# LEXON

# Taking debt collection to a whole new level

A comprehensive guide for enhanced customer experience and collection effectiveness

WHITE PAPER

# Table of contents

# Introduction

The volatile world we live in is constantly changing, with economic and social crises such as wars, conflicts, and post-COVID-19 making it even harder to navigate. Financial institutions face enormous challenges nowadays, with challenges including higher risk factors, an ever-changing economic landscape, and the expectation that they respond instantly to any changes in the business environment. Debt collection is no exception, a growing portfolio which requires a rapid, effective response to change on the part of financial institutions to minimise the risk of loss.

Meanwhile, from the client's perspective, this turbulent economy is challenging. Clients face economic uncertainties, and their financial wellbeing is also linked to the stability and flexibility of the institutions that manage their debts. Customer-centric collections have therefore become essential. Omnichannel communication is key to achieving better recovery rates, as we have seen during previous periods of upheaval. Underlining the importance of the preferred communication approach from the client's perspective, this guide will now explore various strategies for effective debt collection, such as flexible payment options, proactive optichannel communication methods like the self-service application, and hyper-personalised outreach.

The significance of adopting the latest technologies and data analytics to streamline collection processes and improving overall efficiency will also be emphasised. Financial institutions can significantly reduce the risk of customer churn (as occurs with non-performing loans, for example), and its negative impact on their brand reputation, while at the same time improving their overall financial health. By implementing best practices, financial institutions can effectively manage their collections strategies while maintaining positive relationships with their customers. This guide is an essential resource for achieving these goals and ensuring long-term success in customer-centric, healthy debt collection.

# Digital maturity: a tool to enable digital transformation

Digital transformation is crucial for institutions to be successful in today's digital landscape. To navigate this journey effectively, enterprises need to build a strong foundation in terms of digital maturity. The Digital Maturity Model (DMM) provides a benchmark for evaluating an institution's digital maturity across five dimensions. *(Figure 1.)*

Figure 1. **The Digital maturity model**



Source: Deloitte (Digital Maturity Model, 2018. February), Loxon

Measuring an organisation's digital maturity in this way helps identify areas for improvement and guides the transformation process. It serves as an analysis tool at the outset and can also help organisations to identify gaps that manifest themselves as the transformation journey ensues.

**Digital Maturity in Banking**
Banks have actively adopted digital transformation through the implementation of innovative solutions that include advanced analytics systems, artificial intelligence (AI), and machine learning to streamline internal processes, improve decision-making, and enhance customer engagement. The extensive adoption of mobile banking apps, on-demand financial management, and contactless payment systems has reshaped the way customers experience financial services. Moreover, SaaS solutions have become indispensable to providing a scalable and flexible infrastructure that enables banks to efficiently handle and manage vast amounts of data.

Some banks have successfully transitioned from traditional models to a more digitalised ecosystem. However, the speed of adoption varies, and many institutions are still struggling with legacy systems that block their ability to fully unlock the potential of digital technologies.

**Navigating Digital Maturity in Debt Collection**
The evolution of digital maturity in debt collection reflects broader trends than in banking. Forward-thinking institutions have extended their digital capabilities in debt collection processes, recognising the immense value that can be realised by automating and optimising these workflows.

The advantages of digital maturity in debt collection may be summarised thus! *(Figure 2)*

› **Enhanced Operational Efficiency**
By automating and digitalising tasks, the collection process is streamlined, reducing manual operations, and freeing up resources for higher-value tasks.

› **Improved Customer Experience**
The use of digital channels provides debtors with personalised and engaging communication, enabling a deep understanding of payment difficulties.

Figure 2. **The benefits of digital maturity in debt collection**



**Enhanced operational efficiency**

**Improved customer experience**

**Better collection rate**

**Cost optimisation**

*Source: Loxon*

› **Better Collection Rate**
Using data analytics and early warning systems enables financial institutions to choose the most effective collection strategies, resulting in higher collection rates and improved profitability.

› **Cost Optimisation**
Automated workflows can significantly reduce costs by minimising manual processes, traditional communication, and repetitive data entry.

