AUTOMATED NOTIFICATIONS:

THE NEW COLLECTIONS TOOL

Vision and Strategy Document

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for EnvoyWorldWide

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Business Overview & Industry Trends

Financial services institutions find themselves in an increasingly competitive and challenging marketplace. This trend is driven by increased competition for new profitable customers in a maturing market, challenging macroeconomic conditions, new privacy legislation and new consumer technology. As a result, bankcard issuers are seeing an increase in delinquent dollars and customer attrition, with a simultaneous decrease in new accounts and applications. According to the American Bankers Association, the number of overdue credit card accounts rose to an all-time high (4.09% of all accounts) in the third quarter of 2003, while delinquencies, measured by dollars outstanding, rose to 4.66%.

This trend makes it critical for companies to become innovative in their approach to collections. Financial institutions need to see collections and recovery as a core competency, a competitive advantage, and profit driver. In order to accomplish this change in paradigm, financial institutions must identify new tools to apply to their collections challenges. Automated notification systems, which proactively communicate to customers via their preferred method and time to resolve issues or deliver critical information, meet these needs. This paper focuses on the growth and importance of automated notifications as a process improvement tool for collections.

In the past, the banking industry has relied upon two major communications methods, direct mail and the predictive dialer, to communicate with its delinquent customers. Technological advances in the past ten years have opened new channels of communications, such as email, instant messaging and interactive voice response. Automated notification systems provide the tool for financial service companies to take advantage of these new channels to improve their collection efforts. This new tool is a compliment to, not a replacement for, traditional methods that allow financial institutions the ability to better serve their customers.

Automated Notifications

What are automated notifications, and what business needs do they meet?

Automated notifications are relatively new in the collections market. Utilizing voice, and addressing the proliferation of advanced communication devices and technologies, messages can be sent to customers delivering time-sensitive information regarding overdue bills, and resolving any outstanding issues. The notifications or alerts can include outbound interactive calls, emails, faxes and SMS (Short Message Service) messages. The selection of a specific alert or notification depends on the preference of the customer and their propensity to respond to each treatment. There are explicit advantages to each type of notification, including reduced costs and the ability for the customer to interact with the service.

Outbound Interactive Voice Notifications: Voice messaging is the most common notification, and possibly the most powerful application tool in the collections environment. Outbound interactive notifications are automated calls/messages placed to selected customer phone numbers. After the customer answers the call, the notification becomes interactive, thereby allowing the customer to perform many different actions. This can include: providing security information to verify they are the correct contact, scheduling payments, entering payment information, bridging to a payment system or live operator, etc.

Email: While email has not been used extensively for collections, several forward thinking companies such as American Express and Bank of America have begun testing email as a collections tool. With response rates similar to regular mail dunning letters, email is attractive because of the reduced cost. More importantly, email provides an attractive alternative to traditional outbound calling, which has seen Right Party Contact (RPC) rates decline for several years. In recent operational reviews during the past year, Bridgeforce has seen RPC rates as low as 10% at peak calling times. Several factors, including legal requirements, security and the lack of email addresses for customers, still minimize the use of this medium. That being said, this is one of the fastest growing tools for collection managers.

SMS (Short Message Service): SMS is the least used notification method in the United States. However, in countries with deeper wireless phone penetration, this communication method is becoming valuable. For example, in the United Kingdom, several financial institutions are piloting collection SMS messages and are seeing up to a 40% call back rate within 2 hours of sending the SMS. At this rate of success, it will not be long before American institutions test this technology for application in the collections environment.

Faxes: The ability to send faxes to customers is a legacy technology, but its application in the collections market is relatively limited given privacy and legal issues. Even with these issues, companies that have a confirmed fax number for a customer have been testing the use of faxes as a replacement for traditional dunning letters. The resulting response rates have been similar to direct mail, but the cost savings for postage can be substantial.

