A woman with curly hair, wearing a red shirt, is sitting at a wooden desk. She is holding a baby in her left arm and looking at a smartphone in her right hand. The baby is wearing a pink and white striped shirt and is looking towards the camera. On the desk, there is a crumpled piece of paper and a laptop. The background is a blurred indoor setting with shelves and books.

Compassionate Collections: How Technology is Shaping the Collections-to-Consumer Relationship

Nearly a third of Americans with a credit file have some type of debt that's in collections¹, which typically means they'd receive phone calls about their outstanding balance. However, new rules effective Nov. 2021 gave collection agencies explicit permission to use a wide range of communication methods to interact with consumers, including texting, emailing and social media messaging, significantly impacting both collections tactics and consumer behavior.

Whilst the regulations predominantly relate to third party collection agencies, utilizing a compassionate debt collection technique also holds a wealth of benefits for inhouse, 1st party collections departments.

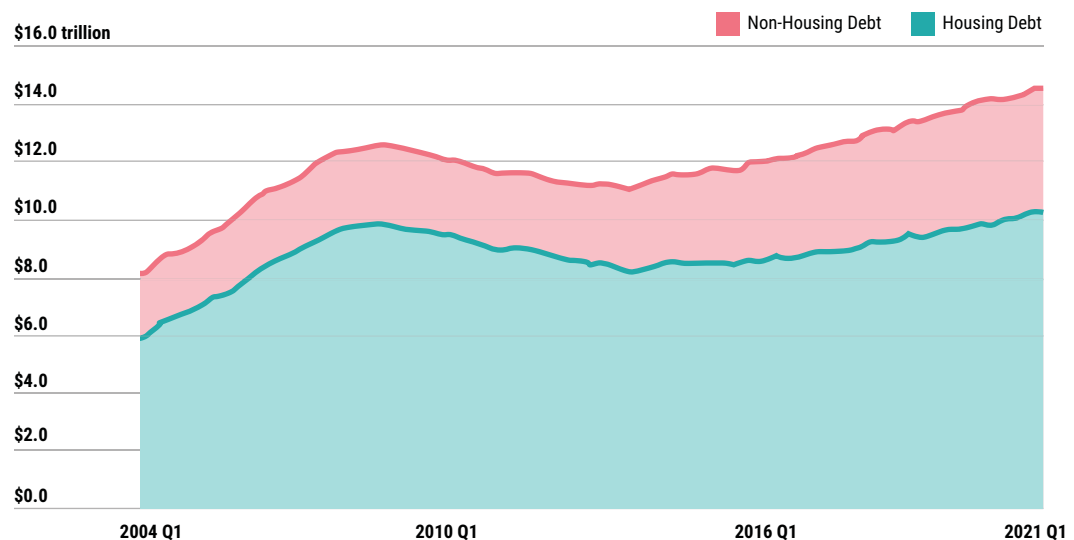
1. https://apps.urban.org/features/debt-interactive-map/?type=overall&variable=pct_debt_collections

The Debt Landscape: Current Household and Credit Card Debt

The Federal Reserve Bank's latest Quarterly Report on Household Debt found that total household debt rose by \$85 billion (0.6 percent) to reach \$14.64 trillion in the first quarter of 2021. Mortgage balances—the largest component of household debt—rose by \$117 billion, while auto and student loan balances increased by \$8 billion and \$29 billion, respectively. Credit card balances declined by \$49 billion—the second largest quarterly decline in the history of the series (which dates back to 1999). Credit card balances are \$157 billion lower than they had been at the end of 2019, consistent with both paydowns among borrowers and constrained consumption opportunities.



Total Debt Balance



Source: FRBNY Consumer Credit Panel / Equifax

Technology, Innovation and the Impact on Collections Agencies

So how will these new regulations impact consumer debt and the ways collections agencies interact with debtors?

After seven years of review and deliberation, the Consumer Financial Protection Bureau (CFPB) has finalized revisions to the Fair Debt Collection Practices Act (FDCPA), and these regulations, effective from November 30, 2021, spell out the rules that debt collectors must follow.

Phone Calls

The new rules specify that third-party debt collectors can call debtors once daily, but if they successfully speak to a debtor, they cannot call again for at least seven days. In addition, debtors can ask the collections agency to stop calling and they must comply. Currently, there's no limit on how often a debt collector can call, and debtors can only request they stop calling by sending a letter.



