

**DISRUPTION WITH
CONVERSATIONAL AI**

The 'New Normal'
for Collections

Introduction

DISRUPTION WITH CONVERSATIONAL AI: The 'New Normal' for Collections

The financial services industry is undergoing a major change, especially within the Accounts Receivable Management (ARM), Loan Servicing and Revenue Cycle Management (RCM) subsectors. Consumer debt has increased by trillions since the height of the Great Recession in 2009, growing across almost all debt products and industry verticals to reach \$14.15 trillion in the first quarter of 2020. From creditors to all downstream collection agencies have shared some common challenges in the past decade, which heighten as time passes.

This whitepaper addresses challenges specific to the ARM industry and its subsidiaries, especially in the light of the pandemic, and presents a disruptive approach to improving revenue recovery rates while reducing operational costs. Virtual agents powered by Conversational AI are ready to transform this sector of the financial services industry forever.

Part 1

CHALLENGES PLAGUING THE ARM INDUSTRY

Part 2

A VIRTUAL COLLECTION AGENT POWERED BY CONVERSATIONAL AI IS THE SOLUTION

Part 3

WHY INTERACTIONS



CHALLENGES PLAGUING THE ARM INDUSTRY

In the last few decades Accounts Receivable Management (ARM), Loan Servicing and Revenue Cycle Management (RCM) industries have modernized their operations and grown leaps and bounds in terms of efficiencies. However the next few years bring unique challenges - on one hand evolving consumer landscape has strengthened the regulations and compliance requirements to operate in this space and on the other hand increasing operational costs are proving to be hard to mitigate.

Payroll

Payroll is still the biggest portion of the operational expense across the downstream agencies. Just as any business relies on customers and revenue for success, a debt collection agency's performance is primarily based on its collections staff. Hiring, training, and retaining collection agents or 'debt collectors' is extremely crucial to the success of a collections agency. [Call center employee turnover rates](#) are twice the average for all other US occupations, with large call centers reaching more than 50%. Collection agencies have the worst of it, with some agencies reporting more than 100% churn.

Compliance

The other main challenge is adhering to regulations and compliance. The debt collection industry must prepare for upcoming regulatory changes to federal laws such as the Fair Debt Collection Practices Act ([FDCPA](#)), Federal Fair Credit Reporting Act ([FCRA](#)), Telephone Consumer Protection Act ([TCPA](#)), and Servicemembers Civil Relief Act ([SCRA](#)). Additional regulations are also essential for Revenue Cycle Management and loan servicing, including Payment Card Industry compliance (PCI) and Health Insurance Portability and Accountability Act (HIPAA). A Collection agency's ability to implement Federal laws alongside individual agency and creditor policies is vital for its success.

Missing Payments

Delinquencies or missing payments is another collections challenge. According to the [Consumer Debt Study done by Experian](#), "the last decade saw a significant decrease in the average delinquency rate—the percentage of accounts 30 to 59 days past due (DPD) —across all debt categories declined by 38% in the past decade. Payments 60 to 89 DPD saw the largest decrease, falling by 55%, and severely delinquent accounts—those 90 to 180 DPD—saw the second-greatest decline of 44% since 2009." Collections agencies saw consumers willing to reach out and work out their debts. However this trend may not continue in the upcoming years.

COVID-19 Effect

The advent of Coronavirus has been a “double whammy” for creditors. First, the national lockdown has had a catastrophic effect on the economy and associated financial obligations of consumers and businesses, resulting in a massive increase of debt delinquencies.

Second, the volume of inbound inquiries from consumers, as well as the need for creditors to increase outbound collections efforts, will create skilled agent shortages. Now, more than ever, there is a heightened sense of urgency for creditors and companies performing collections work to look for technology solutions that address the increase in delinquencies while scaling the resources needed to address the coming debt tsunami.

Consumers or Borrowers

The decade-old problems in Accounts Receivable Management have become exponentially more serious due to the COVID-19 pandemic. The mandatory closing of all non-essential businesses left millions unemployed. The US unemployment rate is at all time high, with over 33 million people without jobs by May 2020.

COVID-19 impacted consumers and businesses alike. According to a [latest report from Transunion](#), 61% of consumers remain financially impacted as a result of economic and financial distress. And, 66% of affected consumers are concerned about their ability to pay bills. This will result in a rise of delinquencies as consumers have to make tough choices.

Agencies

On the collection agency side, COVID-19 tested the limits of the collector workforce. Under short notice, agencies had to move their staff to work from home setting to ensure business continuity. Some even faced challenges with ensuring that the staff had right and secure infrastructure to continue working from home. In the long term, agencies need to rethink the way they allocate staff and prepare for the new normal.

