Latest trends, ideas and support

Arrears and Collections

Credit Unions and Community Banking

December 2023

Credit Union Arrears & Collections Study

Background

- 3rd update - iteration

  - Credit Unions: Staying Ahead [Oct 2022]

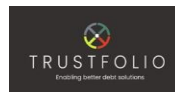 - Handling Increased arrears [Feb 2023]

  Today

  - Arrears and Collections Benchmarking Study

    - Update on Arrears trends (CU-CB only)

    - Planning for 2024

    - Ideas and considerations

Agenda
- Arrears Levels
  - Current observations
  - Leading indicators
  - Outlook for 2024, challenges to be solved
- Contact and Engagement with Customers
  - The role of technology and digital
  - Human and digital contact – complexity and need
- Financial Difficulties and Vulnerability
  - Latest Trends
- Technology
  - Leveraging tech to do more
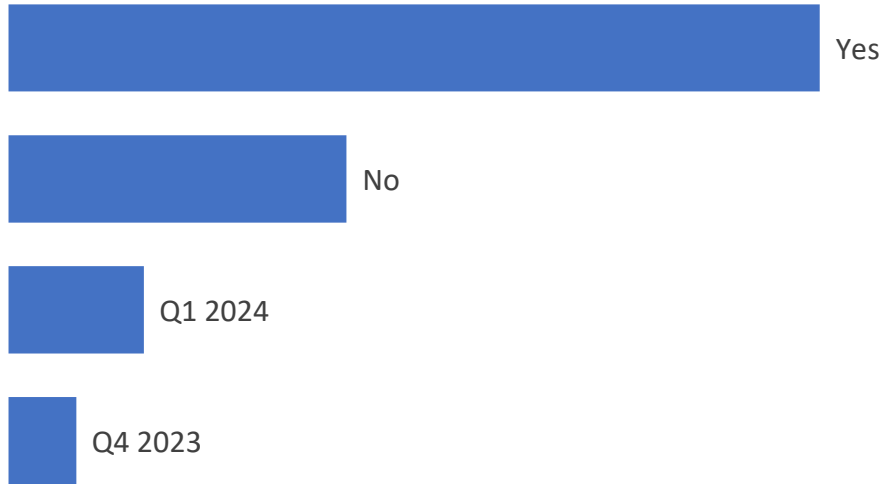- Other Topics - Close

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Arrears Levels

Are you seeing Arrears levels increase?

- Yes
- No
- Q1 2024
- Q4 2023

... being driven by

- Rising cost of living reducing disposable income.
- Higher mortgage rates squeezing household budgets.
- Benefit delays and sanctions exacerbating financial strain.
- Inflation pressures household spending on essentials.
- Economic uncertainties fuel job security concerns.
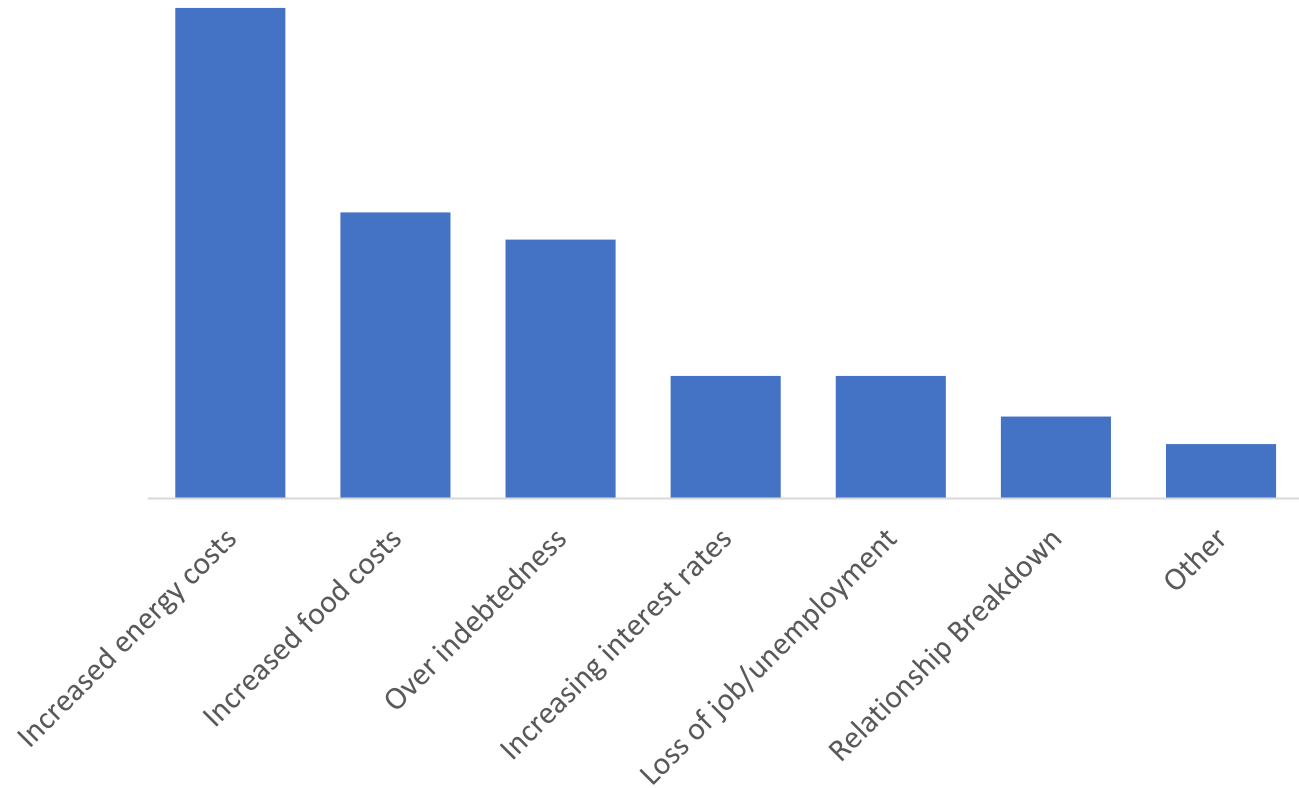- Increased use of debt management plans and IVAs.