Text Messages and Emails

A third-party debt collector is permitted to send debtors electronic messages including texts and emails. Each of these messages must include instructions for a consumer to opt out of receiving the messages, and they must be sent at a reasonable time.

* Gartner states that various sources report SMS open and response rates as high as 98% and 45%, respectively – in contrast to corresponding figures of 20% and 6% for email ².

2. <https://www.gartner.com/en/marketing/insights/articles/tap-into-the-marketing-power-of-sms>



Emails Sent to a Work Address

In most cases, debt collectors are prohibited from sending messages to an email address they know is used for business.

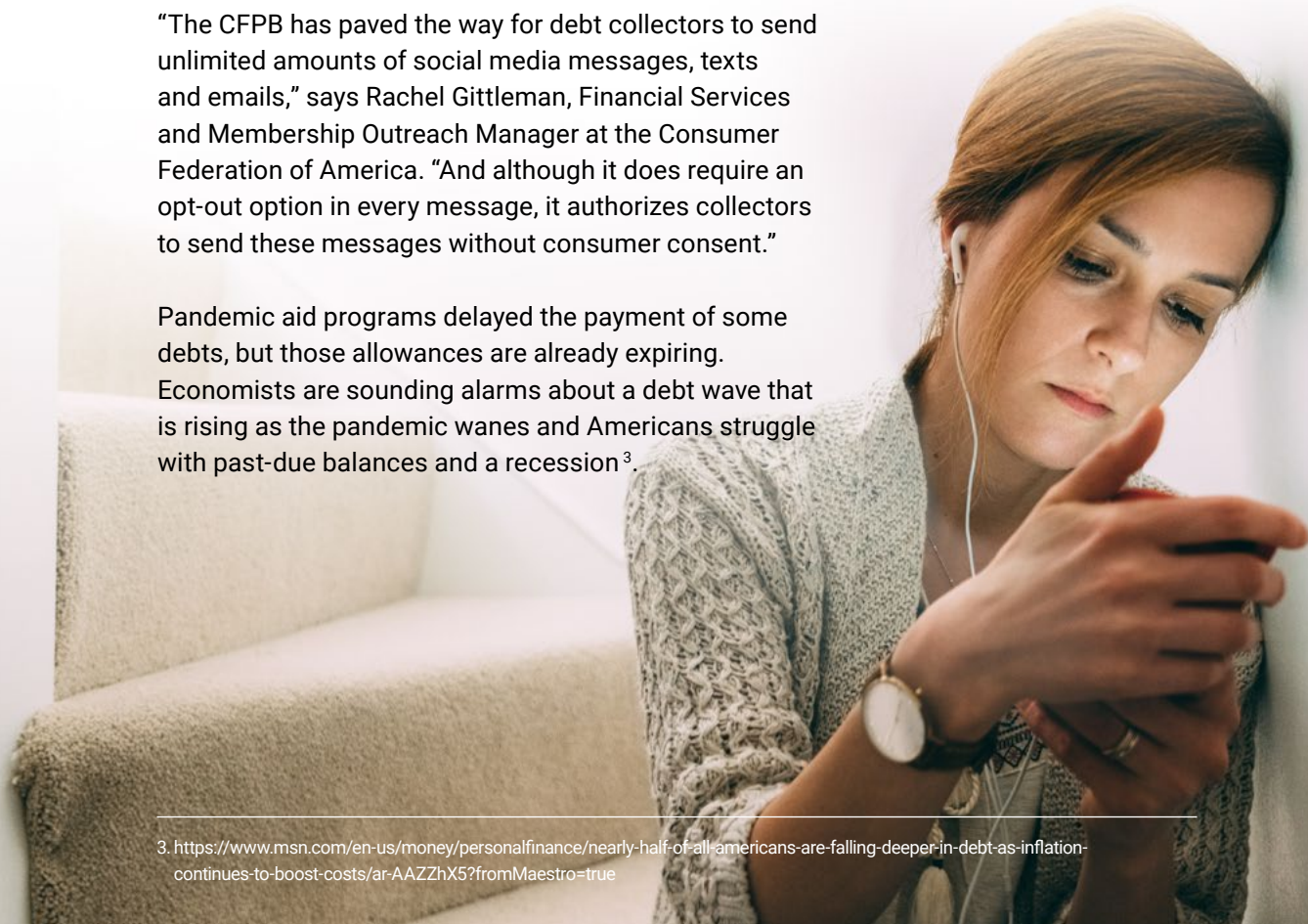
Social Media Messages

A debt collector can send debtors private messages, but not post anything that their followers, friends or the public could view. Again, there must be an opt-out instruction attached to each message.

