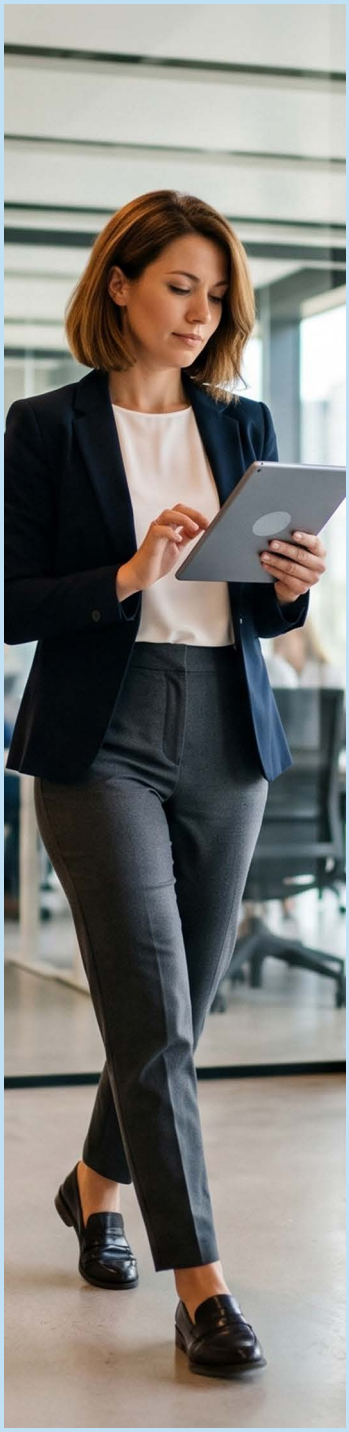
VIEW POINT



FROM DELINQUENCY TO RESILIENCE:
REIMAGINING COLLECTIONS WITH AI

How Leading Financial Institutions Are Shifting from Recovering Missed Payments to Anticipating Financial Stress

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The Call That Came Too Late

It is 9:47 p.m. when Maria Alvarez's phone lights up with a call from her bank's collections team. As she has done three times already, she lets it ring. It is the fourth reminder about an auto loan payment that is now fifty-two days past due.

What the voice on the other end doesn't know is that Maria hasn't missed a payment in eleven years. Three months earlier, her father was hospitalized and the medical bills started arriving. Two months earlier, her employer quietly cut overtime hours. She paused her automatic 401(k) contribution, dipped into savings, and told herself it was temporary. Technically, it was a case of financial stress that had been building for months before it ever became delinquency.

Maria Alvarez is a composite, illustrative profile, not a real customer. But the pattern in her file is one that credit-risk and collections leaders across the U.S. financial system will recognize immediately.

