

**Building a Collection and
Recovery Strategy
with Automated Collections**

Contents

Introduction	3
What Is a Collection and Recovery Strategy?	5
The Components of a Strategy	7
In-House vs. Outsourced	9
Retention vs. Recovery Focused	12
Short vs. Long Span	14
The Pitfalls of Common Strategies	17
How Can Automation Improve Collection Strategies?	22
How Do TrueAccord's Products Fit into Common Strategies?	27
Bottom Line	28

About TrueAccord

TrueAccord offers a machine learning-based collection service that improves performance, reduces legal risk and cuts costs. For the past few years, the company has been providing better results to creditors from various segments, demonstrating recovery improvements of up to **5 times**.

Using its machine-based, scalable approach, TrueAccord offers products that augment your collection strategy and improve results without having to replace your contingency vendors. TrueAccord is a licensed debt collector that easily fits into your placement stream, as 3rd or 1st party collectors. To learn more, [visit our website](#).

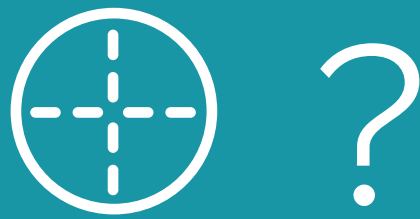
Introduction

Every company deals with defaulted customers and unpaid bills – chargebacks for ecommerce companies, defaults for lenders, and more. The reasons for those debts, and the strategies for handling them, differ widely.

There are many options and various vendors out there, and those can be confusing for a newcomer. For veterans, the development of technology in the debt collection space offers new tools that can refresh, update and greatly improve returns from a strategy that may have been set years ago.

In this ebook, we'll review collection strategy basics, their typical components and common pitfalls – as well as how modern technology can help them improve.

We hope that this ebook will help guide you in your choice of internal and external processes that will boost your returns and increase your retention.



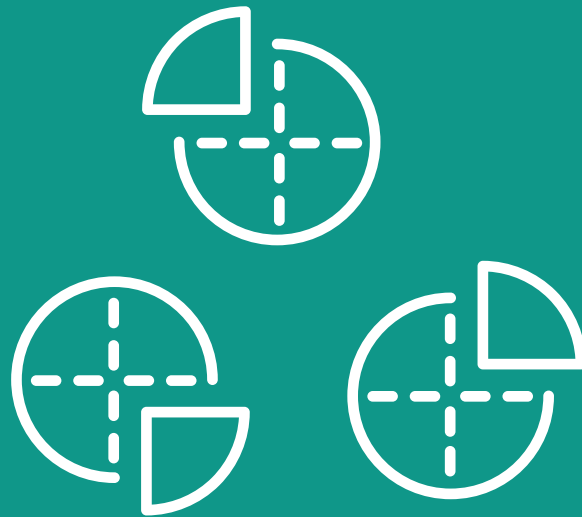
**What is a Collection and
Recovery Strategy?**

What is a Collection and Recovery Strategy?

A Collection and Recovery strategy encompasses all the actions performed through the lifetime of the defaulted account, in order to maximize the chances of recovering outstanding balances.

A strategy changes as the account ages – starting from pre-writeoff, when an account is merely late on a payment, through post-writeoff when the account is clearly in default and won't return to normal business activity.

As time from default goes by, actions on the account vary from very light and retention focused ones to recovery focused, up to legal action. The type of vendors and tools employed in each stage varies as well.



What Are the Components of a Strategy?

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Strategies vary with based on the debt incurred, the industry a company operates in, and the its risk appetite. When considering which tools to use, strategists look at a few decision dimensions:



In house vs. outsourced



Retention vs. recovery focused



Short vs. long span



What Are the Components of a Strategy?

In-House vs. Outsourced

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In-House vs. Outsourced

In-house collections

In-house collections, by an internal team, are chosen by companies that view the process as brand sensitive and legally risky.

Experience focused companies want to control every communication presented to their customer, even if defaulted, and make sure they come back to do business. Large financial institutions know that with time, it is very likely that a customer who was previously in collections may come back. Maintaining brand is more important than recovering the last dollar.

Compliance focused companies view outsourcing collections as a legal liability, since a company can be liable for any compliance violation by its outsourced collector. With increased regulation and the collection market's problematic reputation, it's often the safer choice to not outsource any recovery activity.