Digital maturity is vital to financial institutions remaining successful and competitive in the long run. By implementing best practices and adopting digital technologies, financial institutions can improve both operational efficiency and profitability while enhancing the customer experience.

# Navigating the future: Early Warning Systems

In an economic recession, the financial industry faces increasing risks of non-performing loans (NPLs). Early Warning Systems (EWS) are emerging as innovative solutions for proactive risk management, providing real-time debtor information. This enables financial institutions to enhance debt management and credit risk control, and to take preventative action against delinquency and insolvency. EWS offers a comprehensive solution to address complex financial challenges.

› **Root Cause Detection**
EWS utilises big data analytics to analyse customer interactions and financial behaviour, offering real-time portfolio monitoring. Early threat identification allows financial institutions to take timely actions, while root cause analysis enables proactive issue resolution at the source. EWS not only identifies risks early but also facilitates rapid and effective responses to emerging challenges.

› **Avoid Losses; Open New Doors**
EWS offers insights for financial institutions that allow them to segment customers by payment history. It also enables the implementation of hyper-personalised strategies that serve to build trust and strengthen engagement. Proactive risk management not only prevents losses but also enhances financial institutions' ability to extend new credit to trusted customers. EWS serves as a dual mechanism, simultaneously protecting financial health and creating new business opportunities.

› **Optimisation of Resource Allocation**
EWS provides financial institutions with real-time insight into customer interactions and financial behaviour, helping them to optimise resource allocation and operational efficiency. This data-driven approach reduces costs, increases productivity, and improves overall business performance. This enables banks to remain competitive, profitable, and agile amid a dynamic financial landscape.

Implementing early warning systems allows real-time portfolio monitoring, deep integration with core systems, and early risk detection. This proactive approach supports timely, data-driven decision-making, reducing bad debts and improving performance in the competitive business environment. EWS is a tool for constant monitoring, facilitating transparent communication in debt collection that can build customer trust and protect the brand's market reputation.
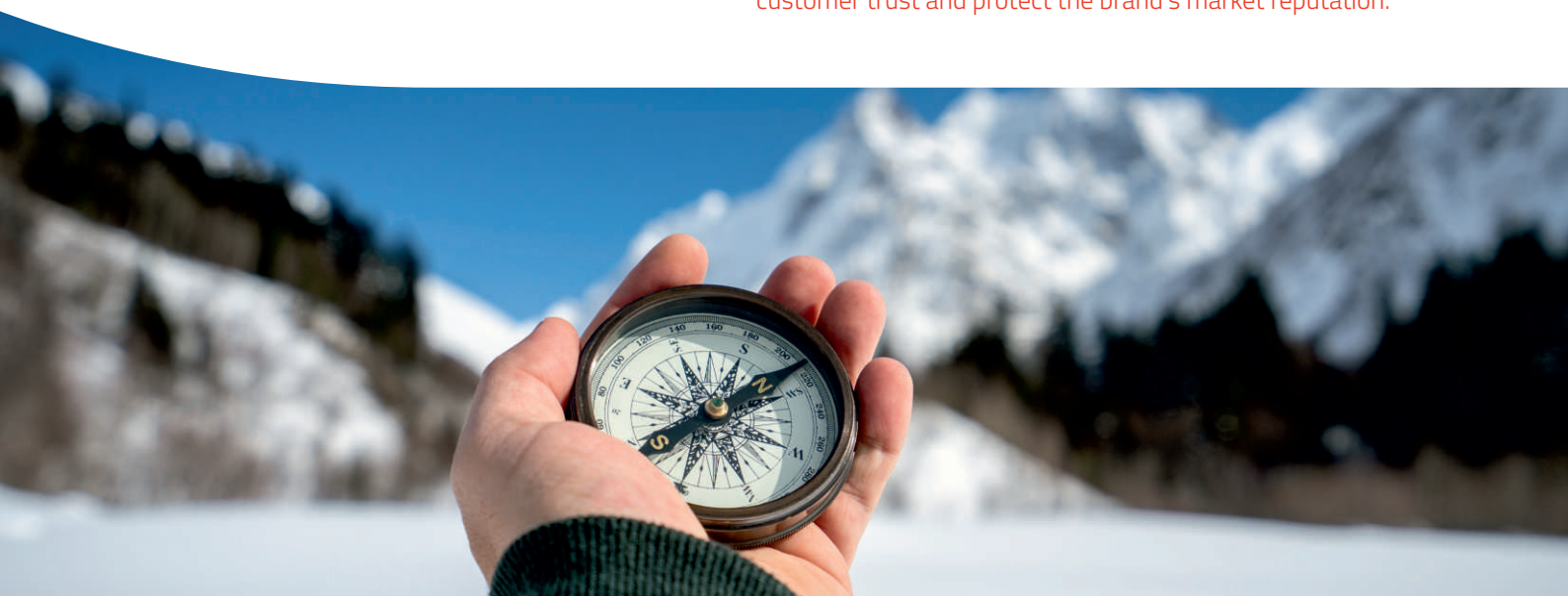
# Uniqueness of communication: addressing challenges in debt collection

