

eBook

# 5 Trends in Consumer Loan Collections

*AI + Decision Automation: The Key  
to Maximizing KPI Performance*



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# Collections in Consumer Loans: Where are we now?

The loan collections department of consumer banks are facing a perilous operating environment, with no near time recovery in sight, and increasing likelihood of defaults:

- Layoffs since the beginning of the year have impacted the creditworthiness of borrowers
- The outcome of hearing on the debt forgiveness program may not have an easy way out
- The debt ceiling has nearly touched the roof in an attempt to cushion the recent collapse of banks

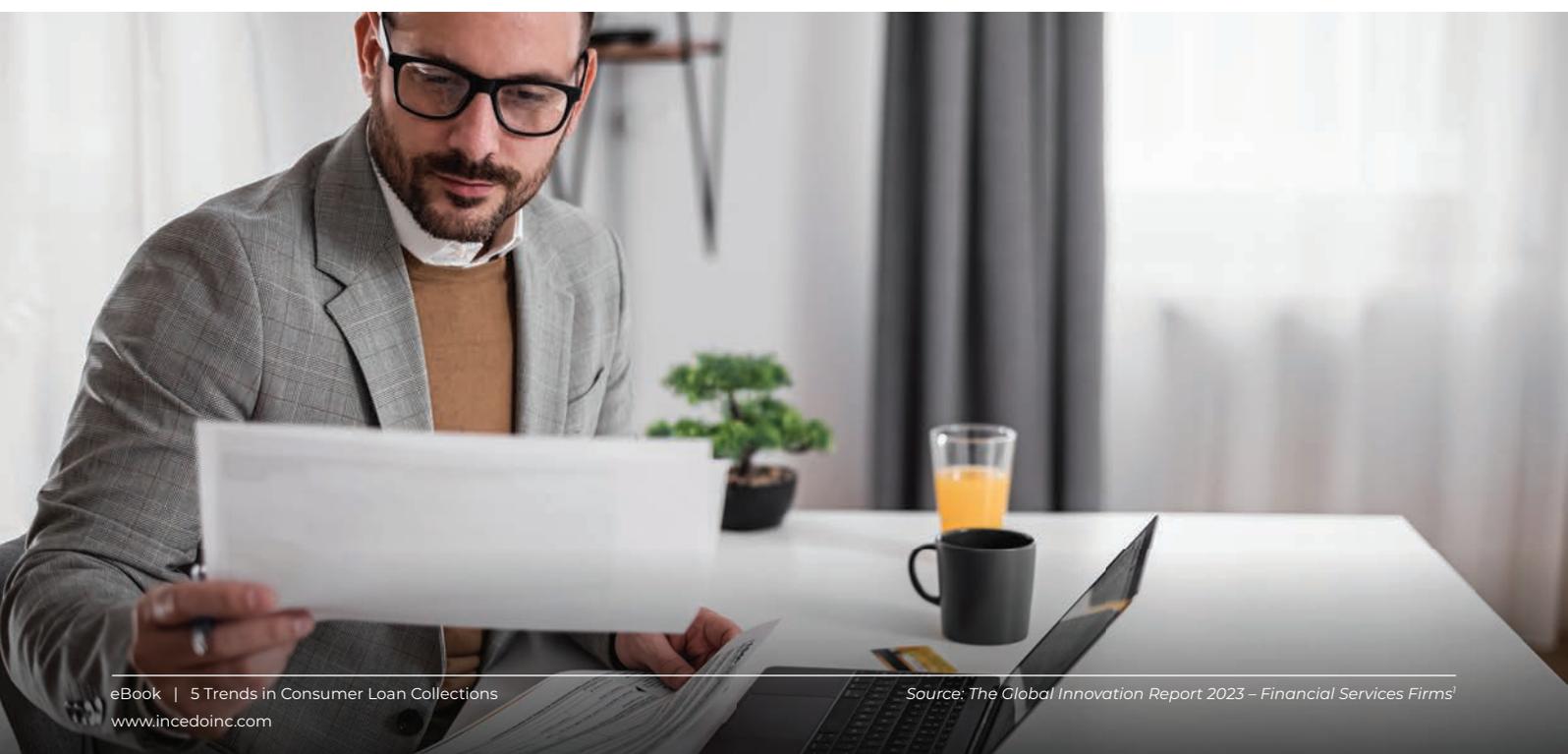
*29% of Americans may default on one of their current bills and loans, while 26% of Americans are pessimistic about household finances.<sup>1</sup>*

## How can we get Ahead?

Consumer Banks may leverage their deep expertise in collections to increase recovery revenues by tapping the following fast-growing trends:

- Buy Now Pay Later (BNPL) and embedded lending merchants lack the experience in managing defaults and borrower relationships.
- Rising gig workers with no fixed income and remote work necessitate new credit risk models to predict defaults and manage collections.
- Banks may manage collections proactively with AI + Decision Automation technology, and optimize compliance in borrower communications.

