

DATA DRIVEN COMPLIANCE DECISIONS EXAMPLES FROM COLLECTIONS

AUGUST 9TH, 2016

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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**

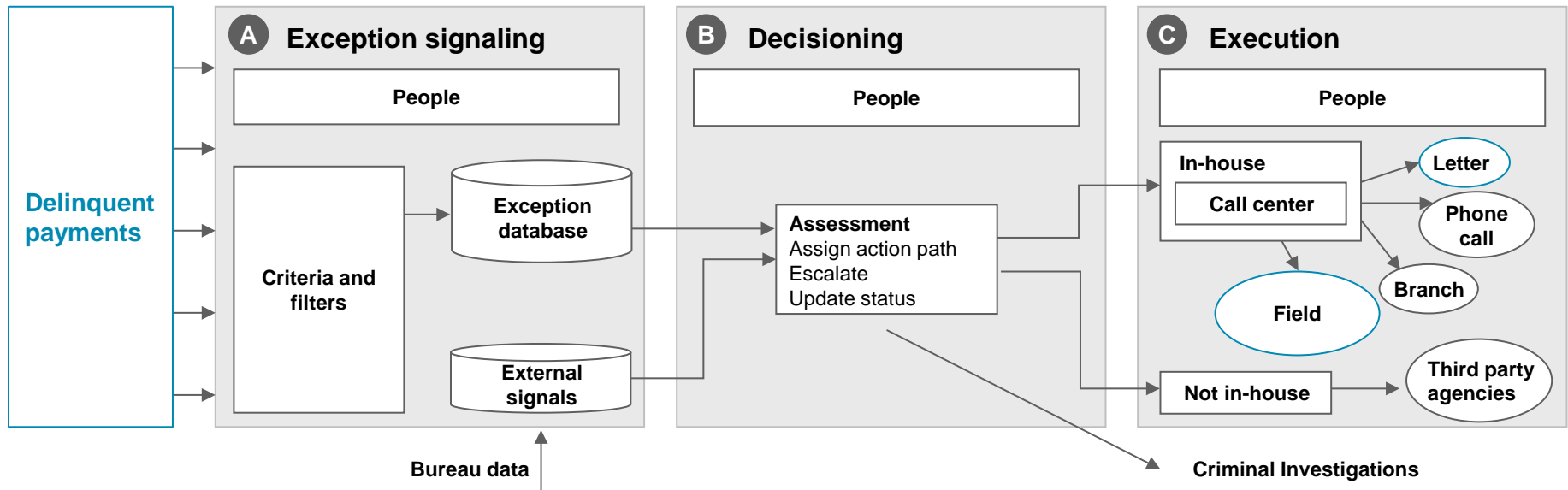
Able but
Unwilling

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

Criminals

- Not a collections or audit problem

Collections Framework



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 repayment 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

