DIGITAL CUSTOMER ENGAGEMENT: WHAT IT IS AND WHY YOU NEED IT

WHAT IS DIGITAL CUSTOMER ENGAGEMENT AND WHAT ISN'T?

Broadly speaking, customer engagement is just the interaction between an organization and its customer. In lending, customer engagement refers to the interaction between the lender and the borrower. A classic example might be a welcome letter or phone call, post loan origination. Another example is the back-and-forth communication that occurs when a lender provides customer service to a borrower.

In lending, there is often tension between the lender and the borrower, especially in the subprime markets. A savvy lender will always look for ways to reduce this tension and increase the borrower's sense of control and involvement. Professional and respectful customer service is a good example.

Commented [LKM1]: The idea of dealing with lender-borrower tension occurs throughout, so it seemed like a good idea to call it out early in the paper.

What happens when a lender adds a layer of technology to customer service? Is this enough to create digital customer engagement (DCE)? Unfortunately, no, because these sophisticated tools and technology do *not* address the tension hidden within customer engagement. Examples that are *not* DCE:

> **Automated welcome letters and online payment systems.** These are obvious examples of customer engagement, which can be fully automated, free of human intervention. But they're not true digital customer engagement, because it does not increase the interaction between a lender and a borrower.
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> **A new web-driven, robust loan management system.** While this technology helps to streamline internal operations, it does not affect the interaction between lenders and borrowers. Therefore, it is *not* DCE.
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> **Accepting Bitcoin for loan repayment.** Whether you view this as forward-thinking or a bit reckless, accepting digital currency is also *not* digital customer engagement. It does *not* change the basic borrower-lender interaction involved in making a payment.

So, what *is* digital customer engagement? Digital customer engagement is the use of a digital platform to improve the quality of customer engagement by addressing the lender-borrower tension and creating a stronger connection between lender and borrower.

In recent years we've seen an explosion of businesses implementing DCE and using smartphones and mobile applications to connect with their customers. Three examples of industries and companies that do an excellent job of implementing DCE:

Mobile and online banking. A mobile banking app lets a customer conduct financial transactions remotely using a smart device such as a smartphone or tablet; online banking includes the use of laptops and desktop computers to connect directly with a financial institution (Wikipedia). Per eCommerce, 75.4 percent of the U.S. population, or 196.8 million people, used these digital banking services in 2021. By 2025, eCommerce predicts that more than 80 percent of banking customers, or more than 216.9 million people, will be using digital banking.

Commented [LKM2]: Rewrote this paragraph to define terms and provide more current stats. Stats are from article https://www.businessinsider.com/current-state-of-online-banking-industry. Stats for 2021 and 2025 taken from bar chart. It appears stats came from eMarketer and/or Insider Intelligence. Google search results included citation to Statistica but it requires a subscription.

Buying and selling new and used cars and trucks. The Blinker app can facilitate 90 percent of the sale of a vehicle between two parties or the refi of an auto loan. Simply use a smartphone to take a picture of the vehicle's license plate and the remaining portion of the transaction is all done online. This cool technology is in high demand. See, for example, the apps Autotrader, Cars.com, CarMax, CARFAX, and Carvana.

Commented [LKM3]: Note: I could *not* find Blinker in the AppStore for my cell phone or tablet. (My equipment is too old?) Called Blinker support number (844-8 53-00805) and left a voice mail. Call not returned. Added other examples from App store.

Telemedicine. In 2019 (pre-Covid), an American Well survey revealed that two out of every three American adults were willing to try telemedicine. In other words, these people were willing to put their healthcare, the most important thing they have, on a digital platform. And during Covid? A 2021 study by the U.S. Department of Health and Human Services showed a 63-fold increase in the use of telemedicine.

Commented [LKM4]: Added newer data. See https://www.hhs.gov/about/news/2021/12/03/new-hhs-study-shows-63-fold-increase-in-medicare-telehealth-utilization-during-pandemic.html

The DCE Factor and What It Contribute to ROI

As lenders we are constantly trying to increase the ROI of our underlying portfolio. Most organizations have a strong data-driven decision culture to manage risk, and they're proficient in their collections practices.

However, there is one input to ROI that too many ignore: The borrower's experience when it comes to customer engagement.

DCE can give your portfolio performance a lift that is completely unrelated and uncorrelated to your data or your operations. Every organization, regardless of its sophistication, can benefit from using digital customer engagement.

Four Benefits of DCE

Creates stickiness with the customer. Per WhatIs.com, stickiness is any aspect of a web site or app that encourages visitors to linger or to return more often. On a practical basis, a site is sticky when it provides useful information that is easy to search and manipulate. Over time, this stickiness creates customer loyalty and strong DCE. Most people don't necessarily have a brand loyalty to Amazon, for example. But they use it anyway, because Amazon is very easy to use, making its DCE very sticky. In lending, your

Commented [LKM5]: Added definition. See https://whatis.techtarget.com/definition/stickiness organization can use this same DCE to increase loan originations, to increase the chance of repeat borrowers, and boost customer referrals.

