



# The psychology of debt collections

**EXUS**<sup>®</sup>



# Table of Contents

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Introduction

Chapter 01 - Understanding the debtors

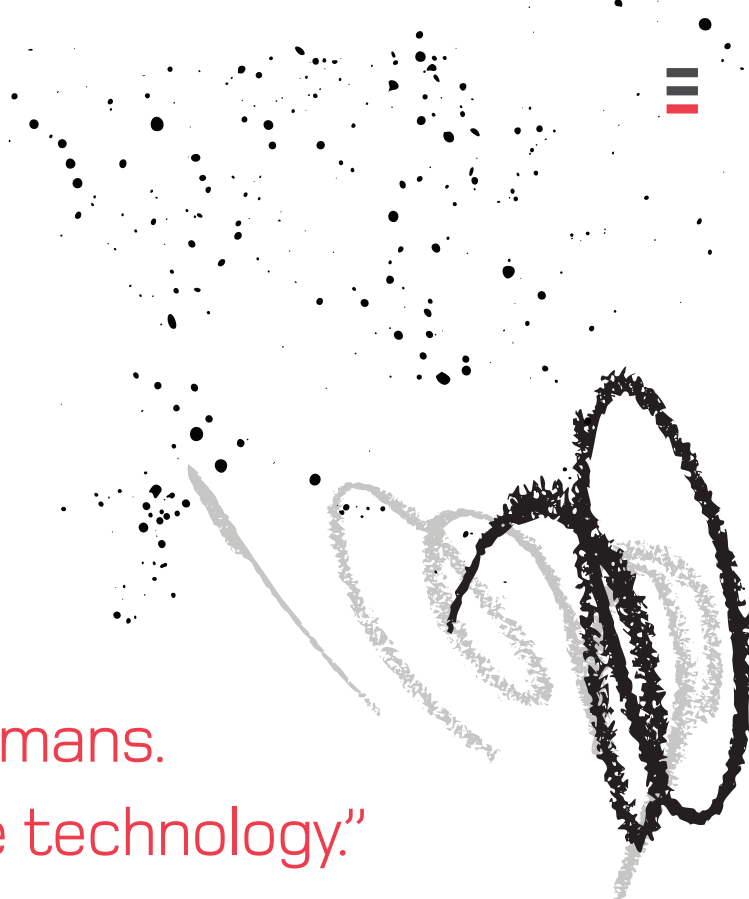
Chapter 02 - Behavioural economics and psychology

Chapter 03 - Tone of voice

Chapter 04 - User Experience



# Introduction



“Technology serves humans.  
Humans do not serve technology.”

Josh Porter

Debt collections has experienced a revolution in customer service over the last few years. Technology has transformed what used to be a stressful, antagonistic activity into a cooperative, consumer-led one.