Arrears Challenges

Current Challenges and Trends

- Mortgage payments straining financial stability.
- Persistent cost of living pressures.
- Income shocks impacting payment abilities.
- Increased interest rates causing member unrest.
- Mental health issues linked to financial stress.
- Essential costs outpacing incomes.

- Challenges in member engagement and support.
- Rises in third-party debt solution engagements.
- Growing demand for debt consolidation loans.
- Debt management plans seen as debt relief.

Bar chart categories: Increased energy costs, Increased food costs, Over indebtedness, Increasing interest rates, Loss of job/unemployment, Relationship Breakdown, Other

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2024 Outlook

Arrears

Reasons

Contact

Engagement

Vulnerabilities

Outcomes

Future Developments

Benchmarking

Next Year Outlook

- Bad debt costs significantly increasing.
- Persistent high provisioning costs continuing due to arrears levels.
- Potential decline in lending volume and value.
- Financial pressure affecting all, especially non-beneficiaries.
- Long-term high impairment risk persisting.
- Rising trends in IVA arrangements.
- Increasing arrears anticipated, especially in winter.
- Need for revision of lending policies and processes.
- Concerns about members' debt management knowledge.
- Credit Union's profitability improving with policy changes.

Top Leading Indicators

- Frequent borrowing requests - repeat credit applications.
- Missed repayments, requests for payment reductions or holidays.
- Members using savings to pay off loans.
- Increased reliance on credit for everyday expenses.
- Regular, large withdrawals indicating financial instability.
- Declining credit scores and increasing credit card repayments.
- Difficulty in contacting members after payment issues.
- Changes in deposit frequency and withdrawal patterns.
- 'Good' accounts now missing payments.
- Direct debits bouncing and unusual account activity.

Contact

Contact channels: a more traditional approach

- Inbound - Telephone Calls
- Outbound - Letters
- Outbound - Email
- Outbound - 1 way SMS
- Outbound - Telephone Calls/Dialler
- Outbound - 2 way SMS/Messaging
- Inbound - Messaging SMS
- App
- Chatbots
- Webchat/App chat
- Outbound - IVR/IVM
- Inbound - IVR
- Agent Chat