Reduces operational expenses. A site with strong DCE reduces operational expenses because it reduces needless calls to customer service teams. Suppose, for example, a borrower wants to look up a loan balance or payment history. At a pre-DCE lender, the borrower must call customer service and wait while a person retrieves the information. Once the lender creates a site with strong DCE, borrowers can serve themselves by going straight to data. No call to customer service needed. Self-service reduces unnecessary phone calls, and lets you provide better DCE with lower operational expenses.

Increases borrow satisfaction. A site with strong DCE increases borrower satisfaction because the borrower saves time and has the power to perform more loan functions more quickly. DCE increases the level of transparency between lender and borrower, as well as the borrower's perceived control. These factors create a positive experience and increase the borrower's satisfaction. Happy borrowers tend to pay more than ones that are unhappy.

Improves financial performance. DCE improves financial performance in at least three ways. First, DCE reduces the friction that inevitably exists between a lender and a borrower. Because DCE gives a lender more ways to connect with a borrower, it increases borrower satisfaction. And this satisfaction can reduce delinquencies and default rates. Second, DCE reduces operational expenses, such as customer service or write-offs for credit losses. Third, lenders with lower operating expenses can pay slightly more for better quality paper, which makes them more competitive and further reduces the risk of credit losses. As a result, DCE may let a lender restructure a more cost-effective credit facility.

We have seen these benefits at Blank with lenders who are using our DCE platform. In addition to dramatic reductions in charge-off rates, these lenders have reduced the overall cost to service an account. These benefits are especially true for subprime lending. Over time, DCE has created a cumulative set of benefits that increases financial performance for these lenders.

HOW LENDERS CAN TAKE ADVANTAGE OF A SMARTPHONE-DEPENDENT AUDIENCE

Not long ago, a smartphone was a luxury. Now it's as commonplace as a toothbrush. Eighty-one percent of Americans own a smartphone. Among the age range of 18 to 49, smartphone ownership zooms to 92 to 96 percent.

A huge percentage of Americans are smartphone-dependent, meaning they do everything from shopping to applying for jobs, to making their car payments, all from their smartphones. (For more information, see Blank White Paper: Smartphone Dependence.) Two specific market segments are especially smartphone-dependent:

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> **Millennials.** Millennials, who are currently between the ages of 26 and 40, grew up in a world where smartphones have been available most of their adult lives. They choose to conduct their lives on their phones, and they're good at it.

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> **Lower-income or non-prime individuals.** These individuals do everything from their smartphones because it's their only option. Typically, this market segment doesn't have a traditional computer and Wi-Fi setup at home, so they rely on their smartphone and cell data to reach the internet.

How can a lender take advantage of a smartphone-dependent audience?

Do Provide a Mobile Phone App Filled with Customer Service Functions

The obvious answer is to move customer service functions to the smartphone. With a mobile app, customer service is as close as the smartphone in the borrower's pocket, and it is available 24/7. No more waiting on the phone for the "next available agent."

Commented [LKM8]: Combined these topics, some from Q&A session, to Do's and Don'ts. Another topic that could be added would be the make or buy decision: "**Evaluate the make or buy decision.** Should you spend the time and money to build your own app? Another company [such as Payix?] may already have a white-label app that can be rebranded with your identity and modified to meet to your needs."

When planning the mobile app, research frequently asked questions and look for ways to build answers into the app. The ability to look up a loan balance, make a payment, or check payment history is an obvious win. Another function might be the ability to download or complete essential documents by smartphone. By providing more self-serve opportunities, the app saves time, reduces unnecessary inbound call volume, and eases the friction between the lender and the borrower. From a DCE standpoint, an app is a win-win investment.

Don't Get Side-Tracked by Buzzwords Such as Artificial Intelligence

Artificial intelligence, or AI, has a long way to go before replacing the customer service functions that a robust smartphone app can support. Even if you look far into the future, AI will be a complementary feature. Blank is looking into a social customer service that uses current or former borrowers to create and maintain a Help section or live blogs, like the user forums at Microsoft or Apple. I believe these concepts will expand and allow us to reach other verticals.

Do Add a NativeChat Feature

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NativeChat is a technology that supports messaging within a mobile app. Common examples are the messaging systems within LinkedIn, Instagram, and most banking apps. NativeChat is different from texting, which is really open to any person or business context. Like email,

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texting is so cluttered with junk and advertising that a lender's message will get lost in the noise. NativeChat that is tied to a mobile app is the much better option than texting.

Here at Blank we help our lenders by installing a NativeChat feature within the mobile experience. NativeChat enhances the DCE for borrowers who are too busy to answer the phone, or frankly, don't want to talk to a person. NativeChat offers three main benefits.

Increases customer service capacity. With NativeChat, there is an ebb and flow in the comments the borrower and the customer service agent type to each other. As a result, an agent can often help more than one borrower at a time. On a phone call, however, the agent is tied down to helping one borrower at a time.

