

What are the benefits of outsourced third-party debt collection compared to in-house?



Introduction

In any economic climate, a certain amount of bad debt is a given. But what do you do as a business when overdue accounts rise above that threshold?

Particularly with a financial downturn on the horizon - it's time for businesses to shift their focus towards finding a viable collections solution.

If you've handled your collections internally for some time, or you're weighing up between building your first internal collections capabilities v.s. outsourcing to a third-party agency; it's an important decision to get right.

This guide puts in-house and third-party debt collection under the microscope to help you determine what's right for your business and customers today, and in the future.

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Part one: Understanding third-party debt collection

How it works

Third-party debt collection is when an organisation partners with an external agency to collect overdue accounts under the debt collection agency's brand and name. In this case, the agency has a commercial relationship with the organisation, taking responsibility for recovering the debt on their behalf. For example, InDebted is a third-party debt collection agency - we partner with businesses to collect unpaid debt, operating under our own brand.

Cost

Typically third-party agencies work on a contingency basis, taking a percentage of the overall amount recovered. This cost structure means your business is protected from being out of pocket upfront, as the agency charges for positive collections outcomes. In comparison, investing in building an internal collections function is incredibly costly when you add up headcount, tech stack, hardware, licensing and training.

Expertise

Third-party collections agencies have layers of collections expertise in their structure - from c-suite leadership to customer support agents. Established third-party collectors have clients across a wide variety of sectors, referring customers with various balances and debt types, at different stages in their recoveries cycle. This means they're likely to have experience recovering overdue accounts not only within your industry, but from similar customers. They'll understand the granular aspects of the collections customer journey, as well as the macro factors related to your industry. When assessing third-party collections agencies, look for ones who have proven results, relevant expertise, and first-hand knowledge of the most effective ways to recover debt.

Digitisation

Technology and data have transformed debt collection in the last 10 years, touching every aspect of the recovery process. A third-party agency should have the know-how to innovate and apply digitisation to enhance customer experience and improve collections performance, passing the benefits directly onto your bottom line. This can include:

- **Omnichannel communications:** do they support customers to communicate with convenience across a variety of voice and digital channels, rather than just sending letters and making phone calls?
- **Personalised customer experience:** using data science to enable advanced personalisation throughout every aspect of the customer journey
- **Flexible payment options:** empowering customers to manage their debt in a way that suits them best, through offering payment plans, a variety of payment methods, and different channels to self-serve without having to speak to someone over the phone if that's their preference

Data and insights

More sophisticated data-driven third-party agencies like InDebted can provide you with an advanced level of analytics and insights. By using multiple channels to engage with customers across different financial products, debt types, days past due and account balances, they have a wealth of knowledge at their fingertips. In today's climate of advanced analytics and intelligence, strengthening your business strategy with insights generated from how millions of customers engage with their debt can be your competitive advantage.

Results and reporting

With data-driven decision making being a key focus area of modern third-party debt collection agencies, the level of detail in their results and reporting on key performance metrics is unparalleled. Most will be able to provide you with collections dashboards that are real-time and reflective of how customers are engaging with their debt. This means being able to see payment plan inventory, spindown reports, engagement by channel, along with the bigger picture results like overall collections liquidation and payment forecasts. At InDebted, our data scientists can also prepare custom reports on areas like how your specific customer segments are responding to certain machine learning models, or how new product developments are performing within your customer base.

Compliance

Third-party agencies are well versed in compliance requirements and implementing regulatory guidelines. When doing your due diligence, make sure you look into whether their processes are in line with current laws and what procedures are in place to manage customers with complaints, disputes and hardship.

Regulatory issues can arise if agencies mistreat customers with aggressive, or harmful tactics. To mitigate this, get a sense of how agencies view customers in debt and the overall collections experience:

- What support is in place for vulnerable customers?
- How are their customer service team members incentivised?
- Are there any positive stories from real customers?

Quiz agencies on their overall attitude and philosophy towards people in debt, as compliance regulations exist - to protect consumers at their most vulnerable. Ultimately, your values should be in sync with those of your outsourced agency.

