

The New Power of Payment Call Centers: Organizational impacts of outsourced TEL ACH origination services

Call centers are commonly viewed by many or most in any organization as cost centers: simply add-ons necessary for supporting core products and services. As a result of this view, call center performance is commonly evaluated based on operating expenses and efficiency metrics. Some of the more commonly measured of these call center performance metrics include:

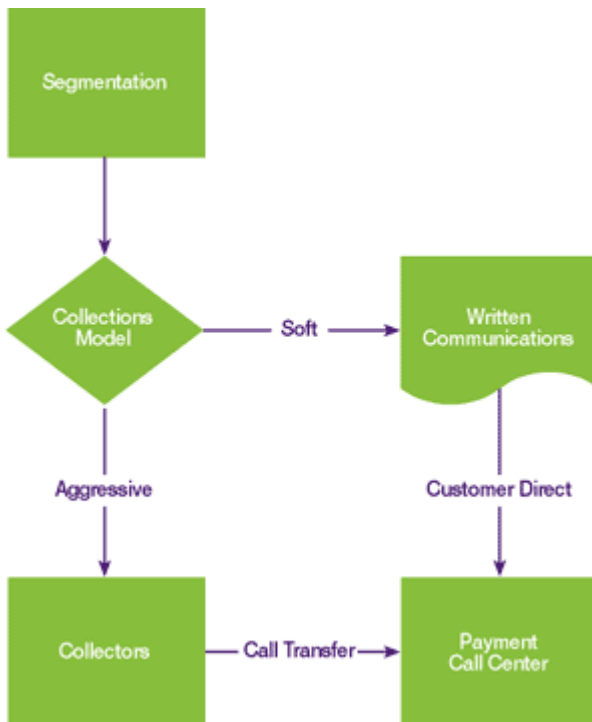
- Average Speed of Answer (ASA)
- Call Abandon Rate
- Average Delay to Abandon (ADA).

From on-going measurement of these kinds of numbers, call center managers often develop performance goals expressed in terms of desired Service Levels.

What is an acceptable call center service level? Is it 80% of calls answered within 60 seconds? An ASA within ADA 95% of the time? An abandon rate of less than 20%? Of course, the "right" service level can vary significantly from organization to organization, department to department, and function to function.

For instance, a Collections center would place great value on answer speed and abandon metrics, as debtors required to wait on hold may quickly abandon inbound calls and jeopardize settlement opportunities. A Customer Service center, on the other hand, may be less concerned about answer speed or abandon metrics, as customer frustration or inconvenience are difficult to measure as metrics. Rather, Customer Service managers may be more interested in efficiency as it relates to resolution (e.g. percentage of issues resolved without escalation, etc.).

But when customer payment is involved--be it in a dedicated Payment center, a Collections center, or simply part of the Customer Service mix--managers need to be very mindful of answer speed and abandon metrics. Because as many as 60% of telephone payers are expeditors (trying to avoid late fees or service cancellation), frustratingly high ASAs will lead to high abandon rates, which in turn lead to higher delinquencies, collections and charge-offs.



So here's where companies' emphasis on call center efficiency and cost containment may be at odds with their own risk management and collections goals. Without offering payment options through their call centers, companies miss golden opportunities to manage customers for profitability. Yet, historically telephone payment processes have affected call center metrics significantly, adding two minutes or more to every call involving a telephone payment or payment support.

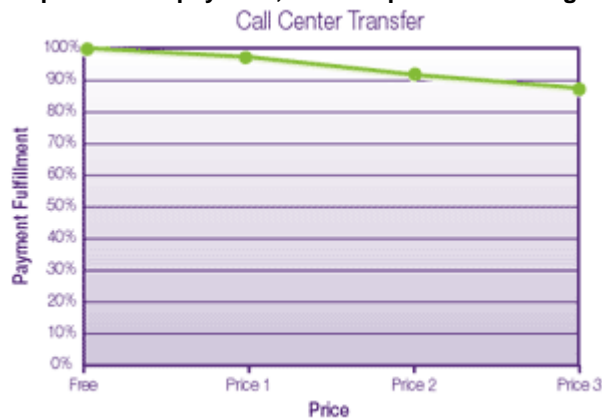
NACHA TEL RULES

Organizations have long recognized the benefits of electronic funds transfer (EFT) via Automated Clearing House (ACH) transactions. These electronic items allow for easy integration with companies' accounting software, customer information systems, collection auto-dialers, etc. Plus, companies know that ACH can greatly reduce their lockbox volumes and decrease lockbox costs by replacing paper items and manual process with electronics and automation.

