P E R S P E C T I V E

A New Approach to Managing Collections

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Rising Loan Delinquency Poses a Huge Challenge to Collection Management

To say that the last couple of years have been challenging for collection managers the world over would be an understatement. Recession, inflation and unemployment have conspired to make loan delinquency a universal malaise, fueled by a lacklustre economy and cutting across banks and customer segments. The scale and gravity of the problem continues to test the collection management capability of banks.

There is a Need for a New Approach to Collection Management

Although it is a vital function, collection management comes to the fore only when receivables show signs of turning delinquent. At that stage, collection management raises an alarm, warning of an impending problem. This marks the beginning of the collection management life cycle.

Collection management used to be a paper-based, manually controlled system which required banks' staff to pore over reports to identify delinquent accounts before drawing the attention of higher-ups towards them. This was followed by a time and effort intensive process of contacting customers individually, recording the outcome of the discussion and preparing a calendar for further follow-up or action. The paper-based regime has made way for a more automated setup, wherein the system alerts the concerned personnel about overdue or delinquent accounts and follow-up is undertaken through IVR or the call centre. This approach too has its limitations. For instance, all overdue loans are bucketed together, unmindful of their size, age and other characteristics. But what collection managers really need is a workflow-based solution that can discern between loan delinquencies and route the serious cases to those with higher authority, skill and experience.

Going forward, auto dialling and monitoring systems will take care of most routine collection management and follow-up processes from end-to-end. Customer interactions will be recorded, and only those cases that deviate from the agreed terms will be brought to the attention of a collection manager.

How can Banks Meet this Challenge?

Under normal circumstances, managing collections is a standardized and somewhat monotonous function. However, in the current situation, banks cannot take a one-size-fits-all approach or go strictly by the rule book while trying to recover outstanding dues. A tentative economic outlook coupled with very real fears of job loss has eroded consumers' confidence as well as their ability to repay debt. Thus, each incident of loan delinquency has to be weighed carefully and dealt with in a sympathetic manner to arrive at a mutually acceptable solution. Clearly, managing collections in these times in neither easy nor monotonous and calls for both skill and pragmatism.

As a result, the role of collection management has been enhanced with an advisory function to understand the problems of individual borrowers and counsel them on the best way to combat them. Instead of applying a single rule across the board or harassing defaulters to pay up, collection managers are proposing customized and realistic solutions.

Banks also need to scale up their infrastructure to meet the challenge of large scale default. The use of technology to take over routine functions can alleviate the pressure on staff to a certain extent; however, the requirement of skilled manpower cannot be met that easily. Hence, banks might have to rely on the services of professional collection management agencies for both skill and scale, until such time as they shore up their own resources.

Collection Management will Rely Increasingly on Technology

Since loan delinquency is a large-scale economic problem, governments will continue to intervene to ensure that financial institutions do not fail and consumer confidence does not worsen further. That being said, government support in the form of asset purchase/restructuring/guarantee or direct capital participation will come with strings attached. These conditions will typically dictate which loans must be supported and which customer segments (usually the masses) must be the ultimate beneficiaries of government largesse. The recipient banks will be held accountable for the way in which they deploy the funds and will be expected to comply with strict reporting requirements. Once again, they will need technology to generate detailed and accurate reports.

The maintenance and monitoring of a balanced credit portfolio is more important than ever. The use of statistical modeling and other techniques to analyze customers' accounts and credit reports can forewarn banks about potentially delinquent loans. The concept of a 'delinquent cycle', based on how frequently a borrower defaults, no longer suffices. A deep understanding of customers' behaviour including their spending and investment patterns is a key ingredient of collection strategy. Hence, banks need a 360 degree view of their customers that takes into account the multiple relationships they may have with them across lines of business. A modern core banking solution can provide this type of rich data, integrated from across the banks' disparate systems, for mining into valuable insight using predictive analytics.

Summary

The global economic turmoil of the past months and consequent rise in loan losses poses a stiff challenge to collection management. Given that the problem is rooted in weak economic conditions and is impacting every customer segment, banks can no longer go only by procedure to recover their dues. The role of collection managers has become more nuanced, requiring them to take a creative yet pragmatic approach.

While collection managers bring experience, skill and instinct to the table, technology provides rich information and the ability to process it on the required scale. And banks that currently lack the capability to handle the sudden pressure on collections could consider using the services of professional collection managers to tide them over.

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