It is important to recognize that automated notifications are entirely different from "call blasting" functionality provided by most predictive dialers. Call blasting is the practice of leaving automated messages for customers, usually on confirmed answering machines. While leaving automated messages is an important cost saving task, it is only a small part of what automated notifications can provide to a collections department. Automated notifications functionality includes customer interaction that allows for acceptance of personalized customer information. This interactive functionality allows the customer to perform advanced collection actions. Additional differences include the ability to use customer responses to trigger the next steps, customer verification, and automatic transfers to the call center upon customer request. The result is a reduced number of contact attempts to resolve a customer's issue without having to be transferred into a call center. For example, when a customer is contacted, he/she can interact with the application and indicate they have previously sent a payment, would like to make a payment now, or cannot make a payment at this time. Continuing the interaction, the voice application could then prompt the customer for specific information that is captured in the collections system. This is obviously a greater value add than "call blasting" functionality that leaves a generic message on an answering machine.

Provider Selection

Functionality, technology and cost are the most significant factors in the selection process for an automated notification service. There are additional requirements within each of these categories.

Currently there are four main providers of automated notification services; Boston-based EnvoyWorldWide, Seattle-based PAR3 Communications, United Kingdom-based Adeptra, and Chicago-based Centerpost. Each of these providers has specific strengths and weaknesses. For the purpose of this paper, the focus will be on EnvoyWorldWide and its automated notification offerings. EnvoyWorldWide has been providing automated notification services since 1998, and to date has sent over 140 million notifications out to their clients and customers.

Functionality

Functionality is the most critical component in choosing a provider because it relates directly to the solution's ability to meet the business needs of potential clients. Several key pieces of functionality to measure include: coverage, flexibility, dynamically created voice messages, reporting, administration web-based user interfaces and business rule generation, which for example, could be used to send alerts to one timezone or stop calls when the call center is at capacity. From a functionality standpoint, EnvoyWorldWide meets all of the core functionality requirements, while providing additional powerful features.

EnvoyXpress, the core enterprise communications platform from EnvoyWorldWide, supports the ability to:

1) Deliver notifications to multiple devices including phone, fax, email, pager and SMS;
2) Deliver notifications both domestically and internationally;
3) Deliver notifications according to time zone specific rules;
4) Route multiple messages between separate devices to ensure receipt;
5) Create messages dynamically to accommodate input from the recipient;
6) Allow for administration of the distribution of messages by utilizing detailed calling campaigns to meet the organization's requirements;
7) Ask multiple-choice, response-based questions to collect data from the recipient;
8) Validate "right party contact" (RPC) by asking interactive questions;
9) Provide real-time reporting of the results of the notification efforts including the number of notifications reaching a live person, messages left on answering machines, etc.
10) Set and manage calling windows for both compliance and business process optimization
11) Opt-in and opt-out capabilities for additional compliance
12) Schedule collections campaigns in advance and easily start and stop a campaign.

Technology

Technology is an important consideration when selecting an automated notification system, because in order to get the most from the investment, the system must be scalable, secure, easily integrated with existing hardware, software and business processes, and able to write back to the collections system of record. From a technology standpoint, EnvoyWorldWide meets all the core technology requirements.

EnvoyXpress, the core enterprise communications platform from EnvoyWorldWide, provides:

1) Security standards with regard to the data, the network and the facility that will meet or exceed most clients requirements;
2) A fully scalable solution to support increased client requirements;
3) Cutting edge technology, such as an XML API to reduce the effort needed to integrate with the collections process and technology. This is critical and specifically related to the system of record, or collections system.

Cost

Cost is an obvious driving factor in the vendor selection. Today's economic environment demands the functionality and technology requirements outlined above be provided at a cost that can be accommodated within existing, and possibly shrinking, budgets. From a cost standpoint, EnvoyWorldWide is positioned well, given they are a hosted service provider. This allows the customer to pay for actual usage and avoid the heavy up front costs of hardware, software and telecommunications tools necessary with most traditional software packages.

