

Credit Unions: Staying Ahead

Digital in Collections

Ceverine



Economic Backdrop

- **Inflation here to stay:** Revisiting time-value of money - £1 today is better than £1 tomorrow. Value of receivables eroding at a pace of 10%+ per annum.
- **Cost of living – income mismatch:** Increasing vulnerability and decreasing credit affordability.
- **Changing risk dynamics:** Consumers don't know how to bridge the income gap in a sustainable way and turn to borrowing as a short-term solution. Credit profiles have changed.

Regulatory Context

- Increased focus on customer protection and vulnerability impacting collection rates and TTP.
- Consumer Duty and evidencing requirements.
 - “87% of firms said they need to implement key technology changes to deliver on the Duty, but 64% are not confident this will be completed by the April 2023 deadline⁽¹⁾.”
 - “The majority of UK financial services firms do not yet fully understand what needs to be done to deliver, and evidence, good outcomes for customers.”

Source: EY, June 2022.

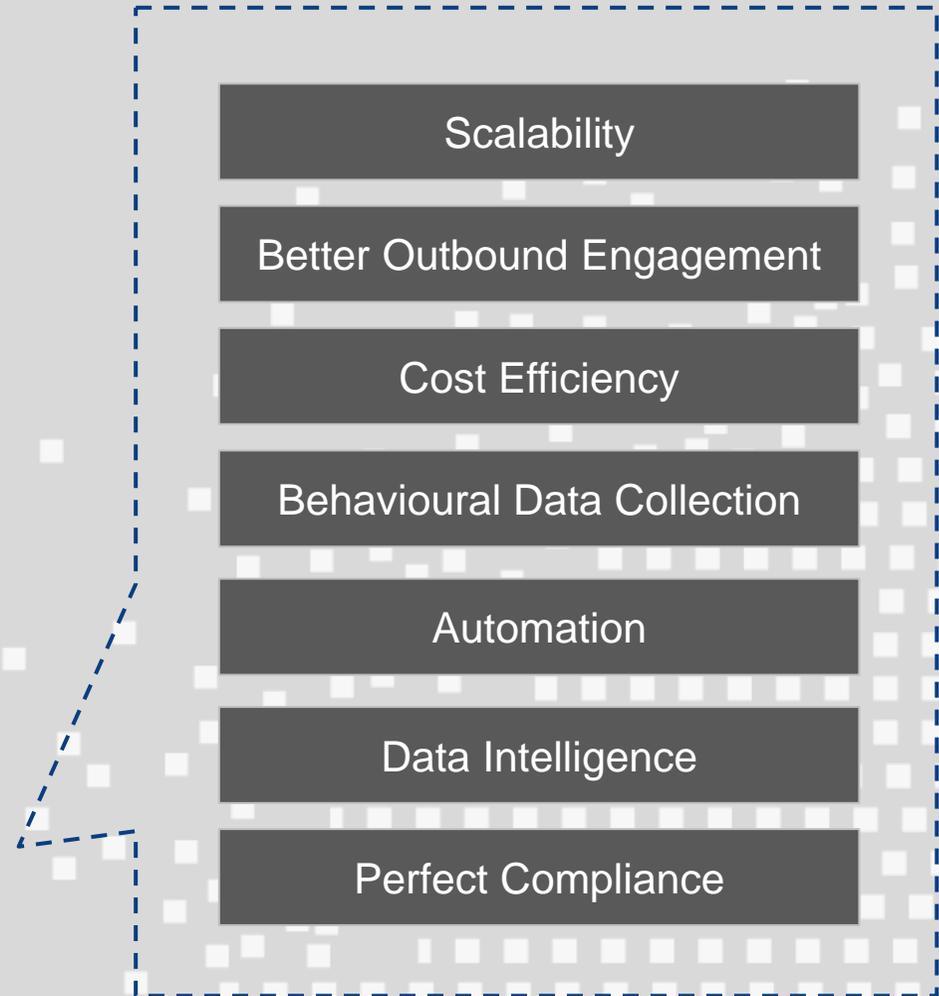
(1) Extended afterwards to July 2023.

Why Are We Talking About Digital Collections?

