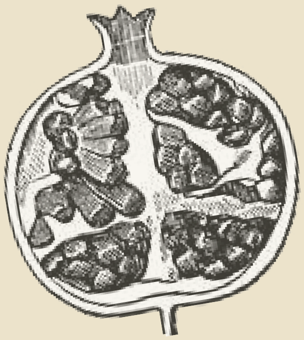

The cultural considerations of collections

EXUS®

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Introduction

More than money

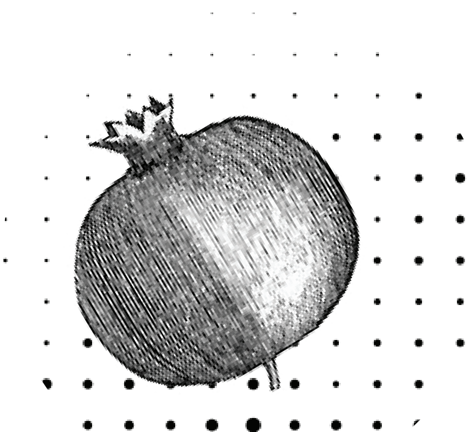
"Money is a lot more than just a means of exchange or a store of value. It carries cultural weight, and as you move across cultures, attitudes shift quickly"

In China, personal finances are more openly discussed than in the West, and as one Chinese lecturer notes, the Western practice of removing the price tag from gifts is seen as strange. In Pakistan, meanwhile, the country's dominant faith informs their attitude to money. A form of tithing known as Zakat is legally mandated, meaning that Pakistanis must donate 2.5% of their earnings to the less fortunate.

Just as money comes with its cultural nuances, the same is true of debt and debt collections. After all, where there's credit, there's debt. Its roots are ancient: The Code of Hammurabi, the best-preserved ancient law code created in 1760 BC, for example, defined rules on debt and the accumulation of interest.

For financial institutions who supply credit and need to collect on delinquent customers, debt can be a cultural minefield. Not just in terms of nationality or religion, but with other factors like age and gender that impact on people's attitudes toward debt as well.

Successful Collections depends on understanding and working around these challenges. It's not easy - but there's a way technology can help bridge these differences.



Chapter 01

Age is just a number

> "Ultimately, no matter what the generation, customers respond to excellent service"

The term "generation gap" was coined in the 1960s. The term explained the many cultural upheavals of the era, where Western society in particular experienced a pronounced fracture between old and young.

The Sixties was the time when the 'Baby Boomers' came of age. Fast forward to today, this generation is one of the main generational cohorts that banks and collections teams deal with.

But what do all these names - Baby Boomer, Millennial, Gen X, Gen Z - actually mean? Are they actually just over-simplified categories which feed into generational stereotypes. Well, yes - but also no.

Of course, the media indulges in all sorts of stereotypes when it covers generational differences (just consider the ever-growing list of things Millennials are accused of 'killing'). But there are, in fact, acute differences between generations in how they handle their finances, their debt and the services they expect as consumers.

Most obvious is the variance in familiarity with tech. The adoption curve for technology follows precisely the pattern you might expect: The older a customer is, the less likely they are to adapt to innovations like self-service portals and mobile banking.

In the UK, around a quarter (26%) of people aged 65 to 74 and around three-fifths (61%) of people aged 75+ do not regularly use the Internet. The picture is starker in a developing market like India where 74% of internet users are under 35 and only 3% of internet users are 55-and-over.

Clearly, for collections teams, this alters the dynamic for how to collect on older delinquent customers. Call centres remain an essential tool for these less technologically inclined debtors and the personal touch of a human advisor is still highly prized by older customers.

These preferences also illustrate why human field agents remain relevant. Face-to-face communication and personal service bridges the digital divide. And if these agents are armed with a smartphone or a specialist field agent app, it's possible to maintain a high tech collections operation without excluding older customers.

The tide is slowly turning, however. According to the 2018 Mobile Banking Study from Citi, 46% of U.S. consumers have increased their use of mobile banking in the past year.

> "Eight out of 10 people (81%) now use their phone to manage their money on nine days in every month, on average."

On the whole, there is a far greater propensity towards DIY customer service. Sixty-five percent of all consumers and 69% of Millennials say that they feel good about themselves and the company they are doing business with when they resolve a problem themselves.

The high penetration of Internet usage and smart technology among younger consumers makes facilitating this tendency simple. Eighty-nine percent of Gen Xers are monthly Internet users and more than nine-in-ten Millennials (92%) own smartphones.

