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Professional Credit

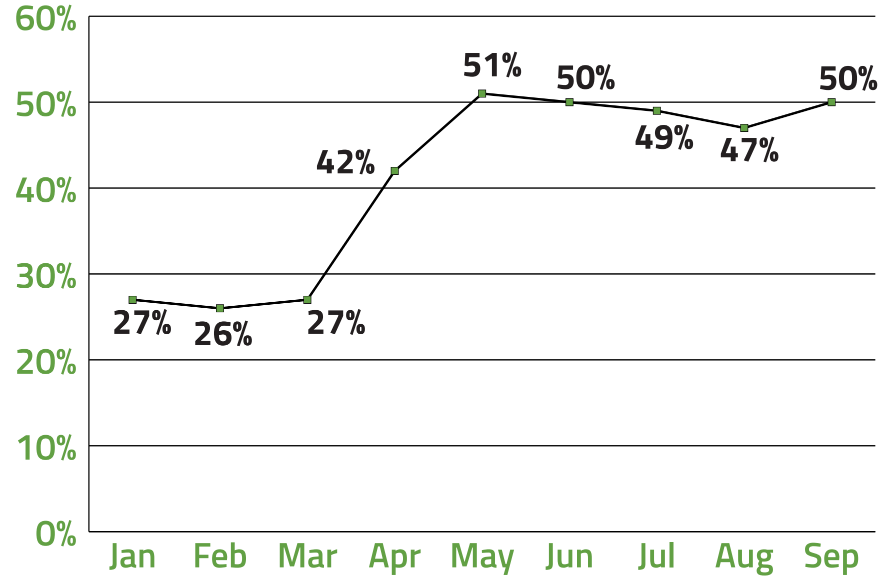
COMPARING TRADITIONAL AND DIGITAL PAYMENTS

How Online Payments Accelerate Cash Flow

BASED ON A STUDY BY HARRISON SHOBERG, DATA SCIENTIST, PROFESSIONAL CREDIT

IN MAY, 2020, PROFESSIONAL CREDIT RECEIVED MORE ONE-TIME PAYMENTS AND INITIAL PAYMENTS FROM NEW PAYMENT PLANS ON ITS MOBILE APP AND CONSUMER PORTAL, PCS DIRECTPAY, THAN OVER THE PHONE WITH AGENTS.

Digital Payment Percentage 2020



ONLINE PAYMENTS ARE A MUST FOR ANY BUSINESS.

For consumers, online bill pay has surpassed traditional methods such as in-person, over the phone or by mail in most cases. However, the accounts receivable management industry, with more compliance restrictions than other industries, and only recently updated rules governing consumer communication, has lagged in the past but is catching up. Not only are online payment portals more readily available to the high number of small businesses in the ARM industry, but also the impact of 2020's pandemic has driven increased usage of these tools.

While online payments surpassing payments to agents only this year seems late compared to other industries, it is understandable given the regulatory restrictions preventing disclosure of a debt or the disclosure of personal health information to third parties as well the requirement to send notices to validate the debt by U.S. Mail.

With the recent surge in adoption of online payment options and new rules from the Consumer Financial Protection Bureau to supplement the Fair Debt Collection Practices Act (FDCPA) going into effect in November of 2021, digital engagement should see further gains.

Strengthening digital channels not only provides more convenience for consumers through time saving self-service options, but it also reduces costs in collection operations.

RESEARCH BY:

Harrison Shoberg
Data Scientist
Professional Credit

As adoption increases, the industry benefits from lower costs to collect, but how does it affect revenue?

TO ANSWER THIS QUESTION, HARRISON SHOBERG, PROFESSIONAL CREDIT'S DATA SCIENTIST, COMPARED VARIOUS ASPECTS OF DIGITAL AND NON-DIGITAL PAYMENTS AND THEIR IMPACT ON REVENUE.

DATA SET

A data set of approximately one million Professional Credit accounts were examined in this study. These accounts were referred over the time period January 1, 2019 to November 30, 2020.

