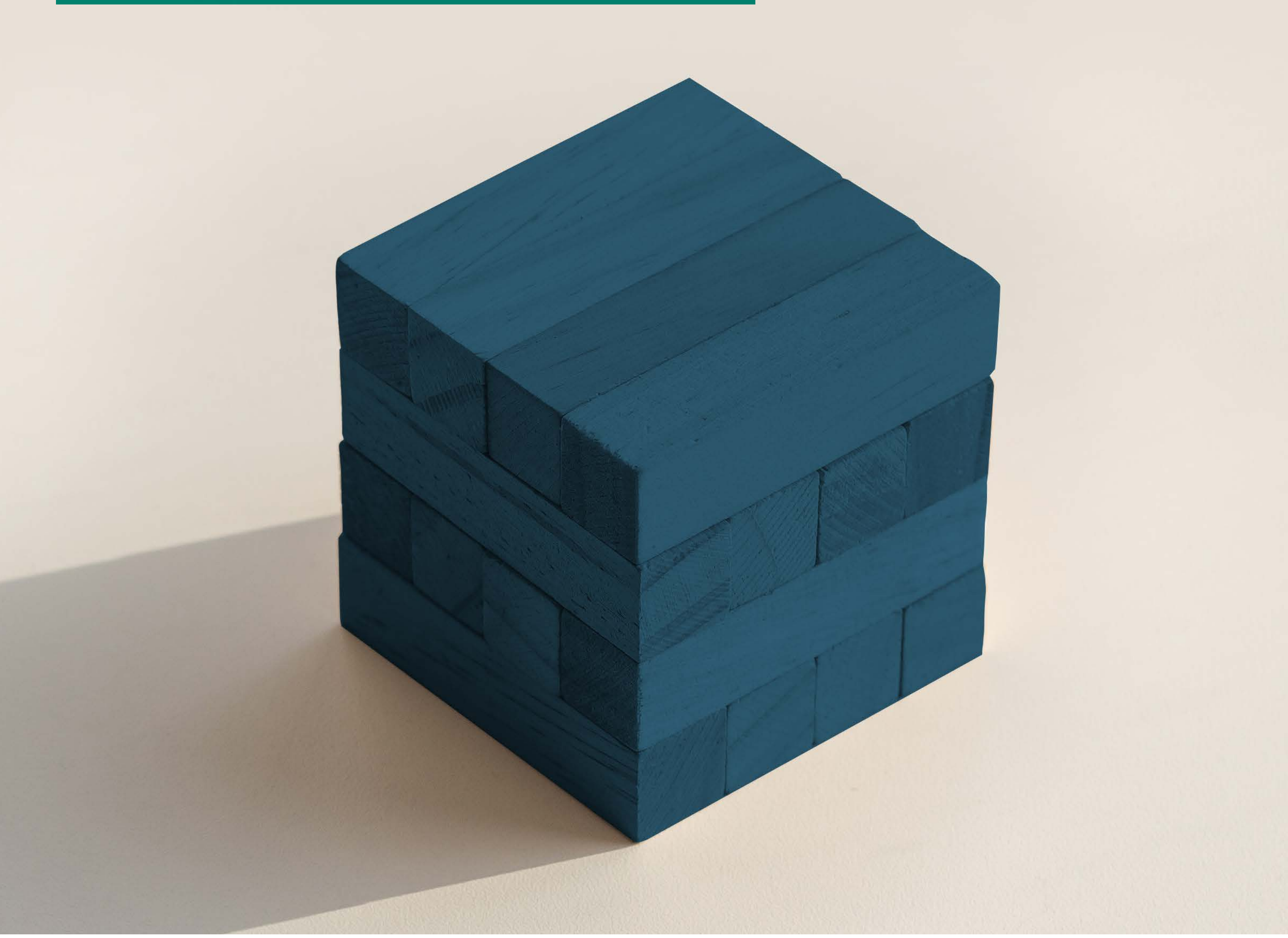
Momenta
Collections Solutions

Avoiding reputational damage through your repayment collection efforts.