Most Used   Most Effective
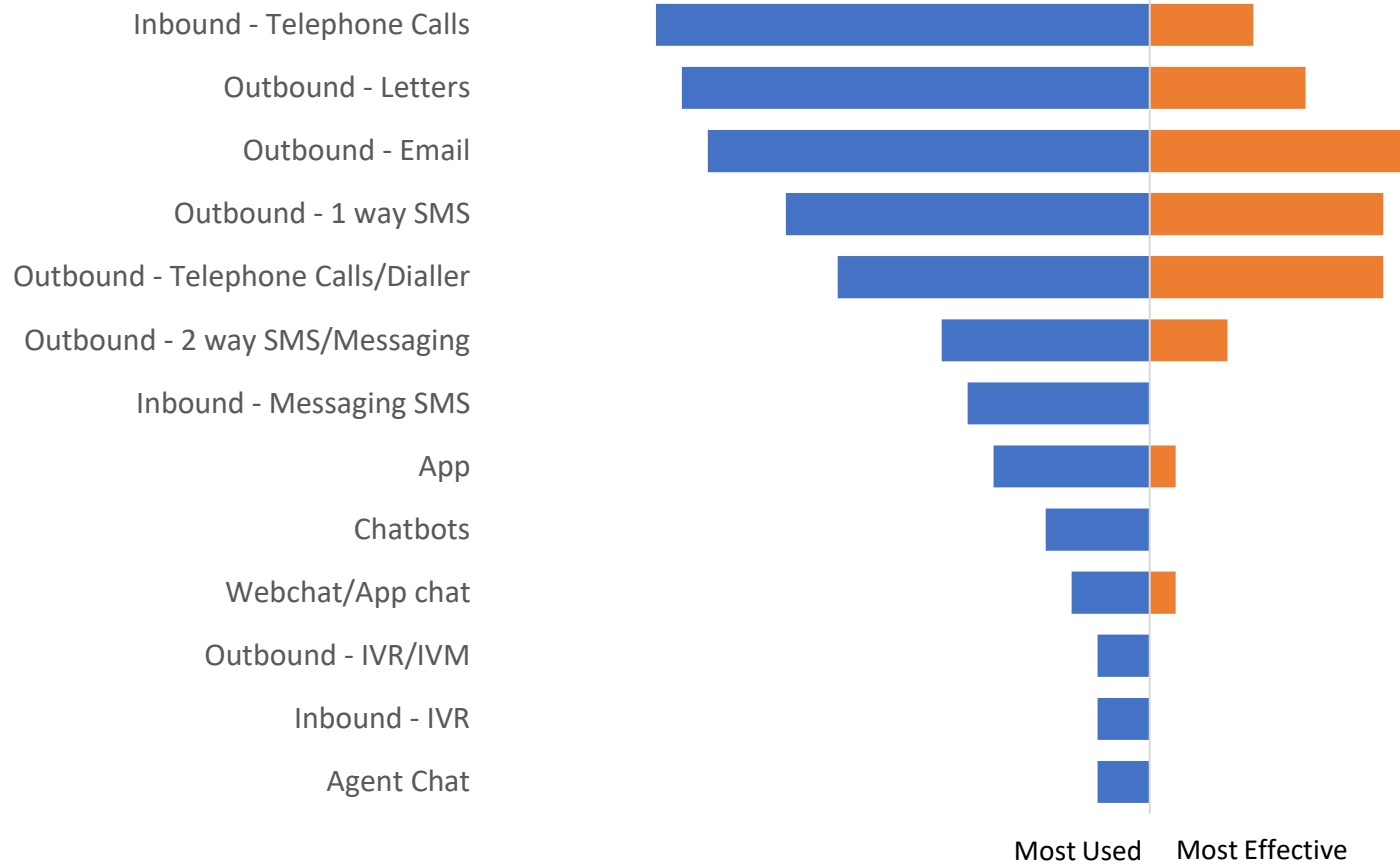
Customer Interaction via Digital
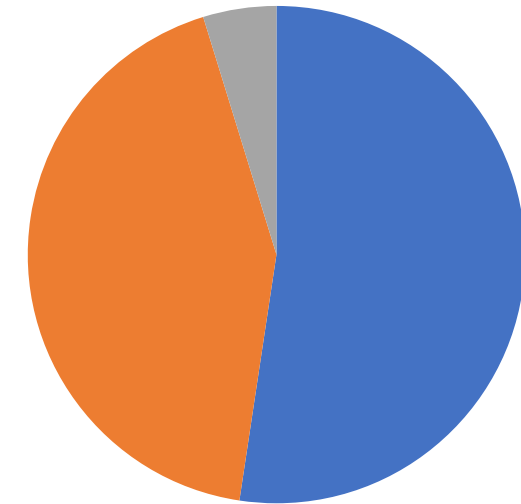
■ Increasing   ■ About the same   ■ Decreasing

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Contact

What are views on the use of digital

- Phone negotiations most effective for payment arrangements.
- Digital collections growing but require resource allocation.
- Personal contact preferred over digital in collections.
- Human interaction crucial in delicate arrears situations.
- In-person or phone contact provides deeper insights.

