DATA DRIVEN COMPLIANCE DECISIONS
EXAMPLES FROM COLLECTIONS

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Taxpayer populations

Willing and Able

Willing but Unable

Able but Unwilling

Criminals

How does **Collections** interact with each population?

Collections across taxpayer spectrum

Willing and Able
- Make it **cheap and easy**
- Provide **online** portals

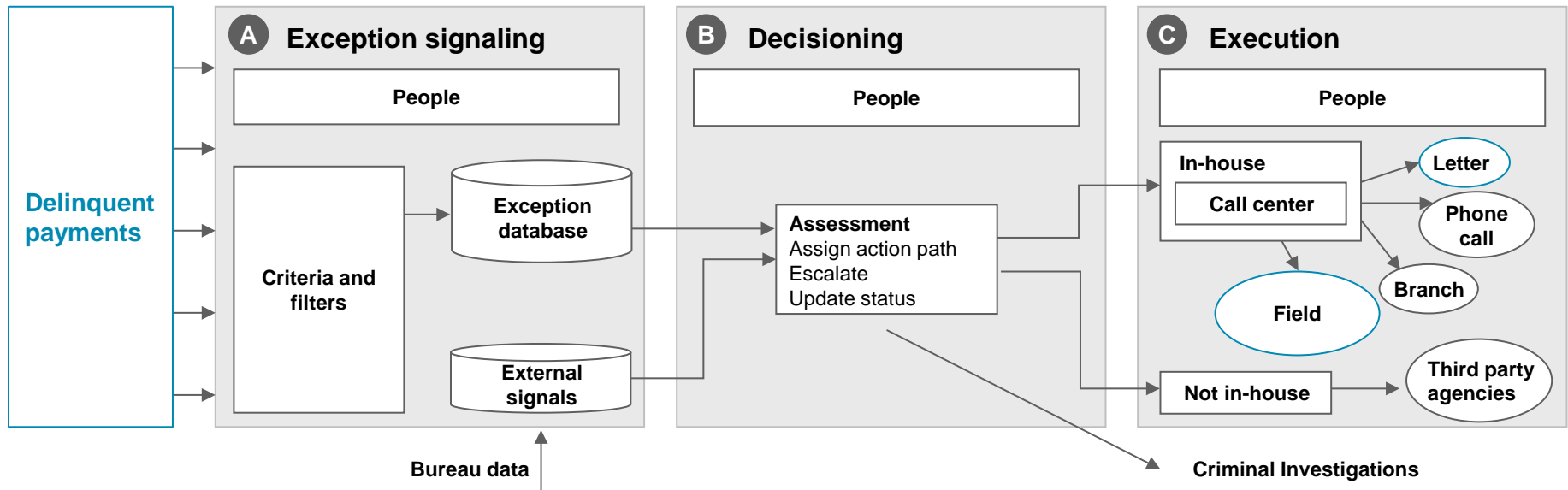**Willing but Unable**
- **Help** me
- Use **call center**

Able but Unwilling
- Identify **early**
- Make life **progressively** more difficult
- Get **out** of Collections ASAP!

Criminals
- Not a collections or audit problem

Collections Framework

	A Exception signaling	**B** Decisioning	**C** Execution
Delinquent payments	People	People	People
	Criteria and filters → Exception database / External signals	Assessment: Assign action path, Escalate, Update status	In-house (Call center), Field, Not in-house → Letter, Phone call, Branch, Third party agencies

Bureau data

Criminal Investigations

| **Description** | • Determine which customers should be/are at risk of being in collections, based on:
– Internal data (e.g. non-payment, late payment, under-payment)
– External signals (e.g. Bureau data) | • Determine required actions to disposition customers based on:
– Exposure size
– Risk (e.g. self-cure, low, high)
– Behavior pattern (e.g. forgetful, unable, unwilling)
• Tailor contact channel, process speed, content of interaction (e.g. scripts, discounts, payment plans) | • Execute collection activity:
– Automatically generated actions (letter, text, etc.)
– Phone calls
– Branch-based collections
– Field visits
– External collections (where viable)
– Penalties (hold drivers license) |

