WAYPOINT™
RESOURCE GROUP

Transparency and Success in Third-Party Collections

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Introduction

Transparency is a proven driver of value and effectiveness in numerous business settings. From organizational management[1] and financial reporting[2], to leadership training[3] and customer relationship management[4], transparency is a core principle we can apply again and again for business agility and performance.

For the Accounts Receivable Management (ARM) industry, both the value and necessity of business transparency are especially important. In an environment now increasingly shaped by government regulation, transparency streamlines operations and safeguards compliance for outsourcing partnerships involving the nation's 5,900 debt collection[5] agencies. Transparency is also tied to better relations and outcomes with customers[6].

It may come as a surprise, but among the 77 million Americans who have at least one debt in collections[7], few would consider themselves "customers" in the process. But their behaviors and the strategies for interacting with them fall squarely within the realm of Customer Relationship Management. Fortunately, there are a wealth of CRM strategies and best practices available.

This eBook explores the central role of transparency in the ARM industry—with special emphasis on ensuring compliance and mitigating risk in the outsourcing relationship between a consumer business or credit lender and their outsourcing partners. It also shares guidance on crafting strong third-party collections partnerships, and how ultimately to maintain productive and loyal relationships with customers.

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The Case For Transparency

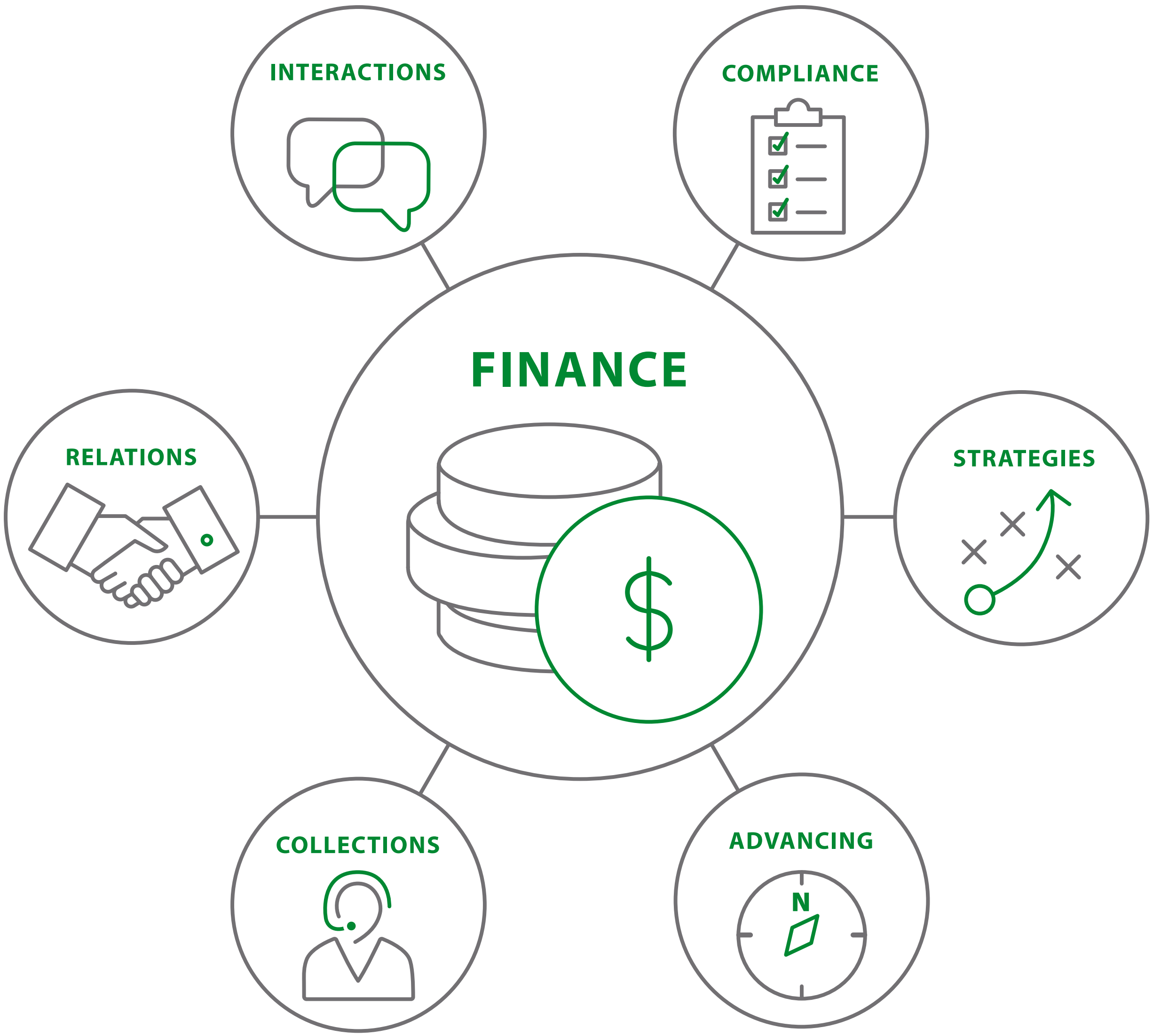
Transparency is a core business principle. It takes many forms and is subject to various interpretations. The *Business Dictionary*[8] defines it, in part, as "the availability of full information required for collaboration, cooperation and collective decision making," where rules and processes are "fair and clear to all participants." For the ARM industry, transparency comes into play most powerfully as a tool for compliance and risk reduction, whether it be with internal call centers or third-party collections agencies. But equally as important, transparency is also a reliable compass for preserving the relationship with billed customers.