Each of these accounts belong to specific Professional Credit clients over a multitude of different debt type sectors.

In addition, clients have varying percentages of payments from digital sources, which is determined on the account level via payment data.

CONSTRUCTING THE ANALYSIS

While the overarching theme of this study is to determine the impact of payments from digital channels on overall revenue, there are several different ways to look at how this may occur.

Specifically, this analysis compares four key metrics of digital and non-digital payments:

- Average Time to First Payment
- Percentage Recovered in the First 365 Days
- Average Time to Paid in Full
- Payment Plan Continuity

DATA ANALYSIS
RESULTS

AVERAGE TIME TO FIRST PAYMENT

AVERAGE TIME TO FIRST PAYMENT, OR ATFP,
is calculated by taking the difference in days from when an account was listed at Professional Credit and the date the first payment occurred on that account. For example, an account that was referred on January 1, 2020, which had an initial payment applied on January 25, 2020, would have an ATFP of 25 days. Please note that this specific analysis excludes non-paying accounts because ATFP can only be calculated if a payment was made.

TAKING THE DATA SET AND SELECTING ONLY accounts that have had at least one payment applied, an ATFP is calculated for the entire population of paying accounts:

- Professional Credit Overall ATFP: *108 Days*

Essentially, for accounts in this data set that do pay, it takes 108 days on average for that first payment to occur on an account *regardless of whether it was digital or non-digital.*

SPLITTING THE POPULATION TO CALCULATE ATFP separately for digital and non-digital payments yields the following result:

- Digital ATFP: *108 Days*
- *Non-Digital ATFP: 119 Days*

According to the result, a first payment on an account occurs approximately *14 days faster* than a payment from a traditional non-digital source. However, the percentage difference between the two ATFPs of *12%* is more important than the number of days because ATFP is highly dependent on its population of accounts. An ATFP's number of days calculated for a population of the previous two years of referrals will be much different than a population of only the previous year of referrals.

PERCENT RECOVERED

IN THE FIRST 365 DAYS

This analysis investigates how well digitally paying accounts are recovering in the first 30, 60, 90, 120, 180, and 365 days from initial listing.

Recovery percentage here is simply defined as the percentage of the account starting balance that has been paid. **EXAMPLE:** An account with an original balance of $100 that has payments totaling $25, has a recovery percentage of 25%.

As before, only accounts that had at least one payment are included in this analysis. The output shows what the recovery percentage is for digital and non-digital paying populations at various numbers of days from listing.

DAYS FROM LISTING	30	60	90	120	180	365
NON-DIGITAL	18%	29%	35%	41%	48%	63%
DIGITAL	22%	36%	44%	51%	60%	74%

For example, the table shows that the population of digitally paying accounts has roughly 22% of their original balances paid off in the first 30 days at Professional Credit, while non-digital only has 18% paid over the same timeframe.

For each timeframe, digitally paying accounts outperform their non-digital counterpart all the way up to 365 days from listing. This result suggests when payments are made digitally, ***initial balances on accounts recover faster***. This finding could also be the direct realization of the ATFP analysis which indicated that first digital payments occurred on average 14 days or 12% faster than their non-digital payments.

AVERAGE TIME TO PAID IN FULL

Average time for an account to be paid in full or **PIF** is defined as the difference in days from the first payment made on an account and the date the account is paid in full.

Here are the results for digital and non-digital accounts:

- Average Digital Time to PIF: ***10 Days***
- Average Non-Digital Time to PIF: ***17 Days***

The accounts were paid in full digitally, did so roughly ***seven days and approximately 42% faster*** than those paid in full through non-digital channels.

PAYMENT PLAN CONTINUITY

One final point of interest in this study concerns payment plans with automatic payments that are arranged by consumers to pay off outstanding account balances. These plans can be set up by calling a representative on the phone, or by using Professional Credit's online portal.

Often, these recurring payment plans are discontinued or "broken" due to consumers forgetting payments, having invalid payment information or the consumer just simply not having the means to make a payment. Some of these issues are preventable, for example, the consumer could update an invalid credit card on file before the payment date to ensure the plan continues or renegotiate the terms of the plan if the payment amount is currently too high or the scheduling is not compatible with a payday.