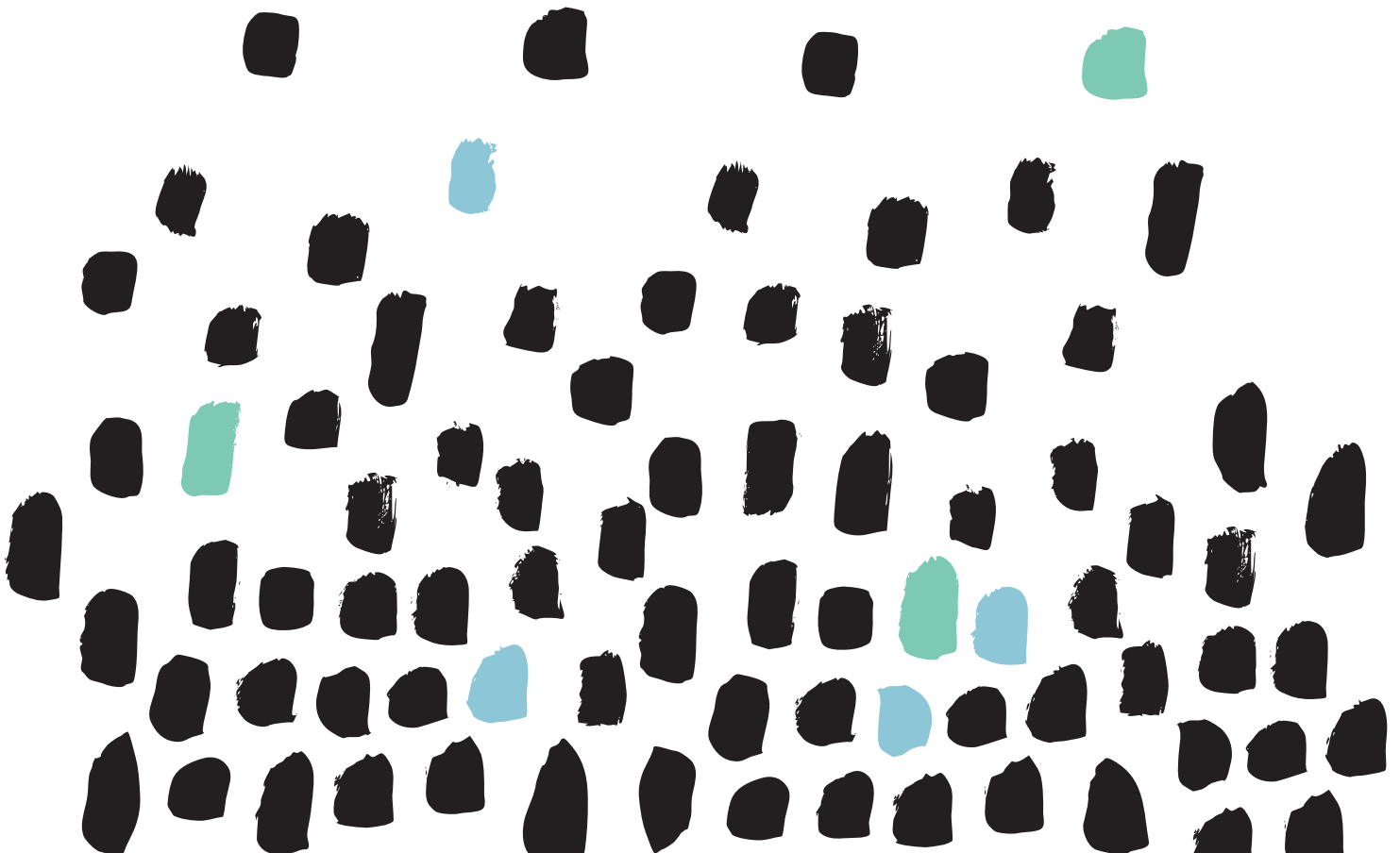
Many banks – as research by Gartner group shows – are now turning to technology to modernise collections and make them more efficient. While this tech-led transformation has yielded many benefits, it’s still only one half of the puzzle: to create a truly customer-focused collections channel, banks must use technology in a truly human way.

“Technology serves humans. Humans do not serve technology,” as the designer Josh Porter puts it. The human side of debt collections is easy to overlook, and this is a mistake because successful collections depend on helping your customers make the right decisions.

Let’s look at a few ways you can combine psychology with technology to build a truly successful collections operation.



# Understanding the debtors





“Good intentions may do as much harm as malevolence if they lack understanding.” Albert Camus

Before you can influence decisions, you need to understand what drives them. Your debtors and your customers are people, not just numbers on a screen. And many industries have used human psychology to drive the results they want from their customers.

Take supermarkets, for instance. Food retailers have been at the forefront of designing commercial experiences around customer psychology. In her book ‘What women want’, the psychologist Paco Underhill details the thought behind every part of the 21st century grocery store.

Dairy products, a common item on shopping lists, are always nestled at the back of the store, forcing customers to walk all the way in. Even the customer’s path is influenced. You enter most supermarkets from the right and move counter-clockwise. That’s because around 90% of people are right-handed, and a counterclockwise route makes it easier for right-handed people to put items in their carts.