For Millennials, in particular, the flexibility and control of self-service is important. This generation faces uniquely difficult financial circumstances: the growth in income of the average young couple and families in their 20s has lagged dramatically behind national averages over the past three decades.

Specialised collections systems that offer self-service can help cash-strapped young people self-cure by giving them control, flexibility and mobility. This direct, cooperative method of collections suits Millennial tendencies, too.

Millennials consider their finances to be less of a taboo subject than older generations. Three-quarters of Millennial couples talk about money at least once a week, compared to 66 percent of Gen Xers and 44 percent of Baby Boomers. About 97 percent do it at least once a month.

It's an opportunity for banks and collections teams to be more direct and pragmatic in their messaging since the stigma of money is less pronounced. Your digital channels can be adapted to a more direct approach, while your call centres can offer more discreet help.

For the generation following Millennials, the so-called Gen Z, the inclination towards digital customer service channels is even more pronounced. Born between 1995 and 2010, Gen Z are 'digital natives'.

They have never known a world without Internet and nearly half would consider banking services from digital companies like Google, Amazon, Apple or Facebook. They're less likely to prefer speaking with customer service representatives on the phone and more likely to adopt innovations like device-specific mobile payment options.

These age-specific differences should have an effect on your customer service mix. And yes, as EXUS has written countless times before, debt collections is a customer service challenge. In the immediate term, a collections team requires robust digital capability - while still maintaining a strong call centre presence for older customers.

In the long term, this mix will transition to a digital first approach. But even then, self-service and innovations like AI won't make call centres irrelevant. It will free up call centre employees from routine support requests, so they can focus on more complex tasks.

"Ultimately, no matter what the generation, customers respond to excellent service. There are generational differences in wealth, Internet use, attitudes - but ultimately everyone needs help when it comes to their debts."

Chapter 02

Gender: Should Debt Collections teams segment based on sex?

“Collections process is a critical part of the customer life cycle. When your customers are struggling, that’s when they need your help the most.”

For banks, gender may initially seem like a minefield they’d rather avoid. After all, haven’t countless non-financial brands discovered this fact at their peril? Take the example of Bic, where the brand was widely lampooned for its ‘comfortable’ pink pens for women.

But completely swerving gender, particularly in debt collections, isn’t the right approach. While banks should be careful, ignoring gender as a relevant factor in debt collections also ignores certain material realities.

Consider the stats: Women are more likely to encounter debt trouble. Men have more debt, they also have higher credit scores and earn more, on average. Women have lower credit scores, despite having less debt, and so they are more vulnerable to debt issues.

In South Africa, it’s been reported that single women have more unsecured debts than their male counterparts. And in the world’s poorest countries more generally, women are disproportionately affected by debt, specifically school and medical fees.

The situation is mirrored in wealthier countries, too: 64% of of the 8.8 million people struggling with debt in the UK are women. And in the US, more than one-in-four female credit card holders say they are “not at all” confident in being able to pay their monthly bills, nearly double the percentage of men at 14%.

What it comes down to is income: women earn less than men. Your collections teams aren’t politicians and don’t have the power to change this unfair reality. But it’s a fact that can and should be considered in your collections strategy.

The question, then, is what’s the better approach? Collections teams can learn quite a bit from the insurance industry here. Car insurance, of course, is noteworthy for often charging female drivers lower premiums.

Not explicitly because of their gender - that would be illegal - but because they operate with a rich data set which rewards safer lifestyle choices. Lifestyle choices which, as it happens, women are statistically more likely to take.

For debt collections purposes, the answer begins with using software that empowers customers and enables self-service. A rich data set means little if the framework you use to help delinquent debtors is inflexible. It's extremely difficult to create a core offering that caters to everyone.

Combine this with deeper, more meaningful segmentation that accounts for individuals' values and interests. Doing this, you create a more complete profile, tailored to individual needs - and a collections system that will naturally veer towards fairness because the user has a greater degree of control.

At your end, collections software can identify the accounts that need to be worked more intensively and prioritise action rather than punishment, offering suitable restructuring plans, customising the interaction and the timelines and skipping entire steps.

"Debt Collections stops being a reactive enterprise."

You can offer a service that's less hostile to people's unique circumstances. The customer's gender becomes secondary to the fact that they are receiving service that's tailored to their specific requirements.

Of course, technology by itself doesn't miraculously solve the gender problem. As has been noted many times, technology often reflects the biases of its creators. And in the tech sector, the creators are overwhelmingly male. In terms of leadership positions, the status of women in the technology sector is roughly on par with the 25% figure present in the rest of the economy.