- Digital options beneficial for debt-averse individuals.
- Secure messaging in app increasingly popular.
- Digital methods useful for initial arrears contact.
- Digital services' effectiveness vs. human service debated.
- Digital collections facing challenges in member engagement.

... AI/LLM/GPT adoption has not really started

■ Not started at all   ■ Just started - some pilots

... although there is interest, albeit with some concerns

- AI for improving efficiency and early detection.
- Openness to integrating AI with existing systems.

- Emphasis on the importance of human interaction.
- Concerns about high costs and lack of infrastructure.
- Uncertainty and need for more information about AI effectiveness.

Engagement

Arrears
Reasons
Contact
Engagement
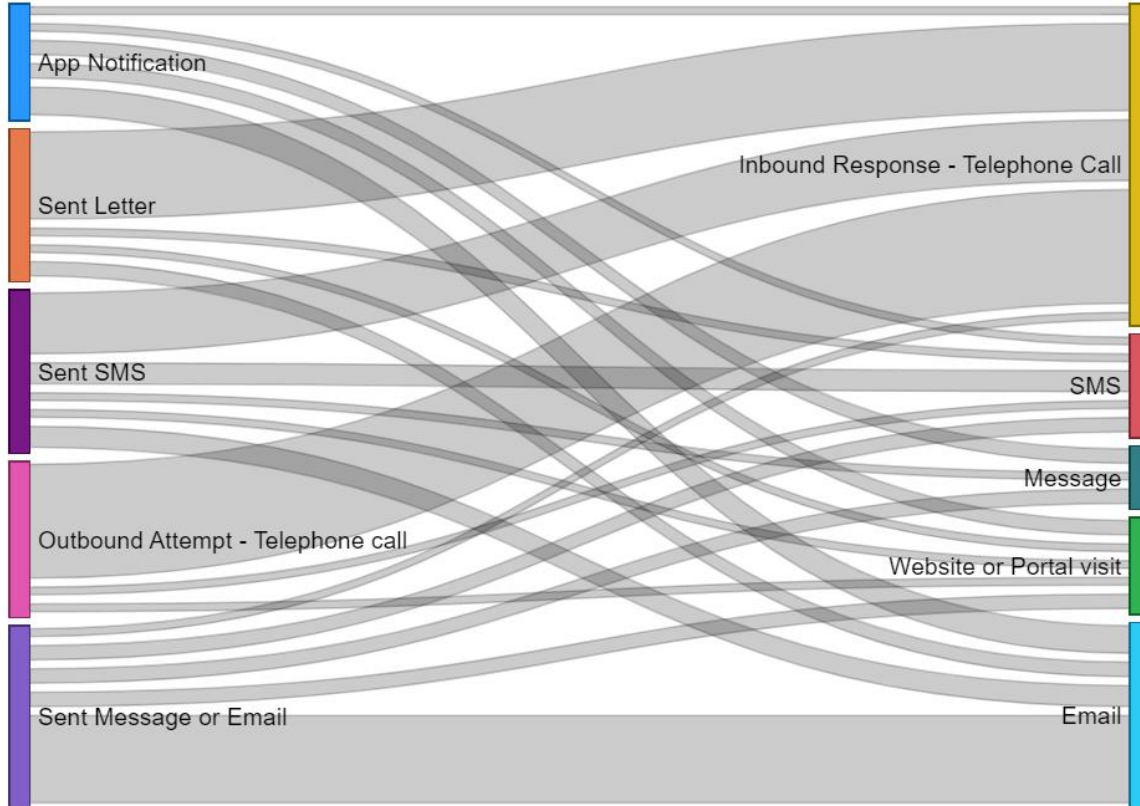Vulnerabilities
Outcomes
Future Developments
Benchmarking