But above all, companies realize the benefits of ACH for expediting funds availability. Unlike checks or drafts, ACH payment funds are in the bank (or identified as returned) the following business day, resulting in better cash flow and higher net present value (NPV).

Unfortunately, telephone payment has traditionally been regulated by stringent ACH authorization guidelines, requiring telephone-initiated items to be governed by PPD standard entry class (SEC) rules. PPD SECs require that payments made via phone be accompanied by a customer signature or similarly authenticated authorization. So companies using PPD entries are required to pre-enroll customers in phone ACH payment programs in order to establish authentication protocols. Of course, very few customers will typically pre-enroll, so they can't use phone PPD ACH when they

need to expedite their payment, and companies can't originate PPD ACH items on customers' behalf.



As a result, despite the back-end process and accounting advantages of ACH, companies that wished to accept payments by phone had to do so by creating drafts. Once created, drafts slowly made their way through the check payment world, meaning companies still had to process a paper item, still had to wait days or weeks to get their money, and still didn't know if the payment they accepted would be returned.

With this in mind, the National Automated Clearing House Association (NACHA) conducted a two-year workgroup pilot involving 40 originators and over 10.5 million transactions to streamline ACH telephone authorization requirements. In September of 2001, NACHA enacted the TEL SEC for telephone-initiated ACH items with the following benefits:

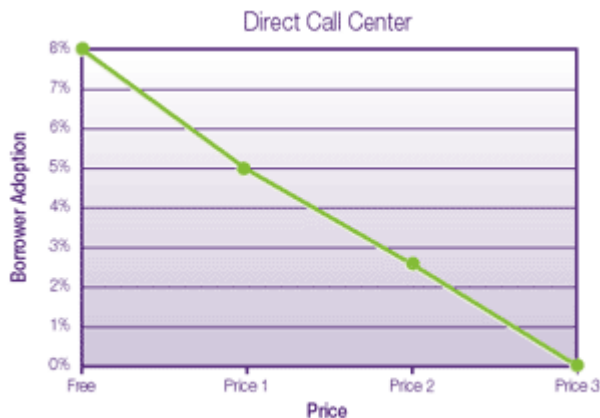
- TEL allows customers to authorize ACH payments to companies via a single telephone call
- TEL eliminates requirements for prior signed or "similarly authenticated" customer enrollment
- TEL allows for recording of customers' verbal authorizations in lieu of confirmation mailings.

Through TEL, companies can now (1) originate ACH debits as payment from any of their customers without requiring pre-enrollment, (2) receive all payments the next business day, and (3) forego the expense of producing and mailing payment confirmation letters.

PAYMENT OUTSOURCING

Even with the new TEL rules, in-house ACH payment still offers significant challenges and inefficiencies for many companies. For instance, some companies have implemented in-house ACH software that allows them to originate ACH transactions once payer authorization has been gained via phone. But these tools entail a great deal of commitment and resources, requiring companies to develop commensurate in-house infrastructures and procedures.

Companies that go the in-house ACH route must implement processes for payment returns and resubmittal, exception item handling, payment tracking, dispute resolution and customer support. These companies must also be prepared to dedicate significant IT resources to new technology requirements, including sophisticated recording, imaging and archiving capabilities and integration of back-end accounting systems for payment posting, settlement, and reporting. Most importantly, maintaining in-house ACH capabilities requires companies to be able to navigate a very dynamic and complex legal environment and to manage change and risk accordingly.



