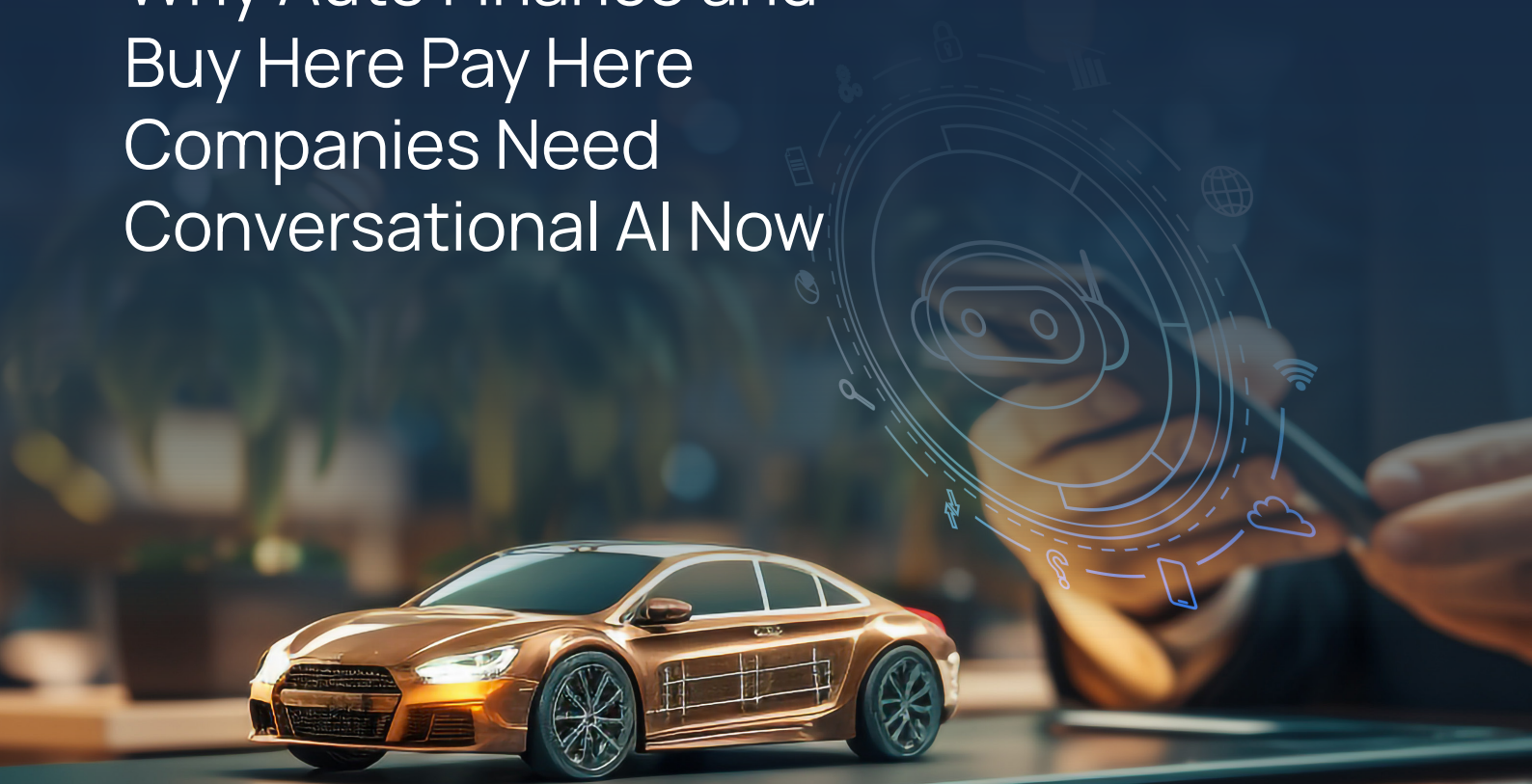# "Maybe Later!"
Is Too Late

Why Auto Finance and
Buy Here Pay Here
Companies Need
Conversational AI Now

How Multichannel Conversational AI Can Automate
Contact Centers and Transform Collections