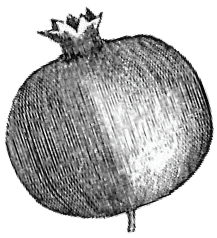
But by using technology and data the right way, you can create tailored debt collections processes, personalised to specific people, whatever their gender.

We've made the case before that the collections process isn't just a loss mitigation activity. It's a critical part of the customer life cycle. When your customers are struggling, that's when they need your help the most.

Knowing what we know about how debt disproportionately affects women, it's perhaps time that collections departments consider how gender plays a role. Women are more likely to struggle financially, they earn less, and, as such, they are more likely to become delinquent.

These issues have their source in deeply embedded societal problems, far beyond your collections process.

You can't fix those issues or eradicate them, but you can create a process that reflects the financial reality women face.



Chapter 03

Debt across cultures

" "It is no longer enough to simply offer a product translated in ten to twenty different languages. Users also want a product that acknowledges their unique cultural characteristics and business practices."

Elisa M. del Galdo - Jakob Nielsen

A modern bank has a debt portfolio that stretches over vast swathes of territory, incorporating different cultures, faiths and attitudes. Intuitively, you may be aware of these differences and amend your approach accordingly (like how the accumulation of interest is forbidden in Islamic law).

One important note is that borders don't define cultures anymore. Even when focused on a narrower geographic area, multicultural societies still encompass a diverse array of people. Consider the fact that 22% of Austrians have an immigrant background and England alone has over seven million foreign-born residents, corresponding to 13.8 percent of the population.

So culture is a more mixed, fluid picture than commonly conceived in some territories. But that said, it's still the case that societies have their own hallmarks when it comes to finances and debt.

Viewed with a cultural lens, debt takes on fascinating historical and cultural dimensions. In many indo-European languages, the word for "debt" also means "sin" or "guilt. In German, for example, debt, blame and guilt are both denominated by the word 'schuld'. It's unsurprising, then, that Germans are generally extremely averse to debt and view it as morally bad.

The attitude towards debt in the United States is more ambiguous. Debt isn't 'good' per se, but seen as a necessity. Some 69% of Americans indicated that they preferred not to have debt, but 68% said loans and credit cards had enabled them to make purchases or investments that expanded their opportunities.

And, in fact, Pew Research found that higher-income people with more assets tended to have more debt, but even so, they had healthier balance sheets than low-income, low-debt respondents.

While Germans and Americans hold different views on accumulating debt, they share a similar cultural outlook on time. Time (and by extension deadlines) are a critical part of any collections system. The difference between delinquent and non-delinquent, after all, is time.

If you live in the United States, Canada, or Northern Europe, you live in what's called a monochronic culture. In monochronic cultures, time is a commodity and there is a limited amount of it. It can be 'spent', 'saved', 'wasted' and 'lost'. Schedules and deadlines are fixed. And if you strongly perceive the need for something, you buy it or plan to buy it, whether in cash or debt.

If you live in Latin America, the Arab part of the Middle East, or sub-Saharan Africa, you live in a polychronic culture. These cultures value the fluidity of time and circumstance. In this polychronic approach to time, being 30 minutes late is perfectly normal.

So Western people structure their lives, especially business operations, by milestones and deadlines. But polychronic cultures, as in India, view deadlines as targets among other competing priorities. These differences have a tremendous effect on how different cultures understand each other and, ultimately, on how we get the job done.

In the case of collections teams, these sorts of cultural misunderstandings can impede debt recovery. And it's here where a 'promise to pay' mechanism offers a more powerful incentive than just a deadline.

In debt Collections, a helpful behavioural metric is a kept promise ratio. Simply put, it's the rate at which debtors make payments when they say they will. Trusting and empowering a debtor to make a promise to pay changes the power balance. And the idea of a guarantee is a more universal one than our cultural attitudes to time and deadlines.

Studies back this up: keeping a promise isn't emphasised simply because people fear the repercussions, but rather because they prefer keeping their word. It makes people feel good. And this doesn't seem to change among cultures: keeping your word is a universal value. Each of the world's three largest faiths forbid breaking an oath, for example.

The cross-cultural power of the promise makes it crucial to collections departments who deal with diverse customers. Modern financial institutions will have debtors from all over the world. It's a concept that's easy to transport across boundaries and borders.

But, while a concept like a promise might be fairly universal, the cultural lens through which it's viewed might alter how and when promises are made.

In her book, The Culture Map, the academic Erin Meyer talks at length about the challenges posed by cultural differences. A French manager, for instance, once confident in their leadership ability, might discover leading a team of Americans is an altogether different challenge.