Effective communication in debt collection goes beyond the mere act of outreach: it also encourages constructive interactions, maintains transparency, and empowers customers to manage their debts. Transparency, empathy, and a strategic blend of personalised communication and automation are all crucial to its success.

**Pre-Collection for a Better Connection**
In the debt collection world, the pre-collection stage is becoming increasingly important as a proactive approach for financial institutions to reduce delinquency. With the emphasis being on process optimisation and workflow efficiency, it constitutes an effective alternative to traditional debt collection methods. The focus at this stage is on effective communication through automated processes. It fosters early contact that not only enables the resolution of payment difficulties but also builds trust and promotes a collaborative relationship between the customer and the bank. *(Figure 3)*

Effective communication during pre-collection phases requires a combination of outreach, transparency, and personalised engagement. Automated workflows can improve the proactive aspect of communication, ensuring timely outreach and personalised contact. These techniques not only enable successful debt collection but also enhance positive relationships between financial institutions and their clients.

Figure 3. **Pre-collection communication channels**

**SMS messaging**
Due to its high open rates, immediacy, and directness, SMS stands out from the communication noise, making it an efficient communication method in debt collection.

**Email: a cost-effective way to communicate**
Email is a low-cost method whereby financial institutions may use personalised and professional email reminders, using structured communication to engage debtors to pay their bills.

**Push notifications for effective communication**
Sending gentle reminders directly to debtors' mobile devices allows the delivery of timely updates and personalised payment prompts to encourage immediate action.

*Source: Loxon*

### Soft collection: Fostering Collaboration Through Strategic Communications

The soft collection phase – which involves reaching out to the debtor in a polite and respectful manner to remind them of their outstanding payment – facilitates cooperation between financial institutions and debtors, addressing the risk of delinquency in a balanced way. Here, effective communication is vital to resolving payment difficulties and maintaining a positive relationship.

### Using Communication to Build Bridges

Communication at this stage aims to collect payments while understanding the debtor's challenges, balancing the needs to display both urgency and empathy. Automated workflows remain essential, underlining the financial institution's commitment to helping customers with payment difficulties. *(Figure 4)*

› **Text-Driven Debt Collection**
Email communication now emphasises empathy and support, encouraging debtors to find solutions in the middle of financial challenges. In soft collection, SMS communication preserves the required level of directness but is refined to exhibit a greater level of understanding, addressing the issue of

outstanding payments with a personalised level of care. Push notifications remain essential, targeting specific cases to encourage quick action and emphasising the importance of cooperation and understanding.

› **Call to Collect**
At this stage, personalised phone calls add a human touch, allowing debt collectors to discuss difficulties, address complex situations, and offer immediate assistance. This approach not only enhances debt collection effectiveness but also promotes a sense of partnership between the debtor and the collector, reflecting an underlying commitment to understanding the debtor's perspective.

The steps involved in these phases demonstrate a considered progression from proactive engagement in pre-collection to a more empathetic and personalised approach in soft collection. Each method is tailored to both the individual and the specific requirements of the collection stage in question. This ensures that the right balance is struck between the need to collect outstanding payments and appropriate consideration of the debtor's financial situation.