A Changing Regulatory Landscape

The Great Recession and subsequent recovery had many outcomes. For ARM professionals, however, none had a greater impact than the creation of the Consumer Financial Protection Bureau (CFPB) as part of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

. . . transparency is the key to making the client-vendor relationship as seamless, aligned, and compliant as possible.

An independent federal body responsible for consumer protection in the financial sector, the CFPB's jurisdiction includes collections agencies—as well as banks, payday and mortgage lenders, credit unions, and a host of other financial companies. The CFPB's biggest headlines are also some of its most recent: in September 2016, the agency fined Wells Fargo $185 million—CFPB's largest such penalty to date—for illegal banking practices.[9] The CFPB's role continues to evolve as it works to establish a clear and efficient regulatory tapestry for companies involved in consumer finance.



Compliance, Compliance, Compliance

As the consolidation and shaping of consumer finance regulation continues to unfold, companies involved in consumer finance must keep pace to sharpen their own best principles and practices. The task becomes even more challenging when third-party collections agencies are part of the equation. In the previous era, outsourcing debt collection was sometimes seen as a way to outsource a degree of responsibility for collections methods and customer interactions. However, a host of new consumer protections and practices now hold organizations fully responsible for their outsourcing partner's compliance.

As a result, companies strive for full transparency into both their own debt collection practices and those of third-party partners to ensure all customer interactions are in compliance. From work strategies and communications protocols, to account review capabilities and CRM policies—transparency is key to making the company-vendor relationship as seamless, aligned, and ***compliant*** as possible.

A "Philosophy Of Collection"

The benefits of transparency, however, go far beyond the legal and regulatory peace-of-mind that comes with compliance. Transparency is also crucial to maintaining productive relationships with those who owe. As mentioned in the Introduction, research shows that transparency fosters trust, respect, and a host of other CRM dynamics[10] that—in our sector—lead to better interactions and more successful collections efforts with customers.

The complexity of debt, however, can make this easier said than done. A 2014 CFPB report[11] on collections and credit reporting, for instance, highlighted the pitfalls of medical debt, where "complexity could lead some consumers to be unaware of when, to whom, or for what amount they owe a medical bill or even whether payment was the responsibility of the consumer rather than an insurance company."

The CRM Dilemma

Whether delinquency involves medical, utility, credit card, or any other kind of debt, the collections industry faces a core dilemma when interacting with customers: accounts receivable management is a realm where transparency is—at once—especially important and difficult to achieve. A May 2015 *Harvard Business Review* article on "Customer Data: Designing for Transparency and Trust"[12] explained that "transparency about the use and protection of consumers' data reinforces trust" and that such trust can be more easily broken in situations where sensitive customer data is being shared involuntarily with third parties.

For the consumer, it's destabilizing enough to be contacted by third parties that market to them based on detailed purchasing and lifestyle information. Now imagine when that third party is a collections agency, in possession of the consumer's financial information, and seeking to collect on a debt. There's no single way to navigate this dilemma, but successful strategies tend to involve what is called a "philosophy of collection" based on transparency and collaborative problem-solving with consumers to preserve what could otherwise be a troubled relationship.

