Recession Ready: Leveraging Smarter Contact Centers to Equip Banks for a Financial Crisis

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IBM **Services**

A RECESSION NOT LONG AGO

In 2008, now 33-year old Ashley Jones graduated from college and entered one of the worst economies in American history. While she survived the Great Recession by living at home, she saw the pain her friends experienced as one after another defaulted on loans, unable to escape the collapsing economy and relentless debt collectors. Learning lessons from her experiences during the Recession, Ashley was initially very diligent in the intervening years: she only had three credit cards, zero debt, and a solid credit score.

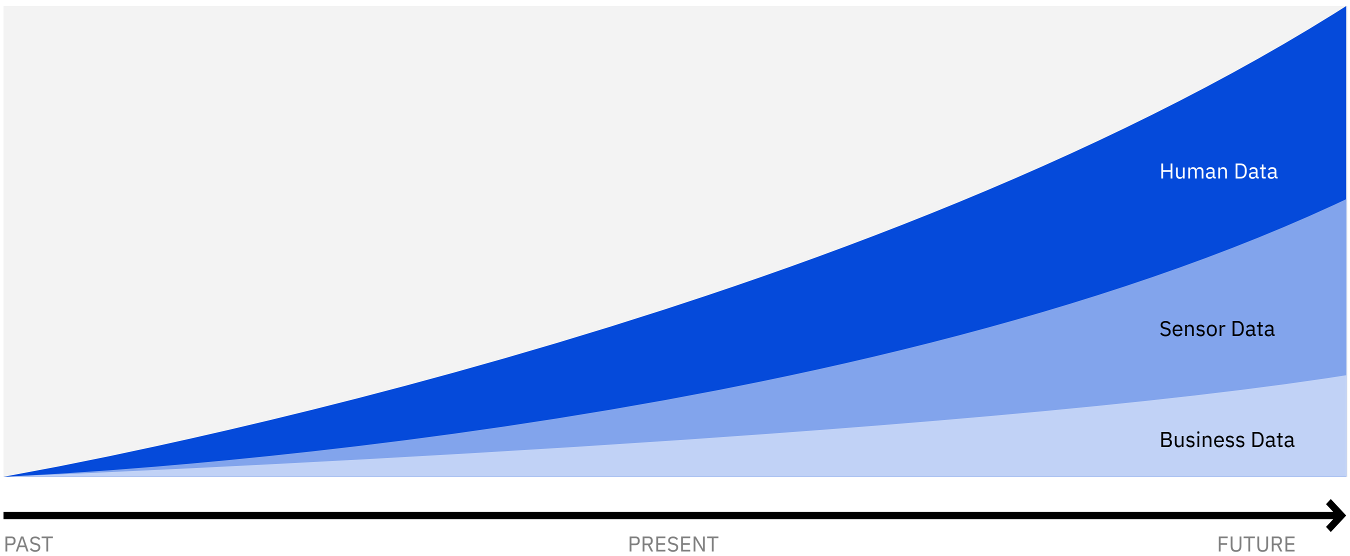
As the coming ski season approached, Ashley, a Denver-based technical recruiter, purchased new skis and clothes on a credit card to celebrate a recent promotion. Riding high on her larger paychecks and the seemingly unstoppable American economy, this one-time celebratory purchase gradually paved the way towards larger and more-frequent purchases. Over time, Ashley began spending a few hundred dollars more than she budgeted per month, slowly building her credit card debt and losing her once-firm grasp on her finances and payment schedule.

Unbeknownst to Ashley, one of her financial institutions, Skier's Bank, has begun worrying about a possible recession. Concerned with its credit exposure amid the uncertain and rapidly shifting economic environment – with tariffs, Federal Reserve adjustments, and international considerations – Skier's Bank has become more diligent with debt collection.