From a financial model perspective, EnvoyWorldWide's service:

1) Offers a relatively low cost of entry that provides a fast ROI;
2) Can be customized and deployed quickly with minimal client resource involvement;
3) Clearly defines the ongoing cost and support of the solution that is based on a usage model so that the customer pays for what they actually use.

Using Automated Notifications in Collections

The most important thing to remember is technology is a tool used to execute strategies. The real key to the value of automated notifications is using the technology correctly. Too many companies purchase technology and feel it is a "magic bullet" that solves all of their business problems. In order to gain the real value, financial service companies need to embrace the new technology and develop strategies that emphasize and leverage the application.

Automated notifications have three main applications in collections: front line collections, back line collections, and specialty collections. The most common use of automated notifications is front line collections. Unfortunately, many financial institutions stop here and do not use the technology for back line and specialty collections. As a result, they do not get the full value of the solution. It is our recommendation that champion/challenger testing be done at all stages of delinquency to identify the correct opportunities for optimizing the use of automated notifications. This is critical since no two portfolios are the same; as a result, the treatment strategy for one company may not work for another.

Front Line: One strategy for the use of automated notifications in front line collections is to use the tool to manage account volumes. In today's environment, the roll rate for early stage delinquency is increasing. With this increasing trend in delinquency, many collection departments are struggling to make valid contact attempts on their early stage delinquent accounts due to limited resource availability. These attempts are critical because, according to industry research, accounts that historically roll to more than two payments delinquent are over 60% more likely to charge off than those accounts that do not roll to greater then sixty days delinquent. Automated notification services help organizations do more with less by providing an efficient, cost effective way to increase their front line, early stage contact attempts.

For example, one opportunity to ensure the entire collections file is being worked is to run daily notification campaigns to contact all accounts that did not receive a valid attempt in the past 5 days. This will specifically help cover west coast and low balance accounts that traditionally do not get as much coverage and consequently result in higher roll rates. In addition, the campaign can also include all accounts identified as "high risk"; this approach maximizes the number of collection attempts on these accounts that historically have high roll rates.

Back Line: One strategy for the use of automated notifications in back line collections is to more strategically use the tool to reduce roll rate and charge-off through targeted special offers. Several innovative financial institutions have been testing EnvoyWorldWide's automated notifications to make "Last Minute" offers to several delinquent (120-day+) customers. They offer settlements and payment programs before charging-off these customers. Several days before each cycle date, every account in that cycle received an automated notification attempt to make the "last minute" offer. The results have been very encouraging; a high number of payments, call backs, and settlements all leading to charge off avoidance.

Specialty Collections: Specialty collections provide a great opportunity to gain value from the strategic use of an automated notification tool. For the purpose of this example, specialty collections are defined as: recovery, skip tracing, estate, bankruptcy, debt counseling, or any other manual intensive scenario. These are scenarios that tend to be quite manual, and as such, have high operational costs. As a result, they provide the perfect opportunity to use automated notifications.

One strategy for the use of automated notifications in specialty collections is to call customers that have indicated that they are going to, or have already, filed for bankruptcy. Using automated notifications, a call can be placed to each customer, or the customer's attorney if the number is

available, to allow them to enter the information needed to process the account and to designate it as pending bankruptcy status. The value here is that companies were previously "spending money to lose money" by using more expensive resources to collect this data. Using a less expensive resource, such as an automated notification tool, saves the financial institution money on an account that they are already going to charge-off.

An additional strategy for using EnvoyWorldWide is to run skip tracing campaigns to scrub the customer database and identify accounts with bad contact information. This can be particularly helpful when reviewing information received from third party providers. For example, it is a common practice to send skip accounts to information providers, such as Acxiom and First Data, to find new phone numbers. When the accounts come back with new numbers, they are then introduced back into the calling campaigns to be called by a live agent. Historically a high percentage of these new numbers prove to be inaccurate, resulting in a wasted call by a high cost resource – the live agent. By running "new number" campaigns with EnvoyWorldWide, it is possible to identify all the correct new phone numbers and then address the accounts appropriately. An added benefit is that the new numbers that prove to be incorrect are now identified and the financial institution can push back on paying for this information.