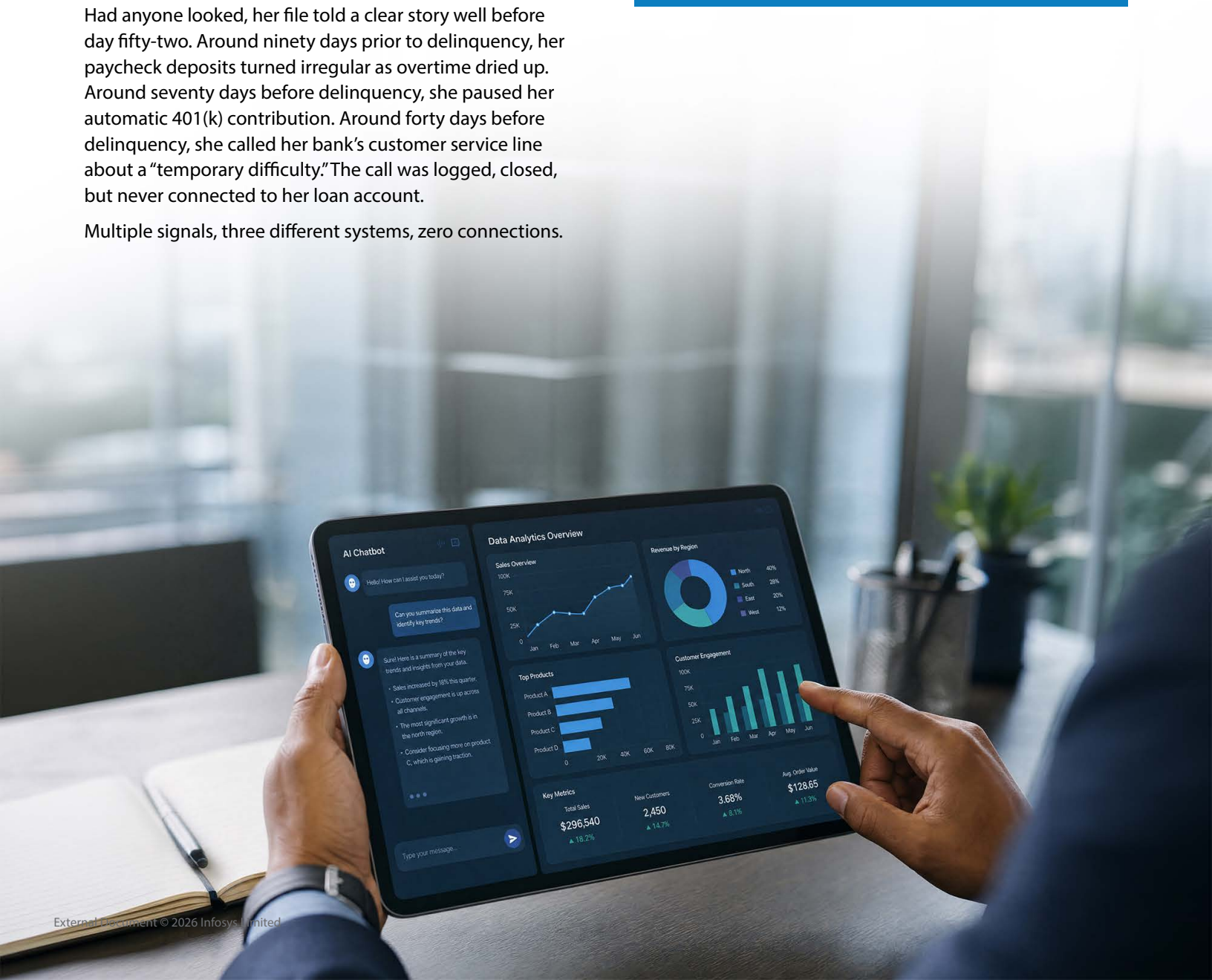
Had anyone looked, her file told a clear story well before day fifty-two. Around ninety days prior to delinquency, her paycheck deposits turned irregular as overtime dried up. Around seventy days before delinquency, she paused her automatic 401(k) contribution. Around forty days before delinquency, she called her bank's customer service line about a "temporary difficulty." The call was logged, closed, but never connected to her loan account.

Multiple signals, three different systems, zero connections.

This is the quiet failure at the heart of most collections operating models today. They are built to react to a missed payment, not to recognize the human story that led to it. By the time that story reaches a collections queue, the institution has already lost its best opportunities: to understand the risk, to support the customer, and to prevent manageable financial strain from becoming an avoidable default.

Executive Thesis

Financial stress emerges long before delinquency. Institutions that treat AI-enabled credit stress management as an operating-model shift and not a technology upgrade, can detect stress earlier, tailor interventions to the person, and strengthen governance, trust, and portfolio resilience at the same time.



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The Case for Rethinking Collections

That story is playing out, in some form, on millions of accounts across the U.S. financial system. Borrower stress is rising as inflation, an uneven labor market, resumed student loan payments, and persistent high credit card balances squeeze household budgets. Customer expectations have shifted too. A customer who expects her bank to flag unusual card activity within seconds may find that same bank does not notice her financial stress until she is already in default. Meanwhile, regulators, including the Consumer Financial Protection Bureau, under frameworks such as Regulation F and fair-lending expectations, are asking sharper questions about how vulnerable customers are identified and how fairly and consistently they are treated. Together, these forces are exposing the limits of collections models still built around a single signal: days past due.

The function historically designed to recover overdue payments now has to do three things at once. It has to identify emerging stress before it escalates, connect customers to proportionate support, and reduce avoidable losses, all without eroding the trust that keeps good customers good.

The leadership challenge, then, is not to bolt AI onto the existing collections process. It is to redesign how the institution recognizes stress, decides on an appropriate response, coordinates that response across channels, and remains accountable for the outcome.

That operating-model redesign is the foundation of the next-generation credit stress management.

Why Today's Collections Models Fall Short

Beyond the individual case, seven structural gaps become visible across collections operations.



A delinquency-led model allows stress to remain invisible for months because action is triggered by days past due rather than changes in behavior. By the time the account receives attention, the window for a simple, low-cost intervention may have already closed.



Fragmented customer data means that even when signals exist, they live in different systems. Retirement-contribution data sits with the plan provider, paycheck-deposit patterns sit with transaction monitoring, and customer-service calls sit in a log that may not be visible to the collections team.



Manual, inconsistent decision-making means one agent may read from a generic script, while a colleague handling a similar case the same week offers a full restructuring. It is not because policy differs, but because outcomes are left to individual judgment and workload.



