

Building a financially resilient customer base with next best action

A new approach to collections



Taking a fresh approach to debt

The last decade has seen some unprecedented challenges facing both customers and businesses alike. The pandemic, war in Europe, cost of living challenges, inflation, and interest rate increases are all elements of a volatile and sensitive climate. Many customers may find themselves in need of additional support, possibly for the first time. Plus, they're hypersensitive to the experiences they have with the organizations that are, inevitably, part of their lives. Businesses in finance, telecom, utilities, and any other organization that has relied on contractual relationships found customers with reliable financial histories in collections maybe for the first time ever. Being able to offer an increased level of meaningful assistance to these customers has never been so critical.

Organizations are quickly realizing this and learning that early intervention in client financial struggles can reduce collections and bad debt write offs – mitigating costs for both the customer and the business itself. They're finding that building a financially resilient customer who can recover from difficult life events can improve their financial operations and the overall customer experience they deliver. And even when customers aren't navigating a crisis, they expect more from brands than ever before, both in their marketing efforts and overall customer experiences.

Every interaction matters. Each touch is an opportunity to bring the customer closer or push them away. Customers need you to know them and understand their unique needs like never before. There's no alternative but to ensure you're adding value at every step of their journey, while providing a seamless experience across channels.

But where should businesses start? The answer is with empathy. The concept of empathy in collections and other business operations isn't a new one, but empathy alone isn't enough to pull customers out of debt. Businesses need to inject it into their processes and technologies and one of the most effective and efficient ways to do that is with artificial intelligence and machine learning.

“Navigating a global crisis has only amplified the need for exceptional experiences.”



Customer engagement backed by empathy and artificial intelligence

When we talk about combining AI and empathy, we aren't talking about teaching your technology to have complex human emotions. We're talking about using AI and rules about ethics and empathy to determine customer next best actions based on the data it collected about them during interactions with your brand. Customers interact with your brand across many channels, in many ways – like on your website, inside your mobile app, with a customer service agent, or in-store, to name a few.

During times of financial hardship customers don't and can't always pay for the products and services they use when they are under contractual agreement. This leaves utility bills unpaid, phones disconnected, and mortgages compounding – often burying consumers in debt. Your customer engagements during times like these may not just influence your ability to collect that debt. They may play a huge role in determining the total customer lifetime value (CLV) of that client relationship. Clients may be having financial problems today, but in 3–6 months, once they are back on their feet, they'll continue to need service providers. If you can see them through a difficult time, it may cement your relationship for years to come. And that's exactly what brands build with their clients: relationships.

Change and hardship is inevitable, but that doesn't make it any easier. Sometimes transformation happens gradually and sometimes it's a tidal wave – like the pandemic. Either way, low-empathy marketing tactics have no place in the modern customer experience. You can't afford anything less than hyper-personalization and perfect timing, not when your customers' needs can change by the second. So how do you build trust, provide customers with real value, and develop deeper relationships through ever-changing sentiment or market conditions?

“Apathetic marketing tactics have no place in the modern customer experience.”

Proactively prevent problems

Getting customers quickly out of debt helps, but it is far less costly for organizations if their customers don't incur debt in the first place. Relevant intervention before debt arises will save huge sums compared with efficient intervention after debt. The degree to which a customer base is resilient to personal financial shocks will significantly impact the business's bottom line. The potential competitive advantage lies in actively increasing customer resilience through relevant, well-informed, and precisely timed engagement with those individuals.

The right support and resiliency approaches can:

- Ensure customer action is taken promptly when it is most needed.
- Help customers manage their product and service mix and expenditures.
- Provide education about support available from suppliers, government, and philanthropy.
- Distribute resources to those that will benefit most.
- Reduce the chance of customers falling into arrears.
- Earn loyalty with a track record of high-empathy engagement.



5 Building a financially resilient customer base

But not just any type of customer engagement will do; we are advocating for always-on, one-to-one customer engagement, which starts with an individual customer. It takes your customer's unique interaction history and in-the-moment data points, then layers on artificial intelligence to deliver what's called a next best action.

Next best action (NBA) is an approach used to engage individual customers on their own terms by accounting for their unique needs, preferences, and context. It works to make every interaction more relevant and meaningful (regardless of channel), and optimize high-level KPI like revenue, profit, and customer lifetime value rather than short-term metrics.

One of the largest advantages of NBA is that it goes beyond just sales offers to consider all the potential conversations you could have with a customer, which is critical during financial hardships. Actions include:

- Sales offers
- Retention offers
- Service messages
- Educational messages
- Well-being/nurture messages
- Collections messages
- Risk mitigation

With NBA you have a large library of actions that's "always-on" and available at all times, so it becomes much easier to find a relevant action to take for each person. For example, in many cases selling isn't your best option for a customer at that specific moment. Instead, you'd be better off taking a non-sales action in that situation.