Other factors like praise, criticism, even when it's appropriate to speak are affected, too; culture adds a layer of complexity to universal qualities like a promise.

The invisible barriers presented by culture will change how you communicate, decide, or schedule a promise. In the UK or Scandinavia, a firm 'yes' may be enough to indicate a guarantee, but in Japanese culture it's normal to nod and say 'yes' as sign of polite attention.

Considering these cultural differences helps collections teams cultivate empathy. They need to understand the reasons why someone is falling behind in payments and work with the debtor to overcome those reasons. Delinquency isn't a moral failing or the sign of a bad person.

As a general principle, debt Collections should not work on a premise of suspicion or distrust, but rather be built on an assumption of good faith by both parties. These assumptions are that debtors want to repay and that collectors are there to make that happen – not merely to hit their targets. Especially when, as we've illustrated, cultural nuances can often create innocent misunderstandings.

For the debtor, a collections process that is considerate of their culture helps create an ethos of trust, in which debtors know the collector is not just after their money, but wants to help them make the next payment in a way that aligns with the debtor's situation.

A functional debt recovery system needs to create, develop and protect trust. This means clear instructions, clear rules and regulations, and fair play across the financial sector as a whole.

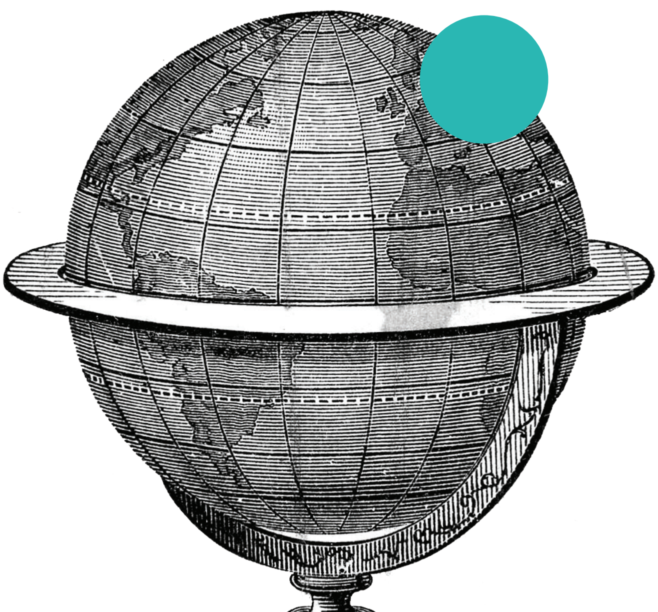
Trust is a psychological state, predicated on a sense of personal vulnerability which is bound to exist in a situation where one party owes debts to another, and where the legal framework operates in favour of the indebted.

A strict by-the-book approach to debt recovery will not foster the emotional security that's needed to manage that vulnerability and allow trust to develop. In any situation where one party controls or limits the options available to another, trust suffers.

But given the cultural challenges of working across the world, how can your technology cater to your customers' needs? Whatever software you use, it's important that you can customise the interaction.

As Elisa M. del Galdo and Jakob Nielsen put it in their book International User Interfaces, "It is no longer enough to simply offer a product translated in ten to twenty different languages. Users also want a product that acknowledges their unique cultural characteristics and business practices."

A kept promise ratio is a universal metric, but you can tailor how and when the promise is made. It's not just a catch-all feature. It's bespoke and can be applied anywhere. But improving it isn't a standard operation. Getting customers to keep promises means catering to their cultural norms.



Papers, please: identity banking and Debt Collections

"The best strategies work by having a deep understanding of the people you're trying to connect with."

We're still in the dark ages when it comes to proof of address. Birth certificates and utility bills still rule, but this needs to change - and fast. These documents are an inadequate guarantee of identity in the digital age.

They are also out of sync with modern realities. The concept of a fixed abode is increasingly anachronistic. Research by the Institute for Fiscal Studies illustrates how home ownership among the young has "collapsed". For 25- to 34-year-olds in the UK earning between £22,200 and £30,600 per year, home ownership fell to just 27% in 2016 from 65% two decades ago.

In other countries, like Switzerland and Hong Kong, home ownership is simply less common. So even when a customer has access to some relevant document, it's not a guarantee of accuracy. Added to this, there are currently around 1.1 billion people globally with no official proof of identity – and this number is set to rise exponentially with the younger generation.

It's clear that current identification processes aren't fit for the predominantly digital world we live in – being costly, inefficient and ineffective. Technology will play a key part in solving this challenge.