Banks may draw on these trends to overcome uncertainty in collections and drive superior business outcomes—maximizing recovery revenues, mitigating risks, enhancing productivity, optimizing costs, improving cash flows, and increasing profitability.



# 5 Major Trends in Loan Collections



## 1. Enable Buy Now Pay Later and Own Collections

BNPL is growing in the US and increasing lending volumes, however 43% of users miss payments. Merchants may need to bear the financial burden of unpaid dues or engage third party providers for a fee. Consumer banks have the edge of owning borrower relationships and proven experience of loan collections.

Banks that hesitate may miss out on a promising growth avenue. Early movers in BNPL space are experimenting different models— tie-ups with specific merchants, enabling BNPL while remaining in the background.

*Fintechs have taken the lead in BNPL and diverted 8 -10 billion USD in annual revenues away from banks.<sup>2</sup>*



## 2. Strengthen Viability of Embedded Lending with Collections

Embedded lending is at an inflection point in the US. However, providing embedded lending requires significant capital investment, exposes e-tailers and dealers to likelihood of late payments and loan defaults and impacts their operational viability and profitability.

Banks have expertise in loan servicing and managing delinquencies and may partner e-tailers to enable embedded lending and enable frictionless collections. Cross River Bank is already offering embedded finance solutions with its in-house technology and banking expertise.

*Embedded finance will be worth \$7 trillion by 2030.<sup>3</sup>*



## 3. Manage Collections Proactively with AI + Decision Automation

Defaults and write-offs are likely to increase amidst current economic uncertainty— recent layoffs, outcome of the debt forgiveness program and hitting the debt ceiling. Lenders must monitor data such as payment history, line of credit utilization, and remittances to predict default risks with higher accuracy.

AI and Decision Automation can help to microsegment borrowers based their behavior, value at risk and default probability to initiate proactive outreach with optimum repayment plans to and mitigate potential losses.

*Lending institutions adopting a collections strategy powered by AI led advanced analytics have seen reductions in non-performing loans of 20-25%.<sup>4</sup>*



#### 4. Minimize Likely Risks in Collections from the Gig Economy Workforce

Gig economy workers with fluctuating earnings, unpredictable flow of income and freedom to work from anywhere, are a challenge for collection agents i.e. assessing their repayment ability, location, time, and availability. They may also lack traditional financial verification documents such as pay stubs or employment letters, as they are often self-employed or work as independent contractors. Furthermore, Gig economy workers who are young or new to the workforce, may have limited credit history.

Collection agents need to develop new credit risk models based on remittance fluctuations, missed payments, and credit utilization to determine their credit worthiness, optimal contact channel and time for effective collections outcome.

*Around 36% of US workers were part of the gig economy before the pandemic as per Statista research.<sup>5</sup> While 29% of Americans may default on one of their current bills and loans.<sup>6</sup>*

*This indicates that around 10% of gig economy workers may default on their loan.*



#### 5. Optimize Collections Communication to Stay Compliant

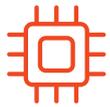
Regulators are focusing on expanding existing rules and picking up the pace on new regulations like advanced AI in banking. The stringent Regulation F norms already govern the frequency of contact and time, across channels with inbuilt safeguards around seeking borrower consent.

Banks have made significant investments in their omnichannel strategy. It is now imperative for collections department of banks to optimize communications, and increase promise to pay rate by determining the optimum channel and time to contact, best loan restructuring plan and repayment terms.

*Companies with strong omnichannel consumer engagement manage to retain 89% of their customers.<sup>7</sup>*

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# AI + Decision Automation in Loan Collections



## Artificial Intelligence in Loan Collections

Analyzes real-time customer data to assess borrower behavior, default risk, repayment ability to help in loan restructuring and optimize recoveries from collections. It uses root cause analysis to detect anomalies and pinpoint the most pressing collections KPIs for optimizing business impact.



## Decision Automation in Loan Collections

DA is the future-ready state of automation. It uses technology and algorithms to make lending decisions and integrate them into daily consumer lending operations like collections — based on predefined rules, that are monitored in real-time and continuously refined based on implementation feedback.