Faced with these challenges, many companies are now turning to partnerships with TEL Outsource Providers (TOPs) to manage their TEL ACH payment processes. TOPs deliver expertise, resources and economies of scale unavailable to most companies, including:

- Professionally designed and managed call center staff and processes for high volumes of telephone payments
- IT expertise and infrastructure for world-class data archiving and system integration
- Resources and procedures for handling returns, payment research and customer support
- Expertise in NACHA regulations and compliance.

TOPs provide a high degree of specialization in ACH payment and payment support functions. Their expertise in transactional processes, like data entry and quality assurance, result in minimal origination errors, fewer returned, delayed or disputed payments, and efficient issue escalation and resolution. Likewise, through their use of TEL, TOPs allow companies to realize significant savings in confirmation production and mailing. Typically, this saves as much as \$0.40 for every customer payment.

But at the heart of the payment outsourcing benefit is its ability to decrease companies' call center FTEs, effectively trimming two minutes off every customer call that entails payment or payment support. When those two minutes are advertised across an entire call center every day, companies realize monumental time savings--savings that can be put to good use in other ways.

CUSTOMER PAYMENT

Companies with existing transaction call centers may look to TOPs as a way to supplement their in-house staff. As illustrated in Example 1, below, a large payment call center can easily trim its average call length by 1.5 minutes.

Example 1: Payment Call Center

A payment call center that receives 8,000 calls per day, 75% of which involve payments or payment support:

Avg. Call Length (Min.): 5.0
Staffing Level (Operators): 83
Calls per Operator: 96
Daily Confirmation Letters: 6,000

When this call center outsources payment and payment support services:

Avg. Call Length (Min.): 3.5
Staffing Level (Operators): 58
Calls per Operator: 137
FTE Savings: 25+

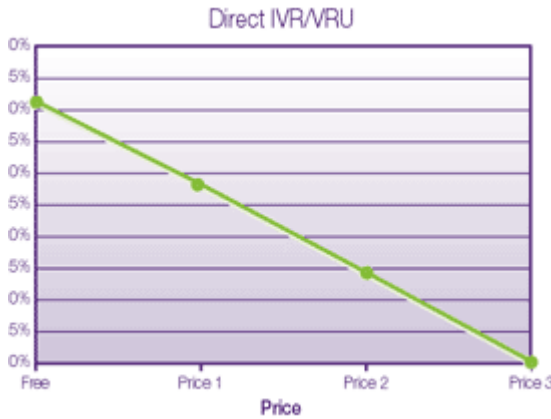
Salary Savings/Yr: \$600,000
 Confirmation Savings/Yr: \$748,800

In the above example, the payment call center was able to operate with 25 fewer operators, saving \$600,000 in salary costs each year. But more importantly, that same call center would be able to reduce its average speed of answer significantly. In turn, call abandons would decrease, and more customers would use the call center to make payments.

CUSTOMER SERVICE

More likely, most companies won't have a dedicated payment call center, but rather include payment as a function of their customer service operations. In this context, payment outsourcing may be most important for its ability to add capacity to the customer service center. In the example below, a customer service call center would be able to serve hundreds of additional customers each day, as well as to reduce their ASA significantly.

Example 2: Customer Service Call Center



A Customer Service department that receives 5,000 calls per day, 50% of which involve payments or payment support.

Avg. Call Length (Min.): 10.0
Staffing Level (Operators): 104
Calls per Operator: 48
Daily Confirmation Letters: 2,500

When this Call Center outsources payment and payment support services:

Avg. Call Length (Min.): 9.0
Staffing Level (Operators): 94
Calls per Operator: 53

FTE Savings: 10+
Salary Savings/Yr: \$250,000
Confirmation Savings/Yr: \$312,000

On the most basic level, the above example demonstrates the ability of TOPs to improve service levels relating to ASA and abandons, making customers feel better about the attention they receive. Ultimately, this could likely result in a better perception of customer care, meaning companies experience less churn and spend fewer dollars on new customer acquisition activities.