The rules apply to each individual debt that debtors have in collections with a third party. If a debtor is contacted by a bank, credit card company or other lender directly — often referred to as an original creditor — these rules don't apply.

"The CFPB has paved the way for debt collectors to send unlimited amounts of social media messages, texts and emails," says Rachel Gittleman, Financial Services and Membership Outreach Manager at the Consumer Federation of America. "And although it does require an opt-out option in every message, it authorizes collectors to send these messages without consumer consent."

Pandemic aid programs delayed the payment of some debts, but those allowances are already expiring. Economists are sounding alarms about a debt wave that is rising as the pandemic wanes and Americans struggle with past-due balances and a recession³.



3. <https://www.msn.com/en-us/money/personalfinance/nearly-half-of-all-americans-are-falling-deeper-in-debt-as-inflation-continues-to-boost-costs/ar-AAZZhX5?fromMaestro=true>

How to create an effective, compassionate debt collections strategy

The CFPB says harassment by a debt collector can come in different forms, but examples include repetitious phone calls intended to annoy or abuse, obscene language, and threats of violence. The FDCPA says debt collectors can't harass, oppress, or abuse debtors or anyone else they contact, but some do ⁴.

Under the FDCPA, debt collectors must prove debtors owe the debt they're attempting to collect. This starts with the validation letter ⁵, and if a verification letter is requested by the debtor in order to obtain more information, collectors must provide it.

Collectors must send the validation letter within five days of first contact. It should contain:

- How much a debtor owes
- The name of the creditor seeking payment
- A statement that the collector assumes the debt is valid unless you dispute it within 30 days
- A statement that if you dispute the debt or request more information on it in writing within 30 days, the debt collector will verify the debt by mail
- A statement that information is requested by the debtor about the original creditor within 30 days of first contact, the collector must provide such information



Product by highest complaint volume 7/29/2018 to 7/29/2021

639,308	Credit reporting, credit repair services, or other personal consumer reports
157,825	Debt collection
86,666	Credit card or prepaid card
71,872	Mortgage
70,755	Checking or savings account

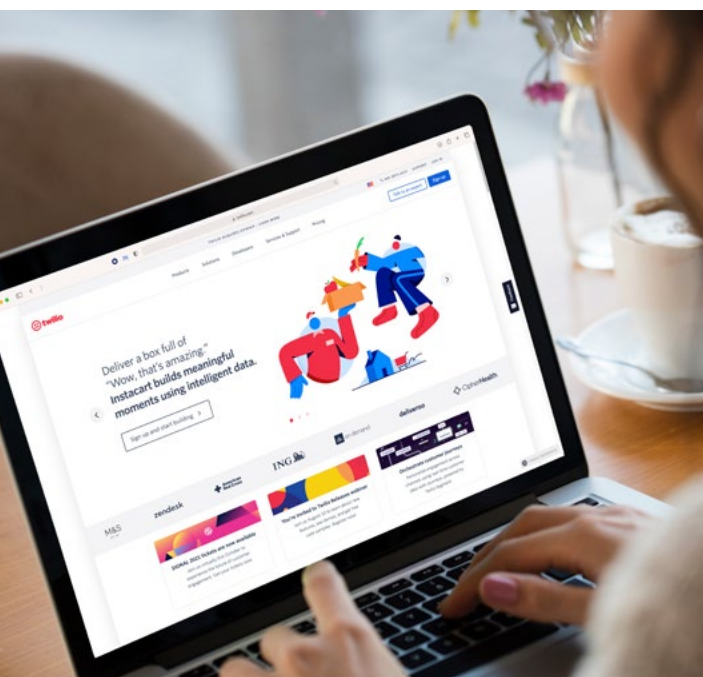
4. <https://www.consumerfinance.gov/ask-cfpb/what-is-a-debt-collector-and-why-are-they-contacting-me-en-330>
5. <https://www.nerdwallet.com/article/finance/debt-validation-letter>

Using SMS Communication Correctly

Both collection agencies and inhouse collection departments can benefit greatly by using an SMS short code communication channel in their collections strategy.