Connects with hard-to-reach borrowers. Non-prime or delinquent borrowers, the ones you really want to reach, are the hardest to reach. They don't like getting harassed on the phone. They don't like talking about how delinquent they are. It makes them feel bad. But they're more likely to respond to a chat message because they feel more in control of the conversation.

The NativeChat feature available with Blank supports true two-way conversation: Either the borrower or the lender can open a conversation. This function optimizes collection efforts because it reduces the need to make or answer phone calls.

Reaches Millennials. Millennials are too busy to talk on the phone. Whether they are chatting with friends, family, or coworkers, they prefer to communicate by messages and reply at their convenience. We believe this preference also applies to business-to-consumer communication. We predict that chat will become the primary method of communicating with customer service.

Do Allow for the Easy Transfer of Money in the DCE

An app needs to simplify the transfer of money between borrowers and lenders. One of the Blank products allows a lender to fund a borrower, by sending the proceeds of originating a loan directly to the borrower. The app also needs to enable load repayment. This feature alone will increase your portfolio performance and reduce your loan delinquencies.

Do Explore the Use of Social Media in the DCE

Because so many people get most of their news and recommendations from social media, it should be included in DCE planning. For example, the skillful use of social media can enhance stickiness, the qualities that encourage people to linger on and return to a company's digital presence.

Some ways to use social media to support both DCE and marketing efforts:

Commented [LKM11]: This question came up in Q&A after the presentation; recast answer to add a few more concrete tips, based on my training in social media.

Announce new products and DCE enhancements. Why pay for an ad or publish a press release when you can use social media to announce everything you are doing to make it easier and more satisfying to work with your company?

Post mini-case studies. A mini-case study about a successful loan and a satisfied borrower can enhance a lender's reputation. If even one of these posts goes "viral," it enhances the lender's reputation and may win new customers at a low acquisition cost.

Provide a way to start a loan application. This link makes it easy to take advantage of the enthusiasm a potential lender feels after reading a mini-case study.

Allow lenders to help each other. This social customer service can enhance customer engagement and create a sense of community between borrowers, who come to feel they are all part of the same team.

Provide another way to reach Customer Service or Tech Support. Your social media presence provides powerful insights into your company's character and the way it responds to borrower concerns. For that reason, you'll need to develop rules for using the company's social media sites. You'll also need to assign a team of moderators who will monitor social media traffic and respond quickly to complaints and concerns. The moderator must be alert for trolls and ready to use private messaging to resolve issues outside the public social media account.

HOW THE BLACK SWAN OF COVID-19 ACCELERATED THE NEED FOR DCE

Commented [LKM12]: Definition taken from Investopedia https://www.investopedia.com/terms/b/blackswan.asp and Wikipedia https://en.wikipedia.org/wiki/The_Black_Swan:_The_Impact_of_the_Highly_Improbable

For term "black swan" lower case seems to be preferred.

Former options trader Nassim Nicholas popularized the concept of a "black swan event," a rare, unpredictable, and improbable set of circumstances that triggers devastating jolts to an economy. Black swan events kill off old technologies and usher in an era of innovative solutions.

The COVID-19 pandemic has been a major black swan. Starting in March 2020, you had to get everyone out of the business office. For lenders, the mandatory shutdown disbanded their collections forces, causing an initial plunge in loan repayments and a spike in delinquencies.

COVID-19 forced lenders to work with their borrowers, using digital customer engagement (DCE) to meet their borrowers wherever, whenever, and however they wanted to be met. And lenders had to adapt quickly.

Here at Blank, we saw a surge in interest in our DCE platform following those mandatory shutdowns. In working with lenders, we were able to mitigate that initial plunge in loan repayments in spike and delinquency. And we were able to get these lenders back to baseline or even better in less than 30 days. And as lenders recover, they're finding they do not need to reinvest in people technology, because digital customer engagement is taking a huge chunk of traditional customer care off their floors.

It is hard to say whether DCE will become the new normal. But we see that lenders using our digital customer experience (DCE) platform have increased their portfolio performance; they've had extremely high rates of borrower adoption and utilization; and they're fully experiencing the benefits of the DCE factor.

THOUGHTS FOR THE FUTURE

Customer engagement has been a core tenet of the lending cycle for decades. We see that as a perpetual need, but it's going to happen in a more digital way.

We in the DCE world try not to scare lenders into thinking they're behind. Instead, we say it is never too late to start. At Blank, we've seen lenders start by working out of storefronts with people coming in person to pay loans. And within three months, the same lenders are doing their originations through e-commerce; they're taking loan payments over a mobile app; and 90 percent of the borrower's experience happens through an app. You need always to be thinking about customer engagement and how it can be converted to DCE. If you're interested, obviously, Blank is here to help.

Author Confidential is the chief operating officer and co-founder of Blank Inc. Blank provides collections tools, payment processing resources, and business intelligence solutions to the nation's lenders and auto dealers. Offering white-label services and real-time loan management systems (LMS) integration, the fintech firm helps its clients connect with their borrowers and improve their ability to collect payments. Blank was founded in 2016 and is based in Fort Worth, Texas. For more information, visit www.Blank.net.