The time for change must be now

The need to automate and revolutionise the industry and current approach taken to debt collections has never been more apparent. As consumer debt grows, customer experience expectations deepen and there’s an increased regulatory focus on how lenders are supporting their customers.

In this environment, banks need to transform how they manage collections, fast. An augmented AI-powered approach can significantly enhance operations to recreate customer experiences, and reimagine business operations that support customers and drive better, faster resolutions.

To find out more about how we can reinvent your collections capabilities, please get in touch.