Historically, outsourcing to 3rd parties meant losing control over communication content and quality, especially in the vast number of phone calls made by collectors. New age collection technology allows better control and auditability, while reducing human to human contact when that is unnecessary.



What Are the Components of a Strategy?

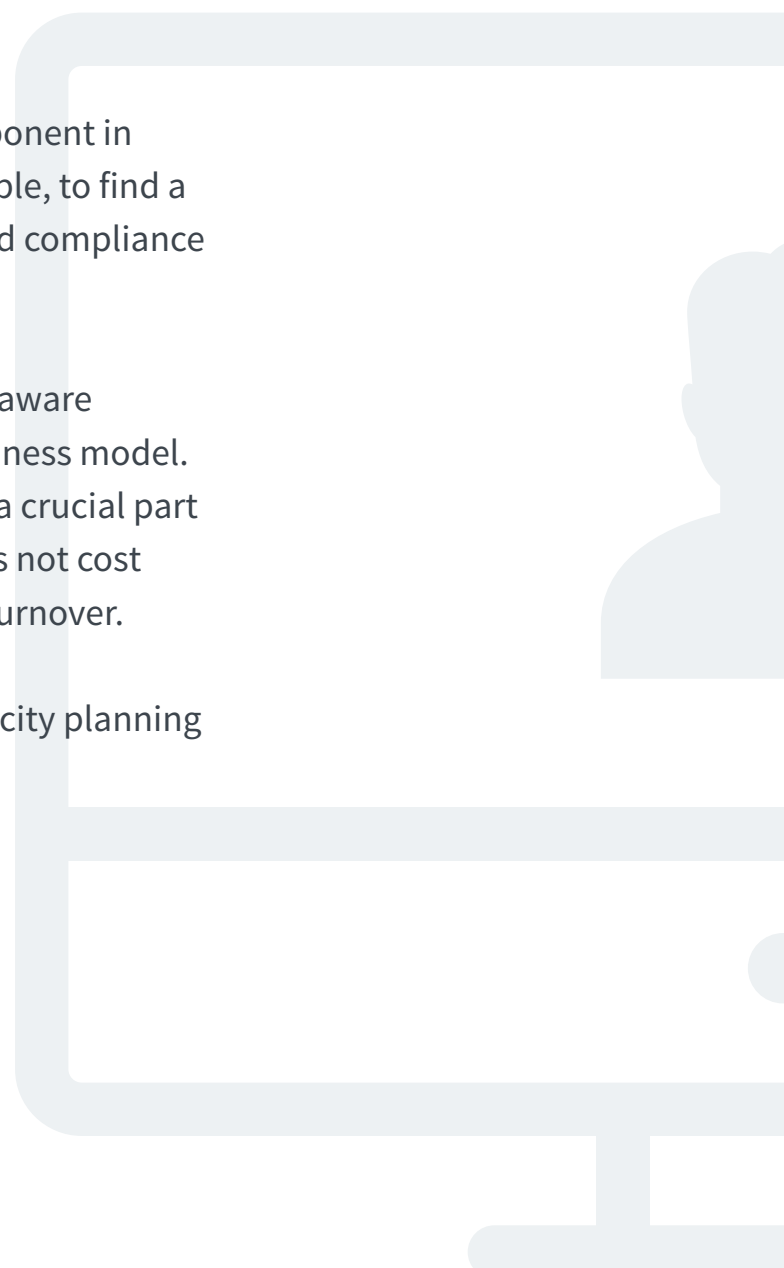
In-House vs. Outsourced

Outsourced Collections

Outsourced collections are a very common component in most collection strategies. It's difficult, but possible, to find a collection service that aligns with your values and compliance requirements.

Outsourced collections are often chosen by cost-aware companies for whom losses are a part of the business model. A dedicated team of collection experts becomes a crucial part of the process, but growing a big in house team is not cost effective due to training requirements and high turnover.

Outsourced collections provide flexibility in capacity planning without the fixed cost, and increase recovery.





What Are the Components of a Strategy?

Retention vs. Recovery Focused

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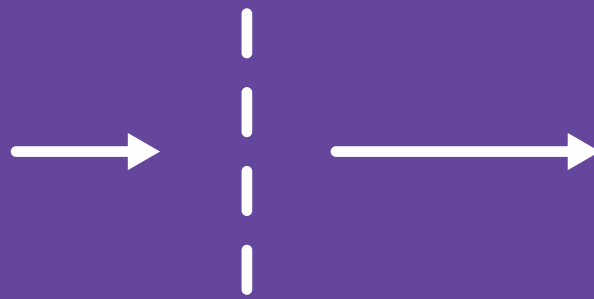
Retention vs. Recovery Focused

Retention

Retention focused companies tend to focus on brand perception and user lifecycle management rather than the recovery of every last dollar. These companies will focus on ongoing communication and dialogue with the customer, in an attempt to reach an amicable solution.

