

# 5+1

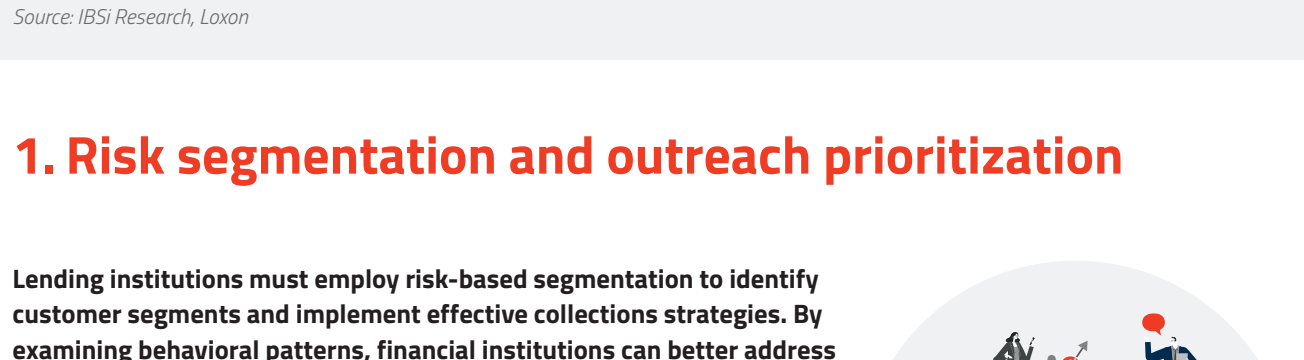
## cornerstones of creating an efficient collection management



As the financial industry undergoes a dramatic global transformation, lending institutions grapple with a liquidity crunch, bad loans, and regulatory changes. In this new landscape, client experience even during the collection process becomes critical, demanding efficient and customer-centric approaches.

Discover the "5+1 Cornerstones of Creating an Efficient Collection Management" framework in our infographic and unlock valuable insights to drive growth and success in this challenging financial environment.

### Framework for Efficient Collection Management



Source: IBSI Research, Loxon

## 1. Risk segmentation and outreach prioritization

Lending institutions must employ risk-based segmentation to identify customer segments and implement effective collections strategies. By examining behavioral patterns, financial institutions can better address customers' ability and willingness to pay, leading to tailored repayment plans and improved relationships. Open banking based APIs can further help to have a more holistic view on the customers.



Advanced segmentation through decision trees or machine learning models further refines these strategies. By categorizing clients into low, medium, and high risk, institutions can design targeted outreach strategies and ensure fair debt collection practices, ultimately enhancing the customer experience and boosting credit collections.

### Willingness and ability based risk segmentation



Source: Loxon

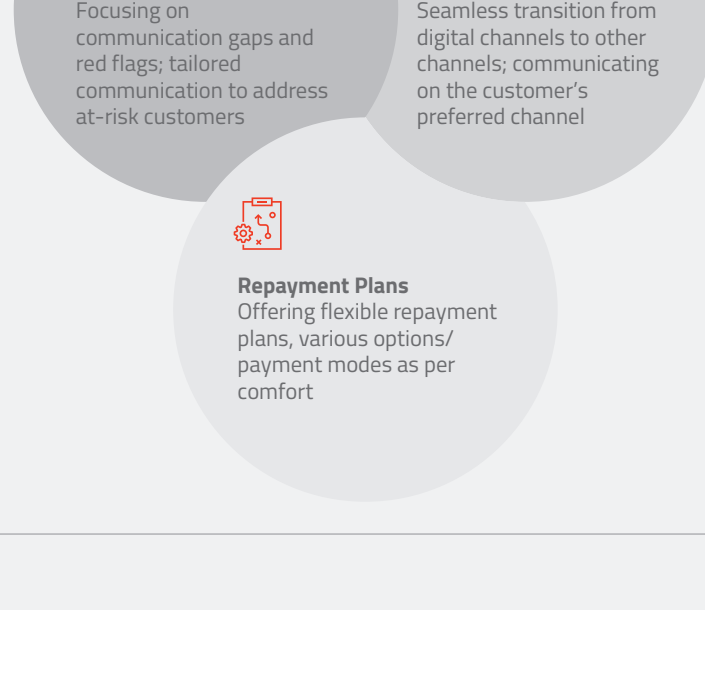
## 2. Hyper personalization of communications & collections strategy

Personalization in collections strategy is crucial for financial institutions to improve their debt collection efficiency and maintain positive customer relationships. As seen in the figure, personalization can take various forms, including communication strategy, the right channel, and repayment plans.



By segmenting a larger audience into sub-groups and applying data analytics, lenders can personalize their communication efforts based on customers' experiences and reasons for non-payment of dues. Automated decision-making and directing conversations to customers' preferred channel can also save time and improve the customer experience. Personalized payment arrangements that cater to customers' comfort via their preferred method can also improve cash flows and help customers honor their commitments.