There is complexity around contact channels

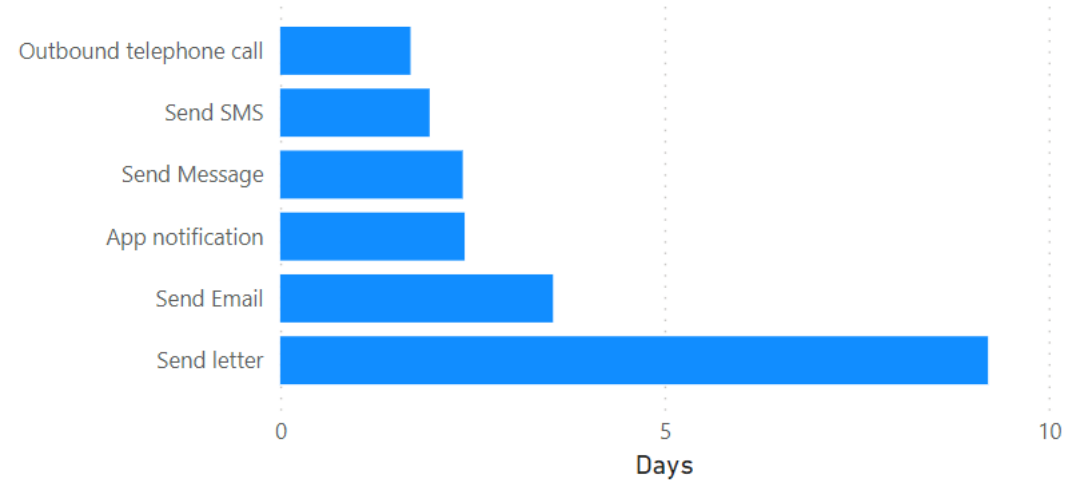... each has a different cost profile

Member preference...

... and response timeframe

Outbound to Inbound

How we ask members to respond, their preference and technology available are all important
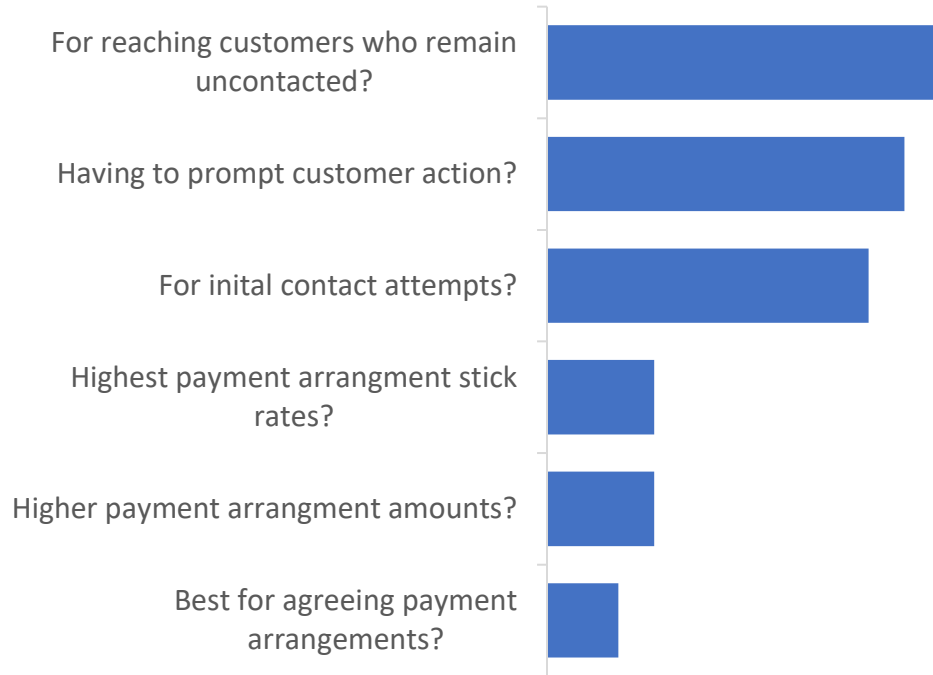
Engagement

Arrears
Reasons
Contact
Engagement
Vulnerabilities
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Digital seen as best early journey...

... yet needs to be seen in a wider context of best practice

Chart (horizontal bar):
- For reaching customers who remain uncontacted?
- Having to prompt customer action?
- For inital contact attempts?
- Highest payment arrangment stick rates?
- Higher payment arrangment amounts?
- Best for agreeing payment arrangements?