Industry lessons

Collections overview

- Collections industry was unprepared for the credit crash
  - The focus turned to pro-active management of the debt collection process, moving from administrative to commercial activity
  - Human capital gaps were exposed in terms of volume and quality of collections functions

- Collections became higher priority
  - Investments in analytics, IT, and people across the industry
  - Higher organisational reporting
  - Recognition of the return on investment in collections and the importance of collections as an asset across the value chain

- Best-practice has evolved with increasing focus on specialisation, including greater use of advanced analytics to determine who to treat, combined with specialized processes

Areas of Collections Best Practices

1

Segmentation

- Based on customer's probability to deteriorate further (risk level), likely behavior and value at stake

- Segmentation drives collection approach (risk level drives speed of action and escalation; behavior drives content of interaction and value at stake drives channel)

- Collector specialization

2

Standardized and automated process

- Processes are segment-specific

- Full automation of workflow

- Total standardization and objectiveness of handover rules

- Large usage of remote channels: call centers largely use scripts. Call routing automated and call center capacity and shifts optimized

- Usage of extra-judicial settlements

3

Pre-defined re-payment plans

- Pre-defined set of restructuring options, varying by product type and stage of default

- Restructuring options are preapproved

4

Performance management

- Performance funnel

- Large variable compensation based on objective KPIs

- Frequent performance monitoring

- Capacity planning and optimization

- Test & learn approach

5

Outsourcing management

- Outsourcing decision based on analytical calculation

- Batch-based assessment of outsourcers performance

- Reallocation of files based on performance

6

Collateral management

- Dedicated team with real estate management skills

- Streamlined and standardized processes

Analyze taxpayers
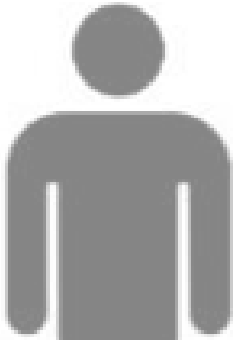
Tax Debt Analysis

- Analysis to segment the debt, including the following key categories
  - Disputed debt, where an appeal of some kind by debtor is underway
  - Won't pay
  - Individual or their assets not traceable
  - Can't pay (business in trouble/individual unemployed etc.)
  - Judged not cost effective to recover
  - And segmented by debtor type:
    - High net worth individual
    - Individual
    - Small business
    - Large business
- Analysis of government capabilities and capabilities of debt collection marketplace

Analyze your people!

Optimization criteria

Direct financial impact	
Taxpayer burden	
Voluntary compliance	
Indirect deterrence	

Constraints

Available inventory
Available resources
Strategic priorities
Coverage
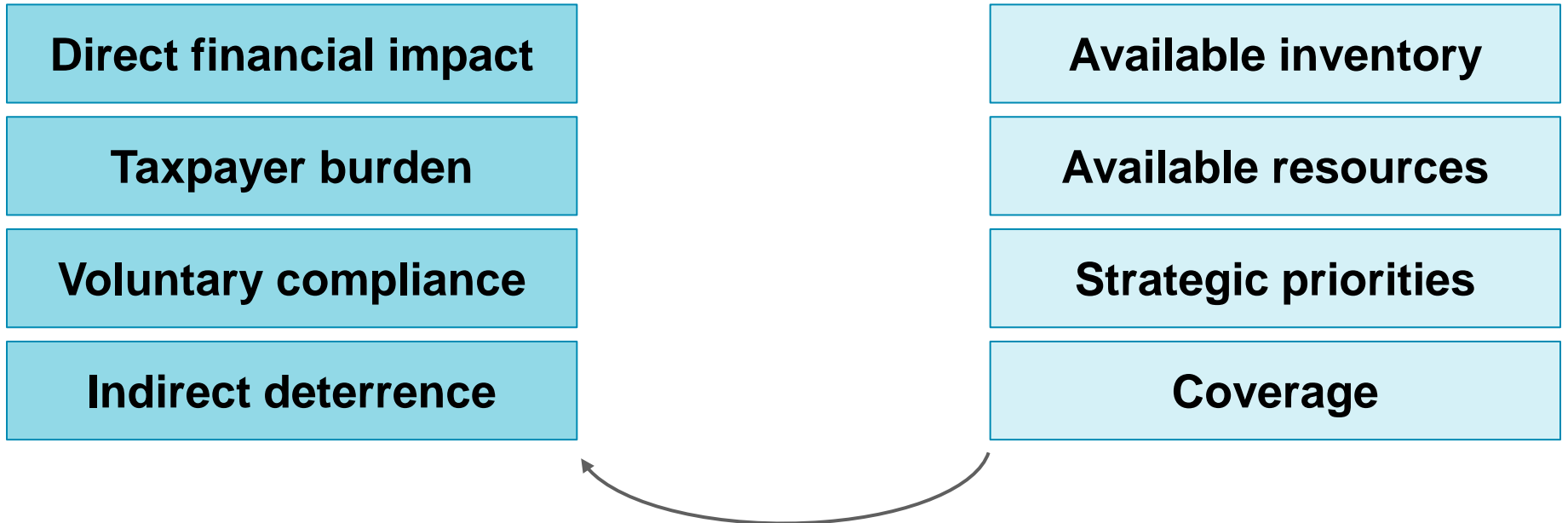
Analyze your processes