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White Paper

Introduction

There is no dispute that reputational damage within any industry for any business can have serious negative repercussions on the company's bottom line.

This is of course no different for those operating in the financial services industry, and in truth such a situation can be particularly damaging for businesses in this space, and especially for retail banks.

It's valid to even argue that reputational damage caused by an increase in complaints, or a wider perception of mistreating customers, will be more damaging for financial services businesses than the fines or wider regulatory penalties which may also follow in such a situation.

Penalties alone can largely be repaid, but the trust and loyalty of customers cannot be corrected nor paid for, and retaining customers trust and faith will be key in the months to come as economic uncertainty for many remains rife.

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In this white paper, there will be an exploration as to how collections teams can ensure that they are taking the necessary steps during their collections efforts to avoid reputational damage at a time when they themselves are under ever-increasing pressure due to the impact of the post-pandemic period and the requirement to retain BAU operating standards, as well as meeting ever increasing compliance regulation demands.

Insights gathered from industry leaders and experts

For the purposes of this research, a group of senior individuals from the collections industry across a mixture of banks and other direct lenders in the UK were asked to contribute, and their findings have been included to offer direct insight as to how they have been approaching reputational damage challenges during their repayment collection efforts.

Wider market participants have also been surveyed on how they have been approaching reputational risk assessments as part of their collections efforts as well as offering thoughts regarding what are the most important contributors to reputational success via their collection's teams and processes.

Defining reputational damage. Just how serious is it.

Reputational damage usually refers to the public reputation of an institution in terms of their trustworthiness, competency, and reliability. This stems from the perception of the organisation from both the public and key business stakeholders alike.

It is intrinsically linked to profit margins and can play a key role in the success of an organisation. Fundamentally, reputational damage occurs when performance does not meet the expectations, needs or requirements of the end customer, and where a negligence or lack of due care (or both) to the ultimate end user experience are at play.

Reputation management is vital for all firms and underpins a key proportion of not only risk analysis but the general running of a bank or wider financial institution and monitoring of this should be an ongoing process. If not managed adequately, it can ultimately result in a strategic crisis.

According to the Deloitte New Reputation Survey Report, reputational risk was the top strategic business risk for 87% of survey respondents, who named reputational risk as more important or much more important than other strategic risks their companies are facing. In addition, 88% say their companies are explicitly focusing on managing reputational risk[1].

Avoiding reputational risk can be a herculean task. Following regulatory, legal, and compliance laws are of course key components, however predicting when such risk will result can be exceptionally difficult, and particularly in a digital environment where 85% of consumers trust online reviews as much as they trust personal recommendations[2].

Social media has unquestionably increased reputational damage risk exponentially, and firms constantly need to ensure that their digital efforts are matched by internal ones to stay on-top of and indeed ahead of new and varying digital customer or consumer trends.

Disgruntled customers turning to social media can be a serious threat to your firm's reputation especially when they feel they do not have adequate support or care being provided to them in resolving an issue or a concern.

Global business players have an even bigger propensity for a wider news leverage in the social and news media market – often particularly so if it is bad news.

Thus, global retail banks in particular need to have strong contingency plans when looking at planning their repayment collection efforts, and this is especially true during a time of economic hardship.

As collections efforts increase, firms will need to practice scenario planning as well conducting annual reputational risk assessments. Post pandemic efforts will need to increase, especially for banks who have issued COVID backed loans.

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[1] Global Survey on Reputation Risk Reputation@Risk Contents. (n.d.). [online] Available at: https://www2.deloitte.com/content/dam/Deloitte/za/Documents/risk/NEWReputationRiskSurveyReport_25FEB.pdf.