### Navigating the Challenges: Late and Legal Stage

The transition from Soft Collection to Late and Legal is a crucial stage in debt collection, which initially focuses on positive communication and cooperation. However, when softer approaches become ineffective, the Late and Legal phase becomes necessary and requires a strategic and professional approach. Termination is a critical point, focusing on protecting the customer relationship until the contract is cancelled, and when the moment is reached, making the maximisation of recovery rates the top priority. A financial institution will, for example, wish to avoid having to pay additional legal costs, especially if the customer appears unlikely to pay the debt even in the event of a court decision in the institution's favour, so the choice of strategy should reflect its overriding priorities.

AI predictions help to determine optimal exit points and guide assertive actions such as legal notices and court proceedings. This phase is certain to be emotionally and psychologically challenging for debtors, with the potential for legal consequences causing stress. Financial

Figure 4. **Essential parts in soft collection**



*Source: Loxon*

institutions face resource challenges and therefore benefit from AI algorithms such as the Exit Strategy Selector to streamline decision-making and improve overall efficiency.

On the other hand, late collection requires a different communication approach due to the escalated circumstances. *(Figure 5)*

› **Demand Letters**
  Demand letters play a crucial role as a formal and legally significant communication tool. They notify debtors officially, detailing the potential legal consequences that can be expected if the overdue debt is not settled promptly. Demand letters are written with precision, highlighting the urgency of resolving the outstanding debt to avoid further legal action.

› **Assertive Phone Calls**
  Assertive communication by telephone is often necessary, with agents using a firm tone to underline the urgency of settling outstanding debts. These calls aim to highlight the seriousness of the situation and encourage debtors to take immediate action.

› **Field Visit**
  In the late stage of debt collection, personal visits may be considered as an even more forceful means of communication. This procedure is triggered when the debtor can no longer be reached by telephone or in any other way. However, it is a last resort. The goal should be to minimise such cases, as they are very cost intensive. This approach emphasises the urgency of resolving outstanding payments and aims to convey to debtors the seriousness of the consequences they may face if the outstanding debt is not dealt with immediately.

Figure 5. **Significant drivers in late and legal stage**



*Source: Loxon*
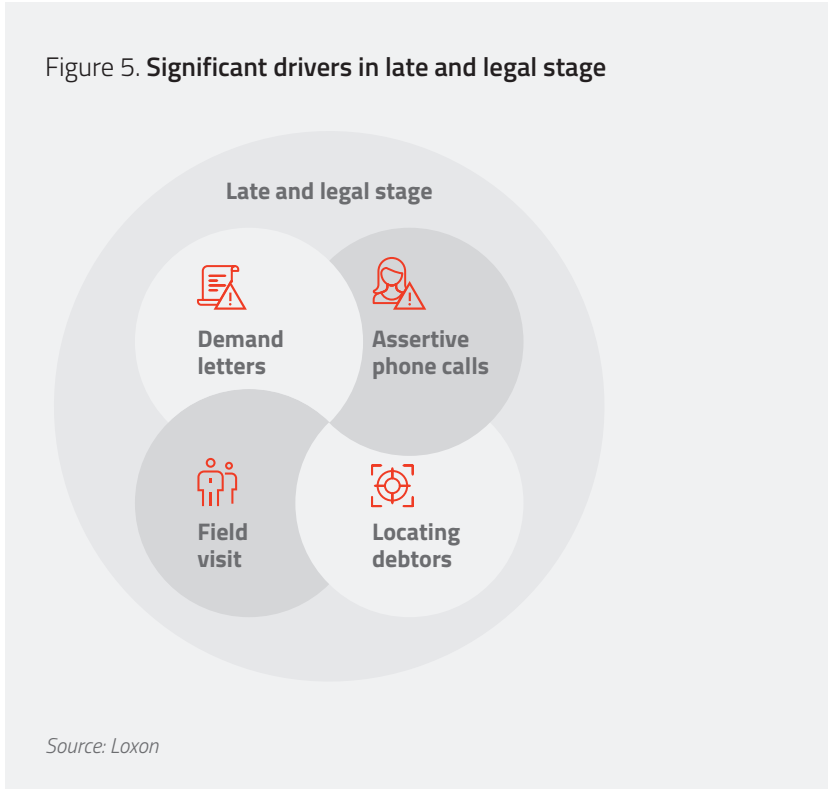
Personal visits represent a strategic escalation of communication to create a sense of urgency and encourage quick resolution.

