



# Collections: To Outsource or Not to Outsource

a publication of



As a lender, you take on a considerable amount of risk. No matter how diligent and conservative your lending practices may be, it is inevitable that some borrowers will default on their loans. Whether you decide to manage collections in-house or choose to outsource, collecting on delinquent accounts can be an expensive business expenditure; however, it's not something you can ignore or place on the back-burner.

# The Ever-Present Delinquency Problem

In a December 2016 report by [the Federal Reserve Bank of New York](#), auto loan balances increased by \$22 billion. Delinquency rates saw a slight rise from quarter three to quarter four of 2016—with a total of 3.8% of auto loan balances 90 day or more delinquent.

While delinquency isn't as high as it was during the recent recession, it's still a very large problem that you deal with on a daily basis, and it continues to impact their bottom line.

## SOME TRENDS WE HAVE SEEN WHEN LOOKING AT HOW FINANCIAL INSTITUTIONS HANDLE INCREASED DELINQUENCY INCLUDE:

-  Adding more collections staff to manage the increase in workload.
-  Increasing staff overtime to include evenings and weekends.
-  A shrinking resource pool of trained professionals who are experts in customer service and collections and understand the regulations surrounding this line of work.
-  The challenge of balancing the financial institution's image and maintaining relationships and trust, while helping delinquent borrowers get back on track.
-  The high costs of developing adequate technologies and processes, which pose a substantial barrier to effectively managing collections efforts from a cradle-to-grave perspective.

The convergence of these market factors has resulted in uncertainty: Where and how you allocate existing resources for an efficient return on your collection efforts? Should you continue to manage collections in-house or consider outsourcing?

“Obviously, we never want to see a rise in delinquencies or repossessions, but when you compare the current findings with previous years, they are still lower than the recession-level rates. As we continue to move forward, we should start to see more increases as some of the subprime loans coming onto the books begin to deteriorate.”

—Melinda Zabritski, Experian's senior director of automotive credit

# The Cost of Managing Collections In-House

In order to effectively manage collections in-house, depending on the size of your loan portfolio and the needs of your organization—you may have—or find the need to invest in an auto dialer.

## BENEFITS OF AN AUTO DIALER

- ✔ Makes multiple call attempts to every one attempt that a collector could make on a traditional phone
- ✔ Increases your collectors' productivity by weeding out excessive calls such as busy signals, no answers, and answering machines, and only connecting with live bodies
- ✔ Some have detailed reporting capabilities that offer insight into your collections infrastructure

However, purchasing an auto dialer for your financial institution can require a sizeable investment.

The typical auto dialer can range from several hundred thousand to more than a million dollars, depending on the number of seat licenses, the size of the dialer, and other optional features and functions of the software.

## YOU MUST ALSO ENSURE THAT YOUR FINANCIAL INSTITUTION HAS THE INFRASTRUCTURE TO SUPPORT THE DIALER.

- A phone system upgrade
- A server room upgrade
- Hiring an administrator who can help effectively manage technical aspects of the system