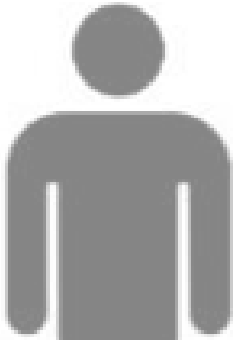
I didn't realize I still owe money



I can't find a way out of this



I don't understand what I need to do



I wish this would just go away



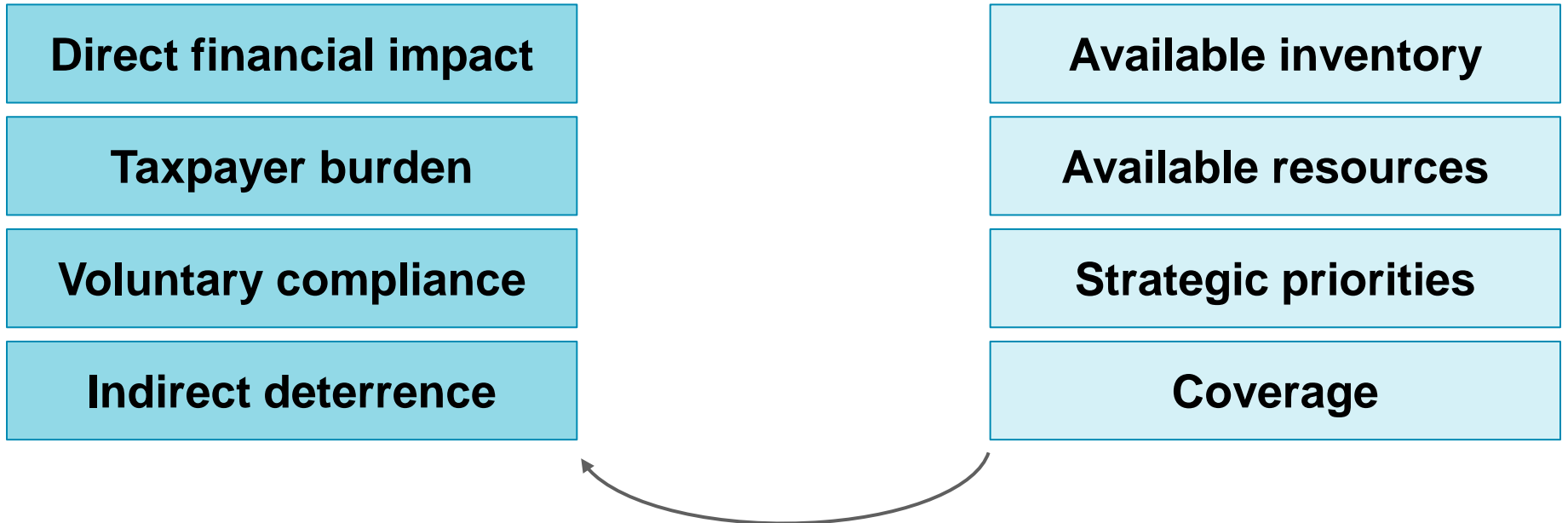
Tax Debt Analysis

- 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

Constraints



Analyze your processes

Is this the end of your process?

JAN-23-2009 15:39 IRS 001626667 P.00/30

IRS Department of the Treasury
Internal Revenue Service
P.O. BOX 10848
FRESNO, CA 93779-0848

Date: JAN. 29, 2009
Taxpayer Identification Number:
Case Reference Number:
Order ID: Z70988
Contact Telephone Number:
TOLL FREE: 1-800-829-7650
REG. TIME TO CALL:
MON - FRI 8:00 AM TO 8:00 PM
ASSISTENCIA EN ESPAÑOL 1-800-829-7650

Department of Treasury
Internal Revenue Service
4500 BILFORD HWY
CHAMBLEE, GA 39901-0021

AUR Control: 50004-1798
Notice: CP2000
Notice Date: December 18, 2006
Social Security Number:
Form: 1040EZ
Tax Year: 2005
To call for assistance:
1-800-829-3009 Toll Free
between 7:00 AM - 8:00 PM
To FAX information:
1-770-354-1742 Local Fax
Contact:
Kenneth C Corbin

You Must Return the Response Form by January 17, 2007.

1 Why are you getting this notice?

The income and payment information (e.g., income tax withheld, wages, miscellaneous income, interest, etc.) that we have on file does not match entries on your 2005 Form 1040EZ. If this information is correct, you will owe \$

The proposed changes to your tax are listed below.

| Summary of Proposed Changes | |
|--|----|
| 2005 Tax Increase | \$ |
| Payment Increase | \$ |
| Penalties - may not include all applicable penalties | \$ |
| Interest - if paid by January 17, 2007 | \$ |
| Proposed Balance Due | \$ |

2 What steps should you take?

Following these steps can help you understand this notice.