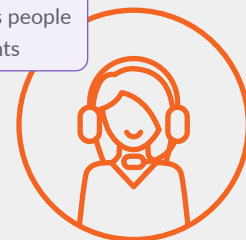
The latest paper from Boston Consulting Group (BCG), *Winning in the Next Era of Collection*, looked at the upcoming months from the lens of previous recessions and shared some learnings and insights for Financial Institutions to better prepare for the future. Some of the most important tips were to understand consumer behavior when it comes to paying off debts and prepare for the surge in volumes as consumers navigate through difficult financial situations.

SHORT TERM Business continuity
Agents working from home
Staff reallocation

LONG TERM Preparing for the 'new-normal'
Reallocating any underutilized staff
Being ready for delinquency and losses
Being ready for volume surges
Create creative offers to help consumers through the tough time
Utilizing technology to its fullest potential

Virtual Agents
Powered by Artificial Intelligence

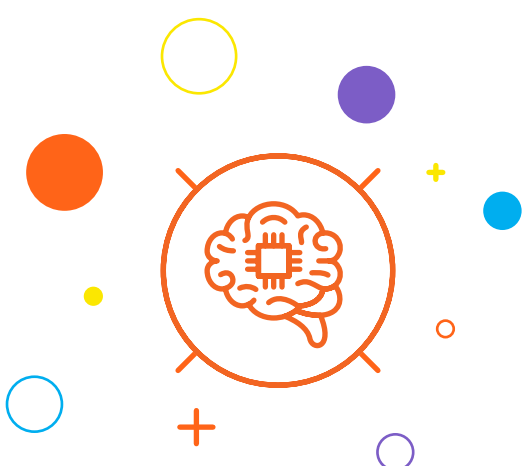
Optimize workforce
Do more with less people
Better utilize agents



More self-service
More automation that
leads to better self-service

THE ARM INDUSTRY IS READY FOR DISRUPTION

Collection agencies are in the business of supporting consumers through tough times, and ultimately helping consumers recover from debt. In the long term, agencies will have to get creative with the usage of engagement channels and offer unique options to help consumers better and embark on the digital transformation journey.



➤ Conversational AI is a proven catalyst for digital transformation across industries. Collections, loan servicing, and accounts receivable management industries are uniquely positioned to utilize Conversational AI to reduce their dependence on human resources while improving recovery rates.

Virtual agents powered by Conversational AI help automate collection calls in a human-like and humane approach. According to a 2018 consumer sentiment survey conducted by Interactions and The Harris Poll,¹ 1 in 4 US Consumers prefer interacting with a virtual agent (instead of human agents) when dealing with uncomfortable or embarrassing financial information, while 70% are ok with not interacting with human agents during financial circumstances. Regardless of the nature and type of transaction, consumers demand fast and effective service. And when it comes to the collection and recovery industry, consumers are explicitly demanding disruption driven by Conversational AI.

1 IN 4 US CONSUMERS PREFER INTERACTIONS WITH A VIRTUAL AGENT WHEN DEALING WITH UNCOMFORTABLE OR EMBARRASSING FINANCIAL INFORMATION

Part 2

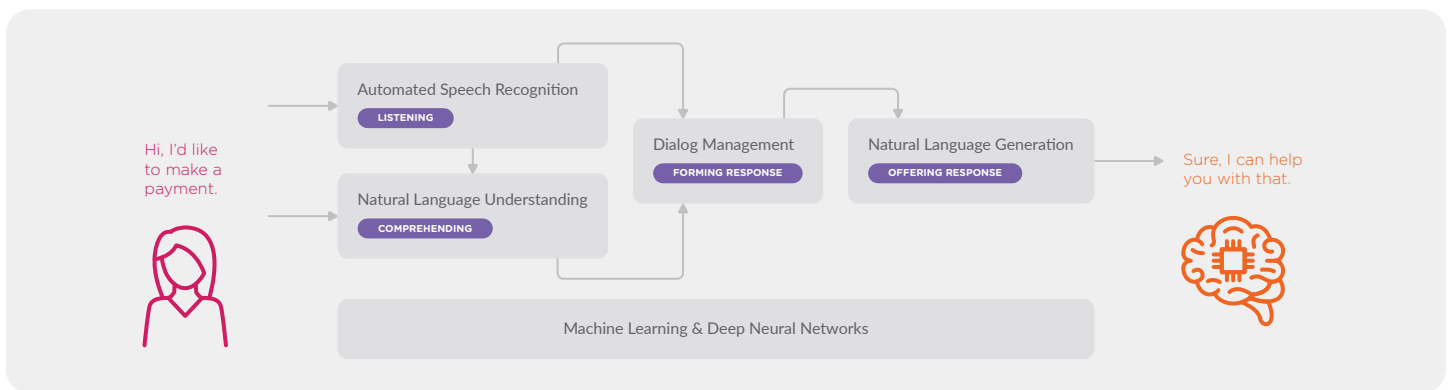


A VIRTUAL COLLECTION AGENT POWERED BY CONVERSATIONAL AI IS THE SOLUTION

What is Conversational AI?