Hardship treated as an exception means customers have to identify their own situation as a "hardship" and proactively seek out a different queue, rather than being routed there automatically as a natural extension of the collections journey.



Siloed channels mean a customer can receive an app notification, an SMS, and a call in the same week — each written by a different team, in a different tone, with some messages even contradicting others— the predictable result of channels operating without central orchestration.



Limited AI adoption means banks may already hold data that could flag stress up to ninety days earlier, including transaction patterns, bureau signals, behavioral indicators, but leave much of it unused for prioritization or treatment design.



Governance gaps mean that when a customer disputes how they were categorized, there is often no clear record of why the system classified them that way, no straightforward path to override it, and no consistent way to check whether similar customers are being treated fairly.

None of these gaps are exotic. Individually, each is a familiar operational shortfall. Together, they add up to a collections model that is structurally late and reactive by design, however capable the people running it.

Core Point of View

The defining measure of a next-generation collections model will be how effectively it anticipates financial stress, prevents avoidable defaults, and delivers interventions that are personalized, explainable, and auditable.

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From Delinquency to Stress Management: Reimagining the Collections Journey

Now consider the same scenario through a different lens. Instead of relying on a linear delinquency workflow, the bank operates as a dynamic decision ecosystem, combining risk segmentation, hardship signals, customer intent, and channel context to determine the appropriate response in real time.

Strategic Shift

Shift the management question from "Who is delinquent?" to "Who is showing signs of stress, what support is appropriate, and did the intervention improve the outcome?"



Identification

In this reimagined model, the file starts talking around seventy days before delinquency, rather than fifty-two after a payment is missed. A paused retirement contribution and irregular paycheck deposits, read together, are enough to raise a quiet flag: possible emerging stress, no missed payment yet.



Stratification

The model takes that flag and adds context such as a clean, multi-year repayment history, a single moderate risk driver, and no prior hardship record. It places the account in a "temporary, moderate stress" segment rather than treating it as a generic delinquent case.



Decisioning

The system recommends a proportionate response. It is not a payment-reminder script, but a proactive, empathetic check-in with the option to discuss a short deferment, offered before a single payment is missed.



Operations

That check-in arrives through one coordinated channel rather than three competing ones with a gentle in-app nudge first, followed, only if needed, by a call from a specialist.



Governance

The specialist handling that call has one of the harder jobs in the bank. AI has already done the pattern-matching; the specialist's job is to have the actual conversation, and every step of how that recommendation was reached is explainable and logged.

What differentiates an AI-enabled process is what the specialist does next and how the system supports that judgment.

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Humans in the Loop: Using AI Intelligently

When a specialist opens a flagged case, the system doesn't tell them what to decide but what it noticed, and why. The specialist sees a short, explainable summary: irregular paycheck deposits, a paused retirement contribution, no missed payment, a clean multi-year history, and a recommended action of proactive outreach with a deferment option. This is AI as a briefing, not a verdict. It reflects **human-centered AI**: technology augments the specialist's judgment rather than replacing their accountability, and high-impact decisions, like whether to restructure a loan, still require human review.

On a call like this, a customer might mention, almost in passing, that a parent is still in the hospital and that the "temporary" situation may last longer than expected. That detail constitutes a vulnerability signal that should influence the specialist's next action rather than be evaluated by the model alone. Instead of following the standard deferment script, the case gets escalated to the bank's hardship team for a more structured review. That escalation is possible because the system was built for **governance by design**: every recommendation carries an explainable rationale, every override is logged with a reason, and every decision leaves an audit trail as a part of how the workflow runs.

Because the bank also practices **omnichannel consistency**, that same customer doesn't get a thoughtful call from one specialist followed two days later by an unrelated automated reminder insisting the account is still overdue. Every channel, including app, text, contact center, field, hardship desk, draws on the same case view, so the customer experiences one coordinated institution, not five disconnected functions.

When an account like this comes current again a few months later, the case closes not as a "recovery," but as a cure. This distinction matters because it reflects **outcome orientation**: success measured by sustainable resolution and retained trust, not simply by how much cash came in this quarter.

And the case doesn't disappear once it's closed. It feeds back into the model: Was the early flag accurate? Did the offered treatment work? Would a different intervention have produced a better outcome? These questions create a **continuous learning** loop that enables the bank to recalibrate its segments and treatments over time.

Evidence That the Shift Is Underway

This reimagined journey is not hypothetical. Elements of it are already live at leading institutions worldwide, including in the U.S. market. No single example represents the complete model. Together, however, they show that the individual components are already being developed and deployed.