- Consistent credit control flow with calls, emails, texts.
- Credit control process: calls, emails, legal actions.
- Direct messaging with clear consequences for non-engagement.
- Emails and phone calls as primary engagement tools.
- Revise collections strategy for engagement and clarity.
- Use legal actions to spur engagement.
- Emphasis on empathetic and practical communication.
- Flexible contact times and varied communication methods.

Financial Hardship & Vulnerability

Need for evidencing good customer outcomes?

■ Yes ■ No ■ No Response

Main types of vulnerability being seen

- Financial and mental health.
- Language and literacy barriers.
- Economic concerns and fear of future financial instability.
- Gambling issues.
- Members' reluctance to disclose mental health or sickness.
- Assistance for financially vulnerable and low-income members.

How to support better outcomes

- Empathetic approach to member interactions.
- Regular, adaptable communication with members.
- Clear, concise, and member-centric communication.
- Consumer Duty aligned with members' wellbeing.
- Ethical lending as part of social mission. Credit Union ethos prioritising member support over profit.
- Focus on customer outcomes and financial wellbeing support.
- Early engagement and solution-focused staff training.
- Flexibility in payment arrangements
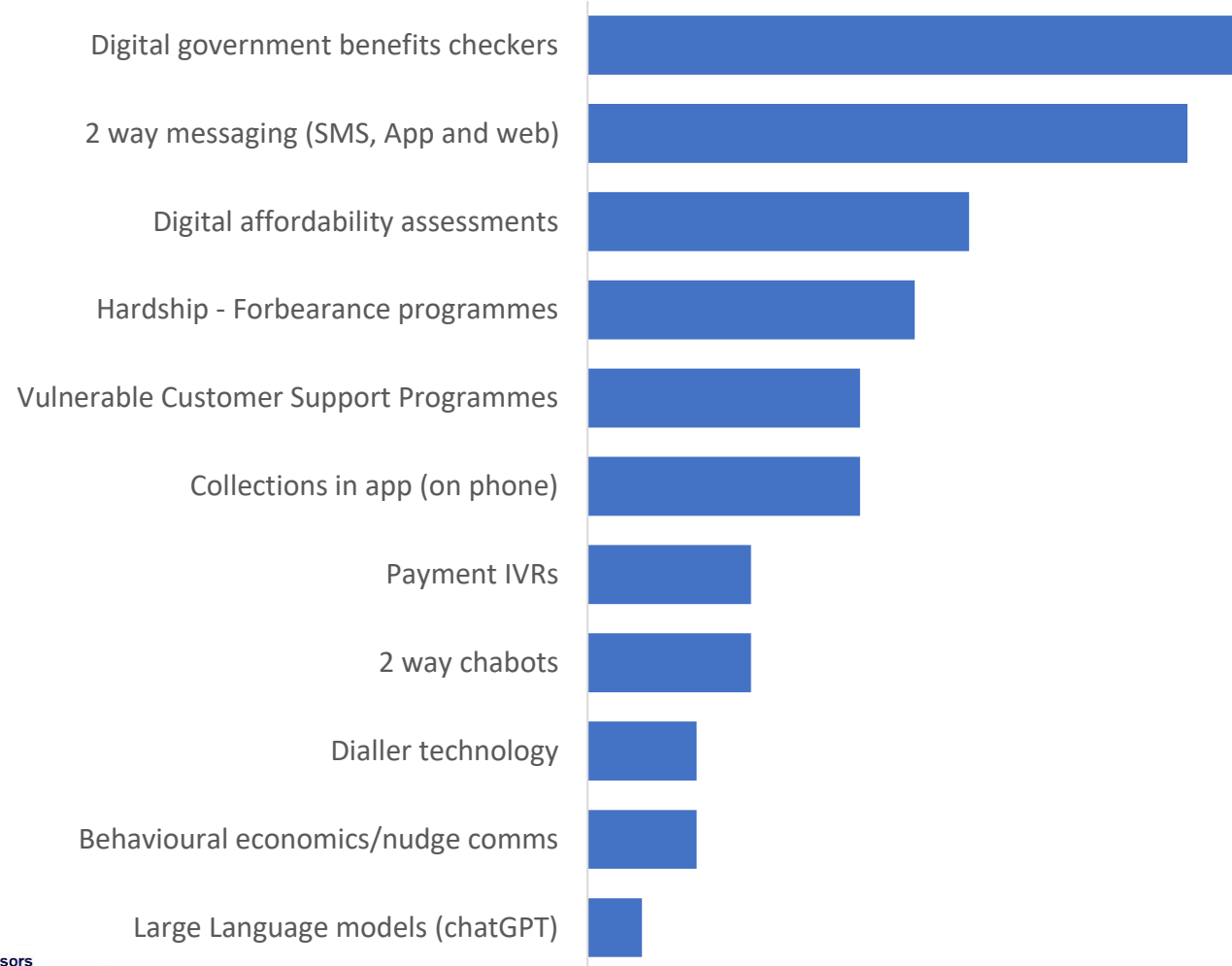- Protecting members from high-risk lending practices.