Is this the end of your process?

Listen to your audience

Internal owners and experts	**Length**	Notices are **too long** and **overwhelming**
		Notices have **too much information,** much of which is not relevant to taxpayers
Taxpayer facing groups	**Clarity**	Notices are **full of jargon** that makes them difficult to understand
		Taxpayers indicate that it's **hard to find information** that they are looking for
Taxpayers	**Tone**	Notices are **harsh** and **scary**
		Taxpayers want to see that the you **understand their situation**
Other third parties	**Content**	Notices **need to give clear instructions** on how taxpayers should take action
		Taxpayers ask that notices provide **options other than the phone**

Collection notices provide an attractive opportunity to generate high impact through simple design changes
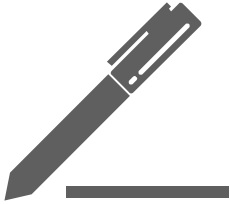
Notice design essentials

- Getting the basics right
  - Consistent, clean design "look and feel"
  - Plain language
  - Highlighted key messages
  - Concise explanation for correspondence
  - Clear actions that the recipient needs to take
  - Relevant timelines
  - Consequences of action/inaction
  - Easy access to additional information and resources
- Using visual design elements to replace or reduce text
- Humanized, conversational tone
- Improved "packages" for complex interactions (e.g. application for debt relief)

Driving behavior change

- Identifying the specific desired customer response and behavior
- Designing notices to drive that behavior
- Using behavioral insights to motivate customers
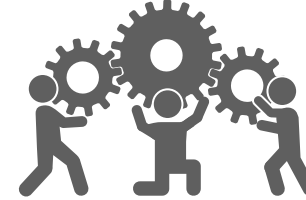
Broader customer journey design

- Appropriately sequencing the end-to-end inbound and outbound flow of communication
- Making improvements early in the journey and coordinating with other channels involved in the process
- Tailoring strategies so that high cost communications align with high impact customers
- Building out omni-channel strategies to create a seamless customer experience

Example: "Humanized" notices

Before

A credit has been posted to your above referenced account.

While conducting a review of our customers' accounts, we found that your Bank XXXXXXX with Tiered Interested Checking account referenced above was charged account servicing fees in error. We apologize and want you to know the issue has been corrected.

What to expect

- You will see $XX.XX credit on your account statement and through Online Banking displayed as An*cillary Banking Services Fee-Credit Adj.*

- There is no need for action on your part

After

Our apologies. We've posted a credit to your account to correct an error.

Hi Joe,

You may have noticed a credit that recently posted to one of your accounts. That's because you were charged a servicing fee by mistake. We apologize for the error and wanted to let you know it has been corrected.

There is nothing you need to do. We've already taken care of it. You'll see a $15.00 credit on your account statement with the description *Ancillary Banking Services Fee-Credit Adj.*

What behaviors do you want to drive?