1. Review your 2005 tax return.
2. Compare your return to the information in the *Explanation Section* — page 5.
3. Decide if the information in the *Explanation Section* is correct.
4. Check the answers to *Frequently Asked Questions* — page 2.
5. Complete and return the *Response Form* in the enclosed envelope — page 3.
6. Complete and return the *Installment Agreement Request* (enclosed) if you need to set up a payment plan.
7. Review your rights in *The Examination Process Booklet* (enclosed).

3 What happens if you don't respond by January 17, 2007?

We will send you a final notice, followed by a bill. During this time, interest will increase and certain penalties may apply.

(SPIA) CP2000 (Rev. 11/2004)

153, Publication 594, Publication 1660, Envelope

Automated Collection System
Letter 1098 (Rev. 03-2002)(LT-1)

These notices are also totaled at the end of the details for your convenience.

Payments have been applied according to the terms of your agreement and in accordance with the law. For each tax year, your payments are applied first to tax, then to interest, and other charges.

The *Installment Agreement Activity* page shows each tax period for which you owed tax.

The beginning balance is calculated as of July 11, 2005, or the date you entered a tax installment agreement, if it was later. The beginning balance of each tax period includes the unpaid tax, penalty, and interest as of the calculation date.

The Total Interest, Total Penalty and Other Charges are the amounts added during this period. Other Charges are items such as fees, refunds or adjustments.

If you'd like to pay the full amount you owe, please call us at 1-800-829-0922 so we may give you a current payoff figure. Your future statements will be mailed to you annually, for as long as you have installment agreement activity.

As always, we appreciate your timely payments.

21677 Taxpayer Identification # Form(s) and Tax Period

Dear Taxpayer:

Thank you for making arrangements to pay your 2005 tax liability (which covers the tax periods) as shown on the enclosed envelope. If you do not wish to pay the tax, you may want to pay the tax and interest charges contained in the enclosed envelope.

Please make your check payable to the IRS. Please include your taxpayer identification number and the tax form number you filed for each year.

We will send you a monthly statement with a payment stub and return envelope. Please pay each payment in full. The statement will show the amount of your payment and the amount of your payment at least ten days before your first payment due date. If you do not receive the statement, please call us at 1-800-829-0922.


We charge a \$105 User Fee to cover the cost of providing an installment agreement regardless of the amount of your agreed to payment. Although your first payment should be for at least \$105 to cover the fee.

The Installment Agreement User Fee may be reduced for individuals whose income falls at or below 300% of the federal poverty guidelines. Our initial review did not qualify you for the reduced fee. If you believe you may be eligible for a one-time reduction to your Installment Agreement User Fee you may

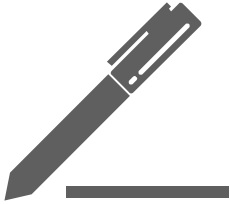
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Listen to your audience

| | | | |
|------------------------------------|---|----------------|---|
| 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



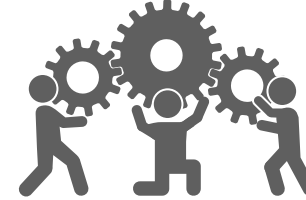
Notice design essentials

- 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 XXXXXXXX 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 *Ancillary 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 | <i>Preferred:</i> Full payment <i>Otherwise:</i> Partial payment |  |  |
| Cannot make a payment now, but can eventually pay in full | <i>Preferred:</i> Payment extension <i>Otherwise:</i> Payment plan |  |  +  +  |
| Will not be able to pay in full at any point | <i>Preferred:</i> Debt settlement <i>Otherwise:</i> 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