Scale

More advanced third-party agencies will also have the capacity to scale with your business in real time as you grow. This capability can only be supported by advanced third-party solutions like Collect. InDebted's Collect product is sophisticated enough to meet multi-market compliance requirements, with the ability to manage significant influxes in customer accounts. Whether you're scaling into new markets or experiencing increased numbers of customers in collections, Collect can sustain increased volumes with no impact to recovery performance to ensure your collection needs are met now, and in the future.

Part two: Considerations of in-house collections

Compliance

One of the major benefits in outsourcing your collections to a third-party agency is that, if you choose right, you don't have to worry about the internal resourcing, expertise and processes required to operate compliantly. Organisations conducting debt collection activity are required to comply with strict consumer protection and regulatory requirements. These requirements can include:

- Prohibition of harassment, threats, or abuse during the collection process
- Restriction on the hours during which they can contact customers (generally between 8am and 9pm local time)
- Requirement to provide written notice of the debt within five days of the initial communication, including the amount owed, creditor's name, and the customer's right to dispute the debt
- Compliance with a customer's request to cease communication, except for specific legally allowed purposes

... and so much more. This is a brief snapshot of the compliance considerations in the United States alone - which exponentially multiply if your business operates in multiple states, provinces or even countries. Compliance impacts every element of collections and the expertise needed to give your business peace of mind shouldn't be underestimated. InDebted is compliant in multiple markets including the United Kingdom, Australia and Canada, New Zealand and the United States.

Collections strategy

Debt type, account balance and age of debt are all factors to consider in any collections strategy, alongside your capacity to use multiple communication methods (phone, email, SMS etc.) Any strategy should align with your consumers, preserve customer relationships and ensure a baseline roll rate - unlocking a consistent revenue stream. Without the right experience, skillsets or operating systems in place to execute strategies that meet the needs of today's consumers, an internal collections strategy can pale in comparison to the capabilities of a third party agency to effectively recover outstanding debts and improve your cash flow.

Headcount

To deliver on that strategy, you need a team of specialist collections agents to contact overdue customers, manage payments and handle enquiries. Headcount can be costly, furthering the need for a guaranteed, stable revenue stream to justify the expense. Additionally, as your customer volumes increase, so does your need for additional resourcing.

Technical infrastructure

Setting your in-house collections team up for success means having the right systems in place. There's a wide variety of collections software on the market, from basic tools that support one or two channels, to more sophisticated technology that generates high level performance data. Some integrate with your accounts receivable software, automating parts of the recovery process. While this can support better collections management, implementing new systems can be challenging to say the least. Full integrations require the support of your IT department, and depend on the existing digital capability of your business.

When scoping out potential tools, thoroughly vet the following:

- How do they integrate with your existing systems, like your CRM software
- How long will it take to get up and running, and is any internal training needed?
- Customer experience - is this tool supporting a positive collections experience, or a negative one?
- Tools used in internal collections can be costly, especially when compounded on top of one another to deliver a full collections capability

Dive into how the software meets the needs of your businesses, enhances your customers' experiences and achieves greater recovery rates to decide if it's the right solution.

Innovation

Striking the balance between improving the collections experience in addition to handling day-to-day operations is often the challenge for in-house teams. This leaves little room for meaningful innovation, as internal teams rarely have the capacity. As consumer expectations continue evolving, this will unfortunately put in-house collections further behind. 2019 LexisNexis research spoke with 20 first-party collectors and found:

- Major pain points that most negatively impact collections are data hygiene, contact & locate, connecting with consumers, time taken to collect and balancing different communication methods
- Implementing regulations are challenging as they impact the timeliness of action
- System inefficiencies were common, the main issues being disparate data between systems, system inefficiencies creating time delays and lack of built-in analytics
- Phone calls using auto or manual dialling are most frequently used by first-party departments

Time








It's clear to see that delivering all of the above takes considerable time, and with time comes cost. The simplest solution that third-party debt collection agencies provide to businesses is freeing up their time, resources, and effort, so you can focus on core activities that will shape the future of your organisation.

Part three: Weighing up third-party providers





If you're leaning towards third-party at this point, we'd agree it's a sensible choice. But sifting through the options of third-party collections agencies can be overwhelming.