Key Takeaways

- Going beyond traditional contact centers with Multichannel Conversational AI

- How AI can transform collections for AF and BHPH companies

- The difference between Conversational AI and IVR technology

- How to choose a Conversational AI provider for collections
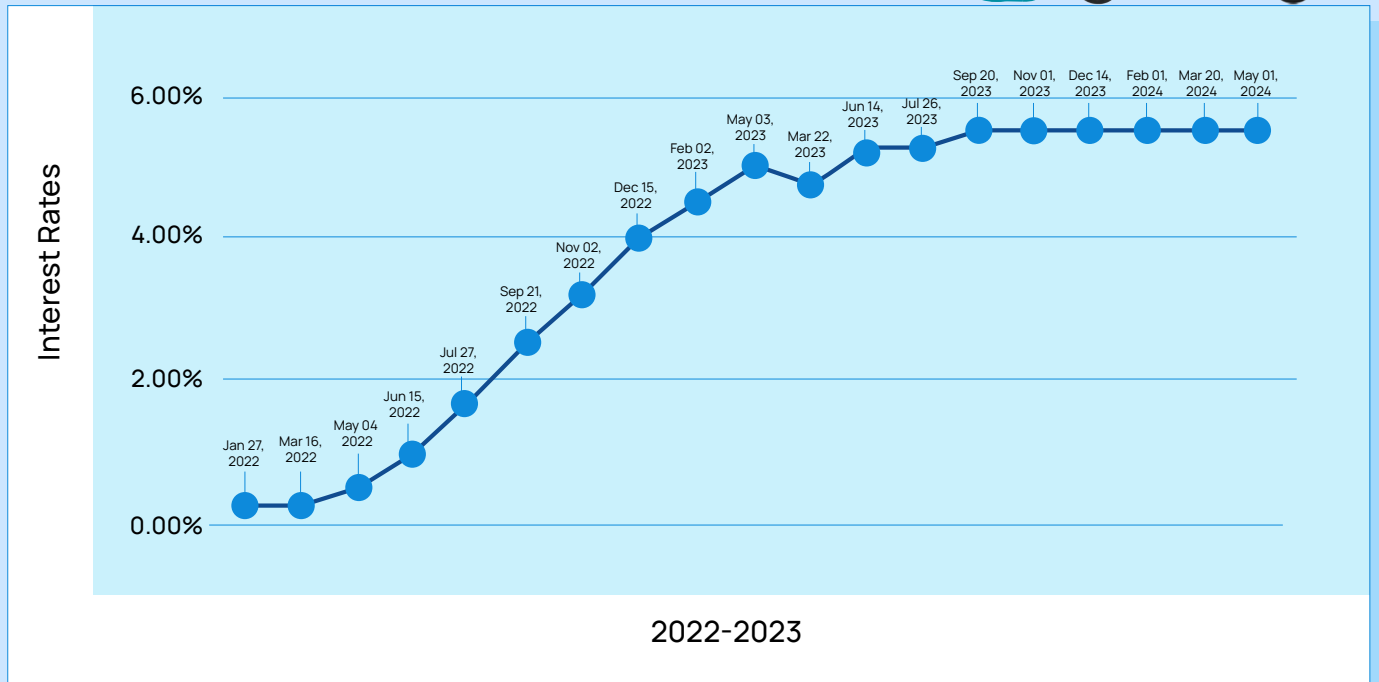
Contents

Auto Loan Trends

The past few years have presented several challenges for the Auto Finance and Buy Here Pay Here industries:

Federal Reserve Interest Rate Hike

Between 2022 and 2023, the Federal Reserve increased interest rates from **0.25% to 5.5%**, which shocked both the lending economy and U.S. consumption trends.

The interest rates made purchasing a car very difficult for consumers, and delinquencies have dramatically risen. The auto finance and BHPH industries have tried to offer affordable loans to the subprime and deep prime sectors.

Recently, inflation has decreased and stabilized at **3%**, marking a significant improvement; the U.S. economy is now expected to hit a soft landing.

