

FROM THE LAB TO THE BOARDROOM

*Using applied psychological research to improve
collection models and the consumer experience*

March 21, 2013

TODAY'S SPEAKERS ARE ENCORE EXECUTIVES FOCUSED ON UNDERSTANDING AND IMPROVING THE CONSUMER EXPERIENCE



Brian Enneking

Vice President, Consumer Marketing

- Responsible for consumer interaction model and the direct mail & digital collection channels
- Background in consumer lending (credit cards and student loans) to financially distressed and under-banked consumer segments



Christopher Trepel, Ph.D.

Senior Vice President and Chief Scientific Officer
Managing Director and Founder, CCRI

- Leads Encore's Research & Development activities
- Research expertise includes Neuroscience, Psychology, and Behavioral Economics

WE HAVE CREATED A CENTER OF EXCELLENCE DEDICATED TO UNDERSTANDING FINANCIALLY DISTRESSED CONSUMERS

CONSUMER MARKETING

- Craft Encore's brand and promote repayment options
- Champion consumer experience in coordination with all consumer-facing departments
- Sanity-check experimental design against operational constraints
- Implement new findings and technologies into ongoing processes, and co-develop new products and services

Industry-leading consumer intelligence platform

Broad investments in data
and behavioral science

Operational commitment to
enhancing the consumer
experience

CONSUMER CREDIT RESEARCH INSTITUTE

- Establish relationships with academic, for-profit, and think-tank partners in the consumer finance and decision-making arenas
- Develop and execute experimental protocols in collaboration with external partners
- Describe the financially distressed consumer population and develop mechanistic models to understand consumer choice behaviors

FOR RESEARCH PURPOSES, WE'VE SEGMENTED THE TRANSACTIONAL PORTIONS OF THE REPAYMENT PROCESS



- Reading levels

- Financial knowledge and numeracy
- Credit score self-awareness

- Short-term trade-offs
- Decision nudges (e.g., social proof)

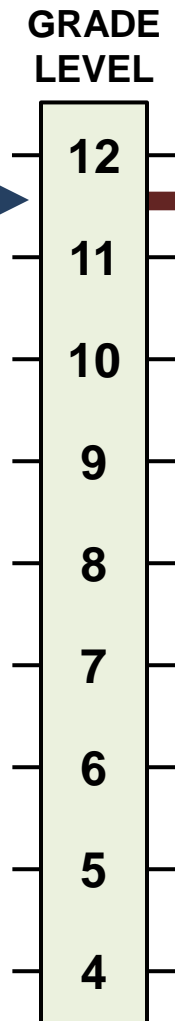
- Payoff.com

- Payment plan options

WE ARE ADJUSTING THE READING LEVEL OF OUR CREATIVE COPY TO MAXIMIZE COMPREHENSION

Original copy

Your credit report can help you reach your goals, or it can hold you back. Your past due balance of \$2,025.91 with ABC bank is being reported to the credit reporting bureaus and remains a negative item on your credit report.



Modified copy

Credit reports can help you or hurt you. At this time, your past due balance of \$2,025.91 with ABC bank is being reported to the credit reporting bureaus. Now is the time to resolve your past due ABC bank account.

SUBPRIME CONSUMERS SCORE SIGNIFICANTLY LOWER ON TESTS OF GENERAL AND EXPANDED NUMERACY

EXAMPLES

General numeracy scale

Imagine that we rolled a fair, six-sided die 1,000 times. Out of 1,000 rolls, how many times do you think the die would come up “even”?

500

In the Big Bucks Lottery, the chance of winning is 1%. What is your best guess about how many people would win if 1,000 people each buy a single ticket?

10 people

Subprime consumers perform 20% worse than prime consumers

Expanded numeracy scale

Which of the following numbers represents the biggest risk of getting a disease?
(a) 1 in 100, (b) 1 in 1000, (c) 1 in 10

1 in 10

If the chance of getting a disease is 10%, how many people would be expected to get the disease (a) out of 100? (b) out of 1000?