The benefits from third-party collections hinge entirely on which provider you engage. From traditional collections operations to digitally intelligent offerings, there's lots to consider when deciding what's best for your business. To help you differentiate between the options available in the market, we recommend categorising based on the following:


Traditional debt collection

-  **Background:** Industry incumbents, often large organisations founded 10+ years ago
-  **Communication methods:** Phone calls and letters
-  **Resource:** Contact centres full of agents using automated dialler campaigns
-  **Analytics:** Limited to basic metrics like overall cash collected and dialler penetration rates
-  **Compliance:** Operations are less attuned to customer expectations in today's digital world, with limited (or no) use of digital channels. Agents are typically incentivised on the amount of debt collected, increasing non-compliance risk
-  **Customer experience:** More likely to create negative experiences for your customers, with real consequences that harm your customer relationships and your company's reputation
-  **Scaling capacity:** Minimal due to high operational costs and compliance risks

Digital debt collection


-  **Background:** Scrutinise any agency that identifies as digital. Many assume this label, when in reality it's an inefficient bolt-on to their existing traditional operations
-  **Communication methods:** Digital channels like email or SMS
-  **Resource:** Reliant on expensive tech stacks to incorporate digital to existing operations. Emails are sent as part of mass campaigns, under a one size fits all strategy (limited personalisation, same call to action, same messages)
-  **Analytics:** Performance metrics like engagement and open rates, but no application of these in true data-informed decision making


 **Compliance:** Reliance on tools means less control over maintaining compliance. Often complicated further by introducing digital channels for outbound only, without the means to respond to customer enquiries via these channels


 **Customer experience:** Some self-serve component such as debt management portals offering basic repayment options for customers. In practice these are often inflexible, as queries will need to be resolved via direct contact. Creates additional barriers for customers to manage their debt independently


 **Scaling capacity:** Usually operational in one country, without the ability to support global or scaling businesses

Intelligent debt collection


 **Background:** Intelligent debt collection uses data science to support customers to self-serve their debt in a way that works for them. It's entirely responsive to each individual, creating engaged customers who manage their repayments faster and more sustainably. Our intelligent product increases recovery performance by up to 40%, while also being the world's highest rated debt collection solution for customer experience

 **Communication methods:** Both outbound and inbound communication is omnichannel. This means using email, SMS and voice to contact customers, but also ensuring our customer support team is available through all these channels (plus webchat) if/when customers need support

 **Resource:** Collect is built by our internal engineering & data teams. All outbound communications are responsive to how each customer prefers to engage with their debt. Our product does most of the work, but our industry leading customer support team overlays this

 **Analytics:** Superior analytics that can be accessed at any time via our client portal. Track granular details like payment plan enrolments on a demographic level, or view the bigger picture such as your real-time liquidation dashboard and payment forecasts

 **Compliance:** Compliant by code in our key markets, ensuring that all collections operations are in line with local regulatory requirements and consumer protection laws. Collect is licensed across multiple markets worldwide, and in all US states

 **Customer experience:** Over 2,000 5-star Google customer reviews, making InDebted the world's highest rated debt collector for customer experience

 **Scaling capacity:** Infinite. Collect can handle any influx in customer volume in real-time, with no negative impact to performance

Put potential third-party collectors under the microscope to make a clear judgement on whether they're the right fit for your customers and your business.

Summary

The ultimate benefit in opting for a third-party collections agency is that their business is your business. But choose wisely. With the right partner, you'll have more time to focus on your product, strategy and growth; while your third-party collections agency is working to maximise collections outcomes and support your overdue customers - delivering a consistent revenue stream.

About InDebted

Consumer expectations have changed. Debt collection hasn't.

From accessing credit to buying new shoes, today's consumers opt for transactions that are frictionless and digital-first.

Meanwhile, the debt collection industry hasn't evolved beyond outdated communication methods, intrusive tactics, and pressuring experiences. When life can change overnight due to work, family, or health, people shouldn't be punished for falling behind on payments or missing a bill.

Nobody can change the fact that debt happens. But we can change the experience of being in debt, by creating a better way for businesses to support consumers through it.

Businesses partner with InDebted to help their customers get back on track because we're changing the world of consumer debt recovery for good.

Our Collect product delivers up to 40% increased recovery performance, while being the world's highest rated debt collection solution for customer experience.

We call it intelligent debt collection. It's emotionally intelligent, digitally intelligent, and intuitive to the needs of every person, everywhere.

[Take a tour of Collect](#)