Theorizing that it is much easier for a consumer to manage their payment plan via the portal vs. calling in and speaking to a representative, payment plans set up via the online portal should have a lower chance of being broken.

Analyzing the percent of payment plans broken for ones that were set up via the online portal vs. ones that were set up through traditional agent interaction, the following metrics were produced:

- Digital Payment Plans Broken: ***11%***
- Non-Digital Payment Plans Broken: ***18%***

The payment plans set up via the online portal over the previous two years had an 11% broken rate, while those set up via a call had an 18% broken rate over the same time timeframe.

In other words, the data suggests that digital payment plans are ***39% less likely to be broken*** than those set up over the phone.

DATA ANALYSIS

KEY FINDINGS

WHEN EXAMINING THE RESULTS FOR EACH KEY SUB analysis, it is clear that payments made via digital channels accelerate revenue generation:

- First payments on an account that are digital occur on average ***12% faster***.
- Revenue from digital channels is recovered at a ***faster rate*** when evaluated on a periodic basis.
- Balances are paid in full ***42% faster*** when paid off digitally.
- Online payment plans have greater continuity, as ***39%*** are less likely to be broken.

Accelerating cash flow not only leads to more revenue, but also to a faster collections process which reduces costs. Fewer resources are expended between the time of listing and first payment and between first payment and payment in full than for accounts that choose to pay using traditional methods. Payment plans set up via the online portal had a lower default rate than those that were setup via traditional means in the analysis. This, again, not only preserves revenue that would be lost from a broken payment plan, but also reduces the costs associated with re-engaging the consumer. Some of those costs are borne by consumers themselves, who can gain greater convenience through digital payment options.

CONCLUSION

The results of the analysis demonstrate the benefits of digital payments and point to the value of finding ways to increase them. There are three ways to expedite this process:

1. **Give consumers more opportunities to take advantage of digital options by replacing or augmenting telephone and physical mail communications with text messages, emails, push notifications and live chat.**

2. **Make it easier for consumers to serve themselves when using payment portals and mobile apps. Offer flexibility in setting and changing payment arrangements, negotiating settlements, allowing them to update their contact and insurance information and providing chatbots to help with common questions and with the ability to transfer to live chat for more challenging ones.**

3. **Train staff to facilitate the use of self-service tools with scripting to help consumers gain online access, to gather consent for future digital communications and to usher consumers through the process via live chat or two-way texting.**

Service providers who refer their accounts to collections and benefit from accelerated revenue recovery can be a great help in driving more online payments by **gaining consent for digital communications** from consumers and ensuring it covers their third-party partners. Also, the CFPB's new rules supplementing the FDCPA with clarification on email and text messages will pave the way for faster digital transformation in the ARM industry by limiting compliance risk and encouraging investment in these channels. While this transformation will certainly benefit service providers and their collection partners, the ultimate winners are consumers who will enjoy faster and easier ways to navigate the collections process and take care of their financial obligations.

HARRISON SHOBERG
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Harrison Shoberg has been leading Professional Credit's data science initiatives and processes since 2015.

ABOUT THE AUTHOR

Harrison earned his Bachelor of Science in Economics from the University of Oregon. He is skilled in statistics, data mining, data vendor management, internal auditing, SQL, R, and all areas of financial and operational reporting. Harrison lives with his dog, Remy, in Portland, Oregon.

ABOUT PROFESSIONAL CREDIT

Since 1933, Professional Credit has been helping consumers get out of debt and take back control of their finances. A significant differentiator of Professional Credit is its Omni-Channel approach to communication, backed and enhanced by its Data Analytics and Behavioral Science Teams. Professional Credit regularly studies its processes and deploys advanced automation and analytics to continually improve the consumer and client experience.

READY TO LEARN MORE? SCHEDULE A FREE CONSULTATION WITH A PROFESSIONAL CREDIT REPRESENTATIVE.

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