Lender and Creditor Trends

Tracking the Fitch Ratings on Subprime Auto ABS (Asset Backed Security) provides a better understanding of the current landscape:

Subprime Auto Delinquency Rates in 2024

Source: Fitch Ratings

https://www.fitchratings.com/research/structured-finance/us-subprime-auto-abs-seasonal-performance-boost-weaker-than-in-prior-years-23-05-2024
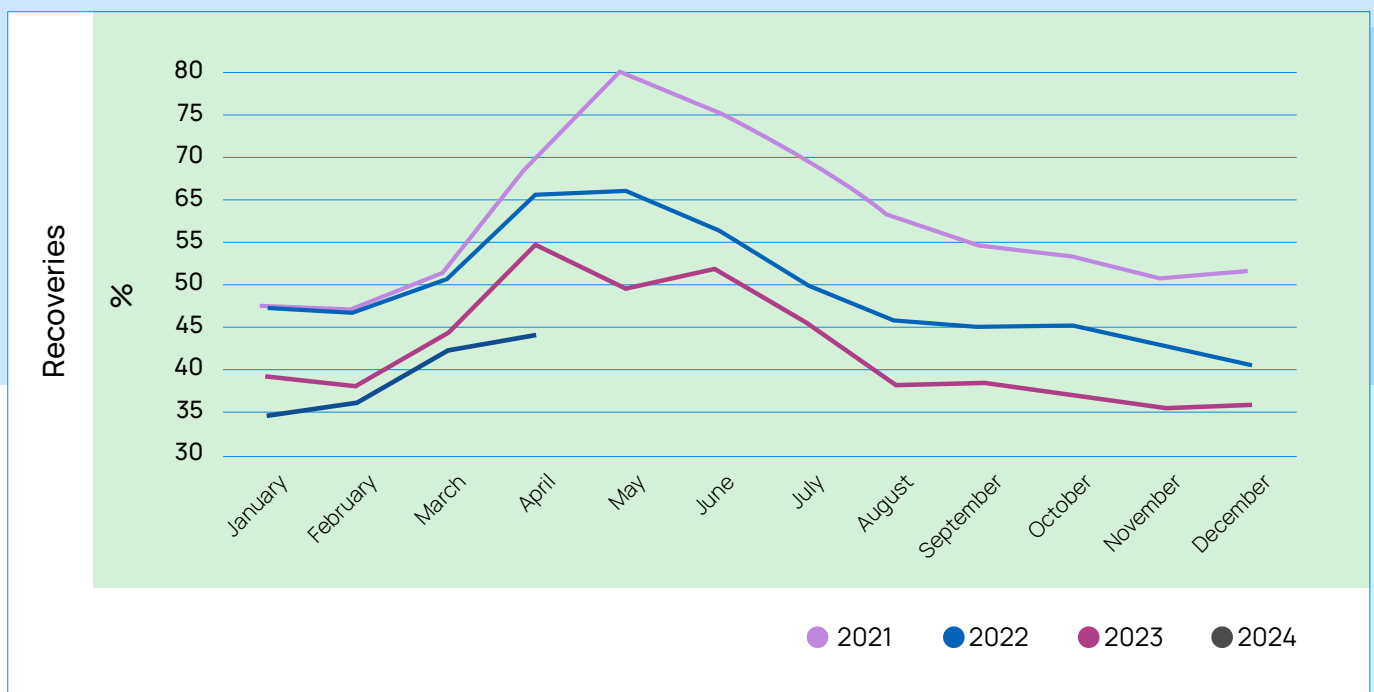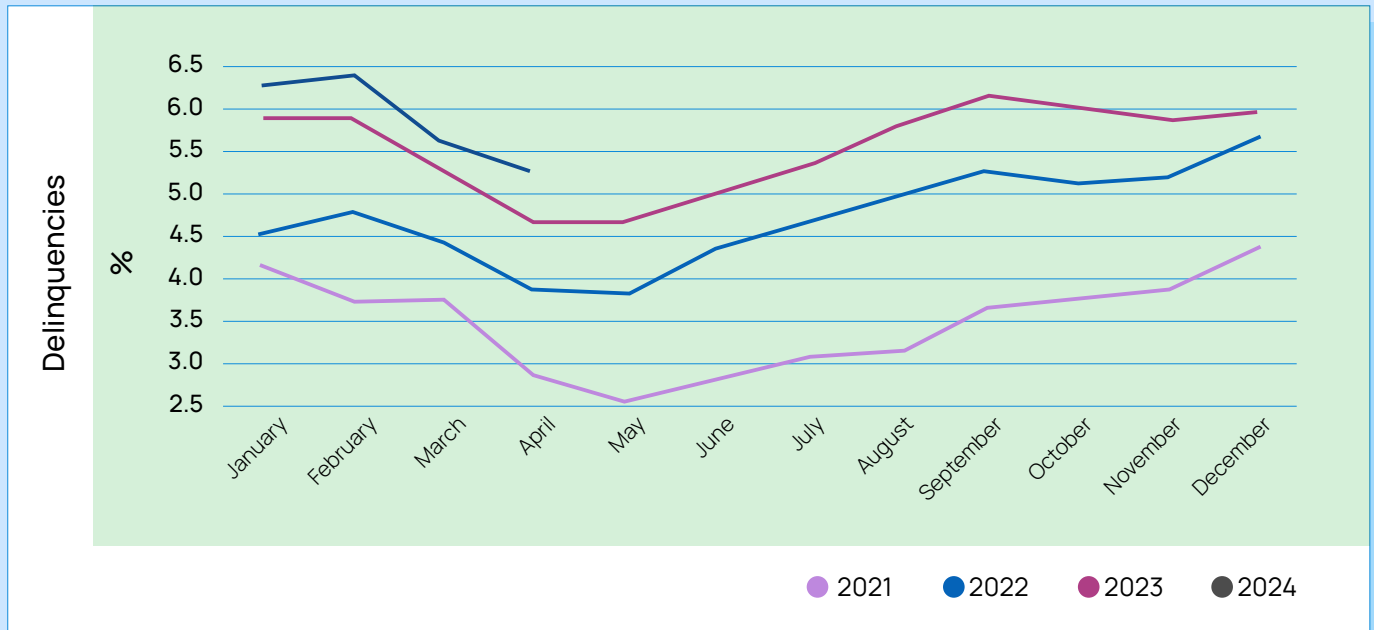
Subprime auto delinquency rose to 6.39% in February an all-time high.