## WHEN CALCULATING THE COST OF A DIALER, TAKE INTO ACCOUNT:

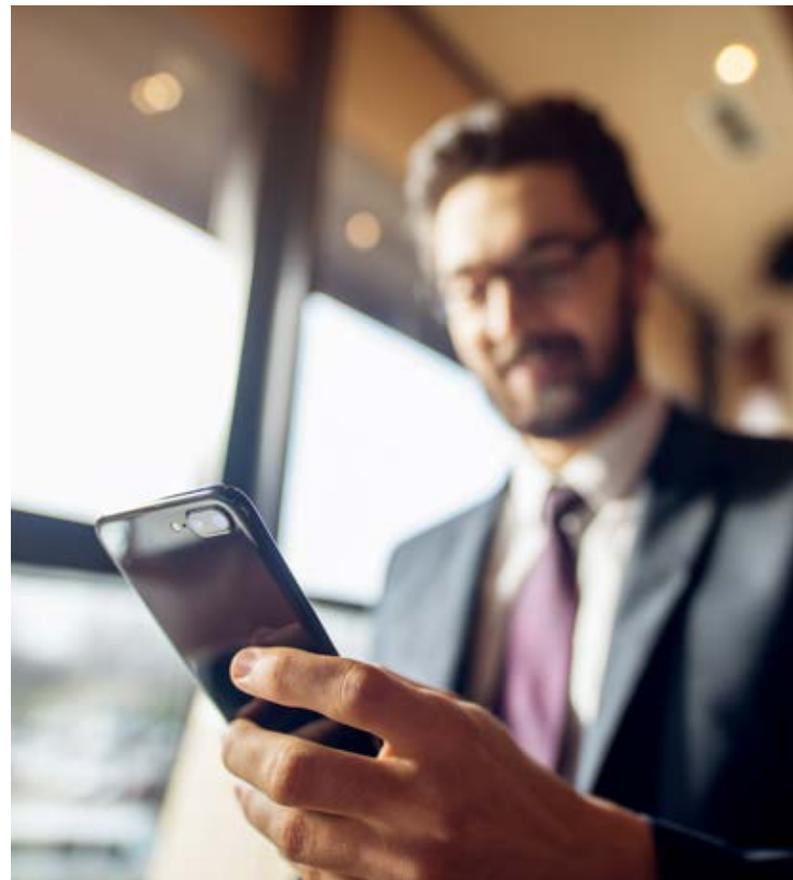
- Programming
- Management
- Administration
- Maintenance

Not to be ignored in your in-house collections cost calculation (say that three times in a row!) is the human capital investment. Whether or not you have an auto dialer, you need employees that dedicate a portion of their time, or all—depending on how your financial institution is structured—to collecting on delinquent accounts.

Recovering funds that are past due is detailed process. It may require hiring and training a full-time collections staff or utilizing employees from different departments to work in a collections role.

Either way, it's important that whoever you task with collections is best suited for this type of role.

Any time spent on the phone collecting on delinquent accounts is time away from providing your customers with excellent customer service and time away from participating in cross-sell opportunities.



# What Makes a Successful Collection Agent

When it comes to hiring solid, stable collection agents, there are certain characteristics you should look and train for:

## Great Listener

Helps identify specific reasons for delinquency and will help your agents craft more debtor-specific solutions to resolve delinquency.

## Understands How to Overcome Objections

Works to overcome the debtor's objections by utilizing specific and directive rebuttals.

## Gets Past the Gatekeeper

Overcomes screen callers to get to the bill-paying decision maker.

## Closes the Deal

Knows that they must repeat the arrangement with the debtor. An even better solution is for the collector to get the debtor to repeat the arrangements. This makes it more tangible to the borrower.

## Comfortable Communicator

Asks for money and information necessary to remain in contact with the debtor, knowing they must sometimes tolerate frustrated debtors.