More progressive companies today realize that each service contact is an opportunity to better understand the customer and to build deeper, more profitable relationships. For these companies, customer relationship management (CRM) and service cross-sell promise to finally transform the call center from a cost center to a profit center. Of course, payment outsourcing frees up customer service staff and resources to concentrate on these activities.

But TOPs can also be valuable partners for complementing companies existing CRM and cross-sell strategies. TOPs can assist companies in better understanding and segmenting customers by payment habits and deliver payment data formatted for integration with CRM/CIS technologies.

Likewise, TOP call center operators can deliver cross-sell and other marketing messages to drive companies' other revenue lines without impacting in-house customer service metrics. For instance, payment operators can provide live body enrollment and email follow-up to grow Internet programs like customer self-service and can aid in increasing adoption of technologies like electronic bill presentment and online payment.

COLLECTIONS CENTERS

TEL ACH has already become a very popular solution for both in-house collections and third party recovery of managed and purchased debt. Unlike with promises to mail a check, retail wire transfers, or voice response technologies (IVRs/VRU), real time collector-initiated telephone payment results in a very high commitment conversion. Through the "captive acquisition" of delinquent borrowers by phone, consumers are given little opportunity to back out of their payment promises.

This is especially true of TEL authorized postdated payments, as collectors are able to work with debtors to break payments into more manageable portions or to schedule payments to coincide with debtors pay periods. TOPs have the ability to schedule automatic ACH debits for the appropriate postdate schedule, as well as to send postdate data files to update predictive dialers and FDCPA compliance technologies.

In Example 3, below, a Collections center that outsources payment is able to talk to many more debtors each day, save confirmation postage costs, and virtually eliminate wait times to ensure inbound calls get through quickly.

Example 3: Collections Center

A Collections department that talks to 2,500 debtors per day, 25% of whom commit to payment or need payment support:

Avg. Call Length (Min.): 10.0
Staffing Level (Operators): 52
Calls per Operator: 48
Daily Confirmation Letters: 625

When this call center outsources payment and payment support services:

Avg. Call Length (Min.): 9.5
Staffing Level (Operators): 49.5
Calls per Operator: 50.5
FTE Savings: 2.6
Salary Savings/Yr: \$62,500
Confirmation Savings/Yr: \$78,000

Today, most collection centers use account segmentation via scoring techniques to prioritize case workload. By classifying accounts by age, payback probability, debt amount, etc., collectors are better able to determine how best to focus their resources for results. As illustrated below, TOPs complement these segmentation strategies by offering both collector transferred and customer direct phone payment options, allowing collectors to employ either soft or aggressive collection models.

Figure 1: Sample Collections Call Center Model

In the above example, soft model collections like early stage, smaller debts and/or debts with high repay probabilities are driven to an outsourced payment call center--without collector intervention required--by printing the center's telephone number on notice letters. Debts requiring more aggressive models, like late stage, high debts, and/or debts with low collection probability, are worked by collectors and use call transfers to complete payment.

Under this model, collection centers are able to use payment call centers to optimize their FTEs. Soft collection accounts are driven by debtor initiative and direct interaction with TOP operators, while aggressive collection accounts are loaded into the predictive dialer. The TOP reporting engine integrates with collection center technologies to (1) update account payment and postdate statuses, (2) update the predictive dialer, and (3) allow for escalation of accounts from soft to aggressive models.

RISK MANAGEMENT & MITIGATION

As illustrated in the examples above, TOPs improve efficiencies of companies' in-house collections for better cash flow, fewer delinquencies, and fewer accounts being charged off or outplaced for collections. This model also extends to later stage collections and risk mitigation processes, allowing companies to avoid the complex processes and high costs of service interruptions, repossessions, foreclosures, etc.

But the most significant benefit of TOP call centers is their ability to effectively manage consumer payment risks by keeping customers out of delinquency and collections to begin with. As discussed earlier, TEL now allows companies to accept telephone payments from any of their customers, not just those who have pre-enrolled in phone payment programs. So while late fees have always provided a powerful incentive for keeping most customers paying on time, TEL now provides consumers a viable vehicle for avoiding those fees as well.

