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Using collections as a strategic tool for driving growth and building customer relationships

Collections departments are hard at work.

When delinquencies in auto finance increase, it is generally seen as the typical "cycle," with familiar results: There is a spike in hiring collectors, new investments are made in analytics, and the need for upgrading collections technology is acknowledged. There is also a predictable decline in originations. For example, there was a 1.5% decline in auto finance originations in 4Q17, which was the sixth consecutive quarter of yearly declines, according to TransUnion.

However, irrespective of where we are in the cycle, collections today can be a critical driver for an overall customer engagement strategy, going beyond simply meeting the short-term goals of managing monthly delinquencies. The competition to acquire customers is only getting tougher, and for an auto financier, collections can be the only time for interaction with customers. So, it's time to take another look at the effectiveness of lender collection functions.

It's well known that collection calls have a significant impact on customer perceptions and help companies build long-term relationships with borrowers. Why is this more important today than ever before?

First, lenders are dealing with millennials, a totally new borrower persona. Born between the early 1980s and mid 1990s, members of this cohort expect Amazon-like service - predictive and frictionless, even if they are defaulting. They feel more empowered and will not shy away from leaving positive or negative comments on social media, or filing out complaints about any lapses on the part of lenders.

Second, there is an unprecedented amount of data available, and new AI-based technologies can decipher insights from this data. This means that the days of taking a standardized approach to collections are gone. We can now segment our delinquent portfolios at a granular level, create customized risk models based on numerous variables, decide on how these insights will transform existing underwriting models, and ultimately help lenders make decisions on how to use collections outreach as a way to build customer relationships and drive long-term value.

Finally, from an execution perspective, there is a need to engage with borrowers in a more meaningful way in order to overcome operational roadblocks. Lenders can derive more value from their collections function by taking certain important steps. These include creating omni-channel mediums of communication, which enable borrowers to interact with the lender 24/7; empowering collectors with tools (backed by data-generated insights) to provide multiple resolution options to defaulters; and training collectors on soft skills like relationship building, empathy, and understanding.

Auto financiers now have the ability to execute on the insights gained from understanding borrower personas and interpreting the available data. By keeping the bigger picture in mind, lenders can justify the key investments needed to the collections department to broaden its strategic impact - because it's clear that a standalone approach is no longer sufficient.

Emerging customer segments, dynamic lending scenarios, and fast-changing regulations are examples of the multiple forces impacting the auto finance industry. Using digital tools and AI-based technologies, auto lenders have the opportunity to enhance their collections function, and to leverage it as a key element in their overall auto finance strategy.

This article was authored by Vijay Negi, Vice President and solution architect - Asset Finance, Genpact. The article was first published in Auto Finance.

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