With 16.7 million consumers losing $16.8bn to identity fraud in the US alone in 2017, creating a robust and regulated global identification solution will provide a safer landscape for consumers. It will also make collections processes more efficient and save collections teams hundreds of man hours chasing the wrong people.

The changes on the horizon can provide great opportunities for collections teams to create better, more accurate processes – as long as they are on the front foot when it comes to understanding the new technology and how to harness it to their benefit.

The World Bank has published a report, 'Technology Landscape for Digital Identification', which analyses what's happening globally to enhance the identification process for users and highlights key benefits and challenges of the technology being tabled.

There's no shortage of companies who have the capability to create change. What's more difficult, however, is understanding what technologies can scale up on a global level whilst being robust enough to minimise the risk of fraud.

Switzerland are leading the way in making digital onboarding processes more efficient, with The Swiss Financial Market Supervisory Authority (FINMA) making changes that improve the authentication process online. As one example, the requirement for online identification to be conducted by "trained employees of the Financial Intermediary" has been dropped.

Having technology evolve away from the physical into the digital creates opportunities for new methods of tracing.

Field agents will benefit as there will be more data available to them to understand behaviours and analyse patterns.

Having a clearer picture of someone's full financial footprint will allow them to track inconsistencies and predict outcomes. And it also eliminates onerous, old-school tactics like Skip Tracing, which is the process of finding someone who may have left their original address.

In the race to innovate - biometric technology (using aspects of the body as authentication) is emerging as the clear winner. Fingerprint, face and iris capture are the most mature branches of biometric authentication, powered predominantly by the ubiquity of smartphones and other mobile devices. It's estimated 600 million devices globally will use one or all of these authentication techniques by 2021.

But that doesn't necessarily mean biometrics are the solution to better identification processes. Iris and fingerprint scanning technology is expensive, which could hamper scalability, and facial recognition software is currently not optimised to identify minority groups. Biometric ID cards and more future-facing solutions like blockchain technology are other possibilities. But, again, they are far from perfect.

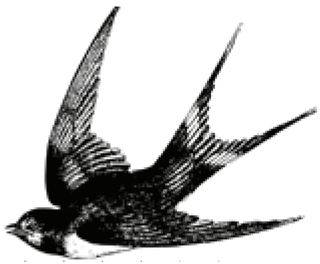
The changes on the horizon can provide great opportunities for collections teams to create better, more accurate processes – as long as they are on the front foot when it comes to understanding the new technology and how to harness it to their benefit.

Conclusion

Age, sex, culture, identity - all these things are becoming crucial for banks to understand exactly how and when to communicate with their customers, particularly in debt collections. The more you know about customers, and the more personalised the messages you send to them, the more likely you are to recover the outstanding debt.

But this isn't just about results and performance, this is about understanding your customers, and providing the best possible service you can. In short, he most relevant messages in the right place at the right time. No individuals are the same, and no debt stems from the same issues. The one-size-fits-all approach no longer fits all.

By using data, banks can highlight similar individuals in similar arrears, and by using creativity (the right tone of voice, the right style of communication and the right calls to action) banks can encourage more people to pay more debt. Debt Collections isn't a tactic, it's a strategy. And the best strategies work by having a deep understanding of the people you're trying to connect with. Getting that right is one giant leap towards improving the performance of debt portfolios.



About EXUS

EXUS is an international enterprise software company specializing in credit life cycle management. EXUS was founded in 1989 with the vision to transform the complex software industry, making it simple, accessible and exciting. Our products have been designed through a deep understanding of our customers' needs and in line with our purpose to simplify complexity and enable intelligent action.
Through our corporate headquarters in London, our offices in Athens and our partners, we support financial organizations and telecom operators around the world to improve their credit risk management efficiency, increase confidence in their strategic decision-making, and achieve success in demanding and competitive markets.

EXUS Financial Suite

"EXUS Financial Suite" (EFS) is our comprehensive suite of software applications that manages credit risk along the whole lifecycle of accounts, from the moment of disbursement until write-off or debt sale. EFS helps organisations in 19 countries around the world to identify and treat credit risk early, perform efficient collections, manage legal proceedings and recoveries and gain detailed insight into portfolio evolution, collections strategies and resource efficiency.

EFS was rated "**best-in-class**" solution for collections in the first ever global technology analysis of loan collections systems by leading industry analyst issued by CEB – GARTNER.

To find out how EFS can help you manage your collections teams effectively and turn your collections operations into a profit centre, join one of our free product webinars by sending us a mail at info@exus.co.uk

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