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Current Journey Status

Current Technology Deployment

Bar chart — Current Technology Deployment (ranked longest to shortest):
- Digital government benefits checkers
- 2 way messaging (SMS, App and web)
- Digital affordability assessments
- Hardship - Forbearance programmes
- Vulnerable Customer Support Programmes
- Collections in app (on phone)
- Payment IVRs
- 2 way chabots
- Dialler technology
- Behavioural economics/nudge comms
- Large Language models (chatGPT)

Challenges today

- Additional regulatory requirements (eg Consumer Duty) – limited resources
- Declining member savings - need for new products.
- Challenges in attracting new members, engaging existing ones.
- Managing and preempting bad debt costs.
- Necessity for capital and technology upgrades.
- Economic challenges, COVID recovery, and cost of living impacts.
- Deterioration in loan application quality.
- Concerns over rising IVAs and DMPs.
- Increasing operational costs.

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Future Journey Status

Future Technology Plans

Digital affordability assessments

Behavioural economics/nudge comms

Segmentation and Right time to call

Collections in app (on phone)

2 way chabots

Vulnerable Customer Support Programmes

Large Language models (chatGPT)

Payment IVRs

Hardship - Forbearance programmes

Voice and message analytics

Digital government benefits checkers

Dialler technology

2 way messaging (SMS, App and web)

Greatest Areas of Excitement

- Utilising machine learning for decision-making and collections.
- Optimizing customer journeys with digital tools.
- Enabling easier self-service for members.
- Balancing modern technology with personal contact.
- Automating processes through technology.
- Development of mobile apps and problem-solving approaches.
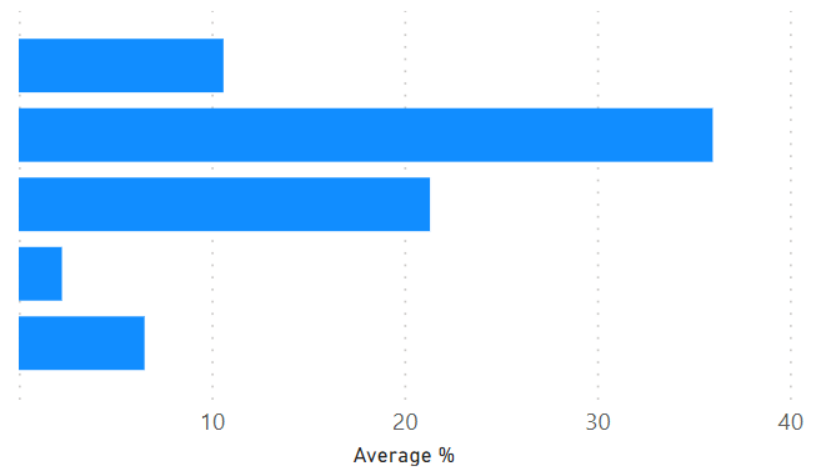- Excitement for digital enhancements without losing current strengths.

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Benchmarks

Benchmark	Mean	Median	Std Dev
8.1 What is your delinquency (collections entry or arrears) rate?	10.62	4	15.07
8.3 What % of your customer contact is digital in nature	36.00	30	34.41
8.4 What % of this contact is 100% end to end digital?	21.33	5	28.33
8.5 What is your involuntary churn/cancellation rate?	2.24	0	6.62
8.6 What is your Bad Rate/Write Off rate?	6.52	2	10.09

Benchmark	Mean	Median	Std Dev
8.2 What is your delinquenct account/collector ratio?	48.81	0	122.54

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Thank you

Future Areas for Discussion

- Effectiveness of digital collection methods and apps.
- Strategies for loan book growth and increasing loans.
- Best practice.

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