Institution	Illustrative capability
Indian Public Sector Bank	Uses AI-driven voice automation to reach customers proactively both before and after payment due dates, showing that even high-volume, low-cost interactions can be personalized at scale
Australian Retail Bank	Uses AI-powered engagement to help identify and support customers who show signs of financial stress, moving some of that identification work upstream of delinquency
US Retail and Commercial Bank	Uses next-best-conversation decisioning to personalize how and when it engages customers at a scale that would be difficult to achieve through manual processes. This provides a close real-world analogue to the coordinated outreach described above

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The Roadmap to Proactive Resilience

This transformation does not require a bank to replace its core systems overnight, or to trust an algorithm with decisions it hasn't earned the right to make. Institutions that get this right tend to move through three horizons, each building the credibility to expand into the next.

Horizon	Management focus
Horizon 1: Establish the foundation	Create a unified stress-signal data layer; define risk and hardship taxonomy; establish model governance and compliance guardrails; pilot early-warning prioritization. Move to Horizon 2 when early-warning signals demonstrate sufficient reliability and governance controls are operational.
Horizon 2: Industrialize decisioning	Deploy AI-assisted treatment recommendations; integrate hardship and collections pathways; orchestrate digital and assisted journeys; monitor outcomes and fairness. Move to Horizon 3 when treatment decisioning is integrated across priority portfolios and channels.
Horizon 3: Scale the resilience platform	Enable dynamic portfolio-level optimization, automate feedback loops, deploy explainable dashboards, and continuously refine treatment strategies.

The investment priorities that make the first horizon real are broadly consistent across institutions:

- Developing early-warning signals and borrower-stress indicators;
- Creating a centralized library of treatment strategies and decision rules;
- Integrating hardship intake and triage workflow so that support becomes a standard pathway rather than a special request;
- Deploying executive dashboards that track changes in stress, treatment effectiveness, fairness, and operational capacity; and
- Establishing the model governance, auditability, and decision logging required for leadership confidence.

Building Trust into Every Decision

An override like the one described above only works because trust has been engineered into the system from the outset. Every material decision in an **AI-enabled collections model** should be able to answer four questions on demand: What data led to this outcome? Was it reviewed for fairness across customer groups? Could a human step in when necessary? And is there a complete record of what happened and why?

In practice, this requires **model explainability** that records why a customer was assigned a specific treatment or channel; **fair-treatment monitoring** that identifies signs of disproportionate impact; an accessible **human override** mechanism for complex cases, vulnerability indicators, and complaints. It also requires a **complete audit trail** linking data inputs, model outputs, business rules, human actions, and outcomes, supported by a **feedback loop** that continuously improves the models and policies that produced them.

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Measuring What Matters

A collections function reorganized around stress rather than delinquency needs a scorecard that reflects a shift in which early identification of stress is valued alongside timely collection and sustainable resolution.

Scorecard area	Example leadership metrics
Early stress detection	Percentage of stressed accounts identified before delinquency; stress-signal accuracy; lead time before DPD movement
Treatment effectiveness	Cure rate, promise-to-pay fulfillment, repeat delinquency, restructuring performance, escalation avoidance
Customer outcome	Digital journey completion, complaint rate, customer effort, hardship support uptake, customer retention indicators
Operational efficiency	Cost to collect, collector productivity, successful self-service resolution, queue reduction, capacity elasticity
Governance confidence	Explainability coverage, override rate, audit completeness, fairness monitoring, policy exceptions

Redefining Collections for the AI Era

In the version of this story that plays out across most of the industry today, a stressed customer becomes a fifty-two-day delinquency statistic: one more case in a queue with reactive support offered only after real damage has been done to the customer's trust and credit history.

In the reimagined model, that same customer becomes a cure story instead. The financial stress is just as real> it could be a hospitalized parent, lost overtime pay, or a paused retirement contribution, but the bank recognizes credible indicators of stress early enough to invite a supportive conversation. The stress was real either way. What changed was whether the institution was built to notice it in time.

The real opportunity is not to build smarter collections. It is to build greater financial resilience across the lending portfolio, one customer at a time. In the next generation of lending, the winners will not be the institutions that collect faster. They will be the ones that identify stress sooner without losing sight of the person behind the balance.

The Agenda for the Next Two Quarters

Shift collections strategy from delinquency-triggered recovery to early financial-stress intervention. Build a unified view of borrower stress from bureau, transactional, behavioral, hardship, and channel signals. Require explainability, audit trails, fairness monitoring, and human override for every AI-assisted decision. Measure success beyond liquidation and recovery through track cure rate, repeat delinquency, customer effort, complaint risk, and long-term value preservation.

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