The delinquency rate dropped to 5.23% in April (as expected because of recoveries in March and April due to tax refunds).

Delinquency trends are the highest in the last decade.

💬 2024 delinquencies are tracking higher than during the past 20 years. The recovery rates were the second worst, second only to the April 2020 rates.

Consumer Trends

Things are complicated on the consumer end as well. According to the Edmunds report, affordability remains a challenge for new-car buyers:

Auto Finance Trends: Q2 2024	Average down payment $6,579	⬇ Lowest since Q3 2022
	Average monthly installment $740	⬆ Highest ever

With the auto finance industry expected to grow at a **7%** CAGR, controlling delinquencies in a less affordable market troubled by high inflation rates is a challenge.

In this current landscape, relying solely on traditional collection strategies is not enough. The necessity to adopt innovative technological solutions has become inevitable. The auto finance industry needs solutions that can offer powerful and effective strategies for this challenging climate, boost collection rates, and protect their RoI.

Automating Your Customer Outreach
Efforts With Generative AI

The auto industry has not been immune to the excitement around artificial intelligence. General Motors is using AI to detect vehicle defects, and Experian is using it to provide insights into customer data. Artificial Intelligence is used to automate repetitive tasks, reduce the chances of human errors, reduce manual efforts, and increase operational efficiency and accuracy.

