WAYPOINT® RESOURCE GROUP

The Future of ARM – Six Things to Watch

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Introduction

The accounts receivable management (ARM) industry is transforming at breakneck speed. In the face of this ongoing evolution, ARM professionals are dealing with many challenges:

> Heightened competition
> IT innovation
> New management philosophies
> Increasing customer demands, and
> An ever-changing regulatory landscape

And still, more change is coming.

No one can predict with certainty the future of ARM. While many questions remain unanswered, it is possible to identify crucial trends and dynamics that can help make some sense of what lies ahead.

This eBook identifies six important factors that may shape the evolution of the ARM industry over the next five to 10 years. Derived from receivables-sector research, emerging best practices, and a series of recent interviews with top ARM executives from around the country, our findings show these factors are already influencing collections practices and will continue to mold the industry for years to come. Understanding and monitoring the evolution of these six factors will help practitioners to better strategize and prepare for future challenges and growth.

Continued Growth of Omnichannel Capabilities and Strategies

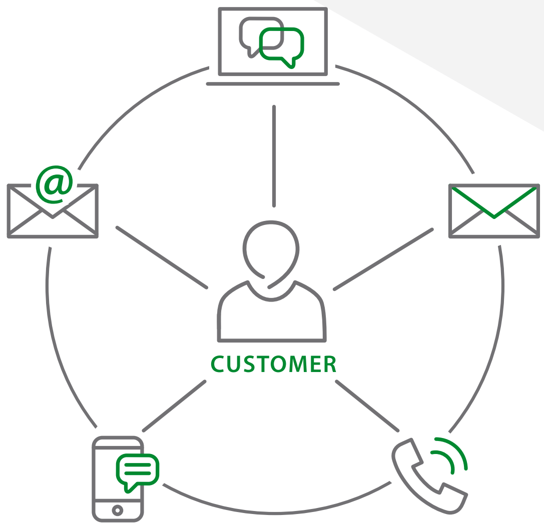
The technology-driven omnichannel revolution of more and more customer touchpoints and engagement options will continue to gather momentum in the years to come. That means ARM practitioners must keep pace with the growing opportunities — and customer expectations[1] — for seamless, cross-channel integration of web, email, text, phone, and other pathways.

US companies are global leaders in omnichannel prevalence and maturity[2]. But as the diversity of channels and customer demographics continues to explode, the playbook for a successful omnichannel future requires careful management of these channels while safeguarding brand reputation and minimizing compliance risk.

Future success will rely on a 360-degree understanding of customers and their preferences for engagement, with the power to provide the right data and options in the right format at the right time. This requires adequate planning and governance to standardize and coordinate multiple customer views and support diverse payment options such as electronic invoicing, ACH, secure card payment, and checks.

"We need to have established systems that account for technology and self-service options, and make sense of the information coming in via those channels," says one industry veteran. "This is especially important for millennials and other demographic groups who prefer — and demand — tech options." From an operational perspective, this expert says an organization's IT platform must rise to the task of supporting the communication channels being offered. Latency or technical glitches with online chat, for instance, can be worse than not offering online chat at all.

In addition, managers must be up to the task of overseeing an expanded omnichannel universe that goes well beyond simple phone interaction. Managers must learn best practices for interacting with customers via each channel, and be able to train agents on all of the necessary skill sets. They must also figure out what data and analytics they need to reap insights from multiple channels and set contact success strategies.



Compliance is Here to Stay

The regulatory landscape has seen tectonic shifts in the decade since the Great Recession. As every collections practitioner today knows, the job has been profoundly altered by the Consumer Financial Protection Bureau (CFPB) and measures put in place by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

With the new presidential administration, there's much discussion[3] — and some hope — about whether a significant reduction in regulations may be imminent. Indeed, President Trump has taken some initial steps to re-examine Dodd-Frank provisions[4]. But many industry experts say it's too soon to bet the future of the business on a wholesale rollback in regulations.

"There's a lot of talk about the future of Dodd-Frank, but few of my colleagues think it's going away," says the vice president of debt sales for a large banking organization. "We probably won't see more regulations, but the ones that are in place will likely stay there, for the most part. Even if some regulations change, the process will be complicated and take a long time."

It's important to remember that current regulations are built on top of decades' worth of compliance law from multiple administrations — with origins ranging from the Federal Trade Commission and the Office of the Comptroller of the Currency to the Telecommunications Consumer Protection Act of 1991 and the Fair Debt Collections Practices Act of 1977.