Taxpayer situation	Desired behavior	Desired channel	What happens today
Can make a payment now	*Preferred*: Full payment *Otherwise*: Partial payment	💻	✉️
Cannot make a payment now, but can eventually pay in full	*Preferred*: Payment extension *Otherwise*: Payment plan	💻	📞 + ✉️ + 🛑
Will not be able to pay in full at any point	*Preferred*: Debt settlement *Otherwise*: Payment plan	💻	📞 + 🛑
Does not accept the balance	Request adjustment of the balance	💻 + ✉️	📞 + ✉️ + 🛑
Has a special circumstance	Confirm eligibility/contact if special action is needed	💻 + 📞	📞 + ✉️ + 🛑
Does not understand notice	Request help or clarification	💻	📞 + 🛑

Behavioral economics learnings can inform "nudges" in notices
Example: Potential collection nudges

Applying behavioral economics to notice messaging

Potential changes that could be tested	Message focus	Example: Taxpayer did not file	Example: Taxpayer filed with a Bal Due
Gain Framing	Benefits of tax compliance	You can file your past tax returns and gain valuable tax benefits	If you pay your balance today, you will avoid more penalties and interest in the future
Loss framing	Consequences of non-compliance	If you do not file, you may incur substantial penalties	If you do not pay, your balance will increase by $X due to penalties
Encouragement	Ease of tax compliance	If you have not already done so, it's easy to file your past tax returns	You can pay your balance online quickly and easily using a credit or debit card
Deadline framing	Key deadlines for the taxpayer	It is not too late to file your past tax returns; you can file before this date without incurring penalties	Paying before this date will minimize penalties you will have to pay
Social persuasion	Demonstrate that peer taxpayers are in compliance	X% of your peers are in compliance. If you have not done so already, you can file your past tax returns to be in compliance too	Even after entering account receivable , X% of your peers pay off their debt
Personalization	Cater the notice message based on taxpayer traits	Over the past X years, you have filed timely	You have always paid your balances in the past

Example: Measuring notice impact

Objective: Increase taxpayer compliance

Sample metrics

- % of notices resulting in a **full or partial payment**
- % of notices resulting in a **payment plan**
- **Dollars collected** by sending the notice

Objective: Increase self-service

Sample metrics

- Mix of **payments by channel** (% online vs. checks)
- Mix of **payment plan requests by channel** (e.g. % self-service applications vs. mailed)
- **Inbound call** rate

Objective: Decrease costs

Sample metrics

- Cost to **send notice** (e.g. physical costs of printing notice and any inserts, postage)
- Cost to **handle responses** from customers, including inbound calls

Objective: Increase taxpayer experience

Sample metrics

- Customer **satisfaction rate**
- Customer **complaint rate**

Challenge, test, replace, repeat

Select "champion" notices to improve
Agree on desired taxpayer behaviour impact

Design "challenger" notices, collect feedback, and refine

Replace champions with successful challengers – then challenge them again

Conduct test: in a lab and live in-market

Evaluate results – how much success, where, how, why?