› **Locating Debtors**
  In some scenarios, debt collectors may use "skip tracing" techniques to locate debtors who have relocated or changed their contact details. This involves using public records, credit reports, and other resources to locate the debtor's current information and ensure they are informed of their outstanding debt.

An effective and comprehensive late and legal debt collection strategy requires a sophisticated understanding of the debtor's behaviour, an omnichannel approach, and strict compliance. The use of clear, precise, and legally compliant communication methods increases the chances of successful debt recovery. This approach highlights the importance of striking a balance between being assertive and professional, thereby fostering an atmosphere that encourages effective debt collections while maintaining the highest levels of legal and ethical standards.

# Next level of debt collection

The impact of artificial intelligence and machine learning on industries has been immense. These technologies have revolutionised the way we work and the way we live – in spheres ranging from healthcare to agriculture, from education to finance. These innovative technologies have enabled services that were not possible before. For instance, AI-powered chatbots and virtual assistants are now used extensively in customer service, offering immediate answers to questions, and reducing response times.

This wave of transformation extends further than just workflow changes; it has significantly increased the efficiency of business processes. In the debt collection industry, AI has moved the sector into a game-changing era, enabling advances that have never been imagined before. As the transformation journey continues, the focus is now on enhancing the customer experience, where digital innovations such as AI, machine learning, and early warning systems play a key role.

**Seamless Interaction Across Channels: Omnichannel Communication**
The emergence of digital maturity in debt collection has ushered in an era where communication is no longer confined to traditional channels. Omnichannel communication has proven to be the key pillar of customer engagement, enabling seamless interactions across multiple channels. This transformation mirrors the way AI has seamlessly integrated into our everyday lives, significantly enhancing both customer interactions and business process efficiency.

**Hyper-Personalised Communication**
Hyper-personalisation is a customer engagement strategy that leverages the use of big data analysis to deliver accurate and personalised communications to each debtor.
This approach is crucial to many aspects of how financial institutions operate today.

› **The Essence of Personalised Communication**
By using advanced technologies such as AI and machine learning, financial institutions can now seamlessly personalise interactions based on the customer's past behaviour. The omnichannel approach supports reaching out to the debtors via different communication channels like SMS, email, chat, push notification, and others, in a personalised way.
For instance, if a debtor is experiencing financial difficulties due to unemployment, a personalised restructuring plan can be offered

Figure 6. **Next level of debt collection**

**01**
Debt portfolio

**02**
Insights about customers

**03**
Personalisation of messages based on the debtor's needs

**04**
Communication with debtors on their preferred channels: omnichannel approach

**05**
Reach them at the right time: optichannel strategy

*Source: Loxon*

to help them restore their solvency. This level of personalisation is crucial as it significantly increases the likelihood of successful recovery. It achieves this by deriving insights from past interactions and using this knowledge to customise the communication to the specific needs and circumstances of individual debtors.

Hyper-personalisation is a powerful tool that help improve the effectiveness of omnichannel communication strategies in the debt collection area. By using big data analytics to deliver highly targeted and relevant communications to customers, financial institutions can improve the customer experience and improve loyalty by building stronger relationships with customers. *(Figure 6)*

### Optichannel Approach: The Next Level of Personalised Communication

To effectively minimise risk while enhancing the customer experience, financial institutions must adopt a client-centric approach. This entails integrating different communication channels seamlessly to help reach debtors. However, reaching clients across multiple platforms is on its own insufficient to maximise the impact of this approach. By taking the strategy to the next level, optichannel precision ensures that the use of each communication channel is optimised for maximum effectiveness. This means strategically selecting the right platform for a given interaction based on past customer behaviour. By leveraging insights that are informed by this, financial institutions can communicate the right message, at the right time, through the most effective channel.