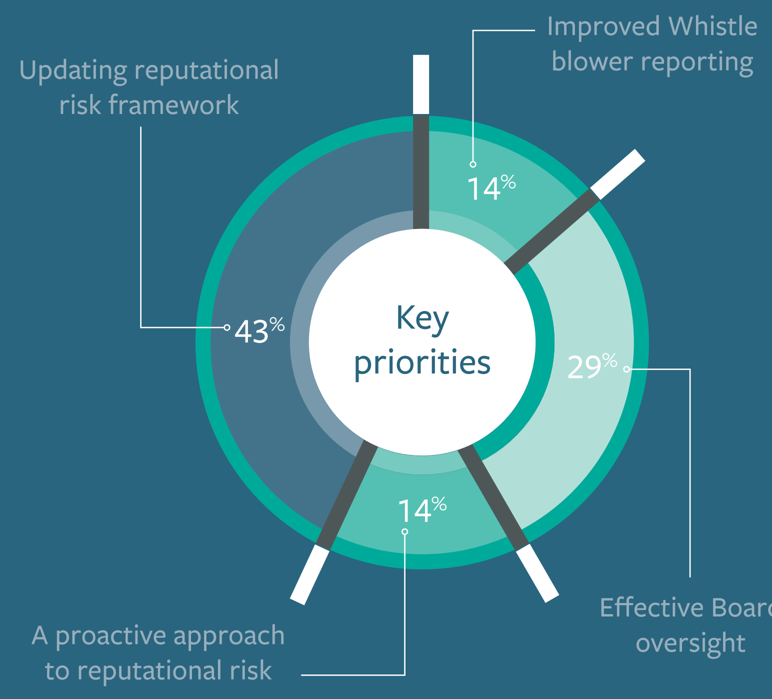
[2] Campbell, K. (2017). 2019 Online Reputation Management Statistics [May Update]. [online] Reputationx.com. Available at: https://blog.reputationx.com/online-reputation-management-statistics.

When we asked a group of senior collections professionals how they look at and deal with reputational damage mitigation, the key areas for them to consider when implementing measures to combat reputational disrepute through collection efforts showcased that most respondents felt updating reputational risk frameworks would be key.

Many organisations acknowledged that they need a better grasp of regulatory implementation when it comes to their repayment collections efforts, ensuring that not only an empathetic approach is adopted, but one that will allow financial recovery and breathing space for customers as well.

Each individual case needs to be handled in an appropriate manner that is not centred around cost reduction for the bank or lender, but rather a positive repayment collection experience in a post pandemic environment. This means keeping a close look at what guidance regulators release in terms of customer centric debt collection and understanding the impacts of customer vulnerability.

What key priorities should your risk profiling be analysing when thinking of your collections processes and systems?



A notable 29% of respondents suggested that effective board oversight would be pivotal when reputational risk planning is taking place for collections specific departments. As reputational risk management will oversee many teams in a bank or for a lender, having the right top – down strategies will help to improve crisis response times and mitigate reputational damage.

Many respondents felt that having this top-down approach will also help ensure that key prisonisations occur and any potential red flags could be addressed at a much faster pace.

Customer and reputational focused outcomes are going to be crucial for all collections teams in the coming months. Understanding and conducting key risk profiling will be crucial in avoiding reputational damage, particularly for those businesses who are collecting Government backed COVID related loans.

For many, there will be a fine line to tread when avoiding reputational damage and ensuring collections efforts and complaint handling alike are managed empathetically and with great care.

By providing your business with experienced and fully trained compliance, collections and case-handler professionals, your teams of associates will work with you to ensure positive outcomes for your customers which are maximised to ensure regulatory adherence, whilst brand and business reputational integrity is upheld.

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Key areas for you to consider when implementing measures to combat reputational disrepute through collection efforts

According to Gov.uk, three company directors have been banned following investigations which found that nearly £100,000 worth of Bounce Back loans had been inappropriately applied for, or misused[3].