“Conversational AI is the art and science of building messaging or speech-enabled assistants or applications that automate communication, offer human-like interactions and create personalized customer experiences at scale.”

Conversational AI uses various technologies such as Automatic Speech Recognition (ASR) to recognize spoken words, Natural Language Processing (NLP) to decipher the meaning of the words, Advanced Dialog management to formulate responses, and Machine Learning (ML) to learn from every interaction. According to Gartner, by 2022, 85% of customer service interactions will start with self-service, up from 48% in 2019. And we have Conversational AI to thank for that massive change.



How can Conversational AI be leveraged for the ARM industry?

Interactions Virtual Collection Agent (VCA) is designed to meet the specific needs of the ARM space. VCA is uniquely positioned to support the ARM players by increasing revenue recovery rates while reducing operational costs. The seamless blend of Conversational AI and human intelligence, in real time creates conversational and efficient interactions with customers to support the entire collection journey, while remaining consistent to business rules during payment arrangements and negotiations.

A Virtual Collection Agent performs better than your best employee. It is available 24x7, always strictly follows regulations and business rules, handles surge in call volumes with ease, and is immune to typical employee churn.



What makes ARM, Loan Servicing, Revenue Cycle Management and Debt Collections ideal for the use of Conversational AI?

Conversational AI promises a human-like experience when applied to customer service, according to leading industry analyst firm Forrester. More specifically, in its Conversational AI Wave for Customer Service, Forrester states, “across most industries, brands of all sizes have started to push heavily toward increased automation in their customer service operations. Many, if not most, of those brands now look to Conversational AI as one of the key drivers for that automation. For example, nearly one in three global telecommunications technology decision makers for contact centers cite virtual agents as a top investment priority.”

While the majority of use cases for Conversational AI have been in more traditional customer service use cases, increasingly it is being applied to other critical elements of a customer lifecycle and journey, such as accounts receivable management (ARM).

The data-driven, linear nature of ARM transactions

ARM transactions are based on easily anticipated pieces of data and an interaction dialogue that is predictable. It lends itself to a structured communication for which Conversational AI is a great solution. What are typical pieces of information, such as amount owed, due date, balances, payment history, identification/authentication data, etc. With the availability of this information, building expected and truly conversational dialogues (e.g. right party confirmation (RPC) , payment negotiation, arrangements etc.) is possible with the right Conversational AI solution.

Compliance and adherence

One of the biggest challenges associated with implementing ARM interactions is ensuring that a complicated regulatory regime is adhered to. This typically involves significant training and monitoring of agents who conduct these collections interactions with consumers. Moreover, with high agent turnover in the ARM space, compliance is expensive and ripe for mistakes. With a Conversational AI-based VCA, the consumer interaction is structured, follows defined dialogue flows and always adheres to compliance regulations and process. The result is improved adherence and compliant customer interactions.

“Across most industries, brands of all sizes have started to push heavily toward increased automation in their customer service operations. Many, if not most, of those brands now look to Conversational AI as one of the key drivers for that automation.”

—Forrester

Security requirements of handling Personally Identifiable Information (PII) and PCI data

In addition to enabling better enabling compliance, a VCA can ensure that security and data handling follow best practices and recognized protocols. VCAs today can be implemented to follow a well-defined set of design principles to ensure the security of not only infrastructure but consumer data. More specifically, with a VCA, security design principles can focus on data protection (e.g. encryption and redaction of sensitive data) and use of security and vulnerability best practices (e.g. firewalls, intrusion detection systems, access controls, data leakage prevention (DLP), proxy services).

Importance of customer experience when enabling ARM transactions

When interacting with consumers, great customer experience (CX) is always important—it impacts loyalty, brand reputation, and the bottom line. In the ARM space, a Conversational AI-based VCA, when properly implemented, can help mitigate consumer discomfort, facilitate a better debtor experience, and ultimately engender more positive attitudes regarding the collections process. In fact, TXU Energy's Intelligent Virtual Assistant has a 5% higher recovery rate with 7% higher balance collected than their human agents, proving that customers are more comfortable managing payments with a virtual assistant.

Mitigating hiring and training concerns for better operations

Agent turnover is at an all time high, especially in the ARM space. VCAs can solve this problem through elevating human agent value by removing the monotonous and allowing human agents to refocus on things they find more interesting.

VCA significantly improve agent experience. Agents reap the benefits of increased day-to-day productivity and overall career satisfaction. Monotonous and unproductive work tasks are frequently cited as a top stress of contact center agents. With VCA, there is a dramatic reduction in the repetitive tasks that agents have previously been forced to manage.

