DELINQUENCY MANAGEMENT

Behavioral Science & Design Perspectives
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Delinquency Management in a post-COVID world

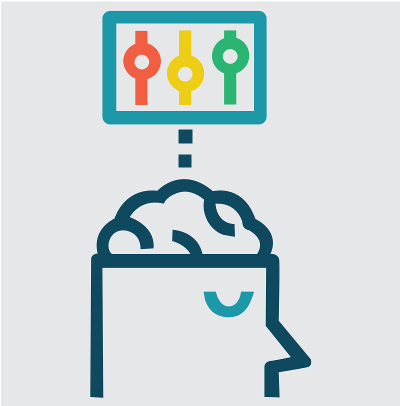
Delinquency is one of the financial services sectors that COVID-19 is bound to have a direct and immediate impact on. Large scale income disruptions, compounded by a looming financial recession and growth slowdown, dictate that financial institutions around the world adopt proactive strategic measures to handle the impending increase in delinquency rates. For some perspective, coming off the recession in 2008, credit card delinquency rates in the US reached 6.77% in 2009, before gradually dropping back down to 2.12% through the second quarter of 2015. Mortgage delinquencies were at 9.3% in 2010, before gradually stabilizing around 4.5 between 2016 and 2018.

It is important to view both delinquency and consumers' interactions with financial institutions during this time from a behavioral standpoint, in order to craft internal strategies and communicate measures to consumers.

A segment-based approach: Learnings

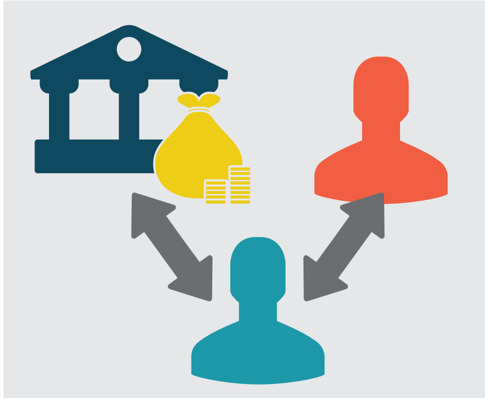
This note focuses on two behavioral segments that in the current context are most likely to be created - consumers with a) temporary and b) permanent financial hardships. The first step is to look at some fundamental truths we've learned from studying delinquency behavior for these segments:

Delinquent members are oriented towards resolution:
Whether arising from temporary or permanent hardships, delinquency brings with it negative appraisals (snap evaluations of situations, that lead to the emotions we feel at that moment), especially of the self and the ability to manage said hardships. These lead to feelings of guilt, and along with it, a strong intent to resolve - in this case, pay. In light of the COVID-19 context, the window of resolution orientation is likely to be shorter than normal, owing to the attribution of the hardship to external factors, rather than the self. It is important to leverage this window as it does exist.



Delinquency is a coping mechanism:
For these segments, delinquency is a coping mechanism: a response to deal with their context of low control and scarcity. Tunnelling around immediate goals like food and lifestyle needs, cause these goals to be prioritized over pending bills. The consumer's goal at this point, therefore, is financial management, and not delinquency resolution.

Reciprocity Seeking:
This low-control situation also leads to reciprocity seeking - whether it is expectation of flexibility from the bank, or a human touch to help guide them through the delinquency landscape (this is going to be especially pertinent in the wake of the current pandemic, where there will exist a strong expectation of 'allowances' from the institution). This is the point where, currently, for most consumers, the relationship with the financial **institution sours** due to a perceived lack of empathy from their side.



Over time, this orientation turns to avoidance:
The negative feelings towards the self subside, the longer consumers stay in the delinquency funnel, and are replaced with poor intent perception towards financial institutions, stemming from the way the institution has stepped up in their time of need. This poor perception, coupled with punitive strategies adopted by the financial institution leads to avoidance, and in a few extreme cases, feelings of anger and revenge seeking.

Turning Avoidance to Approach

Designing for delinquency management needs a nuanced approach and keeping in mind the above factors, should be based on the segment and the part of the delinquency funnel they are currently in.

Temporary Financial Hardships
For customers with temporary financial hardships, the strategy should be centred around curating their return to 'back to normal' before they slip deeper down the funnel. It is important to recognize that any punitive measures adopted here would only increase avoidance. The goal, then, should be to showcase Control, Negotiation and Flexibility. This might involve:
• Communicating empathy and goal alignment (financial management) - 'eg: we do not wish to add to your hardships, but want to find ways to work with you to ease them'.

• Showcasing alternate coping strategies rather than delinquency - consumers are looking for a source of authority to help them figure out possible pathways out of their current context.

• Showcasing reciprocity through flexibility, introducing new partial-payment plans skewing towards 'more time'.

• Strategically leveraging credit health and possible future losses involving credit opportunities in order to gently nudge them towards the 'right' path.

Permanent Financial Hardships

For those with permanent financial hardships, the strategy has to be centred around getting them **'adapted to their new normal'.** The first step here, would be to turn their avoidance responses into approach - to get them to the table. For this segment, it is imperative to showcase Assistance, Repair and rebuild Trust and Authority to ensure that you remain the **'last card/loan standing'.** This might involve:

• Turning Avoidance into Approach: communicating flexibility and leveraging consumers' deal-seeking goal to get this segment to the table.

• Communicating empathy by aligning to their current financial management goals.

• Using authority to provide pathways to this segment to adapt to the landscape of delinquency and help minimize damage already done.

• Engineering long-term resolution intent ('last card standing') by leveraging reciprocity - frame communication that talks about safeguarding the institution's long standing relationship with this segment and showcase intent to keep them in the in-group.

Delinquency Management: Channels and Behavior

Different delinquency management channels also afford their own emotional pathways. Phone channels, for example, are associated with expertise, empathy, negotiation and closure, depending on where consumers are in the delinquency funnel. Non-voice channels (messages, e-mails, websites) are associated with flexibility, consistency, exploration and efficiency/ease of use (Approach). It is important to understand these affordances, and factor the channel into the behavioral strategy.

A strong, behavioral science perspective for delinquency management is capable of enabling both consumers and clients to manage and cure delinquencies.