In the early stages of the pandemic, the amount of KYC performed, and information collected was low, given the time constraints lenders had to distribute funds when it was most needed. The rigor of the KYC process would have been therefore diluted.

Now, lenders and banks are trying to play catch-up in order to collect all the information they were unable to at the time when many of these loans were issued. UK Gov also stated that, all directors have a duty to ensure their companies maintain proper accounting records, and the purpose of a Bounce Back Loan must be for the benefit of the business and not in any case used for personal use. Failure to account for how a Bounce Back Loan was used, or using it for personal payments, can result in being disqualified as a director or the extension of bankruptcy restrictions.

Many though still feel that the Bounce Back Loans scheme, and specifically loans issued under its remit, will have to be chased down in the months to come, and hardships potentially to come for those borrowers versus the ethical way the loans were initially taken out are a fine line of judgement for lenders to now tread.

The manner in which these loans are ultimately collected, or collection attempts are made, will again need to be aligned with a reputational risk management framework – this means all checks, from due diligence to affordability checks, should be done appropriately, even when the individual lender is potentially in the wrong. Plans for these types of customers will need to be issued and raised by banks and lenders as red flags, and further remediation efforts will need to take place.

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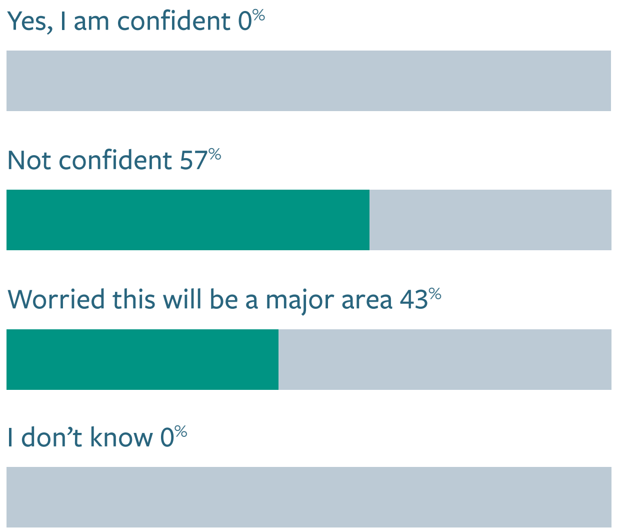
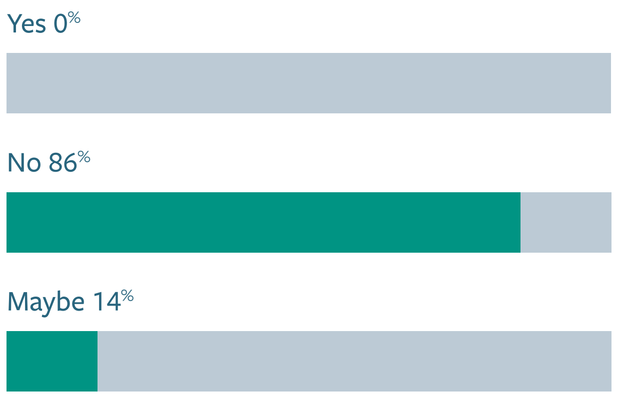
Are you confident that all Bounce Back Loans will be repaid in full?



Do you think adequate KYC was conducted for government backed COVID loans?



[3] GOV.UK. (2021). Insolvency Service cracks down on Bounce Back Loan abusers. [online] Available at: https://www.gov.uk/government/news/insolvency-service-cracks-down-on-bounce-back-loan-abusers [Accessed 8 Nov. 2021].

Adequate KYC checking plays a key part in avoiding reputational damage

Compliance will be key in ensuring that laws and regulations are adhered to, a necessary function especially during a time where increased risk and exposure is rife. The need for additional compliant underwriters to improve the ability to handle influxes of applications that will require processing will also be key. Additional auditors will also be necessary for various spot checks that will need to be conducted in KYC reviews.