The Bank is starting to introduce one-way text messages and email reminders in addition to the written letters sent to clients who begin to indicate out-of-pattern spending. Like many millennials, Ashley barely checks her (postal) mail and because she was not part of the Skier's Bank text message pilot, she didn't find out she was in default until three months after the fact. By the time the ski season was in full-swing, Ashley had received three "payment required" notices. As a result, Ashley's credit score has suffered and Skier's Bank sold the debt to a collection agency rather than attempting to collect from Ashley, which was a financial loss to the bank.

Ashley Jones is not unique. There is a large cohort of consumer borrowers in a similar position – not terribly delinquent, but also not fully engaged with their debt status – and this could have a significant impact on a lender's balance sheet. If consumer lenders are not able to fully engage with borrowers like Ashley, those lenders will be in an even worse position when the next recession arrives. Given this, lenders must begin considering how to leverage the power of engaged, omnichannel contact centers to mitigate losses.

Smartphones and improved telecommunications have led to an exponential growth of data.



HOW DID WE GET HERE AND HOW CAN WE MOVE FORWARD?

Consumer credit lenders like Skier's Bank are fundamentally not ready for the next credit cycle downturn. As the credit environment continues to worsen, many analysts and business executives predict a recession within the next 18 months.[1] Since Ashley graduated from college amid the Great Recession, the operating environment and consumer-enablement technologies for consumer credit lenders have changed dramatically. The introduction of smartphones and improvement in telecommunications technologies – from 3G to 4G, and soon, 5G – have led to data proliferation and the ability to gain meaningful insights from machine learning and artificial intelligence.[2] In an attempt to keep up with these changes, the financial services industry has focused on creating more digital capabilities and changing the way they traditionally interact with customers.

These improved customer touchpoints have drastically improved businesses' ability to segment and target customers, provide more accurate channel strategy, and conduct sentiment analysis based on a caller's vocal tone. Sentiment analysis in particular has enabled companies to improve their one-on-one engagement with customers without significant overhead, as algorithms can prioritize, and sort callers based on vocal tone. Additionally, leading lending institutions have leveraged new, advanced technologies such as artificial intelligence and machine learning to advance other business functions, such as marketing, inbound customer service processing, and fraud ops. But, failing to inculcate the lessons from 2008, these same institutions have not deployed these technologies and used these lessons to improve loss mitigation efforts through contact centers.

Lenders can take a crucial step in their loss mitigation plan by identifying, empowering, and optimizing interactions with those customers most likely to default.

Banks must begin leveraging contact centers and advanced technologies to confront the changing operating environment and the coming recession by taking advantage of three opportunities. First, omnichannel contact centers can process customer data and behavioral cues to identify customers who are more likely to default in troubling times. This process is not revolutionary: it simply borrows a similar process used in the marketing department for micro-segmentation and advanced marketing.

In this instance, it is used to identify customers of concern – especially with an impending recession – by leveraging data related to behavior, value, and risk. Second, these contact centers can empower operations groups with channel strategy and timing models, enabling personalized communication strategies to better engage with customers. Third, the combined capabilities of the contact centers and advanced technologies can optimize the contact channel strategy for lenders, helping the bank identify whether they want to chase down Ashley's debt themselves, outsource the collection, sell the debt, or pursue legal action.

If lenders leverage their ability to identify, empower, and optimize their interactions with customers who have defaulted – or will default soon – they will be able to control their loss mitigation much more closely and put themselves ahead of their competition when times get challenging.

REASONABLE COSTS FOR BIG BENEFITS

The reality, of course, is there are costs and risks associated with utilizing omnichannel contact centers to improve loss mitigation. Significant capital expenditures – in the form of machine learning investments and improved IT infrastructures – will also accompany increased operating expenses, especially at the contact center level. There are also necessary implementation costs to pilot, deploy, and scale the solution phases, in addition to the short-term inefficiencies that are created as business units and IT teams align to support the effort.