Debt collections isn’t retail, of course, but it is ultimately asking the exact same question of a customer. You’re competing for their money, and want them to spend their money repaying their debts, rather than on something else.

Understanding the underlying psychology of consumers, combined with collections technology that allows you to tailor your offering, will allow you to reframe the experience of repaying debts.

This doesn’t need to be complex or drastic. It can be as small ensuring your collections channel rewards the human brain’s love of instant gratification. We become more prone to spend money when we’re reminded that we can solve our problems quickly.



Building a personalised debt channel requires an understanding of your customer's economic motivations (and the psychology that drives them). Money isn't spent easily, it's the sum total of numerous deeper mental processes.

A self-service portal that makes it easy for customers to pay their debt quickly and on any device satisfies this urge. And by creating positive experiences, as the psychologist Norbert Schwarz notes, you dramatically increase customer loyalty and retention. In Schwarz's words,

**“It's not the value of what you find. It's that something positive happened to you.”**

Even the smallest favour or hint of goodwill is enough to surprise customers. Especially when it comes to debt collections, an experience many customers wouldn't expect to find easy.



# Behavioural economics & psychology





“A choice architect has the responsibility for organizing the context in which people make decisions.” Richard Thaler

The Nobel Prize winning US academic Richard Thaler is known as the father of behavioural economics. Thaler’s work altered the way we see economic transactions. For years, we viewed economic decision-making through the lens of ‘Homo Economicus’, the figurative human being characterised by the infinite ability to make rational decisions.

Behavioural economics scraps that notion, suggesting that people’s decisions are driven by two systems: a conscious system that is reflective and rational, and an unconscious - or automatic - system driven by the circumstances they’re in.

The power of this automatic decision making is elaborated in Daniel Kahneman’s excellent ‘Thinking, Fast and Slow’. Or, as Kahneman phrased it: System 1 and System 2 decision-making. System 1 is fast and unconscious but is prone to biases and error. System 2 is methodical, but laborious and time consuming.

While classical economics never took these realities into account, behavioural economics (and Thaler’s pioneering work) allows for irrational behaviour. Instead of ignoring irrationality, according to Thaler, the trick is to understand why this might be the case.

For debt collections, this is an interesting concept. Of course, customers and debtors don’t always behave rationally or in their best self-interest. And appealing to a customer who might be under duress as if they’re just coldly rational is a recipe for disaster.

The question for collections teams is **‘What drives people to make decisions?’** And, more importantly, what drives them to make good decisions; ie. to pay their debts.





Decision makers do not make choices in a vacuum. And a truly effective customer focused debt channel has this fact at its core. Customers make choices in an environment filled with features that can influence their decisions. They have jobs, families and all sorts of extenuating circumstances.

As a result, it can't be assumed that supplying facts and rational arguments alone will persuade people to resolve their liabilities. Instead, collections strategies should be designed to reflect how people respond based on real-life, rather than theory.

The good news for financial institutions is that you can influence that environment. This is what Richard Thaler calls 'Choice architecture'. That is, how you present choices to consumers, and how that influences their choices. "A choice architect has the responsibility for organizing the context in which people make decisions," writes Thaler.

Put simply, it's a case of making the right offer, to the right customer, at the right time. When you're dealing with a debtor, how the choice is framed is as important as the choice itself. It's why the ability to tailor your service is so important.

By effectively segmenting your customers, and adapting your user facing software to match their needs, it's possible to curate choices, and limit the choices that are available. In the next two sections of this ebook, we'll drill deeper and look at tone of voice and user experience.

Classical economics has always assumed - again, using the fictional homo economicus as its basis - that more choice and more options are better. However, each additional choice adds an extra demand on a stressed out customer.