While these are just a few examples of how to use an automated notifications tool, the value such a solution can provide to an innovative company is immeasurable. With the increase in delinquency, it is becoming more important for companies to ensure that they use all of the tools available to them and that they proactively address delinquency. The key to successfully using this powerful tool is to integrate it into the full collections solution or process. This will allow for the use of modeling and strategy to target high-risk accounts, as well as early stage and late stage delinquent accounts that would benefit from an automated notification.

The following flow diagram is an example of where an automated notification system optimally fits into the process flow:
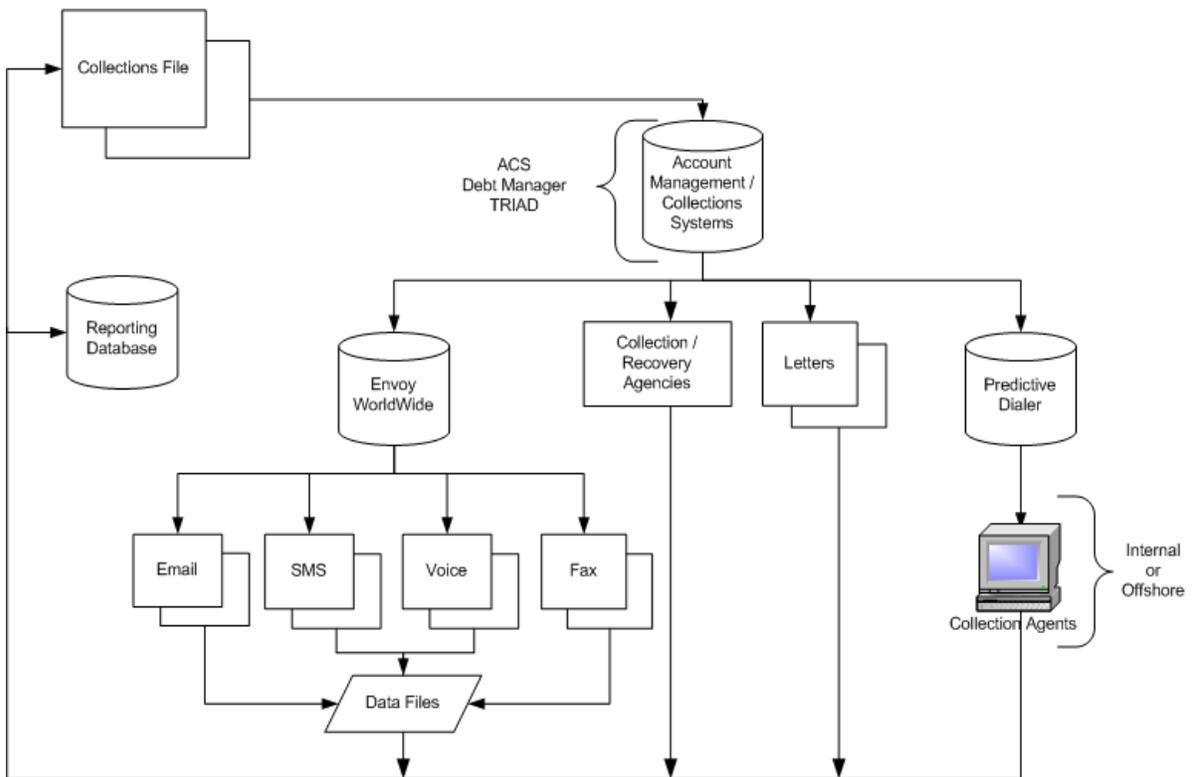
Business Case

What value does this solution provide to the bottom line?

A quick business case of several scenarios shows that there is tangible value in using this type of solution.   For the sample business case, the model is based on a ten billion dollar credit card portfolio with industry average delinquency rates, outbound calls, etc. as inputs into the model.