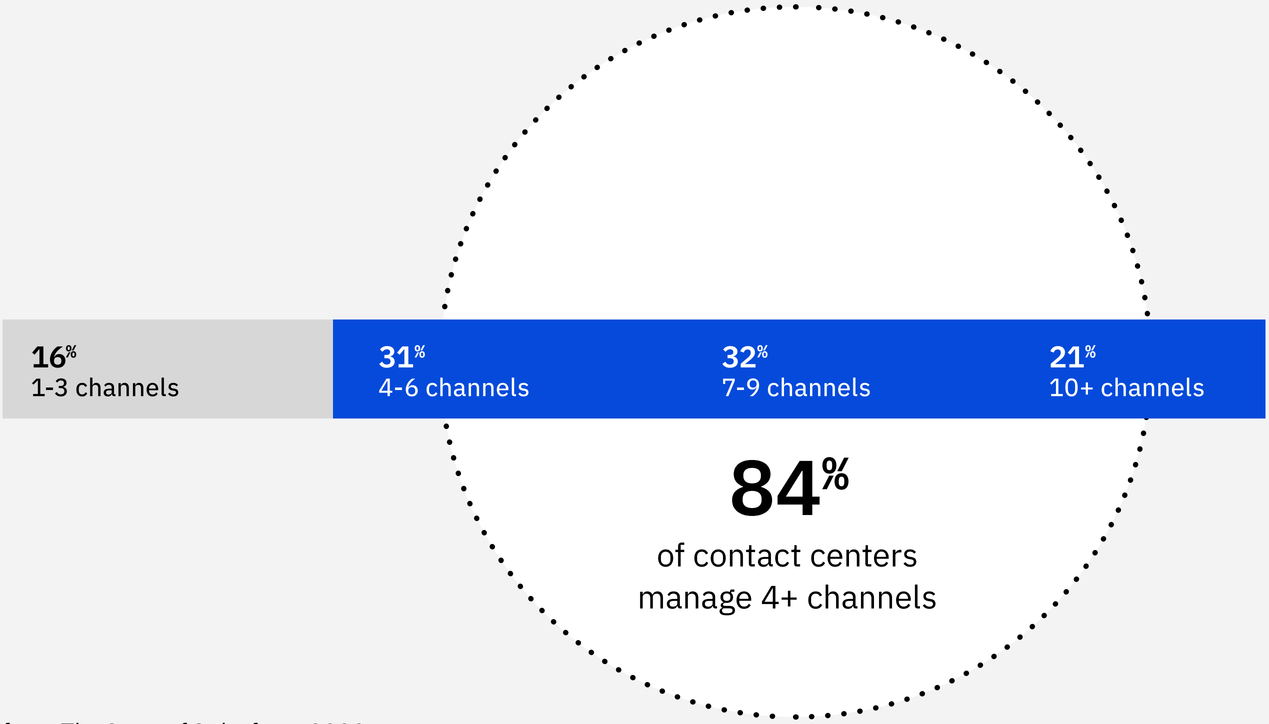
By “nudging” customers into understanding when their interest rate will go up – from 0% to 3%, for example – customers are more likely to pay off their debt earlier.

But the benefits are numerous and will easily outweigh the costs in the long run. The first clear benefit is reducing the number of customers who progress to later stages of delinquency. Recent research shows by “nudging” customers into understanding when their interest rate will go up – from 0% to 3%, for example – customers are more likely to pay off their debt earlier.[3] Though there are financial apps that support this nudging process – such as the “Debt Manager” app – most are unable to provide detailed calendar functions to fully leverage the “expediting effect” the researchers discovered.[4] A lender’s smartphone app could implement this feature and, combined with engaged contact center teams, nudge their customers even more effectively.

Indeed, lenders should be doing this already, as the small software implementation costs easily outweigh the significant financial benefits lending institutions would receive. The second benefit is one debt collectors always strive for and frequently escapes them: improving the collection rate. Combining a common contact center technology – interactive voice recordings (IVRs), which are used throughout lending institutions to automate inbound phone calls – with basic behavioral economics – asking customers to pledge the amount they will pay, and when they will pay it – can increase the likelihood of payment by 2.5% and the payment speed by half of a day.[5]

Combining these highly scalable IVR inbound solutions with similarly empowered employees conducting outbound engagement in the omnichannel contact centers would lead to significant increases in consumer payments and earlier payments to the lender. Third, these large lending companies can benefit by reducing their loan loss reserves, enabling capital to be released for higher returns or for use on broad business initiatives. This will not only impact the business’ bottom line but as the contact centers continue to refine their risk profiles of customers based on new and relevant data streams, the loan loss reserves can continue to be reduced.