With increasing delinquencies in subprime accounts, auto finance companies need to be more aware of the risks of charge-offs. Buy Here Pay Here (BHPH) companies will need to put more effort into keeping accounts current to reduce the risk of repossessions. Due to increasing delinquency rates, more follow-ups will be required for the subprime customer base. With profitable business growth, expanding your call center headcount would make sense; however, with increased inflation and wages, along with competition from banks, profit margins are stretched thin.
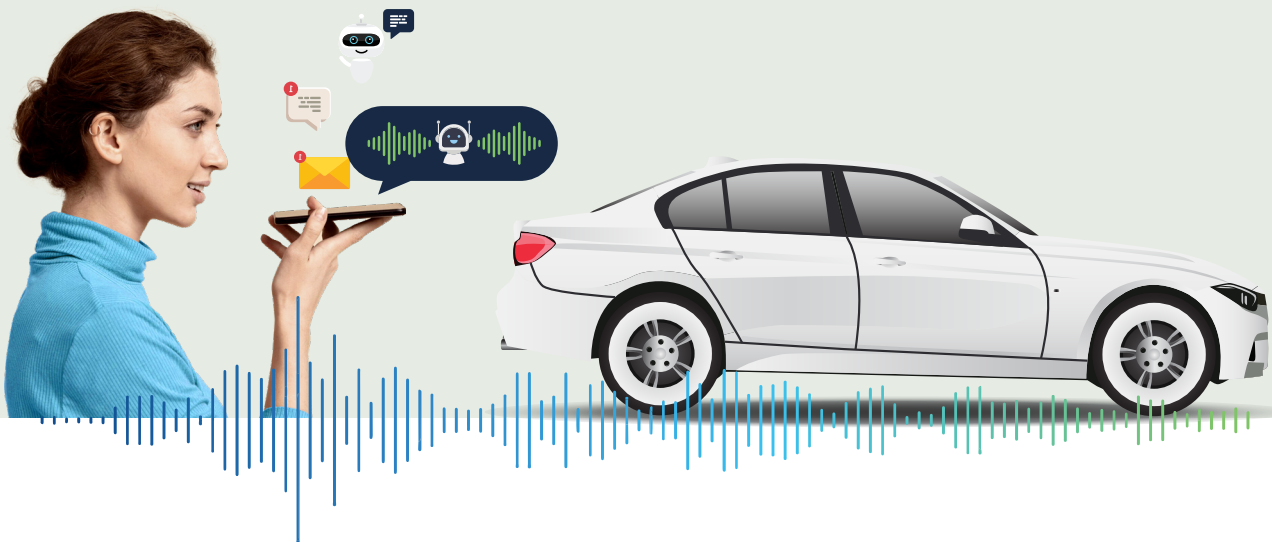
Why Conversational AI?

The auto finance industry needs a solution that can improve customer engagement, reduce delinquencies, and increase collections at a reduced cost. Conversational AI, which enables companies to automate conversations with their customers, checks all of these boxes.

Traditional call centers consist of agents on the phone trying to reach out to customers. Usually, an agent can connect with 50-60 customers daily in a 9-hour shift, five days a week. During the conversation, the agent has to perform a set of repetitive tasks that include verifying the customer's identity, informing them of the amount due, trying to negotiate a payment, and processing the payment.

Conversational AI today relies on Large Language Models (LLMs) to handle conversations with near-human intelligence and capabilities. Available 24/7, this technology can dial thousands of calls in a minute, automating repetitive tasks such as customer verification and payment processing. While with live agents you can engage with your customers no more than once a week, Conversational AI enables you to connect with them as often as once a day. This can empower your agent to solve complex customer disputes and arrange payment plans.

Going Beyond Traditional Contact Centers
with Multichannel Conversations

Traditional contact centers have always relied on voice calls for customer outreach. But today, communication methods have undergone a remarkable digital transformation; the COVID-19 pandemic greatly accelerated this process.

75% of Americans say they won't take calls from an unknown number. Therefore, relying solely on voice calls is no longer an effective mode of customer engagement. As per the Household Credit and Debit report by the Federal Reserve Bank of New York, the age groups 18-29 and 30-39 are the ones that are most prone to shift to the 90+ delinquency stage in auto loans. Gen Z and millennials may act as the "focus group" for customer engagement. These generations are increasingly tech-savvy, preferring SMS and other digital channels to handle their interactions.

The trends clearly suggest the importance of going multichannel—offering customers the choice between multiple communication channels, such as phone calls, text messages, emails, and chatbots.