For example, you could introduce a retention plan to a customer who's become likely to churn, proactively offer service, or recommend problem-solving tips when someone is struggling. You may frequently want to negotiate a discount, attempt to collect a debt, or simply thank someone for being a five-year customer. In fact, in some cases your best option might be to do nothing – because there's too much risk tied up in that customer, and you'll be selling or trying to retain bad business.

Empathetic Next Best Action

Well-being messages
(if relevant to individual)

Service tasks
(if open service issue ongoing)

Retention offers
(if churn likely & CLV high)

Sales offers
(only if offer relevant & suitable)

No action
(otherwise)

3 ways to scale empathy

How does a next-best-action approach work, and what can it really do for your customer relationships?

1. Understand their context. Next best action goes beyond traditional marketing to analyze each individual's needs, in the current moment, while an interaction is taking place. It determines the optimal approach for each unique person, balancing their current context versus the organization's long-term goals.

2. Calculate their next best action. Next best action isn't just about selling. Instead, it's designed to engage with empathy, mixing retention, service, and nurture actions in with sales offers. The AI recommends the approach most likely to achieve your goals – whether that's better conversion, higher retention, or increased levels of customer satisfaction.

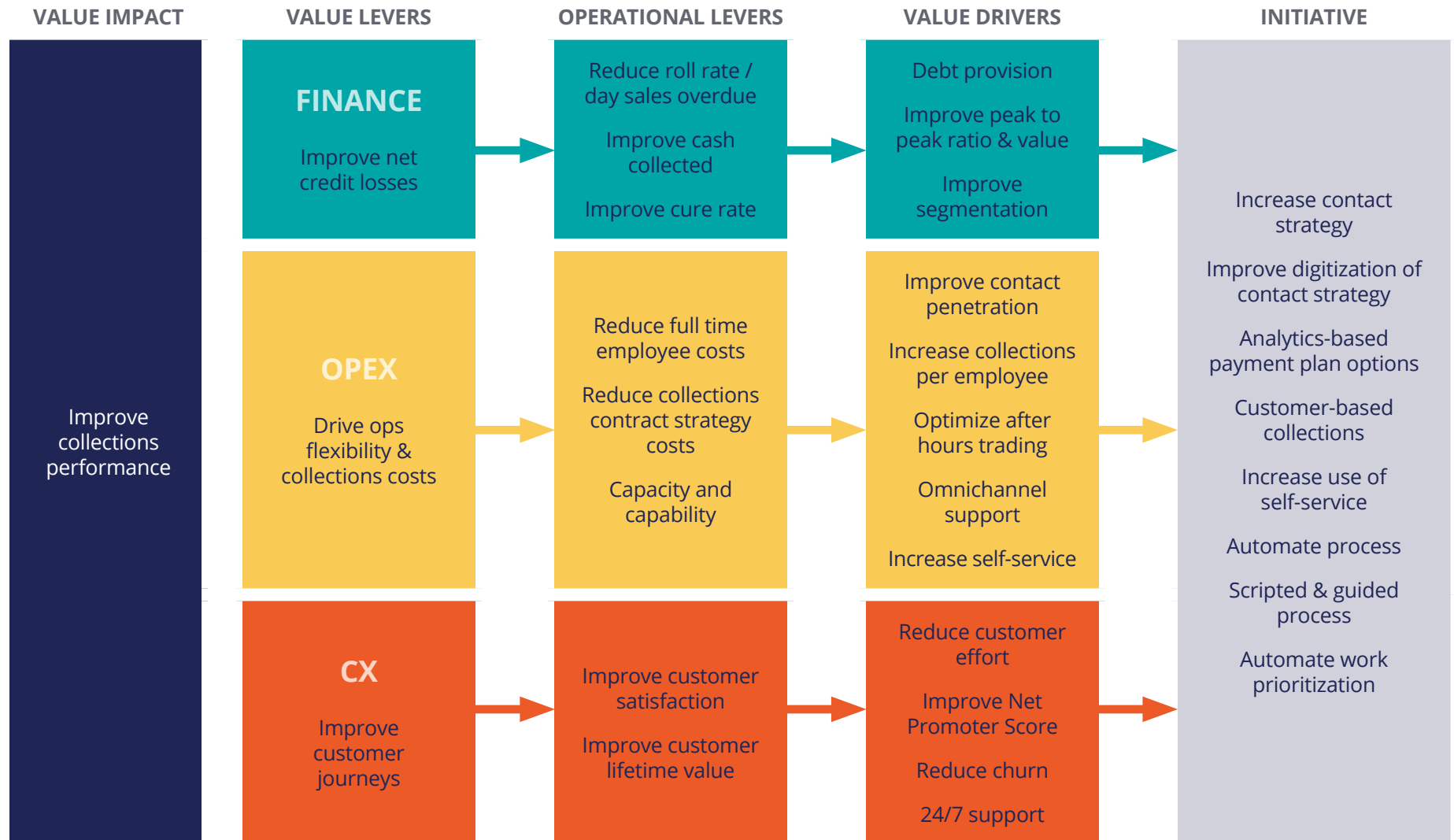
3. Deliver when it matters. Traditional marketing pushes products in large batches that ignore individual needs and timing. Response is low because you can't "hit their window," which may only last a few minutes. With next best action, you trigger messages exactly when they're needed. Every outreach is driven by propensity, and if there's nothing relevant to talk about, you simply wait – until the time is right and the customer is ready to listen.