Behavioural economists have shown that too many choices actually decrease people's motivation to make a decision. People are shortsighted and often put off decisions - too many options, combined with the complexity of making the choice, create yet another barrier.

Choice architects can help by offering simplicity - like self-service channels and bespoke, relevant choices. That's why specialised software is so important to modern collections: it allows for greater adaptability and brings agility, speed and consistency to the collections process.

The UK's automatic enrolment pension scheme is arguably the most successful, recent example of effective choice architecture. The scheme automatically enrolls workers into a workplace pension and offers the choice to opt out.



But by making it simple to save for retirement, active membership of private sector pension schemes has jumped from 2.7 million to 7.7 million in 2016.

Schemes like automatic enrolment illustrate the power of designing the customer's experience to cater for hardwired psychological features leads to more sensible decisions. Take promises, for instance. People tend to keep promises they've made, collections software can use this by making it easy for customers to promise to pay.

As Thaler himself put it, we all too often assume people solve important problems like economists do, coldly and rationally, using data and graphs. But the reality is messier and laden with biases. Your collections team, and the technology that supports their efforts, must understand this.

## Key takeaways

1. Your customers aren't always rational and may need help to make good choices.
2. Choice architecture - offering simple, effective choices - can increase repayments.
3. Too many choices actually decrease people's motivation to make a decision.

## Chapter 03



# Tone of voice





“There will always be subtle differences in individual interpretations of tone. What sounds ‘witty’ to one person will sound ‘corny’ to another.”

Norman Nielsen Group

People’s decisions and the choices they face are framed in language. We don’t just use language to communicate with others, we use it to think to ourselves. And of course, there are numerous different languages (and cultures that come with it). So how you present choices to a debtor, in terms of the language used, has a tangible effect on the end result.

For the choice architect, language also offers numerous hardwired psychological hurdles. The behavioural economist Keith Chen, for instance, found that languages without a concept for the future show a greater tendency to think about the future.

Every language perceives the world differently. So each language, as the psychologist David Ludden writes, “provides its speakers with a particular worldview that won’t be quite the same as the one that speakers of other languages have. In other words, we see the world according to the framework our language imposes on us.”

For banks collecting debt across different countries and cultures, this changes how you address your customers and their unique cultural characteristics. In Germany, a low-context culture which values honesty, a forthright SMS could spur a customer into keeping a promise.

But in high context countries, the focus is on more than just the words. High context communicators focus on the underlying context, meaning, and tone in the message. Cultural context is important, and once you understand it, it’s possible to work within these boundaries.

It’s understood that language can have a dramatic positive influence on people’s behaviour. The Behavioural Insights Team in Australia found that active wording like “you owe” rather than “amount owed” led to significant improvements in payment rates.



In the UK, a change in the wording of the letter sent to those who failed to pay their taxes on time increased payments by more than five percentage points. Instead of a threat, “You are currently in the small minority of people who have not paid their taxes on time” worked best.

These are examples of the framing effect, as Daniel Kahneman put it. People react to a particular choice depending on how it is presented - and language is central to this. Clarity, precision and relevance of your language all affect how likely a debtor is to cooperate.

A study by German researchers found that vague or ambiguous statements are often interpreted differently by respondents. Therefore the quality of the answer depended on the quality of the question.

Effective choice architecture requires careful use of language. A debtor can only make their decision - to pay up, or to ignore your request, for example - on what information is available to them at that moment. And plain language can help them make the right choice.

## **Key takeaways:**

1. The personality of the brand will be consistent, credible and compelling.
2. Every word you write will be deliberately chosen, focused, persuasive, and helpful.
3. Your target audience will easily understand your service and how to help themselves.

# User Experience



“Design is how you make your first impression with your consumers. Make sure it is a lasting one.” Jay Samit

Great design elicits responses from people. It helps a customer take action. In the case of debt collections, you want them to repay their debt, or take a positive step toward resolving the issue. Here’s where user experience comes in.