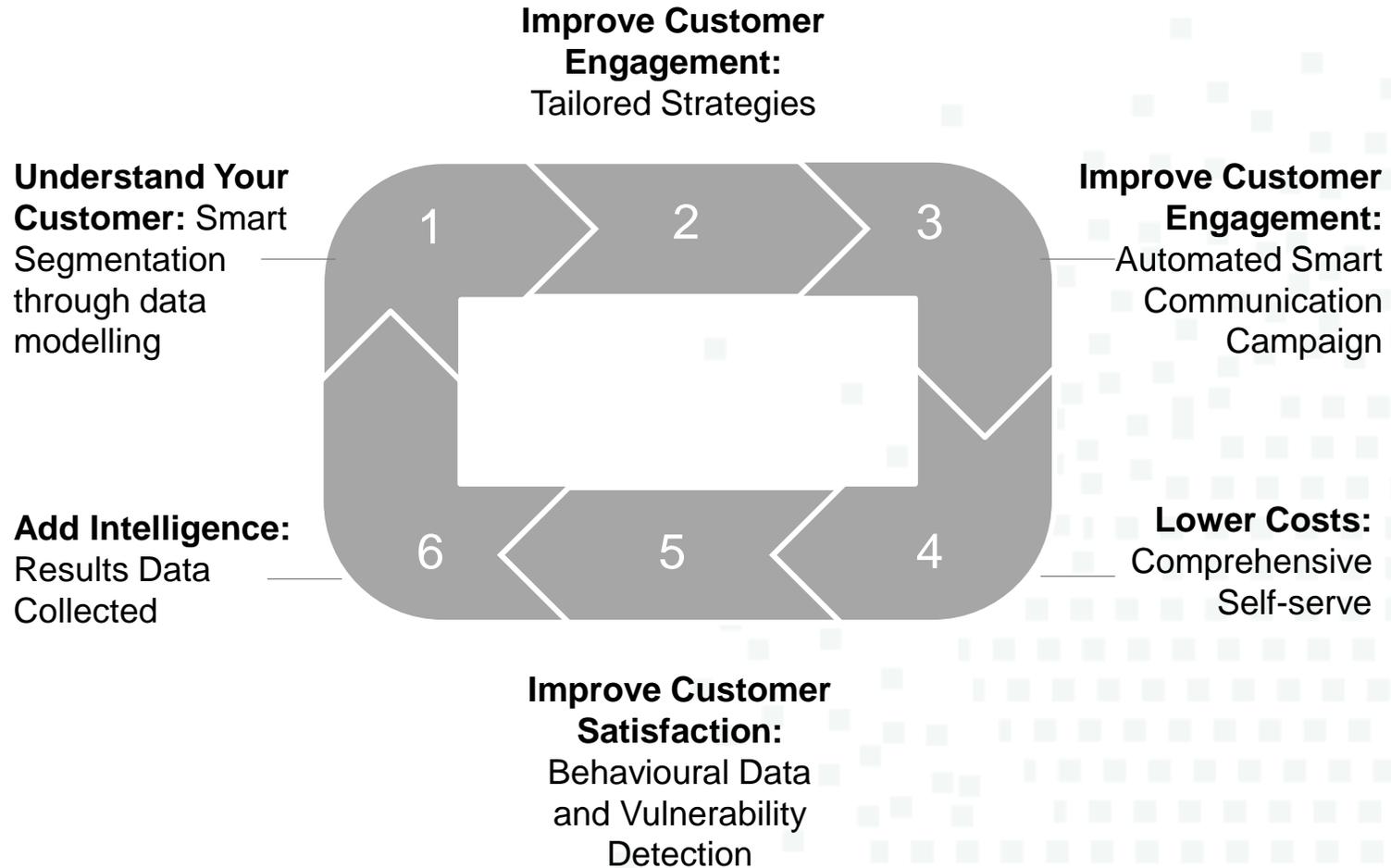
- Smart digital strategies can offer scalability without fulfilment risks and hiring costs.
- Outsourced digital strategies can deliver best customer outcomes (and compliance with Consumer Duty) in a short period of time.
- Effective digital strategies can deliver new layers of behavioural data and act as risk management partners.
- When supported with data and analytics, digital strategies can deliver a better understanding of the customer and evidence of good customer outcomes.
- Cost savings and efficiencies through digital can help lenders counter the adverse economic backdrop.
- Digital strategies can engage with customers over longer periods through economic fluctuations.

Effective Use of Digital in Collections

- A digital strategy is not just a digital option (i.e. omni-channel strategy) for the customer but it is the ability to effectively and independently deliver a full service digitally.
- Opening up a payment website or sending emails and texts do not automatically constitute a digital strategy. They may just lead to Mechanical Turks.
- **When formulated in an effective way, digital is a platform efficiency and continuous improvement.**



Effective Use of Digital in Collections (Cont'd)



Digital Delivers Best Collections Outcomes for Everyone

Better Customer Experience

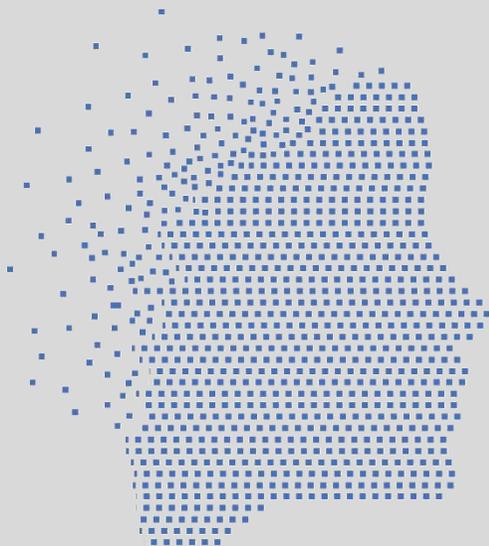
- Tailored strategies relevant to the customers' circumstances.
- Fair treatment without confrontation and pressure.
- Empowering customers with a comprehensive digital toolkit.
- Consistent vulnerability monitoring and treatment.
- Transparency and consistency to minimise customer complaints.

Better Enterprise Experience

- Scalable platform delivering multiple layers of efficiency.
- Transparency, higher customer retention and lower collection costs.
- Consolidating and simplifying operations.
- Improving risk management with additional layers of data.
- Optimised process, minimal delivery headcount, maximum automation and larger number of cases resolved.

Recommendations

- Improve efficiency to preserve economics - digital is the perfect platform for **innovation and efficiency**.
 - Improve customer engagement;
 - Increase scalability and flexibility without fulfilment risk and costs;
 - Understand your customer better and manage credit risk better;
 - Lower collection costs and use resources effectively.
- Transform collection functions from being execution and command centres into **partners of the risk management process**.
- **If you don't absolutely have to buy it, rent it.** Especially if you need results fast.



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