Collections and the value levers

Three areas to consider for finance, operations, and customer experience

The following initiative impact levels within the overall collections value tree can be implemented to improve debt losses, reduce the cost of collections through better automated strategy and deployment, and create a better customer experience to reduce churn.



Spotlight:

How Commonwealth Bank of Australia built a resilient customer base

Brands that are executing on this approach are already seeing results. Take Commonwealth Bank of Australia as an example. Despite the hardships posed by COVID-19, Commonwealth Bank of Australia (CBA) has reported a 12.4% increase in profit for FY20 and is posting AU\$9.6 billion in statutory after-tax profit – while at the same time making a focused effort to positively impact the financial well-being of their customers.

In the wake of both of Australia's national emergencies, COVID-19 and the deadly Australian bush fires, CBA pivoted its Customer Engagement Engine (the Pega Customer Decision Hub™) to recommend next best actions that would help struggling customers and offer contextually appropriate, empathy-based messaging across its mobile app and website.

CBA used machine learning to identify which customers would benefit from specific types of messages and benefits. The primary goal was to connect customers with the various forms of financial support available to them, including government grants, rebates, and payments. More than 270 different types of payments were included. Customers were matched to the right ones and connected to over \$481 million in 2020 – with over 1 million extra claims being initiated.

CBA used its decisioning capabilities to proactively reach out and help both individuals and businesses, including deferring payments on loans and mortgages, reducing rates and fees, and accessing cash through secured and unsecured lending. Instead of sitting back and allowing customers to fear interactions with their brand, CBA became a customer advocate and source of help and support that earned significant levels of customer loyalty.



How to make it real (and get real results)

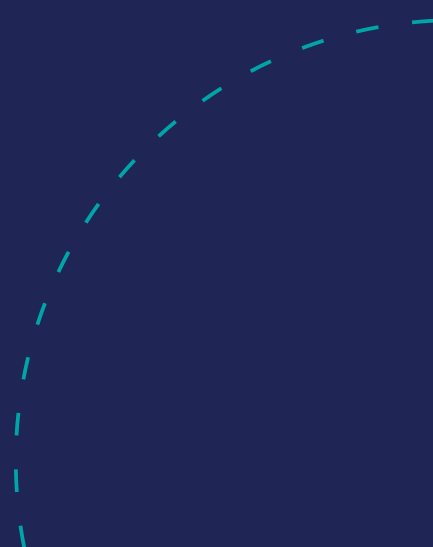
The lesson here is that it pays to lean in and get “in the moment” with customers, by understanding their needs and presenting relevant next best actions while always remaining sensitive to their circumstances. Brands that do this well are constantly monitoring individual customer context and using real-time decisioning to constantly adapt – moving from selling to serving to retaining based on the situation. They’re also using a centralized approach that provides the agility to roll out new programs in just hours or days instead of weeks or months, which is critical as the world speeds up and constantly continues to evolve.

- Implementing next best action requires four significant changes. When combined, they will have a massive impact on your success.
- Adopting a one-to-one approach: Instead of using one-to-many segmentation, you make targeting decisions at the individual customer level – using model scores and purchase propensities to decide when to engage and with what approach.
- Implementing a central decision authority: Instead of relying on channel, program, and product silos, you implement a single “brain” to orchestrate engagement with each customer – so all channels learn and adapt together.
- Triggering always-on engagement: Instead of scheduled campaign outreach in large batches, you move to an always-on model that never stops or starts. Instead, it continuously engages customers during calculated “moments of need,” regardless of channel.
- Prioritizing high-empathy interactions: This requires the brand to sometimes put its short-term needs (sales, collections, new customer acquisition) on hold for a moment, to focus on helping the customer through a problem state (service issues, churn risk, inability to make payments) with longer-term relationship expectations.

This transformation doesn’t happen overnight. Instead, it’s an organizational evolution that happens journey-by-journey – integrating channels and experiences strategically, to optimize ROI and reduce the overall risk to the business.

Organizations that commit to a next-best-action approach commonly see results like:

- 3–6x increase in response rates
- 10–40-point increase in customer satisfaction/Net Promoter Score
- 10–50% reduction in churn rate
- 20–35% reduction in retention discounts
- 20–40% increase in revenue and profit
- \$100M+ increase in customer lifetime value
- 10:1 return on investment





About Pegasystems

Pega provides a powerful low-code platform that empowers the world's leading enterprises to Build for Change®. Clients use our AI-powered decisioning and workflow automation to solve their most pressing business challenges – from personalizing engagement to automating service to streamlining operations. Since 1983, we've built our scalable and flexible architecture to help enterprises meet today's customer demands while continuously transforming for tomorrow.

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