## Creative Problem Solver

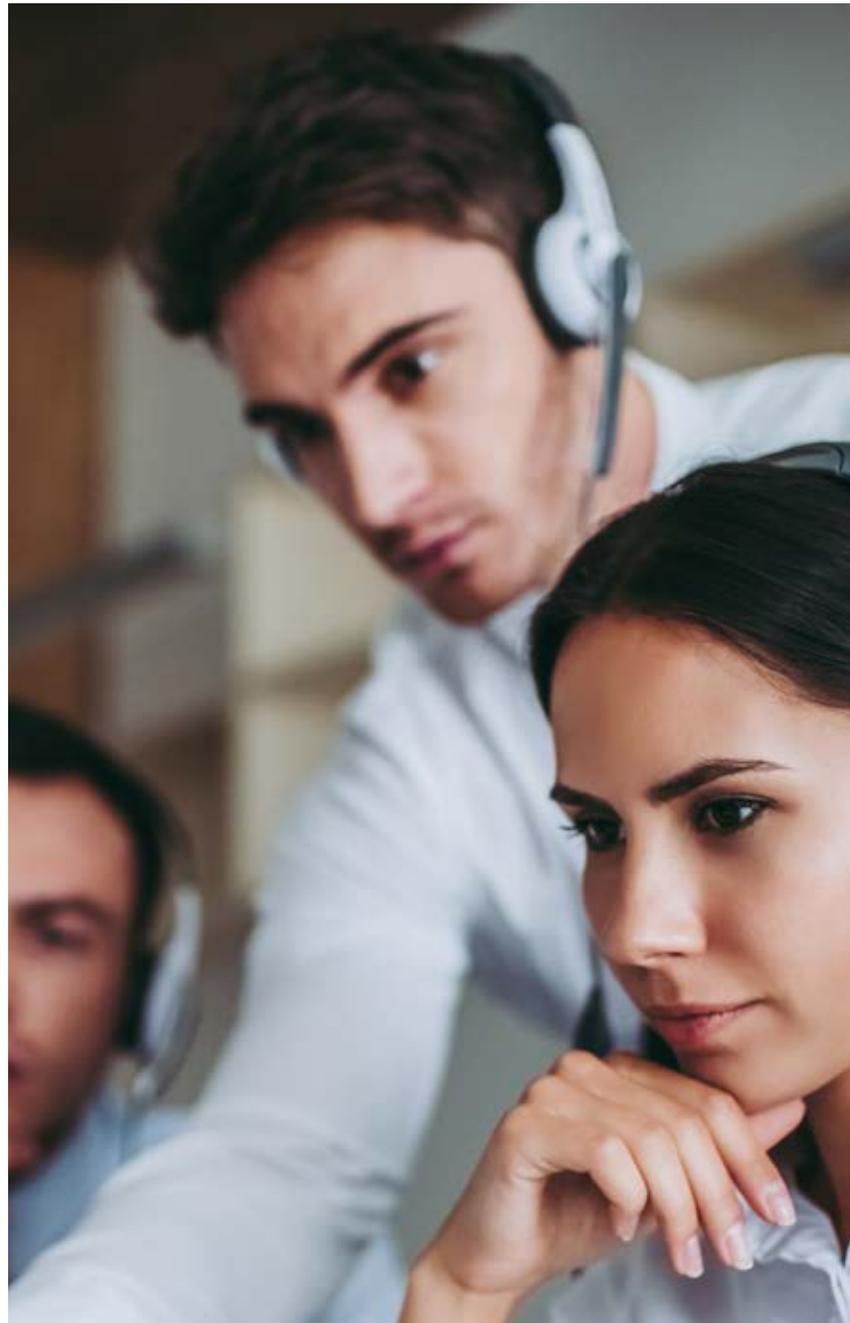
Thinks "on their feet" and suggests creative solutions to get the debt paid.

## Balances Empathy with Collections

Empathizes with the debtor while keeping them focused on the peace of mind that they will enjoy once they have resolved their delinquency.

## Competitive

Works diligently to collect more than their peers, overcome the objections of the debtor, and find ways to be successful in a difficult situation.



Let us help you determine which collections option is right for you. Call **866.647.8749** or [click here](#).

# What About Outsourcing?

If you decide to outsource your collections efforts to a third-party vendor, you have the opportunity to engage an auto dialer, as well as the resources required to effectively manage the system, without a major capital investment. When you partner with an organization that handles collections on behalf of your financial institution, you are essentially leasing the services of the auto dialer, at a much lower price.

Utilizing outsourced collection services can be a more efficient, cost-effective option if your institution is striving to reduce delinquencies, operational costs, and the time employees dedicate to the collections process.

## The Top Five Benefits of Outsourcing Your Collection Efforts

### 1. REDUCED COLLECTIONS COSTS

Outsourcing your institution's collections to a third-party vendor, like SWBC, can save you the HR-related expense of hiring and training additional staff and also reduce other costs associated with the debt collection process.

More importantly, outsourcing to a third-party like SWBC allows you to take advantage of our scalability. This is the biggest reason we can save you money. We can deploy our resources to accommodate the ebbs and flows of the delinquent queue without being under or over staffed at any one time. We integrate a high percentage of part-time resources within our staffing model, further reducing the cost.