Banks and other lenders will simultaneously also need to implement stronger fraud detection models internally and invest in external resource to help conduct investigations of past lending decisions at speed, with efficiency.

Risk awareness to brand and thus reputational damage will also be key during this period, particularly for those businesses who are collecting Government backed COVID related loans. What will be key is identifying who will be in need most, and as there was so little checking done at the time, lenders and banks will now need to go back and check that those individuals and businesses in receipt of these emergency loans were indeed entitled to receive them.

This of course places a question on the future, and how does the industry get into a position where they understand the impact at the macro and micro levels?

For many, there will be a fine line to tread when avoiding reputational damage and ensuring collections efforts and complaint handling alike are managed empathetically and with great care.

By providing your business with experienced and fully trained compliance, collections and case-handler professionals, businesses are taking a vital step to ensure positive outcomes for customers which are maximised to ensure regulatory adherence, whilst brand and business reputational integrity is upheld.

What will undeniably be needed is a massive drive for debt collection and fraud investigation arrangements to take place to try and lessen the impact on taxpayers. An army of case review staff will be required to carry out mass collection and recovery activities as a result. Banks will need to implement stronger fraud detection models internally and invest in external resource to help conduct investigations at speed and with efficiency.

Collections teams should look at the following key compliance checks when considering reputational risk during their collection efforts:

Due Diligence and fraud risk-assessment: With the quick turnaround and processing times for BBL and CBILS lending during much of the pandemic, the risks associated to weaker due diligence, a lack of recorded KYC/AML processes, and the overall quality of data captured could have ramifications for many businesses.

Investigation teams will be needed to ensure AML/KYC and wider customer due diligence processes and systems have been followed as expected in all lending decisions. Banks and other lenders will be expected to be able to evidence to both Government and regulators alike that no fraud or financial crime resulted from the loans processed, and that considered and measured lending decisions were always made to ensure responsible lending was upheld.

Affordability reviews: Placing affordability testing at the forefront of your organisation's repayment collections teams, especially when trying to understand the implications of payment holidays and payment postponements, will be key in your overall collection's efforts.

Customers will understandably be concerned and worried about paying their debts during this unpredictable and challenging time.

Banks and other lenders will simultaneously also need to implement stronger fraud detection models internally and invest in external resource to help conduct investigations of past lending decisions at speed, with efficiency.

Adopting an empathic approach will be key

One of the main focusses will be on adopting an empathetic approach to collections. An empathic approach can reduce reputational damage significantly when planning for impact crisis management. Customers who will be struggling to meet their financial commitments are more likely to respond to collectors who provide a positive and supportive experience, and this will be heightened during COVID backed loan collections.

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According to InDebted, The United Kingdom recorded a record 370,000 redundancies between August and November, and of those in work in February 2020, about 45% lost earnings in the first few months of the crisis. The number claiming universal credit – a payment to assist with living costs – more than doubled to £5.7 million by November 2020[4].

Many collections teams will be required to use forceful and persistent methods – whilst also being mindful of avoiding a painful repeat of the financial crisis of 2008, when many UK firms faced high-pressure debt collection tactics from lenders.

Striking the right balance and tone will be vital for all lenders in their collection efforts – and that means experienced, empathetic, and skilled resource to carry out these tasks. Inevitably, there is going to be an element of borrowers who took advantage of these emergency loans for not the right purposes, but in most circumstances, unless the business folded, the delinquency in those sorts of loans won't be as bad as some may fear.