The true power of optichannel precision emerges when financial institutions leverage cutting-edge technologies like AI-driven predictive big data analysis, self-service applications and more. Optichannel approach adoption has many aspects that can enhance debt collection!

› **Data-Driven Communication Optimisation**
AI-powered analysis is crucial to improving debt collection by leveraging machine learning algorithms to analyse big datasets. This capability facilitates a strategic allocation of resources and enables proactive engagement with debtors, ultimately reducing the likelihood of non-payment. AI integration also enhances

decision-making. Financial institutions can now prioritise cases with a higher likelihood of collection, improving overall efficiency and minimising overheads.

Analytics enables debt collectors to predict customer behaviour, facilitating proactive engagement through the most effective channels. For instance, giving priority to SMS communication for customers with a history of responding to SMS reminders increases the chances of getting a response, enhancing the personalised and targeted approach to debt collection activities. Driven by predictive insights, this process maximises debt collection strategy effectiveness.

› **Enhancing Collection Rates Through Targeted Optichannel Engagement**
Real-time analysis of customer behaviour, powered by AI technology, is essential for enhancing collection rates. This approach facilitates the creation of highly personalised payment plans, precisely tailored to individual debtor preferences and financial circumstances. Direct communication with customers via their preferred channels becomes the focus, replacing traditional, often less effective, methods such as call centres.

For example, personalised payment plans can now seamlessly be delivered to customers via push notifications on their smartphones. This enhances debt resolution efficiency and allows customers to review and accept payment plans when they find it most convenient. Optimal resource allocation and improved engagement both ensue. This cost-effective strategy also strengthens the financial institution's reputation and fosters a positive relationship with debtor clients.

Optichannel precision represents the next evolution of customer engagement in debt collection. The seamless integration of advanced technologies and the use of data-driven insights together enable financial institutions to upgrade their communication strategies significantly. A tailored and personalised approach boosts customer engagement, improves collection rates, and facilitates better customer relationships.

## Streamlined Payment Management Through Self-Service Apps

The advent of digitalisation has driven a raft of changes in debt recovery, increasing efficiency and empowering debtors with user-friendly digital tools. Self-service applications are now critical to meeting evolving customer expectations and have given debtors unparalleled control over their interactions with financial institutions.

Customers have been granted the flexibility to manage their finances in real time, from any location. With just a few clicks on their devices, they may check their balances, review outstanding debts, request payment rearrangements, or make partial or full payments. These self-service applications signify a transformation in the debt collection landscape and now play a crucial role in increasing customer satisfaction. The transparency and accessibility they bring not only respond to changing customer preferences but also have the potential to boost collection rates. *(Figure 7)*

› **Universal Web Application**
  The self-service application is a cutting-edge technology that eliminates the need to download applications, making it universally accessible from any device with a browser. It can be smoothly integrated into any existing banking application and can also be made to fit the bank brand identity with a white label option. Customer actions within the application are immediately updated in the collection system, enabling collection managers to access comprehensive and real-time information that leads to more efficient communication and interactions.

› **Push Notifications for Effective Communication**
  Push notifications have meanwhile emerged as a proactive communication channel. Debtors receive instant updates, payment reminders, personalised messages, and payment plans delivered directly to their mobile devices. This enhances engagement and prompts timely responses.

› **Live chat for a better customer experience**
  Effective communication is crucial in debt collection, and self-service applications facilitate this through their integrated chat functionality.

Figure 7. **The power of self-service application**
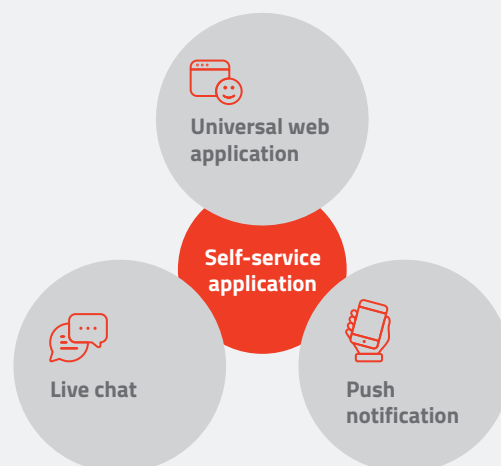


*Source: Loxon*

In today's fast-paced world, contacting financial institutions via call centres or email can be time-consuming. However, live chat is an excellent way to handle cases, and clients can receive immediate responses from agents this way. The real-time support afforded by this enhances the customer experience by reducing waiting time.