In his landmark book on user experience (UX) design, ‘Don’t make me think’, Steve Krug makes the point that if something requires a large investment of time - or looks like it will - it’s less likely to be used.

Krug’s maxim is a guiding principle of UX design. “Usability is about people and how they understand and use things, not about technology” writes Krug. Debt collections has traditionally, and to its detriment, ignored these principles through tactics like incessant phone calls and threats.

But a more enlightened, modern and successful collections process understands the power of user experience and effective design. At the heart of UX is empathy. Your customers who are struggling to repay their debts are likely having a hard time.

According to the UK’s Citizens Advice, 8 out of 10 NHS mental health practitioners treating anxiety and depression also deal with their patients’ non-health issues - most commonly debt and money problems.

Studies have shown that increased levels of the hormone cortisol - the ‘stress hormone’ - impairs working memory and cognitive function. Cognitive difficulties can arise circumstantially, such as when people are tired or stressed.

Effective UX design can help a stressed out debtor make a good decision. To paraphrase Krug, UX design ultimately means accessibility. It’s easy in the collections space to revert to an adversarial mindset, but a little empathy can go a long way.



And this empathy needs to go through every single touch point you might have with a customer. If you use collections software, or any software for that matter, it has to cater for consumers using multiple devices and browsers.

This is called responsive design, meaning your website and applications maintain their full functionality, usability and attractiveness on different web-browsers and on different screens - from large desktops to laptops and tablets.

Your content and service will take many forms throughout the consumer life cycle. As the designer Josh Clark, paraphrasing the martial artist Bruce Lee, puts it: "Content is like water. Content's going to take many forms, flow into many different containers, many of which we haven't even imagined yet."

No matter what device your debt channel is accessed on, the focus should always be on simplicity. Don't use technical language to describe the debtor's situation. And make the experience consistent: consistency throughout an interface will ensure that the least amount of brain effort is required when using your product.

The collections process (and its success) is the sum total of many different customer touchpoints. Every interaction should and can be a success, whether it's online or off, in an app or on a desktop.

Intuitive design keeps navigation simple, and makes accessing the information customers need easy. The real aim of good user experience, as UX expert Jared Spool puts it, is to be invisible. "Good design, when it's done well, becomes invisible," Spool writes.

"It's only when it's done poorly that we notice it. Think of it like a room's air conditioning. We only notice it when it's too hot, too cold, making too much noise, or the unit is dripping on us. Yet, if the air conditioning is perfect, nobody say anything and we focus, instead, on the task at hand."

Allowing customers to focus on the task at hand means you get paid. It means fewer non-performing loans, and turns a stressed debtor into a pleased customer.

## **Key takeaways:**

1. Your customers may be struggling. Good design can help them make the right choice.
2. Good design is responsive and easily accessible across multiple devices.
3. The success of a self-service debt channel depends on simple, intuitive design.



## Conclusion

The appeal of Richard Thaler's work is that it reflects human beings. As opposed to the sterile, perfectly rational world of classical economics, behavioural economics understands that people make poor choices - and sometimes they need help to make good ones.

The right technology is a huge step in the right direction for your collections operation. But the real difference maker is in how you design the experience of the user. Does it nudge them towards making good decisions - or does it leave them feeling confused and more stressed?

By understanding customers and their choices, and tailoring your service to fit their needs, you can get paid quicker and keep customers happy. The human side of debt collections has been ignored for too long. It's time to create a new, more enlightened experience.

### Key takeaways:

1. An effective, personalised collections process understands why customers make choices.
2. Effective collections mean offering the right choices, to the right person, at the right time.
3. How you speak to your customers can dramatically improve your non-performing loan ratio.
4. Simple, intuitive design that helps customers easily solve their problems is crucial.

EXUS has been designed from the ground up to be a truly customer-focused debt channel. If you'd like to know more about how EXUS works, then get in touch

## 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](mailto:info@exus.co.uk)

Gain collections insights every week by subscribing to the [EXUS Collections Blog](#).

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