## Use cases of AI + DA

- Determine borrower's default risk
- Prioritize accounts by borrower's ability to pay
- Best loan restructuring and repayment terms
- Optimize channel of contact and time



# Optimizing Loan Collections with AI + Decision Automation

## Collections Outcome Optimized With AI + Decision Automation

- ✓ Increased Recovery Revenues
- ✓ Higher Productivity & Efficiency
- ✓ Improved Profitability
- ✓ Better Risk Management
- ✓ Enhanced Cash Flows
- ✓ Enhanced Customer Satisfaction
- ✓ Optimized Costs

01

### Increased Recovery Revenues

AI + Decision Automation (DA) analyzes data like borrower behavior and past payments per account to predict repayment ability and the accounts most likely to result in successful recovery. Collection officers are empowered with optimum strategies—targeting specific delinquency segments, identifying optimal channel and contact time-to maximize recovery revenues per borrower at speed and scale.

02

### Enhanced Risk Management

AI + DA significantly enhances risk management in collections by identifying potential delinquencies early, predicting risk recovery at speed and scale, and determine maximum recovery per account. Retail lenders are empowered to implement effective collections strategy per account such as optimal loan restructuring with best repayment terms to reduce credit risk.

03

### Improved Cash Flows

AI + DA in collections improves efficiency and effectiveness by optimizing resource allocation and enable personalized collection strategies based on data-driven insights and decisions. Collectors are empowered with personalized strategies for improved recovery rates and amounts that result in enhanced cash flows.

04

### **Higher Productivity & Efficiency**

AI + DA analyze real-time data from multiple sources to determine accounts with higher recovery potential and develop targeted collections strategy and plan per borrower, at speed and scale. This empowers collection teams to focus on high-priority accounts, eliminates delays and inefficiencies, and improves overall collections productivity.

05

### **Optimized Costs**

AI + DA can optimize the cost of collections by micro-segmenting delinquent accounts, prioritizing accounts with high recovery potential, identifying best collections strategy per borrower at speed and scale and optimizing allocation of collectors. This results in better collections outcome at reduced cost.

06

### **Improved Profitability**

AI + DA can determine borrower credit worthiness, optimum collections strategy per borrower, best loan restructuring plan and repayment terms, streamline collections operations, improve agent productivity and optimize costs, resulting in higher collections revenues and profitability per account.

07

### **Higher Customer Satisfaction**

AI + DA can determine borrower behavior and ability to pay for offering the best loan restructuring terms repayment plan and terms, optimum channel and time to contact per customer at speed and scale. This leads to improved customer satisfaction.

# 5 Collections Checklist: AI + Decision Automation

Loan Collections									
Key Performance Indicator	Increase Profitability	Maximize Revenues	Grow Market Share	Customer Acquisition	Increase Efficiency & Productivity	Optimize Cost	Better Cash Flow	Improve CX & Satisfaction	Manage Risk
Recovery Rate	-	✓	-	-	✓	✓	-	-	✓
High-Risk Accounts	-	✓	-	-	✓	✓	-	✓	✓
Cost of Collections	✓	✓	-	-	✓	✓	✓	-	-
Days Sales Outstanding	-	✓	-	-	✓	✓	✓	-	✓
Collector Effectiveness Index	✓	✓	-	-	✓	✓	✓	-	-
Percentage of Outbound Calls Resulting in Promise to Pay	✓	✓	-	-	✓	✓	-	✓	-
Active Customer Accounts Per Collection Employee	✓	✓	-	-	✓	✓	-	-	-
Profit Per Account (PPA)	✓	✓	-	-	✓	✓	✓	-	✓
Net Charge-Off Rate	-	✓	-	-	-	-	-	✓	✓



# AI + Decision Automation: A Fortune 500 US Bank Optimizes Loan Collections

## Business Challenges



- Sub-optimal Risk Identification
- Poor Customer Segmentation
- Deteriorating cure rate and roll rate
- Sub-optimal contact strategy
- Sub-prime loan restructuring offers

## Business Solution



- KPI Trees to detect and minimize delinquencies
- Cohorts for finer customer segmentation
- Analyze data from multiple sources to prioritize account based on borrower's ability to pay
- Optimized contact strategy at speed & scale
- Hyper-personalized repayment plans

## Business Outcomes Realized with AI + Decision Automation



**11%** reduction in channel cost

**8%** decrease in dollar write-offs for cards and personal loan portfolio

[Download Full Story](#)

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# Reinvigorate Loan Collections with Incedo Lighthouse™

Incedo Lighthouse™ is an AI-driven Decision Automation platform that enables an end-to-end continuous data insights-actions journey to improve operational metrics and realize business outcomes for retail lending institutions across origination, servicing and collections.