We also have robust telephone and dialer technology that we use to facilitate timely collections, and you get to reap all of the benefits of this technology without the expense of purchasing and implementing it within your own organization.

### 2. REDUCED DELINQUENCY RATES

Utilizing a third-party that employs professionals who specialize in collections can lead to decreased delinquency rates because you are basically gaining a full-time staff of employees dedicated to recovering past-due funds on your behalf, during and outside of your typical working hours. A reputable collection service provider's employees will more than likely know all of the best practices for collecting funds and have the experience and patience to handle certain situations that may arise in a professional, courteous manner. And, they will know the tactics for getting delinquent accounts up-to-date before they progress into the latter stages of delinquency.

### 3. REDUCED COLLECTION TIME

Rather than having a few members of your staff focus only a portion of their time collecting on

delinquent accounts, allowing some to fall through the cracks and become extremely past due, outsourcing gives you an external staff of employees that can dedicate 100% of their time to these efforts and get accounts cured as quickly as possible. This increased focus and time creates a shorter collections cycle, reducing the amount of time spent collecting on a delinquent account.

At SWBC, our collections staff is dedicated to collecting and is not distracted with other work that is typically done in your collection department, like asset recovery, skip-tracing, and other administrative work associated with the collection function.

### 4. INCREASED COLLECTION RATES

Another benefit of an outsourced staff fully dedicated to collecting on your institution's behalf is an increase in the collection success rate. An increased collection rate improves your balance sheet and your bottom line.

At SWBC, we have a high utilization rate. This means, the time our collectors are at their desk waiting for our dialer to present a call to them is very short. Our dialer typically sends our staff more than of 100 calls per hour. In the more manual environment that most financial institutions are operating in, you would be lucky to get 40 or 50 per hour. More calls per hour, more opportunities to talk to borrowers and more opportunities to cure the loan.

In addition, our right-party connect rate is higher than most providers in terms of the number of borrowers we are speaking with. This is due to the efficiency of our dialer and because of the fact that we are calling people when they are home—during the evening and on weekends.

