

**Unravelling the
Collections & Recoveries
Conundrum**

Direct)D

Introduction



For those that do not work in the industry, the thought of the collections process may be somewhat scary; threatening sheriff agents being the main thought that springs to mind.

The process of recovering debt is in practice, very different from this mental image. Indeed, only a tiny percentage of debts end up in the hands of court officers following instructions from a County Court or the High Court.

The process for the recovery of bad debts is however beset with inefficiencies. Debts can be notoriously trying to bring in, involving considerable amounts of manpower, and taking in time and effort.

For the debtor also, the collections process is notoriously cumbersome, as well as being potentially embarrassing. The need to forensically examine a debtor's bank statement information, income and expenses mean the process is more akin to a probing exam, than a transaction of funds.

Background



With a process that is ripe with inefficiencies and is costly and time-consuming both for creditor and debtor, it is right for new systems to come in and improve what is there currently.

As stated in the introduction, currently Collections and Recoveries can be defined as:

- Inefficient
- Requiring of extensive manpower
- Time consuming
- Providing a poor customer journey

At DirectID we became aware of the problems within the current setup when we spoke to some of the leading companies in the field, including financial service firms. They described some of the many challenges that are currently faced within the space.

Working on a process that is slow and cumbersome has direct impact on the size of their bad debt book, the cost involved with calling in this debt, and the resultant affect it can have with regulators are all of great importance.

Without throwing resource at the problem, it can be difficult to speed up the recovery process.

The Consumer



As well as being a long and inefficient process for collections agents to go through, as intimated, it can also be distressing for the consumer.

The need for businesses to be mindful of consumer's ability to pay has been particularly heavily promoted by the Financial Conduct Authority over the last few years. New rules on affordability, assessing creditworthiness, and the consumer's ability to repay loans have meant that companies have become far more interested in the consumer as a person, not just in their income and credit score.

To date, however, mindfulness of the consumer has not been reflected in the collections process. It has primarily been the charitable sector that has flown the flag for consumers within the collections space, highlighting some of the bad practice that has been allowed to continue.

Consumers can feel a myriad of emotions at having bad debt. These are typically negative, ranging from fear, stress and anger that can lead to responses such as them trying to pretend the problem does not exist, to hiding it from those who may be able to assist them. These are rarely helpful.

From a consumer's perspective, and assuming that they prefer to establish a repayment plan to pay off the debt, the process remains arduous. At a minimum they will be required to have a telephone conversation with

an operator, for which they will have to submit physical copies of their bank statements, possibly with other documentation such as pay slips or verification of benefits received.

During this call, they will be required to go through their income and expenditure outlining what lines on their bank statements are discretionary and which are non-discretionary. Based on an understanding of the consumer's income, and what lines are non-discretionary, the collections agent can then begin to calculate what the repayment figure should be.

From here however, things become no less simple. For the collections agents, it is not uncommon for consumer's to misstate income, misidentify spend, or potentially deliberately downgrade their income in order for their repayment figure to be decreased.

With increasing mindfulness of the end consumer, more attention is now being placed on how technological innovations can assist both collections agents and the consumer.

Tech Solution



What is therefore required is a solution that can mitigate against inaccuracies that can be provided by the customer, either inadvertently or not, that can lessen the potential of stress and fear experienced by the customer, that can speed up a process from weeks and months, to days or even hours, and can free up the time of collections agents who currently have to examine physical bank statements.

At DirectID, we have been working with bank data since 2010, and were one of the main proponents for the introduction of Open Banking, which went live in the UK in January 2018.

Our core purpose is helping our customers to gain an understanding of their customers – whether individuals or businesses, through the use of bank data, supplied through Open Banking.

We help our customers overcome challenges routinely found in the onboarding of customers, and through the customer lifecycle. DirectID's suite of products assess bank statement information, affordability and income, allowing our customers to make more informed decisions, faster. This lowers operational costs and enhances customer experience.

It quickly became evident to us that bank data could also be used to overcome the challenges faced above. By connecting a customer's bank account through Open Banking, a collections agent is immediately

presented with the customer's bank statement information. With DirectID, key information such as income, outgoings - categorised and classified - are all visually tabulated for the agent to see.

Moreover, with Open Banking, there is no way that any information can be misrepresented or deliberately altered.

Open Banking and bank data also give a far superior customer journey. The customer merely has to log-in to their internet banking, and Open Banking will provide the collections agent with read-only access to the customer's bank statement information.

The Standard Financial Statement (SFS) is a landmark development for debt advice in the UK which delivers, for the first time, a universal income and expenditure statement, together with a single set of spending guidelines.

DirectID categorise our data alongside the categories featured in the SFS, meaning that our Collections & Recoveries solution is compatible with SFS. This is important because the SFS has been developed to provide a single format for financial statements. This makes it easier for creditors and debtors to work together and come to a solution over debt management.

Conclusion



The Collections and Recoveries space is unappealing, either for collections agents' or for customers. For collections agents, the process is slow, cumbersome, prone to error or deliberate malfeasance and requiring intimate examination and knowledge of physical documents.

For the customer, the process while also slow and cumbersome, is potentially embarrassing, as intimate details of their financial lives are pored over.

The issue for both is the need to examine physical financial documents. Were these documents available without the need of posting them in and have a long and difficult conversation over their propriety, then the process would be far simpler.

Moreover though, a collections agent also needs the bank statement information classified and categorised, so they may be able to identify income or salary, and identify what is discretionary and what is non-discretionary spend.

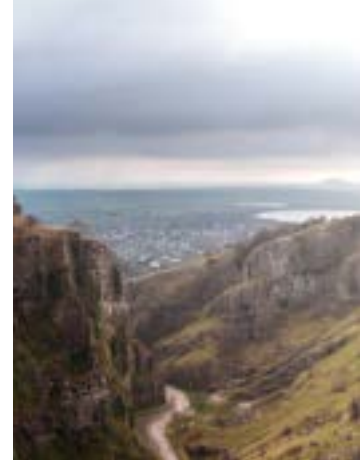
For both collections' agents and their customers, DirectID Collections & Recoveries solution is the answer.

DirectID's tool takes read only bank statement information, and sends it directly to the person who requires it. Then without the need to pore over it, it is visually tabulated, so that all the key lines of

information are presented. From here, it is easy for a collections agent to make a decision on repayments.

Using the power of bank data and Open Banking, DirectID has the ability to affect the entire credit lifecycle, from customer onboarding, through portfolio management, to collections and recoveries.

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