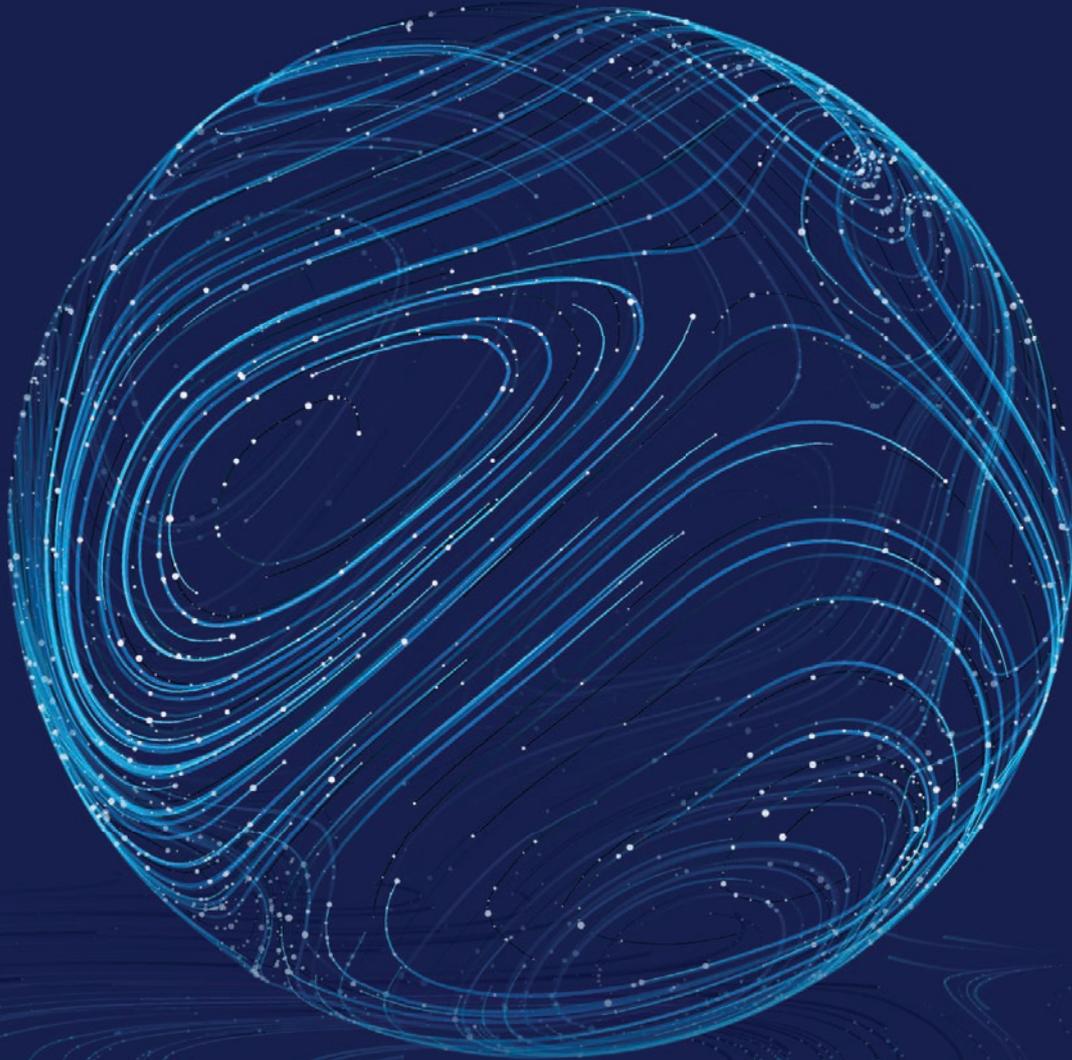
Lighthouse™ distils signal from the noise by setting KPIs to identify the right problem areas for retail lenders to focus on and leverages intelligent root cause analysis to identify the underlying behavioral factors of KPI anomaly. It further offers self-serve insights for retail lending executives like debt collection agents to determine the most effective actions by evaluating alternatives with controlled experiments - and use that learning to iteratively improve business outcomes from the decisions taken.

## Incedo Lighthouse™ AI-driven Decision Automation platform



Explore Incedo Lighthouse™

# incedo | Win in the Digital Age



## About Incedo

Incedo is a digital transformation expert empowering companies to realize sustainable business impact from their digital investments. Our integrated services and platforms that connect strategy and execution, are built on the foundation of Design, AI, Data, and strong engineering capabilities blended with our deep domain expertise from digital natives.

With over 4,000 professionals in the US, Canada, Latin America, and India and a large, diverse portfolio of long term, Fortune 500 and fast-growing clients worldwide, we work across financial services, telecom, product engineering, and life sciences industries.

**9+**

Fortune 500  
Customers

**11+**

Global  
Locations

**4k+**

Employees  
Globally

## Our Global Presence

### India

Gurugram  
Chennai  
Pune  
Bengaluru  
Hyderabad

### USA

Santa Clara  
New Jersey  
Dallas  
Boston

### Canada

Ontario

### Mexico

Guadalajara

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