Debt Collection Strategies For Banks

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Banks provide much-needed services in communities of all sizes; from small towns, to major metropolitan areas. A bank's essential activities include lending money to businesses and individuals, as well as offering savings and checking accounts by accepting funds on deposit. A bank account is considered a must-have by most individuals, businesses and governments.

There are times, however, when banks experience internal debt collection issues due to delinquent customer checking accounts and loans. Some challenges include overdrawn checking, or demand deposit accounts, where customers have depleted the funds and overdrawn their account. Automated teller machine (ATM) errors and losses, as well as bank teller errors add to a bank’s cash items losses.

Returned items, due to customers depositing bad checks, are additional sources of pain for banks. Delinquent loans are another major area of concern for banks. A third major concern for banks is delinquent consumer and business loans. Although nearly all banks have their own in-house debt collection measures, they start to lose their success after about 60 days of inactivity from their past due customers.

Internal Debt Collection Strategies for Banks

One of the main keys to a bank's successful internal debt collection strategies is early...and consistent contact with banking customers whenever there is a problem. When a checking account goes into default, or goes over its overdraft protection privileges, contact needs to be made within 5-10 days to the customer. Determine what the problem is, if there is something you can do to help, and when to expect the account brought back in good standing.

Early contact can prevent many accounts from going into default and having to be written off. Earlier contact can also help you to know sooner, rather than later, the accounts you can continue to work internally. And which ones to immediately outsource for more intensive measures.

Debt scoring is a great debt collection strategy, as it gives you the ability to predict the accounts that are likely to pay you sooner, and therefore you can know to dedicate more internal resources to collecting on these accounts. You will also know the more difficult accounts less likely to pay. Outsource those immediately. You waste precious time and resources to continue to deal with these accounts. Also, the more time passes, the less likely you will recover any money on these problem accounts.

Since successful debt recovery efforts diminish rapidly with time, it’s important for banks to outsource these problematic accounts to third party debt collection agencies.

Here are 3 essential reasons why banks ought to employ outside debt collection agencies for their unsettled problem accounts.
Debt Collection Strategies - Save Accounts With Early Intervention

Banks commonly mail their own reminder notices, in order to bring a customer’s loan up to date, or to re-establish checking account and overdraft privileges. They then usually write off accounts after 30-60 days of delinquency, except if the balances are abnormally high. Debt collection agencies, if introduced early in the process in this crucial 30-60 day window, are very successful with tactful communications intended to get the account holder re-connected with the bank and resolving their delinquencies.

As well as using diplomacy, debt collection agencies can aid banks in sorting out and identifying the “soft” delinquencies from the more problem accounts that should be immediately outsourced. When used early enough, the majority of these accounts can be restored, preventing having to write them off.

A few debt collection agencies provide debt scoring as a tool. Using this powerful mathematical probability tool can help banks greatly by predicting the accounts more likely to pay, as well as the more difficult accounts. Debt scoring can often be used pre- and post-default. For example, with banking loan and/or checking and accounts, scoring is able to recommend which accounts to work in house, before they default. The rest can be outsourced to debt collection agencies promptly, before these accounts depreciate even more in recovery likelihood.

Debt Collection Strategies - The Significance And Success Of Third Party Influence

When a customer’s checking or loan account goes into overdraft or default standing, and after the bank has contacted the customer to settle the account without success, hearing from a third party can often make the difference and provide just the encouragement needed to remedy the matter.

Debt collection agencies act as an effective and diplomatic dispassionate third party. This can encourage past due customers to get in touch with their bank and make the required arrangements to make their accounts current.

More often than not, customers are aware that their accounts are insolvent or delinquent. So they’re not surprised to hear from the bank. And if your communication is erratic or intermittent, customers may behave toward their delinquent status with less value.

Hearing from a debt collection agency is much more impactful. Though tactful, a collection agency will communicate the gravity and magnitude of rectifying the matter. And that failing to do so could result in a negative credit report score, as well as limiting one’s ability to open future checking accounts elsewhere.

More Cost Efficient

Banks customarily write off smaller balance accounts month after month. Part of this decision is the limited in-house collection staffing and/or the expense of going after these small balance accounts. Debt collection agencies can aid greatly with recovering on these smaller balance accounts. For example, a few agencies charge a small set cost fee.

These small fees are much less costly than the employment necessities, expenditures and assets required to collect these accounts in house. Recovering on NSF checks is another area where collection agencies are most efficient, if incorporated early in the process. And as discussed earlier, debt scoring can help banks classify which of these accounts can gain from more in house collection attempts, and which ones to outsource to a collection agency.
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