Short codes are a convenient 5 to 6-digit number that enables users to text in a keyword to automatically opt-in to a business's database. Short code text messaging is ideal for mass, impersonal, two-way communication. The main advantage of short codes is that they enable high volumes of text messages at a low cost. Short codes are effectively used for marketing purposes, as they create a memorable experience across a broad audience. With a high throughput rate, messages sent through short codes can be used for alert notifications, mobile coupons, marketing promotions and customer communications.

Long codes on the other hand should be avoided. Scammers typically use long code telephone numbers to send SMS communications to their targets. A long code is a 10-digit phone number also used for sending SMS mass marketing messages, but there's a cost for the end user to receive it, and they have much stricter regulations ⁶.



There are numerous benefits of buying a business short code from providers like Twilio.

- **Enhance Security:** If you work in an industry like the financial services, healthcare, or the government, then having a dedicated short code allows you to have complete control over what is sent and will give you a higher degree of privacy and security.
- **Improve Brand Recognition:** A short code can be as recognizable to your customer as your twitter account or website address.
- **Customize Campaigns:** When you have a dedicated short code, you aren't limited by other people already using your SMS mobile keyword, which gives you creative freedom to run your campaigns how you want.
- **Increase Functionality:** If you have a dedicated short code, you can do things that shared short codes can't do, like run a text-to-win campaign for your subscribers.

6. <https://cdyne.com/blog/sms-long-code-messaging-rules-and-regulations>

Short code SMS conversations are effective when communicating with customers because they can be proactive and conversational. For example, with proactive conversational AI, collectors can script and approve compassionate, human-like dialogue to connect, engage and take the individual on a journey to repayment or assist with alternative payment plans. These journeys require minimal human intervention. SMS conversations can last days, weeks or months with asynchronous conversations between the collector and debtor, until a payment transaction or payment plan is resolved - an elegant non-confrontational conversation that helps improve collections rates as a result.

Case Study

Using SMS to Increase Collections Payments



One of the leading North American Communications Service Providers (CSPs) implemented ContactEngine using their short code and compassionate communications to test the effectiveness of SMS collections communications. In just the first week of the collections treatment process, the use of intelligent, natural language AI, dynamic engagement strategies, and easy-to-trigger payment transactions were shown to increase payments received by 15% and payment arrangements by 47%.

This result stems from the ability AI technology has to identify customer intent and offer an automated and straightforward in-channel payment or payment arrangement option.

And results for the CSP:

- **Payments:** A 15% increase in customers making a payment
- **Cures:** A 19% increase in customers removed from collections
- **Amount paid:** A 22% increase in dollars owed were received
- **Payment arrangements:** 47% increase of payment arrangements were negotiated
- **Days to pay:** 20% decrease in days to make a payment

* The company saw the greatest financial impact with 22% additional dollars collected, followed by the reduction of days to pay by 20%.

Start a Compassionate Journey with your Debtors

There's a big opportunity to realise with these new regulations. ContactEngine's proactive customer conversations, providing a single conversation across an entire customer journey with the ability to transact in channel, make it much easier for an individual to resolve their debt. A ContactEngine conversation is easy for the customer or debtor to interact with, resulting in high engagement (80%+ is common) and increased funds collected. The other result is very high containment (90% of ContactEngine conversations require no agent involvement), which reduces costs and gives agents more time to focus on complex issues.

Getting your channel up and running in a few weeks is easy using ContactEngine's SaaS solutions. We can get you from contract to production between 45 – 60 days on average. Contact us today to see how we can help you improve your collections process for compliant and compassionate customer interactions.





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About

The report is published by ContactEngine Inc.

Registered Office: 6849 Old Dominion Drive, Suite #315, McLean, VA 22101

ContactEngine is a Conversational AI technology that enables organizations to proactively engage customers/citizens in conversations that fulfill business objectives. ContactEngine automates outbound individual engagement across all channels and generates unique insights into the changing patterns of communication by applying demographic and intent analysis, linguistics and ground-breaking artificial intelligence principles to mass volumes of raw data. ContactEngine transforms the way organizations engage with their customers/citizens — saving organizations millions and making their constituents happier. For more information, visit contactengine.com

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