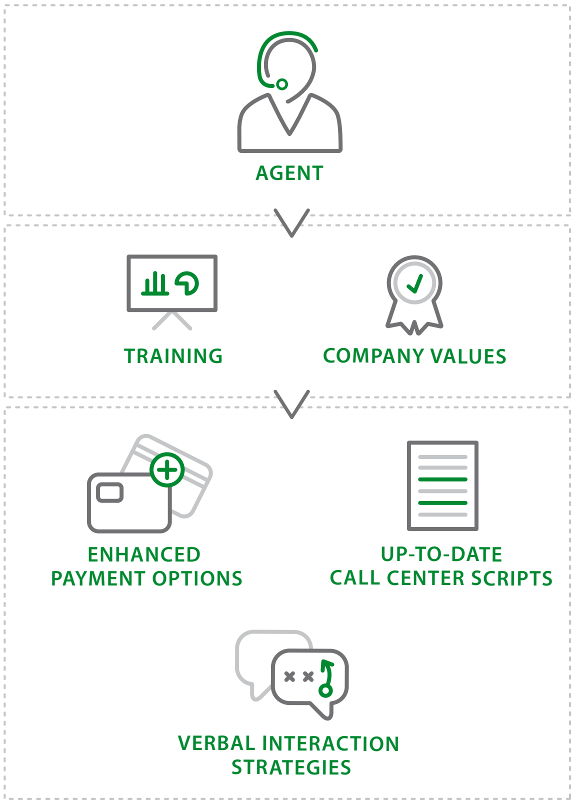
Should federal oversight and regulations be lessened, organizations can expect state activity to increase. Said an attorney for a collections company, "The other story is that the trending increase in state attorneys general activity is likely to expand into the void left by a presumable eventual decrease in CFPB reinforcement."

The future of collections will continue to rely heavily on how well organizations protect against regulatory risk. That means collections teams must advance best principles and practices to guide operations — their own and those of third-party agencies — in order to remain compliant.

As channels multiply, businesses must address compliance via user experience features that make it easy for consumers to consent to additional forms of communication. Also, companies should offer self-service options wherever possible, since they enable scalability and lower the risk quotient for regulatory missteps that can arise from interactions with human contact center agents.

"There's a lot of talk about the future of Dodd-Frank, but few of my colleagues think it's going away…"

More Company Cultures Built Around Problem-Solving and Customer Education



BECOMING A TRUSTED ADVISOR

The ARM industry is steadily overcoming negative perceptions[5] of collections agents as strong-arm enforcers. Those perceptions will further recede as research and success stories continue to pile up on the effectiveness of company cultures built on empathy, customer education, and collaborative problem-solving. These principles drive better resolution rates by emphasizing teamwork and partnership at every turn[6].

Agent training and company values will increasingly center on positioning the collections representative as a trusted adviser. This will reflect in everything from enhanced payment options and granular tweaks in wording of call center scripts to verbal interaction strategies designed to maximize trust[7] and minimize conflict[8]. In the process, ARM operations can reduce the costly consequences from negative interactions — such as the fact that it can take as many as 12 positive experiences to make up for one unresolved or negative experience[9].

A major focus here is on educating customers about their credit options and responsibilities. "Future ARM strategies will increasingly require education and counseling efforts that are adaptable, so customers can understand data and options in ways that best meet their specific needs and circumstances," says a senior ARM executive who oversees agent training. "Resolving debt and delinquency involves a partnership with the customer. And since customers are better partners when they're informed, it stands to reason that bringing education into the mix helps make that partnership more successful."

Agent training will increasingly focus on enhanced understanding of telltale characteristics of default[10] and how to navigate customer confusion[11] that leads to poor decision-making, higher fees, and more financial troubles. Agents must also understand customer demographics, historical patterns, and debt milestones in order to further tailor the engagement. While all this takes effort, the payoff will come in the form of increased receivables, reduced compliance risk, and stronger customer relationships.

More Agility and Insight from Data

Explosions in the volume, variety, and velocity of modern big data have transformed countless industries — especially consumer-focused businesses, where floods of behavioral data bring unprecedented CRM insights. Look no further than eBay's sophisticated Customer DNA[12] system and similar data repositories for how the right IT capabilities can reap granular insights into how people think about, buy, and pay for products and services. These capabilities are increasingly being tailored to transform the receivables process.

"I think data accumulation and unique data sources will continue to be a focus for the industry," says the audit director at a large receivables management firm. "We're going to keep raising expectations for ourselves and our vendors to be very nimble when it comes to systems and integration."

The key here is agility[13] — powerful, real-time manipulation and harmonization of diverse forms of data for actionable insights and business strategies. Given how receivables involves a particularly challenging customer profile — difficult conversations about debt and complexity around finances — ARM organizations will increasingly need data agility to understand borrower behavior and leverage those understandings for more contact success.