## 5. INCREASED PRODUCTIVITY AND REVENUE

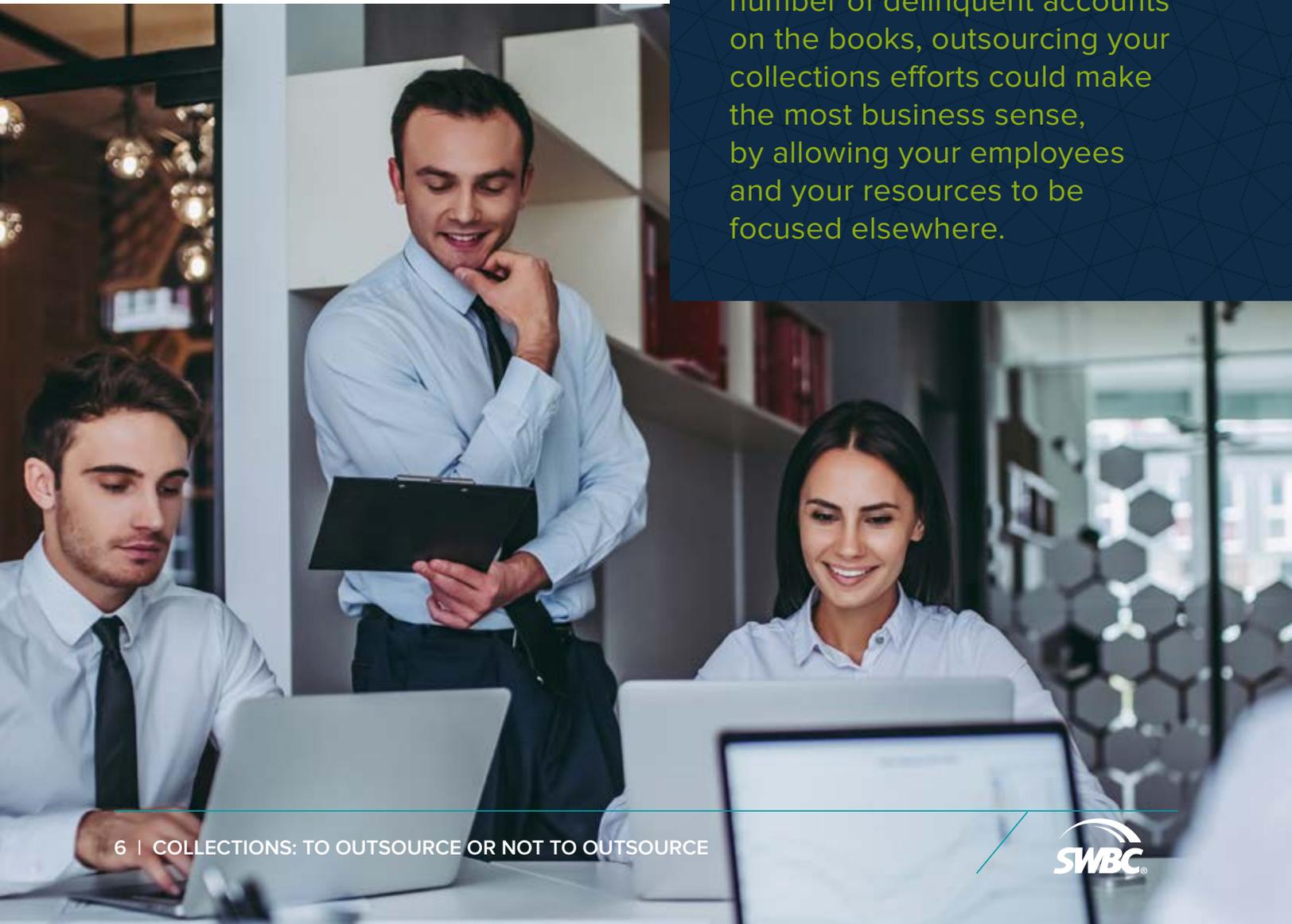
Time spent working in a collections capacity, is time NOT spent selling or generating new revenue. When your institution outsources collections, it allows your staff to perform other tasks that improve service and borrower satisfaction. Plus, you can dedicate more time, resources, and effort to reaching strategic goals such as providing a better customer service experience, extending your brand, improving availability to market, processing and closing loans, and generating new revenue opportunities through cross-selling or adding new products.

Outsourcing your collection services can be an efficient and more cost effective option to consider if your institution is striving to reduce delinquencies and the time internal employees dedicate to the collections process.

With less time spent on collections, your employees can focus on cross-selling, income generation, and improving member relations.

Delinquencies are an inevitable part of the lending business. Whether you choose to handle your collections in-house or decide to outsource, there are pros and cons to both. It is important to evaluate your portfolio, conduct a thorough due-diligence evaluation of any partner(s) you are considering working with, and find the option that is the right fit for your financial institution.

According to [the Federal Reserve Bank of New York](#) auto loan delinquencies rose to 2.4% in Q3 of 2017. If your financial institution is also experiencing increases in the number of delinquent accounts on the books, outsourcing your collections efforts could make the most business sense, by allowing your employees and your resources to be focused elsewhere.



A photograph of a modern multi-story office building with a facade of blue and brown panels. The letters "SWBC" are mounted on the upper right corner of the building. The sky is clear and blue.

SWBC

## About SWBC

Headquartered in San Antonio, SWBC is a diversified financial services company providing a wide range of insurance, mortgage, and investment solutions to financial institutions, businesses, and individuals. With offices across the country, SWBC is committed to providing quality products, outstanding service, and customized financial solutions in all 50 states.



Whether you decide to handle your collections in-house or outsource, we have a solution that is right for you. Call **866.647.8749** or [click here](#) to download our service overview.

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A white sign with blue letters that reads "SWBC TOW". The sign is partially visible at the bottom right of the image, with the rest of the word "TOWN" cut off.

SWBC TOW