Hiring, retaining, and training agents is a top concern. VCA supports the agent experience by complimenting contact center execution and improving the lives of agents, ultimately resulting in reduced agent churn and improved customer experience.

Overall, VCA is able to support an increase in productivity across contact center operations by taking on the repetitive tasks and data drive tasks and allow agents to refocus on revenue generating tasks.

Improving productivity through Right Party Recognition

Virtual Collection Agents are able to improve productivity through automation of tasks such as identifying and improving right party contact (RPC) for future outreach and communication. Currently, agents in the ARM space spend countless hours communicating with the wrong party, resulting in non-revenue driving tasks and wasted time. VCA removes this inefficiency while simultaneously improving agent's experience.

The importance of integrations

Integrations are often difficult to execute and can lengthen deployment time. But, having the appropriate integrations to current infrastructure is essential to successful customer interactions.

With integrations into key systems such as Outbound Dialers, CRM systems, Payment Processors, and knowledge bases, VCA always has the capability to utilize relevant data and information when talking with a customer. They are able to use this information in a fast and efficient way without toggling between screens and programs while determining what actually is relevant. They can quickly add context, historical data, and relevant information into conversations with customers. This is a frequent concern for agents who are worried about having quick access to data to appropriately respond to customer inquiries without a long pause or delay.

Maintaining empathy when customers are frustrated

Customers that have been contacted regarding an outstanding debt are often upset, stressed, and in fear of being judged. The emotion of a customer places a massive stress on contact center agents as they are often the target of frustrated customers. This ultimately takes a toll on agents and negatively affects agent churn.

VCAs can mitigate the situation by taking over the interaction with upset customers, while keeping customer experience high by approaching each customer interaction with empathy and understanding. Not to mention, customers will never have to wait in a long queue to speak with a VCA or deal with outdated IVR systems. This results in less frustration if customers do end up having to speak with a live agent.

Judgement-Free Payment Collection

Customers are more comfortable with making an overdue payment with a Virtual Collection Agent rather than a human agent because of the embarrassment associated with delinquency on payments. VCA is always humane and understanding, and removes the embarrassment that customers often feel, allowing them to approach their debt in a timely and judgement free manner.

VCA Behaves like Your Best Agent, at Scale

Contact center demand often exceeds the capacity of agents. The situation with COVID-19 has proved that debt will rise globally, putting stress on contact centers and agents alike. VCAs are able to handle the additional and unexpected volume without any training or increase in hiring. This unpredictability and influx of debt to collect is a cause of stress and pressure for contact center agents, and it's difficult to plan for without the scalability of an VCA. Since VCAs can handle unlimited volume without any notice or additional training, they are able to give agents relief when unprecedented strikes.





WHY INTERACTIONS?

15 years of Customer Experience Excellence

Interactions has a long history of delivering Conversational AI applications to dramatically improve operational efficiency and increase topline revenue while also satisfying customers. We provide enterprise scale, proven solutions that seamlessly assimilate Conversational AI and real-time human understanding. Interactions solutions act as a front door to many of the world's largest consumer brands. With more than 125 patents and more than one billion interactions, we have the scalability, technology, and experience to deliver improved customer outcomes in the ARM space.

Industry Experience

Increased payment collection and improved operational efficiency

FINANCIAL SERVICES

While supporting one of the world's most innovative financial services companies, Interactions dramatically increased automation and agent productivity while improving customer experience. This resulted in a reduction in cost per call by 75%—from \$11.00 to \$2.77 and a reduced \$2.3M in annual operating cost.

INSURANCE

Interactions improved agent productivity at a well-known insurance provider with an IVA. Their insurance provider's goal was to offer customers an easy way to navigate through numerous products and services and get effective self-service, taking pressure and stress away from contact center agents and allowing them to refocus on revenue generating tasks. Currently, more than 25% of customer queries are handled without any agent involvement, improving operational efficiency and the bottom line.

UTILITIES

The goal of this regional utility provider was to handle seasonal peaks in call volumes, improve customer satisfaction, and process payments and payment arrangements. The IVA increased self-service from 22% to 39%—a 77% increase. TXU's Conversational AI solution 'IVY' handles 50% of payment deferrals and 61% of installment plans.



About Interactions

Interactions provides Intelligent Virtual Assistants that seamlessly assimilate Conversational AI and human understanding to enable businesses to engage with their customers in highly productive and satisfying conversations. With flexible products and solutions designed to meet the growing demand for unified, omnichannel customer care, Interactions is delivering unprecedented improvements in the customer experience and significant cost savings for some of the largest brands in the world. Founded in 2004, Interactions is headquartered in Franklin, Massachusetts with additional offices worldwide.

For more information about Interactions, contact us:

866.637.9049

interactions.com