Such agility requires advances both in technology tools and in workforce habits and attitudes around those tools. First and foremost is a rethinking of legacy systems: From upkeep and security to licensing and performance, many legacy systems are obstacles when it comes to agility.

Newer systems — including best-of-breed combinations of on-site and cloud solutions — can do a better job managing and standardizing vast and disparate data sources and supporting the advanced analytics needed to find patterns and business insights amid all that data. The right analytics architecture, for instance, can augment data on talk-off duration with a deeper analysis into true costs based on how many follow-ups happened, which channels were used, and what percentage of that effort was spent by agents vs. call center managers vs. attorneys.

As technologies advance, so do the applications for the ARM industry. Advanced analytics, for instance, can now route customers to agents whose regional accents and dialects match their own.[14] And as artificial intelligence and machine learning continue to evolve, ARM professionals will see more tools like self-improving planning algorithms that tee up payment plan solutions, chat bots that faithfully mirror and augment live agent interactions, and predictive analytics that assess not just current conditions but likelihoods on which accounts and portfolios might be easier or more difficult to bring to future resolution.

Throughout, success requires managers, agents, and other business users to do their part to enhance their own data literacy. IT acquisition, meanwhile, should be framed around solving business problems and embracing agile development[15] instead of non-agile waterfall or ticket-driven requests for specific technologies.

Industry-Wide Reorganization Trends

The structure of the ARM industry as a whole will evolve in significant but somewhat predictable ways. A consolidation trend[16] that has already shrunk the number of companies in the ARM sector by roughly a third will likely continue, especially as compliance requirements and shrinking profit margins weed out businesses that can't fully optimize their operations for competitive advantage.

"We'll continue to see fewer players in the market," says the head of recovery operations for one of the nation's largest telecommunications companies. "There will be a reduction in the number of agencies, and there will be fewer agencies on board with each client."

The same business pressures that drive many companies to outsource collections — including the significant cost of compliance[17] — are driving more and more companies to consider selling off receivables. "We're seeing more and more companies selling off the entire receivable as a way to avoid the infrastructure and oversight that's needed," says the CEO of a midsized financial services firm. "It's not unlike the way banks buy and sell mortgage debt, and it's a trend that will continue well into the future." Predictive analytics will help organizations strategize over which receivables to keep and which to sell off.

The ARM industry will also likely see a reversal in the trend toward offshoring operations. Many companies have encountered communication and cultural barriers when offshoring operations,[18] but the problems and consequences are magnified in collections. The customers in a delinquency or default situation are under far more strain compared to other CRM interactions like registering for a warranty or returning a product. That means miscommunication and errors in translation elicit stronger emotional responses and more risk in an industry where compliance is driven by customer understandings and sentiment. For these reasons, look for more collections operations to dial back offshoring in favor of onshoring or nearshoring.

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Heightened Focus On Data Security

Last but certainly not least in the list of factors shaping the future of ARM is the growing challenge of data security. In fact, it's positioned at the end precisely because a great deal of what's been discussed so far — including the explosion of big data, ongoing compliance challenges, and industry trends around consolidation and offshoring — present significant data security challenges that further complicate universal concerns about hacking and cybercrime.[19]

"Think about the consolidations taking place, and the extent to which offshoring still exists. This expands the footprint of where sensitive data is going," says one industry veteran. "When you have consolidation, you have larger amounts of data sitting in fewer areas. And when that data may be transmitted and stored around the world, how do you protect it and stay compliant with US regulations?"

These are challenges that ARM organizations must overcome to survive and compete in the future. And the more sensitive the information, the higher the stakes. Healthcare debt, for instance, accounts for a huge portion of collections activity.[20] That means regulatory protections around financial information are compounded by health information privacy provisions[21] that can add to the compliance burden.

Navigating data privacy issues in the collections industry requires a commitment to security that rivals or exceeds that of a multinational bank. Especially as in-memory computing, massively parallel processing, and related advances continue to quicken the real-time collection, analysis, and digital transmission of more and more data, security protocols will have to keep up with state-of-the-art threat detection and mitigation solutions.

BIG DATA SECURITY

Conclusion

While there is no crystal ball to predict what lies ahead for collections — and many uncertainties remain — the road map for the future of ARM is not totally uncharted. The six trends identified in this eBook represent signposts as businesses pursue successful strategies for future growth and increased revenue. By looking at these emerging trends and where they're pointing the industry, we can help drive greater efficiencies and cost reductions to optimize the accounts receivable process, and ensure survival and competitive advantage for years to come.

About Waypoint

Waypoint Resource Group is a 100% US-based company and a member of the Trellis 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. Trellis Company (formerly 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

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