Multichannel strategies, a brainchild of the retail industry, have been effective at engaging with these demographics. Empowering the consumer to follow their shopping preferences through e-commerce, telemarketing, or brick-and-mortar stores has positively impacted the revenue growth of the retail industry. To effectively engage with Gen Z and millennial consumers, the collections industry must empower consumers to self-serve and utilize their preferred engagement channels.

While phone calls remain relevant for engaging consumers, to reach the non-engaged base, it's necessary to pivot to other communication channels, such as email, text messaging, and webchat.

A Conversational AI platform powered by Generative AI can be deployed both for inbound use to cater to customer self-service and for outbound use to reach customers and boost engagement.

Use Cases	Capabilities
Inbound Multichannel: Voice, SMS, Email, and Chat	☑ Customer self-service ☑ FAQs ☑ Payment automation
Outbound Multichannel: Voice, SMS, Email, and Chat	☑ Customer outreach ☑ Payment reminders ☑ Payment automation

Don't Press 1 for English and 2 for Español

Most industry-leading businesses in auto finance today have IVR systems in place to cater to customer self-service. IVR technology—which stands for interactive voice response—was first developed in the 1960s and became widely adopted in the 1990s with a boost in computer applications and technology. This legacy solution helped reduce wait times, allowing customers to self-serve for common queries.

The fact that IVR is so common does not mean that it's an optimal solution. Research shows that most consumers think that IVR systems make for a poor customer experience (CX). Having to listen to seemingly endless, irrelevant menu options is the primary factor contributing to the consumers' negative experience. Additionally, consumers complain that IVR menus are usually too long, that the reason for their call is sometimes not even listed, and that the system prevents them from speaking directly to a live customer representative.

Conversational AI has major advantages over IVR systems today. We can see a quick comparison of the differences between the two technologies in the graphic below:

Conversational AI	IVR Systems
AI platforms can identify customers through their phone numbers and provide a more **personalized experience** (for example, can identify the language preference of a customer before initiating the conversation).	IVR systems usually have a fixed menu tree with a static script. Even with dynamic scripts, the transitions are lengthy and robotic.
The conversation is **customer-driven**, as the AI can answer the customer's questions.	The conversation is technology-driven, as the customer has to choose from the options that are provided by the IVR menu.
The technology handles **human-like, multi-turn** conversations and does not require any keypad inputs on the customer's part.	The technology mostly requires keypad inputs for the customer to utilize it.
AI can be **trained** progressively on conversational data that can cater to different FAQs.	Caters to a fixed number of FAQs. If the FAQ branch increases, the menu tree becomes complex and lengthy.
Multiple queries can be handled in a single call.	In case of several queries, the customer has to revert to a previous/home menu and navigate the menu again to a different node.
Users report **low average handle times (AHTs)** as the conversational flow is human-like.	Users report high AHTs.
Most AI providers charge on the **pay-as-you-go model**, with low/no set-up fees and with low customization fees.	Most IVR providers charge one-time implementation fees with high customization fees.

Conversational AI
Capabilities

Dive Deeper: **Conversational AI Capabilities**

Customer Verification

Verify the customer's identity via date of birth, ZIP code, or last 4 digits of their social security number.

Dispute Handling & Negotiation

Negotiate and arrive at the best payment option or plan.