The most effective contact centers are managing over four customer channels



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These benefits are not hypothetical. Leading lenders are in the beginning stages of utilizing technologies to improve their loss mitigation strategies. IBM and Bluewolf, IBM's Salesforce practice, have worked with a large insurer to identify two additional factors related to the rate of loan defaults that were not part of the insurer's risk model. With an impending economic downturn, other lending institutions could begin identifying similar macroeconomic indicators to help better identify risky customers and how to better communicate with them through omnichannel methods.[6] Similarly, IBM and Bluewolf have helped a large US credit union to introduce behavioral segmentation to drive enhanced, real-time marketing campaigns.

In this instance, IBM accelerated revenue growth by identifying 18 differentiated customer segments and defining five separate marketing campaigns that would be triggered based on member offers. With similar strategies and techniques, this same model could – and should – be applied to loss mitigation of lenders. For example, this process modification could enable the identification of five different types of risky customers and three different campaigns to engage their uncertain financial behaviors, helping to increase payment likelihood and on-time payments.

REALISTIC NEXT STEPS

To begin more accurately and productively engaging customers like Ashley Jones, there are a series of actionable steps financial institutions can take. First, the business must understand whether they have the right tools in place to begin considering optimization of their consumer risk portfolio: the raw customer data, the enterprise technology, and the complementing analytics capabilities. The cross-functional nature of this initiative will require a thorough examination of whether the tools – including digital and contact center capabilities such as omnichannel contextual awareness – can be leveraged in their current state or additional resources are needed. After conducting this gap analysis, the heavy lifting can begin: the analysis should be used to develop a strategy for pilot implementation by enhancing, modernizing, leveraging the tools from marketing – such as artificial intelligence and machine learning – for loss mitigation.

In this second step, the business will identify the appropriate customers, empower operations groups with dynamic new information, and optimize contact center strategy with customers. This step is critical to better measure the effectiveness of "nudging" a small, representative group of customers, helping to improve the feedback loop and refine the process. The third and final step is to begin iterating and scaling the pilot, making necessary, population-specific tweaks to improve predictive outcomes. Throughout this process, executive support of stakeholders with accountability into loss mitigation and customer engagement will be critical, especially as the business scales.

The AI Partnership For Contact Centers

IBM Watson knows the person

Watson uses advanced AI capabilities with embedded machine learning to understand, analyze, and contextualize documents, files, cases, and more from diverse sources outside of Salesforce.

- Surface insights from previous customer cases
- Analyze nuanced tone and sentiment of customers and their reviews
- Extract relevant insights from thousands of news articles

Salesforce Einstein knows the customer

Einstein helps you identify a customer's individual needs and puts them into the context of their history with your company's brand.

- Determine which customers are most likely to churn
- Identify which leads and opportunities are most likely to convert
- Understand sentiment and intent in text

A PROFOUND OPPORTUNITY

There is a wealth of indications that a financial recession is coming in the next 18 months, a scary thought for consumers like Ashley Jones and consumer lenders such as Skier's Bank. Financial institutions have the profound opportunity to leverage current assets – omnichannel contact centers and enabling technologies – for loss mitigation. By identifying risky customers, empowering front-line operations, and optimizing contact channel strategy, lenders can help consumers avoid default and improve lenders' ability to collect. While this won't be a cure-all solution to a recession, it will reduce the financial hit to the business and also ensure Ashley can enjoy her days on the ski slopes this winter.

Next Steps for Consumer Lenders

01

Understand what customer identification tools the company uses

02

Identify risky customers and create new contact channel strategy

03

Began the pilot on risky customers, iterating and scaling the channel strategy quickly

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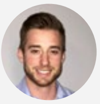

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