### Personalization in Collections Strategy



Source: Loxon

## 3. Creating a project specific collections team

By assigning specific projects to collections teams based on their expertise and providing regular training, financial institutions can improve their collections efficiency.

Digital workspaces with automation and AI-driven recommendations facilitate secure collaboration among cross-functional teams, allowing streamlined communication tasks, decision-making processes, and document handling tasks, ultimately leading to positive outcomes and improved customer experiences.



### Key Elements of Digital Workspace



Source: Loxon

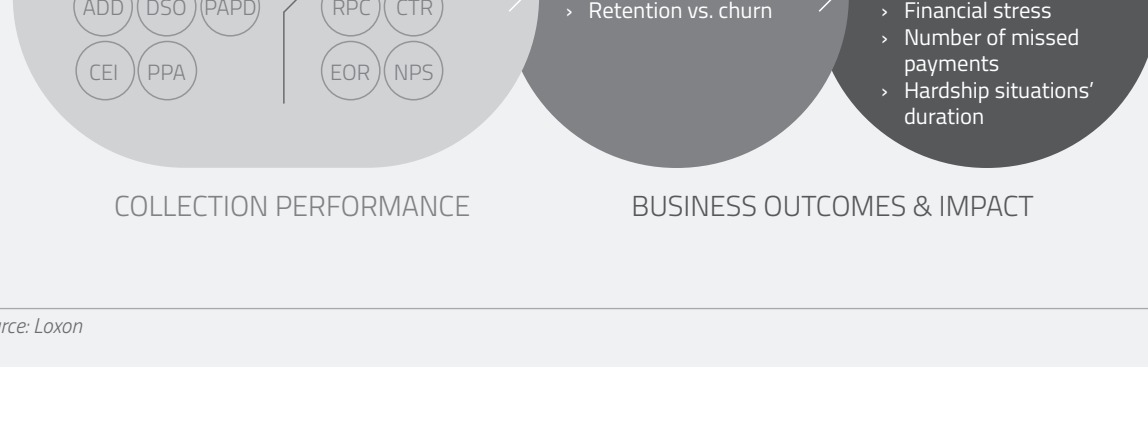
## 4. Regular assessment of key performance indicators

Regular assessment of key performance indicators (KPIs) is essential for financial institutions to optimize debt collection efforts and improve customer experiences. Effective KPIs should be carefully selected to align with larger organizational objectives and promote preventive collection measures.



KPIs such as Average Rate Delinquent, Collectors Effective Index, and Right Party Contact Rate can help track collection performance over a longer timeframe, while customer satisfaction and loyalty metrics, such as Net Promoter Score, can identify success factors and improvement areas in the customer journey. Incentivizing collection teams to contribute to improving selected metrics of customers' financial wellbeing can have a significant impact on overall performance.

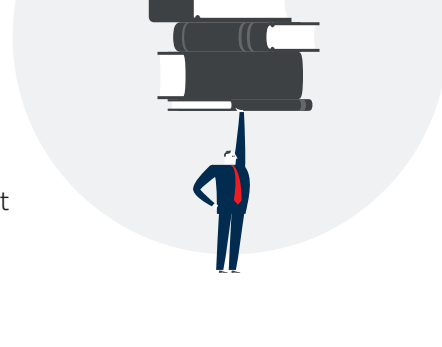
### Structure of key performance indicators in debt collection



Source: Loxon

## 5. Regulatory compliance

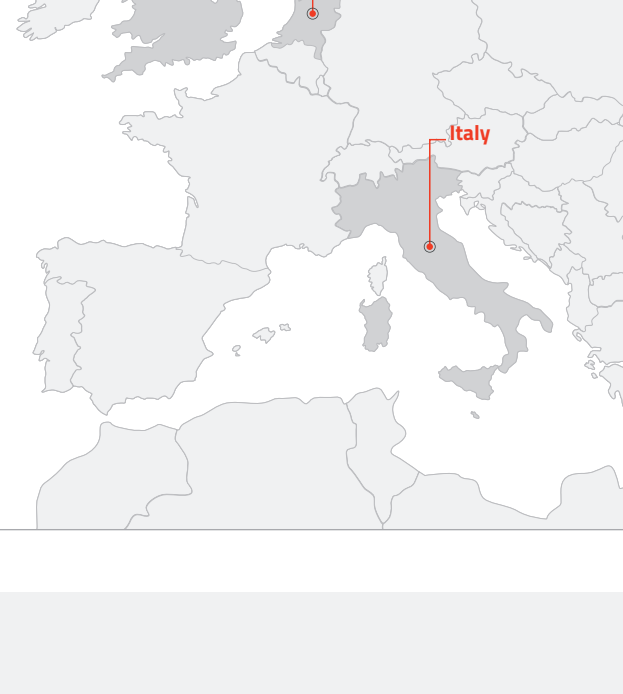
The debt collection industry is subject to regulations that vary by geography, but there are some universal do's and don'ts. Lenders and collection agencies are forbidden from harassing debtors, threatening them with additional charges, or revealing their debt to family or employers without consent, among other things.