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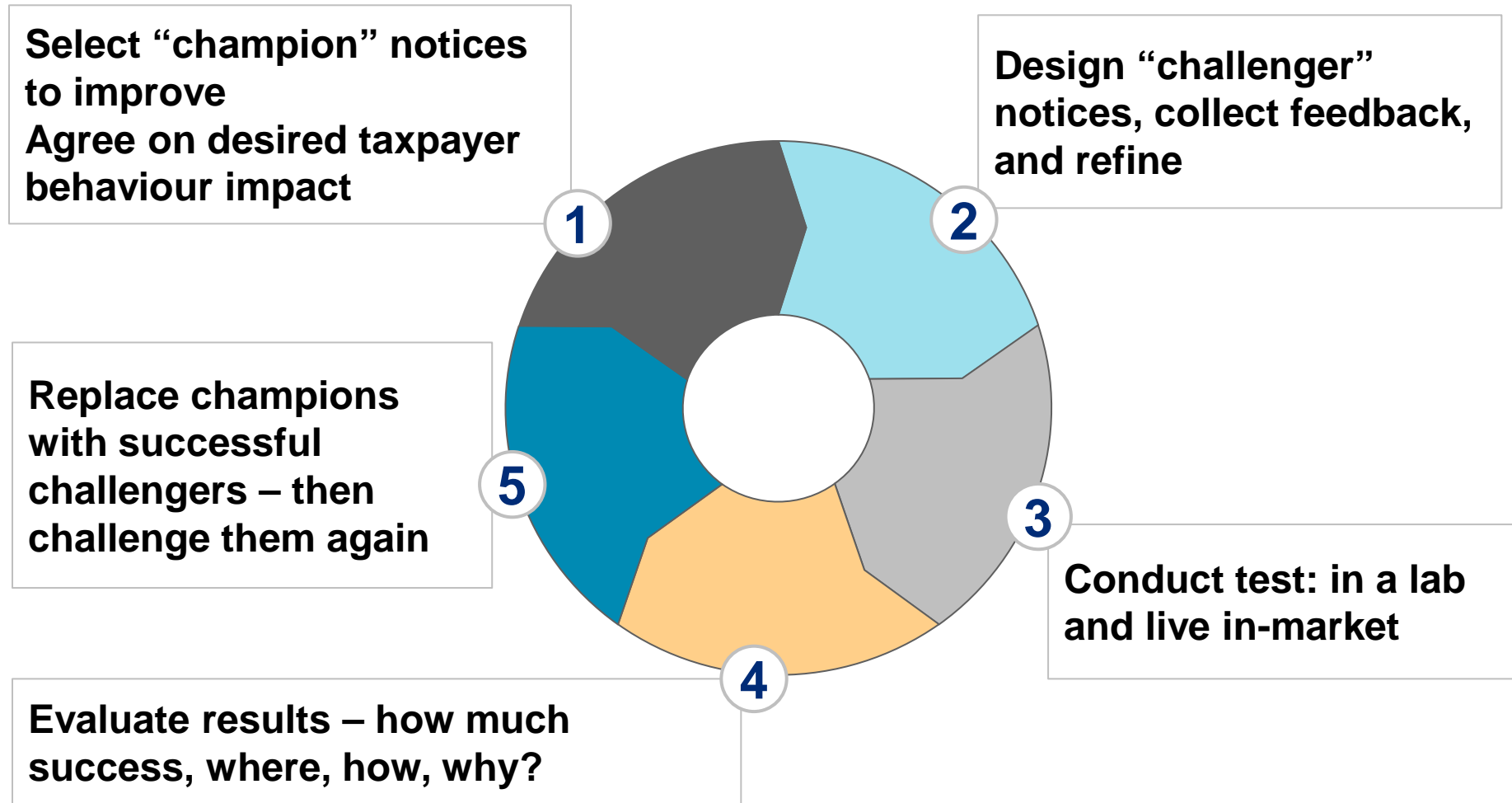
Third party management, including management of debt collectors and law firms, is a very current regulatory hot topic

- **Strategic planning, risk assessments and business case development** for planned third party engagements
  - Including a range of potential risks (strategic, reputational, operational, credit, compliance, etc.)
  - Considering alignment with strategic objectives, ability to oversee and manage the engagement, costs and benefits, customer expectations

- **Due diligence** of potential suppliers to assess financial condition, relevant experience, reputation, and the scope and effectiveness of operations and controls
  - For collection agencies and law firms, an emphasis on qualifications, expertise, capacity, reputation, complaints, information security and training
  - For sale of charged-off debt to debt buyers, an evaluation of the debt buyers' past performance with respect to consumer protection and debt collection laws

- **Contracts** that clarify and formalize the obligations of and expectations from the supplier and the institution, including compliance with relevant laws and regulations

- **Management framework** with sufficient controls and oversight to monitor success of supplier relationships, with appropriate contingency planning

- **Monitoring of complaints and any allegations of adverse treatment** regarding third parties

- **Documentation** of supplier management framework and regular reporting of results on ongoing monitoring activities

Questions?

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