10 and 100

Subprime consumers perform 11% worse than prime consumers

IN RECOGNITION OF THIS, WE ARE EXPLORING WAYS TO REPRESENT MATHEMATICAL CONCEPTS MORE EFFECTIVELY

Simplify the presentation of mathematical offers


Percentage discounts

Time-based payment options

Cost-benefit evaluations


Use examples in addition to numbers

\$500

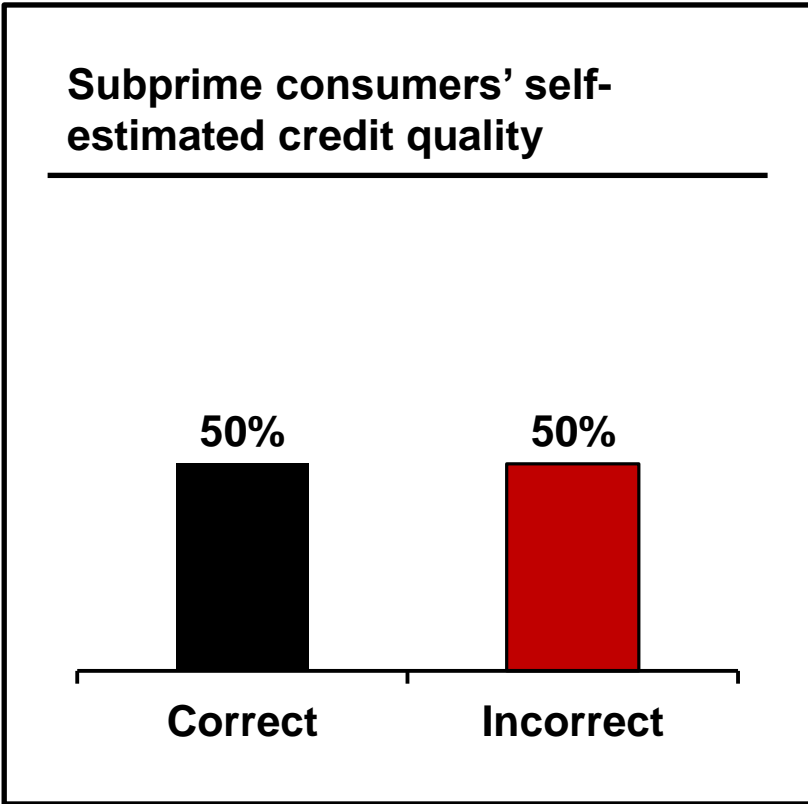
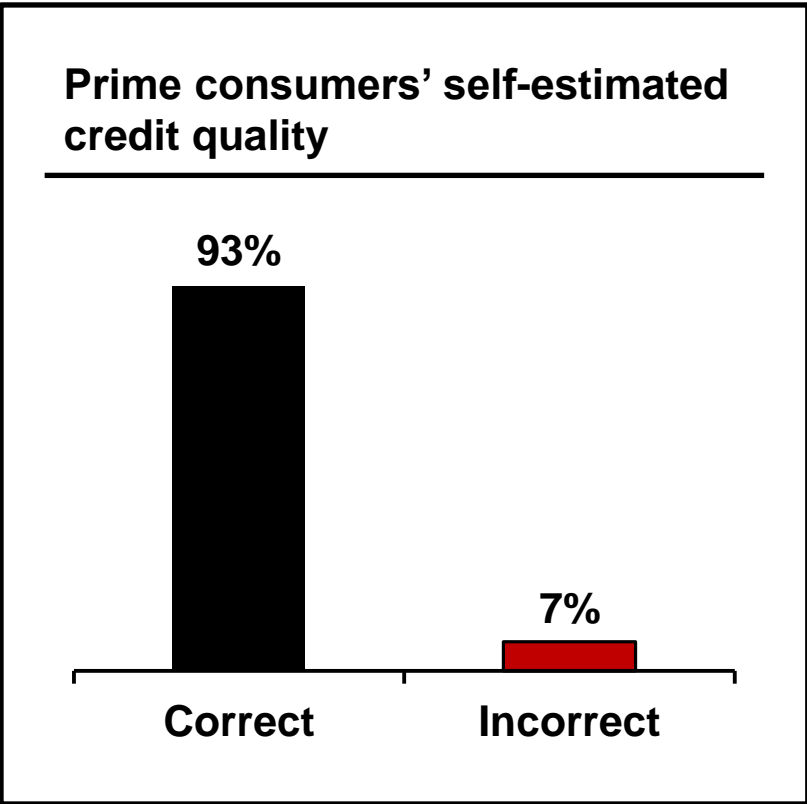


Convert percentage and probability to frequency format

“Pay 80% of a \$500 balance.”