Scenario #1 Bankruptcy Pending

1) A portfolio of $10,000,000,000 would have on average 2,800,000 accounts
2) Using an estimate of 0.20% accounts filing bankruptcy each month
3) An average cost per outbound call of $5.80 (Provided by Garter)
4) Estimate that 2 out of 4 accounts that go bankrupt require a follow up call to the customer or the attorney

Step 1
(Number of Accounts) x (% Filling BKY) = (Accounts Filling BKY)
(2,800,000) x (%0.20) = (5,600 Accounts)

Step 2
[(Accounts Filling BKY) x (% Requiring Follow Up Call)] x (Cost Per Call) = Monthly Savings
[(5,600) x (%50.0)] x ($5.80) = $16,240 Monthly Savings

Scenario #2 Outbound Call Reduction Cost Saving

1) A portfolio of $10,000,000,000 would have on average 2,800,000 accounts
2) Using an industry average of 4% delinquency equals 112,000 delinquent accounts
3) Assume conservatively that 1 call is placed on each account in a month
4) Assume conservatively that 2% of total calls are replaced with automated notifications
5) An average cost per outbound call of $5.80 (Provided by Gartner)

Step 1
(Number of Call) x (% Replaced) = (Number of reduced calls)
(112,000) x (%2) = (2,240 Replaced Calls)

Step 2
(Number of reduced calls) x (Cost Per Call) = Monthly Savings
(2,240) x ($5.80) = $12,992.00 Monthly Savings

Summary

The collections environment is becoming increasingly challenging, but by being innovative and embracing new technology ideas, progressive financial service companies will be able to adjust. One such technology is automated notifications that can be used in tandem with, or in substitution for, traditional collections methods. The technology is readily available and can be used to help address issues, such as decreasing Right Party Contact rates, increasing delinquent account volumes, and increasing roll rate. The following are recommendations to organizations that are looking to utilize automated notifications to augment their current collection methods.

1) Identify high cost manual processes that can be automated using automated notifications for a quick return on investment.
2) Employ champion/challenger testing methodology to identify additional, but not obvious, opportunities to use the tool.

3) Integrate the system fully into your current collections environment. Do not attempt to run it as a stand-alone application due to the potential risk related to compliance and effective reporting issues. In addition, a stand-alone application may not be able to leverage data from other internal systems such as TRIAD, Debt Manager, and ACS.
4) Continually review the strategies for using automated notifications because the population of accounts will continually change, and as a result, the strategies need to be updated accordingly.
5) Keep an open mind to new ideas. Companies that are prepared to change the way they do business will survive, while those that suffer from institutional memory and live by the motto "This is how we have always done it," will continue to struggle.

About EnvoyWorldWide, Inc.

EnvoyWorldWide provides companies with a reliable communications network for the delivery of time-sensitive and proactive notifications. Leading companies are leveraging EnvoyWorldWide's enterprise notification services to drive customer communication and retention efforts, enhance business continuity initiatives, and streamline the distribution of business-critical information.

EnvoyWorldWide's highly customizable notification services provide businesses with the infrastructure and tools to establish automated, fully interactive voice and text communications with key constituents. EnvoyWorldWide's services deliver wired and wireless messages to landline and mobile phones, faxes, email, pagers, SMS and WAP devices, PDA's and Blackberry's.

The EnvoyXpress Communications Platform consists of a scalable hosted communications infrastructure and multi-modal delivery engine and enables real-time tracking capabilities and interactive, two-way response functionality. Deployed as a proprietary, intelligent network, the platform is designed to dynamically construct interactive messages, notifications and alerts, and deliver them instantly, personally and simultaneously to customers, partners, employees and suppliers.

EnvoyWorldWide is part of an emerging group of leaders that are driving the real-time enterprise with next-generation, Internet-based communications.

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About Bridgeforce Inc.

Bridgeforce specializes in serving the needs of companies that either directly manage account receivables and financial transactions, or that aim to provide software and technology products for this market segment. Our services span across multiple industries, including: consumer lending, small business lending, auto lending, retail banking and brokerage, healthcare, insurance, telecommunications, utilities, and call centers.

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