

## The debt collection industry's digital transformation

# From the dunning process to multi-channel communication

Microsoft CEO Satya Nadella predicts that “within the next ten years we will find ourselves at a point at which almost everything will be digitised.” Accordingly, the digital transformation of the economy and society is also prompting lasting changes within the debt collection industry. It is already no longer just a matter settling a claim but retaining the creditor’s customers, too. Unlike earlier models, this now requires far more than a simple dunning process. In modern, digitised receivables management, processes such as data mining, deep learning and predictive analysis also come into play alongside a personal, empathic approach in dealings with the debtor.

Whilst turnover from e-commerce in Germany totalled just 1.1 billion in 1999, 20 years later this figure has grown to 59.2 billion euro. Simultaneously, we have seen a rapid increase in the intensity of use of digital media and digital devices. A study of media usage among teenagers (Jugendmediestudie, JIM) carried out in 2013 found that more than half of twelve to thirteen-year-olds already owned a smartphone. Among teenagers up to the age of 19, this figure was more than 70 per cent. In 2019, a study estimated that Germany is home to 57.7 million smartphone users. The changes within the trade and services sectors as well as within communications are also driving the increasing digitisation of receivables management processes. A 2019 study into payment behaviour in Europe showed that the dunning process of nearly half the companies surveyed already featured a high level of digitisation. Slightly fewer, but still more than 40 per cent, stated that their dunning process would be digitised either in full or to the greatest extent possible.

This presents significant difficulties for the debt collection industry. Whereas outsourced debt collection previously would have been regarded as simply an outsourced step at the end of a process chain, nowadays receivables management represents an integral part of a “customer lifecycle”, a customer relationship which lasts for the longest time possible. Or to put it in other words: debt collection processes are becoming part of “CRM” (customer relationship management). While the value of a receivable was still the most important consideration back in the 1980s, today greater weight is given to the value of the customer relationship.

Due to the fact that debt collection is, for the most part, outsourced to specialist service providers, particularly in the case of high-volume business such as the telecommunications, mail-order, insurance and financial services or IT infrastructure sectors, these new requirements have precipitated substantial changes within the debt collection industry. A notable challenge lies in handling the individual claim and the emotional “setting” of each customer in a way that is as unique and empathic as possible, even when this takes place in the context of large-scale processes. The customer should still feel like a customer, not a debtor. At the same time, the processes must not be so complex that they no longer serve the needs of the creditor.

The modern debt collection business is now mastering this complex task thanks to the intelligent collaboration of man and machine, a continually optimised merging of self-learning “artificial intelligence” (AI) and personal services. The aim here is to use AI to optimally supplement human skills such as creativity, compassion and intelligence, thereby determining the “next best action” in the process. This can be seen, for instance, in the choice of suitable approach or means of communication, in the offering of the most suitable (especially digital) methods of payment for the customer in question or in the recommendation of simplified payment processes such as deferrals, instalment amounts, number of instalments, frequency of instalments or discounts.

This development also brings with it significant changes with respect to requirements for human resources and know-how within the debt collection business. The industry now requires expertise in fields such as IT,

statistics, mathematics and big data as well as knowledge of business and macroeconomic processes. Service providers in the field of receivables management are therefore increasingly becoming technology-driven legal services providers.

Looking to the future, the progressive digitisation of receivables management is far from complete. The application of behavioural science, the study of human behaviour in relation to individual understanding of values, one's own personality, attitudes and individual perception is producing a new quality. In the short and medium term, methods such as the intelligent use of transaction or interaction history, the analysis of dialogues from chatbots combined with behavioural sciences will take their place in the debt collection industry. Already outsourced receivables management will therefore become an even more an integral part of digital or digitised industries' ecosystems, with the aim being to combine artificial intelligence and the human factor in the most optimal way.

In this context, the coeo Group views itself as a driver of innovation and a "first mover". With an annual volume of claims of 185 million euros in four countries, coeo works primarily for major clients operating in the retail and e-commerce, financial and insurance, energy supply and mobility as well as telecommunications sectors, and now ranks among the industry's top 4 companies in Europe.



The coeo Group is a leading driver of innovation as the debt collection industry undergoes its digital transformation. The coeo management team from left to right: Marco Hessel, Karsten Fiedrich, Sebastian Ludwig, Elias Reitter, Thorsten Hinderks © coeo Group 2021

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