Recovery

Recovery focused companies will use a wide variety of tools to maximize the percent of dollars recovered per customer. These companies will more often utilize reporting to credit bureaus and legal action as a way to force a customer to pay. Outsourced collections provide flexibility in capacity planning without the fixed cost, and increase recovery.



What Are the Components of a Strategy?

Short vs. Long Span

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Short vs. Long span

Short Span



Short span focused companies care about short term cash flow and Net Present Value of cash, as well as simplifying their portfolio by offloading bad debt early. These companies are more likely to sell their book of debt to a certified buyer for cents on the dollar post write-off.

Long Span

Long span focused companies prefer reaching higher returns later than the immediate – but lower – returns offered by selling. These companies do not sell their debts, but have a multi-stage strategy for making the most out of their portfolio as it ages.

What Are the Components of a Strategy?

How Preferences Translate to Strategy

	 In house	 Outsourced
Retention, Short span	Single in house effort pre write off, then stop collections	Managed 1st party pre write off, then stop collections
Retention, Long span	Single in house effort in pre write off, then occasional check ins for up to several years	Managed white label pre write off, branded 3 rd party recovery through statute of limitations limit
Recovery, Short span	Single in house effort pre write off, then single sale	Managed 1 st party pre write off, then single sale
Recovery, Long span	A combination of in house collections and legal action	2-3 tiers of outsources collection efforts based on debt age, followed by legal action for some segments



The Pitfalls of Common Strategies

The Pitfalls of Common Strategies

There are multiple reasons for adopting one strategy over the other. However, every strategy has built in areas of weakness that may cause it to make less money than possible.

Strategies shouldn't be stagnant, and as new tools present themselves, strategists can continue to fine tune their strategy and improve returns.

We often see the following issues with common strategies:

- Under-charging when selling or over-paying when outsourcing
- Only focusing on a small percentage of customers in an outsourced strategy
- Losing customer relationships in a sell or litigation heavy strategy

The Pitfalls of Common Strategies

Leaving Money on the Table with Sellers and Traditional Agencies

When selling debt or outsourcing, the lender's interface with vendors is almost deceptively simple. Without a significant investment in segmentation before placing or selling, companies tend to mix high yielding accounts with low yielding ones – and end up recovering less from the former so they can get rid of the latter. Even when segmenting, collection strategists often settle on a simple champion/challenger model for each segment to get the best price or lowest contingency rate.

This limited model is based on two issues: first, the (generally true) assumption that collection services are commoditized and don't offer any unique technique, so price is the only differentiator. Second, there isn't a lot of data feedback in collections to allow proper behavior-based segmentation. Collection agencies aren't set up to provide it, and debt buyers will often not want to share. The only mode of operation is to sell or place and forget about the debt for a while.

The Pitfalls of Common Strategies

Narrow focus in collections

Traditional debt collection is difficult to scale, and heavily relies on humans making phone calls. Collection agents to stay away from accounts that require a lot of interaction to recover. Because of the high cost of making a call, agencies will focus on calling accounts with the highest yield for them. Low balance accounts, accounts that cannot currently pay or ones that require a long time to convert will get less attention. That creates underserved segments and lower returns for the lender.

The issue is the limited set of tools offered to collection strategists. The low margin problem is inherent to call centers, and most debt collectors are exactly that. They have no ability to provide the type of flexibility required by and lender that doesn't have high average and median balances and low variation. A lot of money is left uncollected in the long tail.

The Pitfalls of Common Strategies

Losing Customer Relationships

A common wisdom is that retaining customers is a much more profitable activity than acquiring them. Yet when reaching recovery, most companies default to relatively aggressive tactics with limited regard to the customer's unique situation and the chances of retaining them.

Large financial institutions realize that during the lifetime of a customer, they may end up in collections but recover over time and get back to being a profitable customer. This is why more banks and non-bank lenders adopt a customer-friendly approach in recovery, giving customers flexible repayment options with the goal of keeping them engaged. Long term, this approach is more profitable, but harder to maintain with traditional sell/outsource tools because of their limited scalability and lack of commitment to the lender's brand.