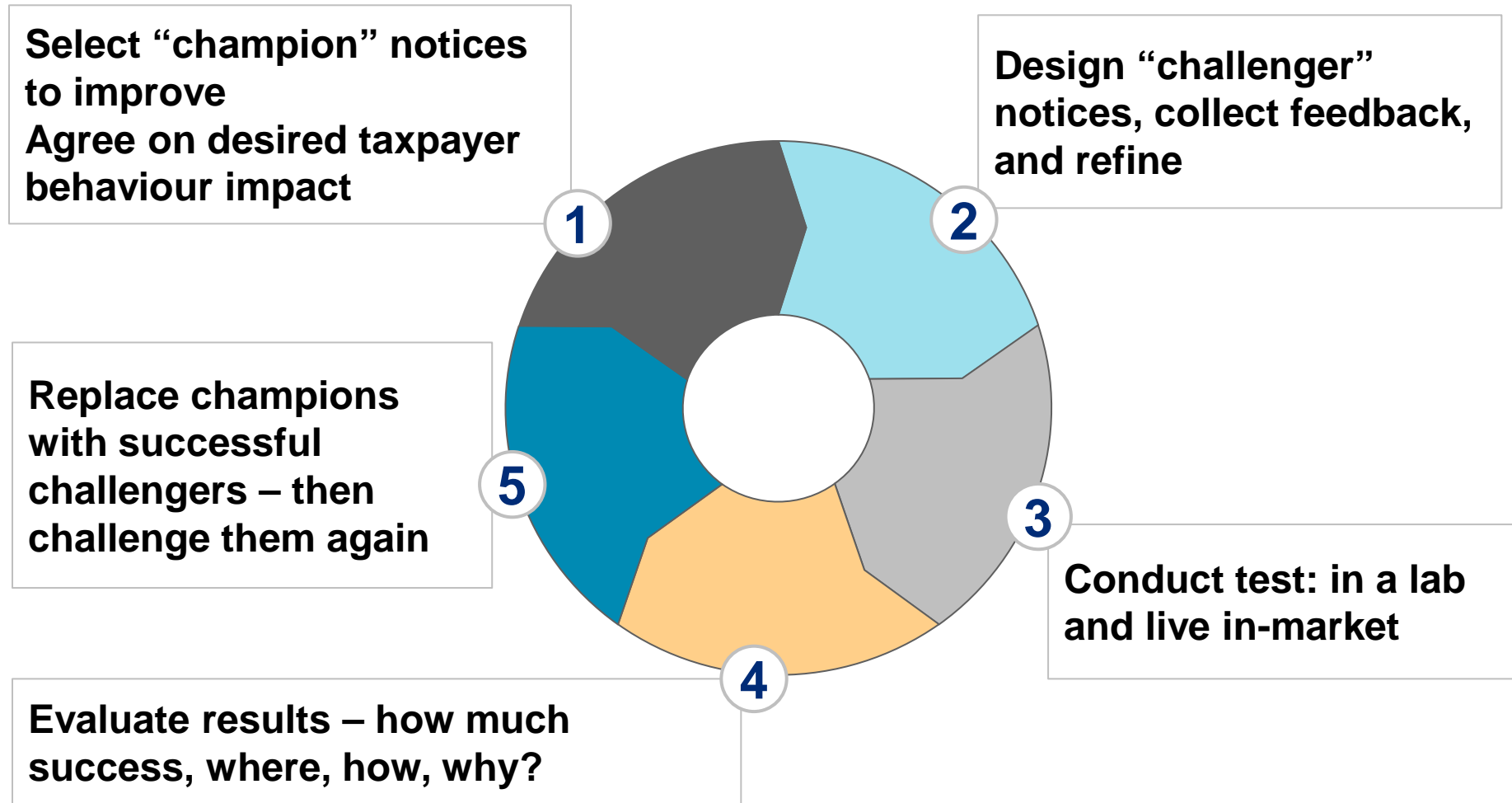
- Cost to **send notice** (e.g. physical costs of printing notice and any inserts, postage)
- Cost to **handle responses** from customers, including inbound calls

Objective: Increase taxpayer experience

Sample metrics

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

Challenge, test, replace, repeat



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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