Local regulations may also prescribe more detailed communication rules. Recent changes in the regulatory landscape include pandemic-triggered policy revisions and initiatives to encourage responsible lending and collections, as well as new regulations prescribing stronger creditworthiness assessment practices and protection of customers against over-indebtedness in the European Union.

### Recent changes in the Regulatory Landscape

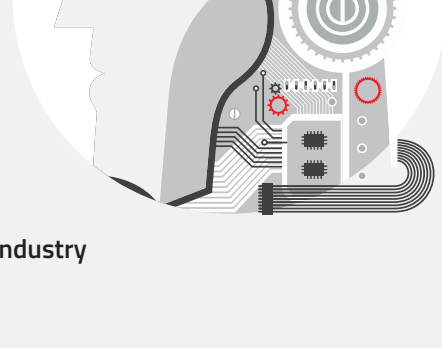
- Collections & Recoveries (C&R) community
- The new Consumer Credit Directive proposed by the European Parliament and the Commission
- Corporate Sustainability Reporting Directive (CSRD) regulation
- the EU's Taxonomy Regulation



Source: Loxon

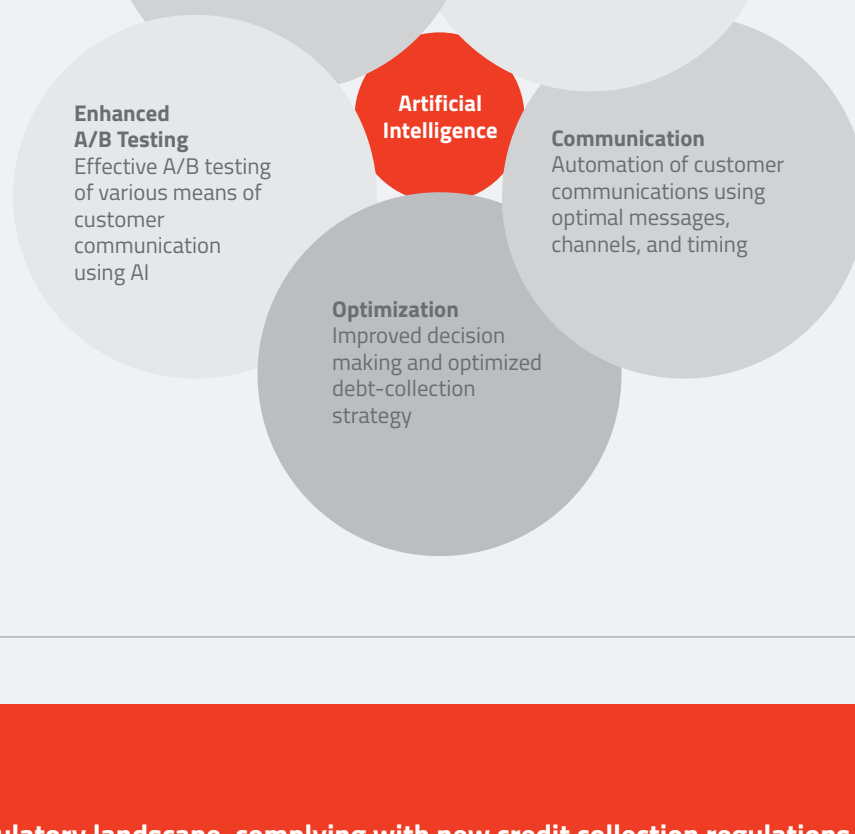
## +1. Artificial intelligence

AI is revolutionizing the debt collection industry by transforming the way collections systems function. With AI-driven analytics-based segmentation and risk modeling, lenders can prioritize accounts, estimate propensity to pay, and identify at-risk customers.



AI also enables lenders to automate customer communications, optimize decision-making, and conduct effective A/B testing of customer communications. However, the challenge of AI implementation in debt collection is utilizing data and deploying the business solution, requiring a solid data infrastructure and established data governance policies.

### Five key ways in which AI is driving transformation in the debt collection industry



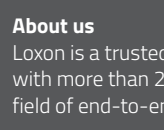
Source: Loxon

In today's regulatory landscape, complying with new credit collection regulations is crucial for maintaining a competitive advantage and maximizing customer satisfaction. Innovative thinking, new ways of working, and automation are key to achieving this. By adopting next-gen techniques like behavior-based segmentation, hyper-personalized communication, project-based teams, and KPIs in place, collections teams can increase profitability while adhering to compliance.

Taking a customer-centric and consultative approach can also create a positive impact on the overall customer journey, contributing to customer retention and overall profitability. The post-pandemic world has highlighted the need for responsible debt collection practices, and lenders who prioritized positive collection engagement and better customer relationships will be growth engines for the future.

## Conclusion

The 5+1 Cornerstones of Effective Collection Management outlined in this infographic are essential for any lender looking to stay competitive and maximize their collections. To learn more about these key driving forces and how they can be applied to your business, we invite you to download our White Paper and explore this topic in more detail.



<https://www.loxon.eu/whitepapers/designing-an-effective-customer-centric-debt-collection-process/>