Add to that most customers' desire for human interaction in financial services, and TOP call centers provide benefits beyond the late payment arena. Through simple, friendly and non-confrontational payment processes, telephone payment becomes a preferred convenience payment vehicle that customers will use month after month--simply in lieu of the traditional check writing and mailing exercise. Likewise, the value of the human interaction can be leveraged to cross-sell customers into recurring (direct payment) enrollment to reduce payment risks even further.

THE FEE EQUATION

No discussion of phone payment would be complete without examining customer fees and their revenue impact. Simply put, many companies have been willing to endure the inefficiencies of in-house telephone payment because "convenience fees" can add significant, often unbudgeted, revenue to operations. For many companies, payment fees have represented the first step toward transforming the call center from a cost center to a profit center.

But since TOPs provide full administration of telephone payment processes and support, companies can eliminate both the fixed costs of staffing and operations, as well as the variable costs of collector inefficiency, organizational distraction, and lost customer service opportunities. As a result, TOPs allow companies to either 1) maintain their current fee pricing and increase net revenue, or 2) lower their payment fee pricing--to maximize risk management impacts--without lowering their net fee income.

Figure 2: Call Center Payment Fee Impacts

Most discussions of efficiency ultimately lead to topics of automation. Payment is no exception, as companies and vendors see the inherent efficiency of IVR/VRU and Internet payment technologies and their comparatively lower operating costs. But as consumers are becoming increasingly more technology savvy, they also see the cost/fee equation of automation and expect those savings to be passed on. So when customers pay convenience fees, automation also entails lower value compared to human interaction.

Across industries, the rapid proliferation of IVR/VRU and Internet technologies has been accompanied by an equally rapid descent of its perceived customer value compared to that of live operators. So while consumers pay premium pricing for the convenience of call center payments, they view automation benefits as belonging to companies, not consumers, and expect to pay commodity pricing at best.

In the end, companies realize no net income gains from automation use, as significantly lower costs are simply offset by significantly lower payment fees. Otherwise, should companies attempt to substitute automated payment for human interaction while maintaining similar fee pricing, their convenience payment volumes would drop precipitously. Again, when better risk management and lower collections are goals, a decline in phone payments is likely not an objective to work towards.

Figure 3: IVR Payment Fee Impacts

It's also important to note the relative price inelasticity of phone payment fees when callers are transferred from collectors to TOP operators. As discussed earlier, this process provides for "captive acquisition" of delinquent borrowers, giving consumers little opportunity to back out of their payment promise. Unlike with money wire transfers or transfers to VRUs/IVRs, borrowers have little opportunity to assess their individual price sensitivities when speaking to operators, so fee pricing has little impact on payment fulfillment.

Figure 4: Fee Impacts on Payment Fulfillment

As a result, TOP custom phone centers allow companies strategic implementation of tiered convenience fee pricing, whereby (e.g.) direct call payers are assessed lower fees to encourage adoption, while collector-transferred payers are charged more to subsidize the collections process. In fact, scoring models like those discussed earlier can be used to determine how pricing should best be applied on case-by-case bases to balance both late and convenience fee revenue with delinquency risk, recovery probability, etc.

NET RESULTS

As companies' phone payment programs grow, so too does the impact of TEL outsourcing across their enterprises: (1) Greater capacity and service levels for all in-house contact centers, (2) lower costs for payment service and support, (3) lower customer churn and new acquisition costs, (4) lower collection volumes and shorter cycle lengths, (5) fewer account delinquencies, chargeoffs and outplacements, (6) higher net revenue from convenience fees, and (7) higher lockbox and accounting efficiencies through EFT.

TEL likely won't solve the "cost versus profit" debate, and TOPs may not turn every cost center into a profit center. But for most all call centers, TOPs can be very valuable partners for improving the bottom line.

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