



# Arrears and Collections

Delivering good customer outcomes



# How firms can address the arrears and collections challenges surrounding the rise in consumers in financial difficulty

**The cost of living crisis continues to bite in the UK, data from the recent FCA Financial Lives Survey identified that 5.6 million UK adults missed a payment on a domestic bill or credit commitment in January 2023 (these numbers are likely to be even bigger now).**

**5.6 million**

UK adults missed a payment

It is clear to see that firms need to ensure their arrears and collections functions are prepared and can support customers through an extremely difficult period. Doing so well is not without its challenges. In this article we identify six challenges facing firms, likely to be most prevalent over the coming 12 months, how these can be addressed and the opportunities arising from doing it well.

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5.7 million families among the poorest had around £14.2 billion in unsecured debt between them as of May 2023



**Joseph Rowntree Foundation, 2023**



# Customer outcomes in arrears and collections

## Ensuring Customers get good outcomes in arrears and collections continues to be high on the regulatory agenda.

Ensuring customers get good outcomes in arrears and collections continues to be high on the regulatory agenda. Whilst arrears and collections practices have long been an area of focus for the FCA, with numerous regulatory investigations, fines and remediation programmes taking place since 2014, the FCA's Borrowers in Financial Difficulty (BiFD) has applied a keener focus on this risk of harm to consumers. This coupled with the heightened expectations of the Consumer Duty mean it is important that firms get the treatment of this customer cohort right.

## Are you...



Encouraging your customers to engage, particularly when payment issues start to arise?



Providing your customers with an appropriate level of care and support (considering a customer's vulnerability)?



Taking into account customer's individual circumstances when providing forbearance?



Considering a range of forbearance options and taking reasonable steps to ensure arrangement remains appropriate for customers?



Raising awareness of, and supporting access to, money debt advice where borrowers show signs of financial difficulty or are struggling with debt?



Ensuring your fees and charges are fair and do no more than cover costs?



Making sure fees and charges are not being applied to customer accounts inappropriately, resulting in escalating balances

# Arrears and collections challenges



## Capacity

Increases in the volumes of customers falling into arrears and requiring support often result in capacity issues within arrears and collections functions. This can mean firms are unable to answer inbound calls, or make outbound contact attempts in line with their optimal contact strategies - resulting in customers not getting the support they need. Capacity pressures can also result in staff feeling pressured to not have the detailed conversations needed to fully understand what are often very complex customer circumstances.

### Actions to take:

Review your capacity planning, monitor call volumes to identify pinch points, and consider how you can adjust your contact strategy to adapt to capacity constraints.

### Opportunity:

Greater use of technology and AI solutions to provide more self-serve functionality and reduce the demand on humans, including engaging with customers pre-arrears.



## Forbearance Tools

Arrears and Collections colleagues do not always have access to the full range of forbearance tools required to support customers in payment difficulties. The regulator have also flagged concerns around the over reliance on "simple" tools which do not resolve the underlying issues or are easier to colleagues to set. A common issue can be a disproportionate volume of arrangement to pay set up – is commonly not the most appropriate way of sustainably recovering an arrears position.

### Actions to take:

Review your forbearance toolkit, analyse the volumes each forbearance tool being used and their success rate, and revisit training and assess if colleagues are comfortable identifying the right forbearance tool.

### Opportunity:

Getting forbearance right first time (setting an arrangement that is most appropriate to address the customers arrears position, and is affordable based on their individual circumstances), means less broken plans and less follow-up engagement with a customer and better cure rates, with fewer customers worsening their arrears position. This also result in reduced operational costs for firms and eases capacity constraints.



## Exploration of Customer Circumstances

Recent regulatory activity as part of Borrowers in Financial Difficulty Thematic work has continued to identify concerns with how firms are exploring customer circumstances to understand the root cause of the arrears. Firms are still struggling with the completion of I&E's in arrears and determining repayments that are affordable for a customer.

### Actions to take:

Review the training and guidance provided to colleagues on how to explore customer circumstances and complete income and expenditure assessments.

### Opportunity:

Staff can be empowered to tailor the support offered to individual customers, resulting in a service specifically aligned to their needs, and creating greater staff satisfaction and the ability to do the right thing for your customers. Having a strong control environment and performing customer journey testing can help ensure autonomy still results in good outcomes.



## Identifying and Supporting Vulnerable Customers

The Consumer Duty has placed greater emphasis on how firms are supporting vulnerable customers and ensuring they receive good outcomes. There is an increased likelihood that customers in arrears are in vulnerable circumstances. There remain concerns about how firms are identifying, logging and supporting those potentially vulnerable customers.

### Actions to take:

Review the quality of your vulnerable customer data and sense check what it is telling you (i.e. do the volumes of known vulnerable customers align to what you'd expect). Also look at your vulnerable customer policy, guidance and training to make sure it's fit for purpose.

### Opportunity:

Supporting a customer through a tough time will build better rapport and lead to repeat business/ recommendations. Predictive models can also be developed to identify those customers with a higher propensity to be impacted by a vulnerability.

# Arrears and collections challenges



## Application of Fees and Charges

The application of arrears fees and charges are a key cause of detriment for customers in arrears. Firms should consider whether it is appropriate to apply fees and charges if it would exacerbate a financial difficulty, and if they can be justified given potential issues with the support provided by the firm in the arrears journey.

### Actions to take:

Analyse whether your fees are resulting in fair value, or whether any particular customer groups are being disproportionately impacted by arrears fees and interest.

### Opportunity:

Evidence the delivery of fair value by making sure that fees and charges don't disproportionately affect one customer group and aren't subsidising other costs.



## Complex Journeys

The collections journey can often be complex, with lots of handoffs between different teams and different mandates which can impact a colleague's ability to deal with the full range of customer circumstances. The complex journeys also create greater risk that customers can drop out of the process or "fall through the cracks".

### Actions to take:

Review your collections customers journey(s) to identify the touch points that result in a handoff, and what any data, reporting or controls you have in place which can tell you about how effective these handovers are.

### Opportunity:

Simplifying journeys and removing blockers can create efficiencies in both the customer and firm experience. Simpler journeys can also make it easier to measure the outcomes customers are receiving.

## How KPMG can help

KPMG in the UK has specialists with extensive experience with Arrears and Collections, ranging from supporting firms with design, development and implementation, all the way through to testing whether arrears functions perform as expected and are delivering good outcomes to customers. If you would like to hear from one of them or require specific support with Arrears and Collections and/or BAU activities, please do not hesitate to get in touch.



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