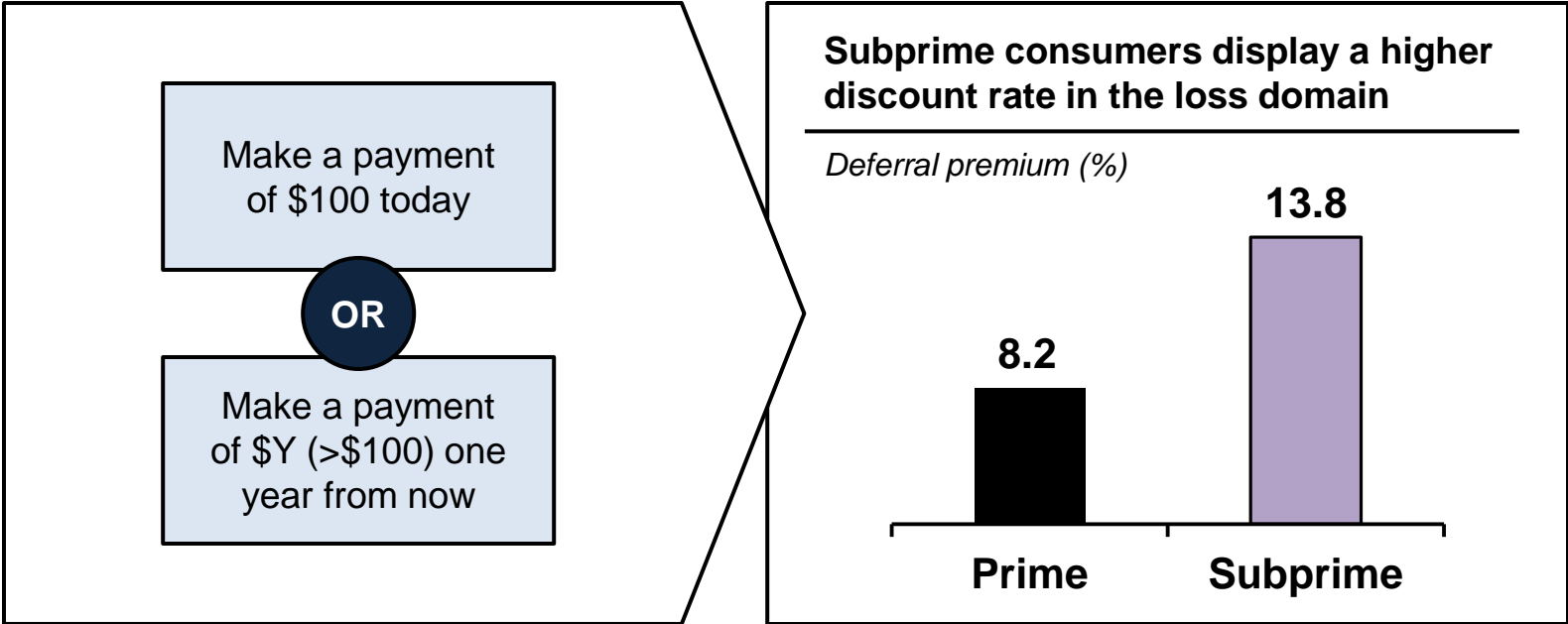


PRIME CONSUMERS ARE MORE CLOSELY CONNECTED TO THEIR CREDIT WORTHINESS THAN SUBPRIME CONSUMERS



Clear need to provide educational messages that impart context and describe implications

SUBPRIME CONSUMERS ARE MORE LIKELY TO ACCEPT ADDITIONAL COSTS TO DEFER PAYMENTS



Accept small dollar payment plans
Reduce focus on immediate settlement
and allow for windfall payments

PEOPLE ARE MORE LIKELY TO COMPLY WITH A SOCIAL NORM IF THEY KNOW THAT MOST OTHER PEOPLE COMPLY

FIELD STUDY (UK GOVERNMENT)[†]

Send **standard demand** for payment within 6 weeks

Send **modified demand** for payment within 6 weeks

Social proof nudge:
“9 out of 10 people in Exeter pay their taxes on time.”

15% increase in the number of people who paid before the 6 week deadline

TEST PHRASE CONCEPTS FOR COLLECTIONS LETTERS[‡]

“96% of people are current on their auto loans.”