However, debt is a sensitive topic for debtors, and clients generally prefer to manage their outstanding debts without the need for personal interactions (such as a phone call). Virtual communication between debtors and agents is more comfortable as clients navigate through their financial difficulties. Live chat serves as a bridge between digital processes and the "human touch", making it an invaluable tool that fosters transparency and leads to more efficient debt management while significantly enhancing the customer experience.

Self-service applications represent a huge step forward in debt collection, offering a new and innovative approach that enhances the collection rate. Leveraging cutting-edge technology, these apps allow debtors seamlessly to manage their financial debts with unparalleled simplicity and transparency. With real-time access to outstanding balances, universal payment options and personalised payment plans, debtors can now take charge of their financial health, with the apps contributing significantly both to better engagement and a more positive customer experience.

# The dual role of preventive education in brand and debtor protection

AI-driven continuous analysis of customer data has lately become a cornerstone for financial institutions. Success today depends on combining technological prowess with proactive customer engagement. Unlike the reactive approach of yesteryear, banks can be more effective if they take proactive steps to educate their customers. By adopting insightful, data-driven methods, they can engage customers showing signs of financial distress in discussions about their financial options before they become delinquent.

Educating such clients about the available financial options can significantly reduce financial losses for both parties. Providing customers with a comprehensive understanding of their options empowers individuals to make informed decisions that are appropriate to their precise financial circumstances. This not only prevents customers from falling into delinquency, but also aims to foster a sense of financial empowerment and responsibility. *(Figure 8)*

› **Emphasise the Importance of Communication**
Key to the success of this strategy is an emphasis on clear communication. Customers are encouraged to contact the bank in advance if they expect difficulties in keeping to payment schedules. It is highlighted that avoiding communication in such circumstances could

have serious consequences. This two-way communication ensures that both parties are on the same page and encourages transparency and trust.

› **Chat Functionality: Real-Time Support**
Banks can integrate chat functionality as an integral part of their banking applications to simplify communication. This feature allows customers to ask questions, request information, and explore the options available to them if they feel they might have payment difficulties. The real-time capabilities of chat provide a convenient and user-friendly way for customers to interact with the bank, even on sensitive topics such as debt. In this case, they can immediately find out what steps must be taken if they become delinquent. Customers will thus become more educated, and risk reduced for the financial institution.

› **Building Trust and Improving Customer Satisfaction**
The integration of EWS and proactive engagement builds trust, enhances customer satisfaction, and minimises risk. Customers appreciate a proactive approach that demonstrates the bank's commitment to their financial health. The transparent communication channels and educational

Figure 8. **Key steps for safeguarding customers through education**



| Real-time analysis of customer data | › | Data-driven decision making | › | Educating clients about the available financial options | › | Preventing customers from falling into delinquency | › | Fostering a positive customer experience | › | **RESULT** More healthier portfolio |
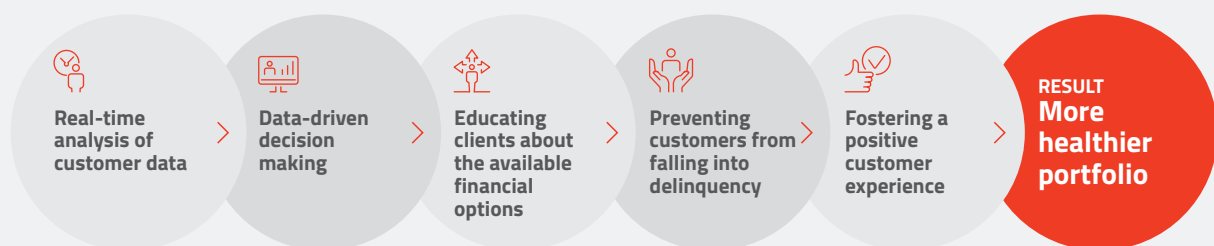
*Source: Loxon*

initiatives help foster a positive relationship, transforming customers into informed partners in their financial journey.