How Can Automation Improve Collection Strategies?

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Automation and digitization offer new tools for the collection strategist, augmenting the traditional building blocks. Common pitfalls can be mitigated by these new tools, introducing flexibility and sophistication that are usually attributed to other parts of the business.

There are three major areas where automation and digitization can boost a collection strategy:

- Early contacts and improved segmentation
- Persistent communication
- Improved customer satisfaction

How Can Automation Improve Collection Strategies?

Improved Performance Through Early Contacts and Improved Segmentation

Automated collections are scalable. This means communicating with all customers as early as possible in the collection cycle, quickly working to resolution with those who can pay. In traditional call-center collections, up to 50% of meaningful interactions are made within the first 30 days of communication. With an automated strategy, most of that value can be captured in a much more cost effective manner.

Further, automated and digital collections create a wealth of data that cannot be gleaned from calls. User clicks and browsing, time and day of activity and more. The data can be used to segment accounts to those who are engaged, those who'll respond better to phones, and those who should be sold or otherwise handled. It allows much more flexible exit criteria than placing for a set number of months, no matter what happens with the account. This means giving accounts the treatment they need at the right time, improving performance.

How Can Automation Improve Collection Strategies?

Improved Performance Through Persistent Communication

Customers in debt are in a dire situation, they can't pay the balance in full, and many times even a payment plan isn't feasible. A call center is limited in its flexibility – beyond a certain number of payments or customizations, handling a payment solution with a human agent is too expensive. These accounts risk being mishandled.

Automated collections have a tremendous advantage in handling complex cases. The platform consistently follows up with customers using multiple channels, offering various solutions according to an optimized offer strategy, and administers changes in those solutions (split payments, rescheduling and more) over time as needs change. These tools can accept and administer a monthly \$5 payment that increases over time, even if the customer misses a few payments and needs consistent follow ups. When the vast majority of contacts are automated, even small amounts are profitable – and add up.

TrueAccord sees more than 35% of customers in an average batch click on a link and negotiate with an automated system, thanks to diligent and relevant follow ups. Working on the long tail of underserved accounts yields 1-4% of additional recovery – dollars that would otherwise be considered lost.

How Can Automation Improve Collection Strategies?

Improved Customer Satisfaction

The daily grind of agents talking to customers in difficult situations coupled with tight regulation is complicated. While talking points and call scripts are used, it's impossible to control what actually happens in a call in real time.

When debt collection is automated, many of these problems disappear: machines aren't baited or biased by angry customers, and maintaining code-controlled compliance is much easier than controlling hundreds and thousands of human agents. Machine based communication is pre-written, with no way to deviate, and every action is properly logged to offer incredibly auditability. The system stays on brand, and delivers a consistent experience to all customers based on pre-set requirements.

A great experience has other benefits. Finding the way to get late customers to work with you again also increases Life Time Value and increases revenues in the long run. Some of TrueAccord's customers see more than \$2 in added business from paid-up debtors for every \$1 recovered.



How Do TrueAccord's Solutions Fit into Common Strategies?

How Do TrueAccord's Solutions Fit into Common Strategies?

TrueAccord offers three programs to optimize your strategy.

Qualifier

Qualifier is a short-duration program aimed at return-driven strategies. It fits before selling or outsourcing. Qualifier offers early contact and improved segmentation, letting you “skim off the top” before placing for a lower cost as well better segmented accounts for future placement.

Optimizer

Optimizer is a long duration program for the long tail. Aimed at return-driven long-term strategies, it can work in conjunction with a debt collector or after the debt collector’s efforts are done, employing an automated high touch strategy to recover every possible last dollar from customers. Optimizer improves performance through persistent communications so every available dollar is recovered.

TrueAccord also offers full service collections that fit into a brand and compliance aware strategy. The platform’s automation, pre-approved content and high auditability provide great returns while supporting a low risk and retention focused strategy.

Bottom Line

We covered several topics in this eBook: basic terminology in collection and recovery strategies, common components, and their pitfalls. We discussed ways in which technology and automation can help facilitate better returns with better compliance and user experience, and touched on TrueAccord's offering and how it fits with those needs.

We hope you'll use this eBook to rethink parts of your collection strategy to improve your returns, reduce average spend, and hit your goals faster.

Check our resources page on the [TrueAccord website](#).