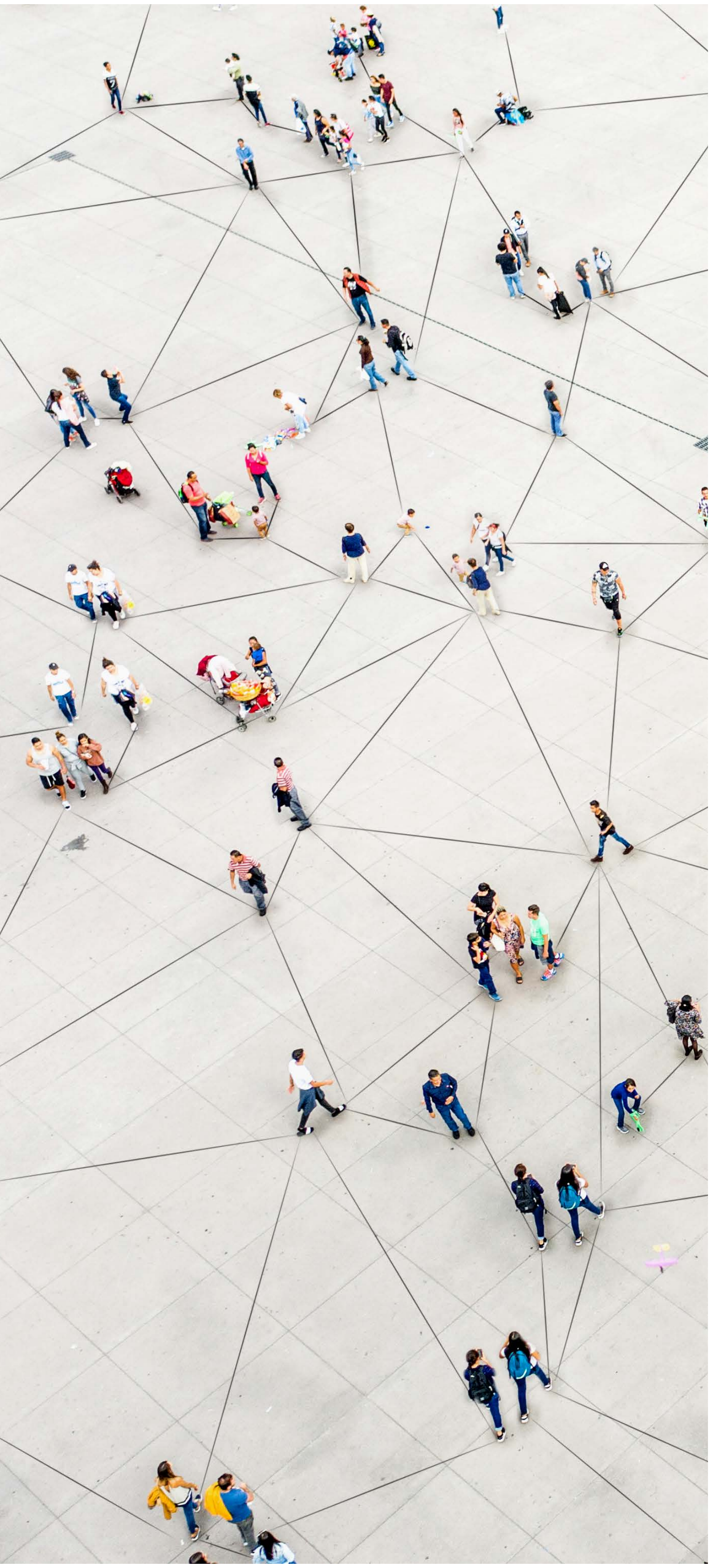
People understood the criteria in which the loan was taken, some of them have taken advantage of the Pay as You Grow scheme, and some have extended the loan period if they still have a challenge.

Ultimately, more serious legal action could be taken. The Government will want to see those best endeavours were made by the lenders to recover those loans. Yes, there is a balance between empathy and engaging with the client, but ultimately there is always a more formal process that can be adopted.

Ensuring that your collection teams are empathetic in all their approaches towards customers, from repayment planning to answering key questions will need to underpin the way all customers are dealt with. By adopting an empathic approach, reputational risk can be lowered significantly.