› **Debt Collection Without Brand Reputation Fall**
Brand protection is an essential aspect of any business, and it is no different when it comes to debt collection. An educational approach is a key tool in protecting reputation. Building strong relationships with debtors is essential to effective debt collection and maintaining a positive brand image. Financial institutions can improve debtor engagement and the overall customer experience by providing educational content that empowers debtors to manage their finances effectively. Informed and educated customers are more likely to cooperate in resolving their financial difficulties, creating a partnership based on trust and mutual understanding that ultimately strengthens the brand's reputation. This not only minimises the risk of problems escalating but also positions the financial institution as a trusted partner in the customer's financial life. *(Figure 9)*

The strategic alignment of AI-driven data analytics with proactive customer education is a powerful way to minimise financial risks. By moving from a reactive to a proactive approach, financial institutions can significantly reduce delinquency while creating a stronger customer experience. Integrating live chat into banking applications acts as a real-time support mechanism, providing customers with immediate assistance when faced with financial challenges. This proactive outreach, combined with educational initiatives, not only prevents problems from escalating, but also transforms customers into knowledgeable partners in their financial journey.

This approach protects brand reputation, positions financial institutions as trusted partners, and minimises the risk of reputational damage. The combination of AI, proactive engagement, and education amounts to a powerful strategy that not only meets customers' financial challenges but also strengthens the long-term relationship between financial institutions and their customers.

Figure 9. **Protecting brand reputation through customer education**



| Adopt an educational approach | › | Provide informative content | › | Equip customers with knowledge | › | Build strong relationships with customers | › | RESULT **Strengthened brand reputation** |

*Source: Loxon*

# About Loxon

Loxon is a trusted business solutions provider with over two decades of expertise in end-to-end credit management. Ever since the day we were founded, we have consistently delivered comprehensive and integrated lending, collection, and risk management solutions to the financial services industry.

The company was initially established by young banking experts who sought to find a customer-centric way to help banks and financial institutions improve their lending and collection activities and risk assessment procedures, as well as to build efficient, risk-aware processes, and reduce credit losses.

Since its inception, Loxon's vision has been to make finances easy for everyone. With a steadfast commitment to innovation, customer satisfaction, and industry-leading practices, Loxon consistently delivers advanced risk management solutions to financial institutions globally, empowering them to enhance efficiency, security, and compliance.

Loxon's core value proposition consists in its ability seamlessly to integrate its extensive business knowledge with an equally strong innovation capability, and a commitment to leveraging the newest technologies, thereby crafting best-in-class business solutions. As a trusted market

expert, our in-depth understanding of diverse business scenarios, regularly coupled with the capacities of our expert teams and wide partner network, empowers us to address a broad spectrum of credit management challenges.

Over the years, we have established ourselves as a key provider of end-to-end credit management solutions, employing over 200 individuals and successfully collaborating with over 80 financial brands worldwide.

The extensive experience this has bestowed on us means that we can adapt and respond to the ever evolving needs of the global market continuously. Loxon's headquarters is in Budapest, Hungary, and it has offices in Romania (Bucharest), Amsterdam (Netherlands), Manama (Bahrain) and Dubai (United Arab Emirates).

Loxon has garnered numerous awards and accolades for its groundbreaking business solutions, a testament to the company's unwavering commitment to innovation and customer satisfaction. We are proud to appear on the prestigious Chartis RiskTech 100 list, where Loxon is currently ranked 53rd. In addition, we have consistently secured the top position in the Customer Satisfaction category for three consecutive years, a true reflection of our dedication to our highly esteemed clients.

**Loxon Solutions**
Lőportár utca 20/b
H–1134 Budapest, Hungary
info@loxon.eu
www.loxon.eu