“9 out of 10 people are current on their credit cards.”

[†] UK example taken from Richard Thaler’s “Watching Behavior Before Writing the Rules.” New York Times, page BU4 (July 8, 2012)

[‡] New York Federal Reserve Bank Quarterly Report

OUR TESTING SCHEDULE INCLUDES SEVERAL CONCEPTS THAT EXPAND PAYMENT FLEXIBILITY

WEEKLY PAYMENTS



MATCH-PAY



*CONSUMER-DRIVEN
PAYMENT PLANS*

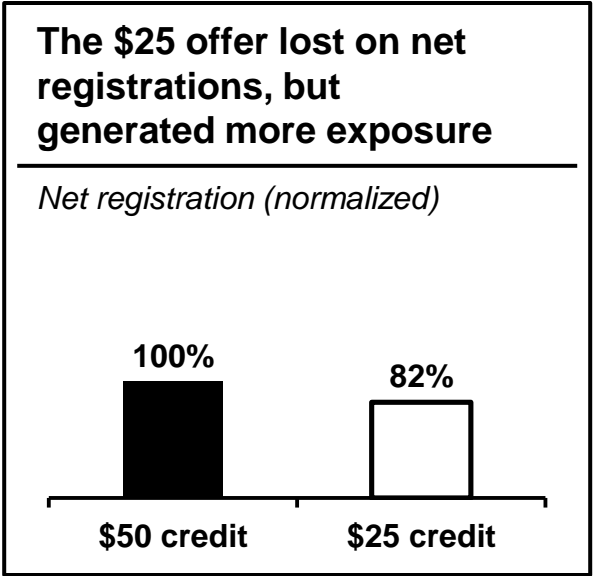
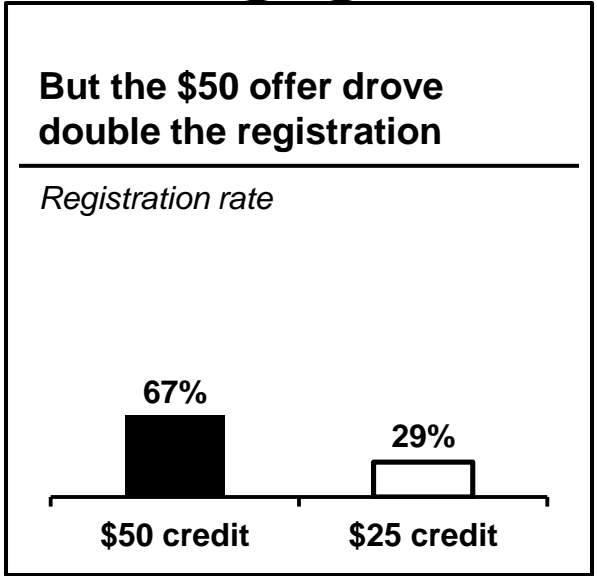
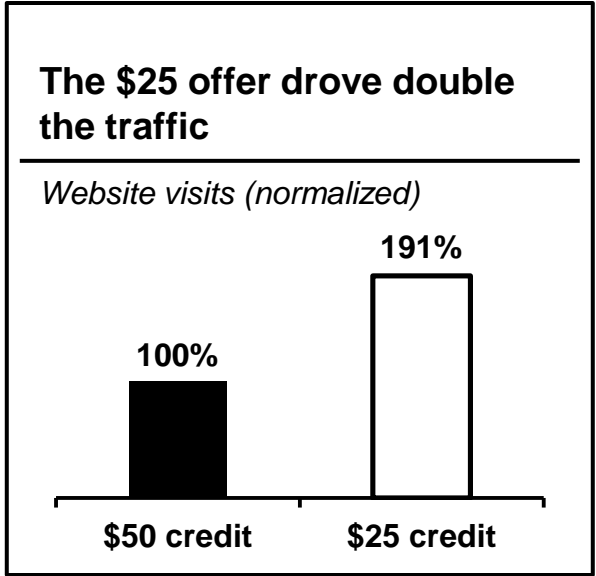


*DISCOUNT LOCK WITH
REGULAR CHECK-IN*



PAYOFF.COM CAN HELP OUR CONSUMERS GET BACK ON TRACK IF WE CAN PROMOTE IT EFFECTIVELY

We offered balance credits of either \$25 or \$50 to consumers willing to sign up



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