[4] InDebted - Debt Collection, Made Simple. (2021). Why Debt Collection Needs to be a Positive, Supportive, Human Experience. [online] Available at: https://www.indebted.co/en-GB/resources/whitepaper/debt-collection-needs-to-be-a-positive-supportive-human-experience [Accessed 8 Nov. 2021].

Contingent workforce can help de-risk your collection efforts



Current working conditions mean businesses are needing to stand up additional capacity remotely and at speed. Sourcing, vetting, and onboarding even small teams capable of being managed remotely have brought new challenges during the pandemic.

Striking the right balance in avoiding reputational damage will be vital for all lenders in their collection efforts – and that means experienced, empathetic, and skilled resources to carry out these tasks.

The drive for repayment collections, alongside potential fraud or mis-selling investigations will require an array of collections case review, and investigative staff.

Contingent teams of experienced compliance, case-handler, and investigations professionals will be needed to conduct case-reviews of the due diligence and KYC conducted, as well as lending protocols followed, across a large-scale lending portfolio.

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How Momenta can help you avoid reputational risk

Our contingent collection, compliance and affordability specialist teams can help in this process by creating a speedy solution, at scale, to help reduce the pressures placed on inbound customer services teams, whilst retaining a focus on fair and balanced business and customer outcomes.

Our teams of affordability review specialists can also place stress-testing at the forefront of your lending review processes, ensuring that applicable business and regulatory lending requirements were followed, as well as ensuring that these are fit for purpose for the future.

Here are the most requested roles some of the leading firms we work with are currently hiring for:

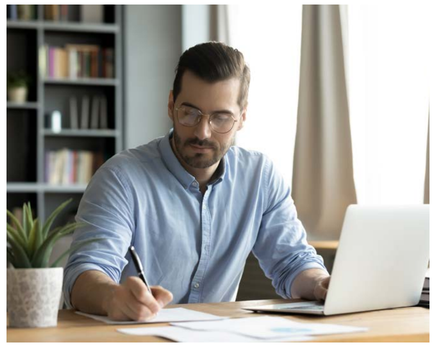
- **Collections team members:** Carrying out pre-defined business processes to ensure consistent and efficient repayment collections efforts are carried out in a detailed, compassionate, compliant, and effective manner.
- **Quality Assurers/Checkers:** Performing detailed and thorough end-to-end case reviews, including ongoing QA reviews of compliance functions to ensure controls/standards are met and consistently upheld.
- **Operations Managers:** Experienced consumer and corporate credit operations professionals with extensive experience of managing large-scale teams and processes involved in the credit collections and wider lending case-handling sectors.
- **Case Assessors:** Managing and reviewing of all customer accounts under investigation or review. Assessing cases of interactions with and information provided to customers. Collaborating with key stakeholders to work on improvements to the overall risk management framework.
- **Risk Assessor:** Undertaking in-depth and wide-reaching reviews and assessments of post-lending decisions made to ensure adherence and compliance with internal and regulatory processes and raising issues where necessary.
- **Credit Risk Analyst:** Overseeing all lending strategy definition, review, and enhancement. Scorecard refinement and affordability revision. Analysing live data versus scorecards and modelling for optimum business outcomes from all lending activities.
- **KYC Analysts:** Reviewing of all documentation for customer accounts, evaluating high-risk cases and auditing lending decisions versus required policies and procedures.
- **AML Analysts:** Responsible for opening, amending, reviewing, and exiting clients according to established policies and procedures.

Momenta specialises in providing small or large-scale teams of people on demand and at speed for specialised business projects, and we have been doing so for financial services clients in the UK, and across the globe, for over 30-years.

We enable you to provide a cost-effective turnkey solution – or specific elements to complement your existing capacity and skillsets.

Our associates are experienced, customer-focused professionals who understand how individuals and businesses alike have been impacted by the COVID-19 pandemic.

They are appropriately skilled and experienced to ensure that compliant repayment procedures and plans are agreed with the customer, in a manner that is aligned with both your brand values and wider regulatory requirements.



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