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Transparency and Empathy as CRM Strategy

"I've had 25 years of experience in this industry, and transparency means equal trust between partners," is how one industry veteran summarized it. Most people have lived long enough to know that bad things can happen to good people. When we build that foundation of transparency and empathy, it's easier for us to be good actors in a bad situation.

Indeed, the power of empathy has been leveraged by other industries—such as insurance—to foster the role of trusted adviser in the customer's time of crisis ("Like a good neighbor, State Farm is there.") More collections professionals are realizing that, like an insurance agent, they are also intervening in a person's life during a time of crisis. They're increasingly leveraging empathy[13] as an effective strategy in their CRM toolkit.

Three Keys To Building Transparent Outsourcing Partnerships

For all the reasons we've discussed so far, the outsourcing relationship between an organization and its third-party collections partners must be crystal clear. This is even more important in today's era of consolidations. One major international bank, for instance, had up to 64 different collection agencies as recently as five years ago. Now that number is down to about eight.

Strong agency partners succeed by leveraging transparency for both compliance and performance in order to strengthen the entire operation—from access and flow of information to portfolio validation and regulatory reporting. Here are a few priorities to consider in crafting the right outsourcing partnership:

1. **Early Visibility:** "If you ask what keeps me up at night, it's the reporting and the situational awareness. It's making sure you're not blindsided by trending info that may point to trouble you didn't anticipate," said one industry leader. Whether it's compliance, churn rate, or any number of situations where transparency comes down to whether you had early visibility, your vendor should be able to provide it. Answers should come readily to questions like "How did our account get here? Are we following the right process to resolve the issue? What's our real-time ability to access account information and a record of our communication?" The best partnerships foster early visibility to the point where you may be able to identify issues so proactively that they never become problems to begin with.
2. **Brand Safeguarding:** As we've learned, regulation has tied together the fates—and reputations—of company and outsourcing partner more tightly than ever. Even the largest and most established brands are only as reputable as the practices of their third-party collections agencies. Partner management strategies based on reducing reputational risk increase success. Maintaining company control over the collection strategy and the execution—and in a way that's provable to both regulators and internal management—mitigates harm to the brand as well as any future relationship with the customer. In this context, brand safeguarding means:
   - no big surprises;
   - nothing is happening that's not governed by the company's collection strategy;
   - problems are reported earlier, not late.
3. **Omni-Channel Mastery:** Today's consumers interact across multiple channels—including email, social media, call center interactions, and web chats. The following are important characteristics of leading ARM outsourcing partners:
   - They are up to speed on the best ways to leverage each channel, to reach the right contact, and protect the brand through successful interactions with customers.
   - They have a demonstrated compliance acumen to navigate sometimes conflicting regulations. As we've seen, the CFPB incorporates conventions that—in some cases—go back nearly a half century.
   - They understand how old rules may apply to new technologies; which regulations affect which channel; and how to keep up with a shifting regulatory landscape.

Conclusion

As consumer finance becomes increasingly complex and regulated, maintaining trust and transparency throughout the collections ecosystem has become a central priority. Regardless of your exact approach, building strategies and partnerships that embrace both a compliance infrastructure and a commitment to safeguarding the consumer relationship through problem solving and education yields many rewards.

Tight alignment between company and outsourcing partner—together with a "customer" focused strategy built on transparency, respect, and knowledge-sharing—can ease the strains and boost success.

About Waypoint

Waypoint Resource Group is a 100% US-based company and a member of the TG family of companies. Waypoint provides multi-channel accounts receivable management solutions to businesses in a variety of industries including automotive, utilities, healthcare and telecom/cable/satellite. TG has nearly four decades of successful experience in accounts receivable management as a federal loan guarantor. Waypoint draws from this experience and heritage to deliver results that improve revenue flow and recovery as well as safeguard consumer relationships.

Contact Waypoint at **(888) 648-6606** or **www.waypoint.com** for more information.

End Notes

1 https://www.entrepreneur.com/article/245461
2 http://www.worldbank.org/en/news/feature/2013/10/01/effective-and-transparent-financial-reporting-is-good-for-business
3 https://www.linkedin.com/pulse/five-benefits-leadership-transparency-rob-peters
4 http://www.destinationcrm.com/Articles/Editorial/Magazine-Features/Transparency-51725.aspx
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