Payment Automation

Multichannel payment integration, autopay set-up, enabling customer to pay through their preferred channel.
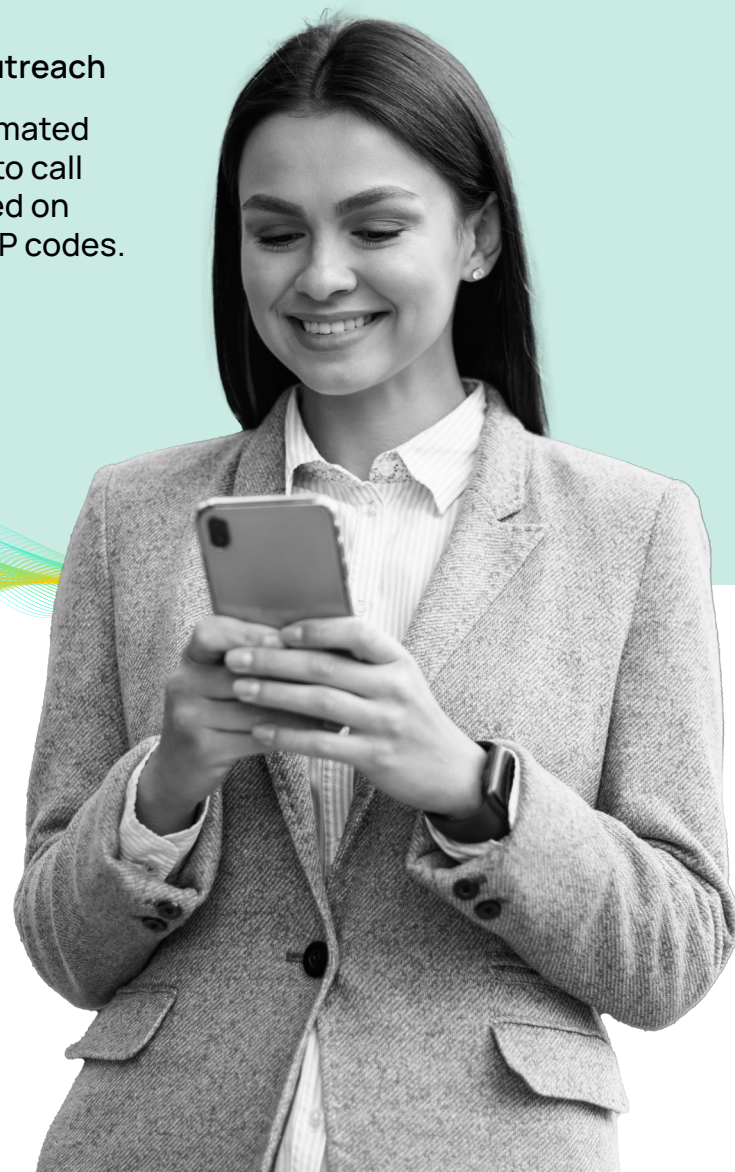
Context-Rich Agent Transfers

Provide the entire context of customer-bot engagement in the event of a live agent transfer.

Time-Zone Sensitive Outreach

Ensure automated compliance to call timings based on consumer ZIP codes.

The Impact of Conversational AI
on Auto Finance Collections

Conversational AI companies can help you improve customer engagement throughout the loan servicing customer cycle. AI can augment the collection cycle from the pre-delinquency to the post-charge-off stages.

Reduce Defaults

A reminder goes a long way in containing delinquencies. Approximately 20% of your delinquent accounts can avoid defaults and late charges if they receive a payment link via SMS.

Contain Delinquencies

Follow-ups with voice calls and text messages can ensure collection in the early stages of delinquency in DPD 0-14 stage. Conversational AI allows you to better engage with customers and reach an effective payment strategy.

Reduce Charge-Offs and Repossessions

A combined approach of agent follow-ups, assisted with the Conversational AI approach of contacting customers via voice and SMS, helps reduce the DPD 60+ bracket (for auto finance companies) and also minimizes unresponsive customers for BHPH peers. In turn, auto finance companies reduce their Net Charge-Offs, and BHPH companies can reduce repossessions.

Maximize Recovery On Charged-Off Accounts

Auto finance companies with charged-off accounts can try to settle some of these accounts before handing them to a third-party debt collection agency. For example, a collection campaign during tax season in February and March can improve the chances for collection.

Easing Up Inbound Effort

Provide 24/7 inbound customer service support. Using inbound automation reduces agent effort in attending to such calls so that they can focus on outbound efforts and increase collections.

How To Choose the Conversational AI **Platform Best Suited for Your Needs**

"That's easy. Choose the one which is a smooth talker." Wrong!

Thanks to large language models (such as ChatGPT and Google's Gemini), it's never been this easy for Conversational AI providers to build new bots. Since these LLMs are available to all, conversational quality has become a simple function of cost.

Below are some of the things you want to consider when onboarding a Conversational AI platform for your collection operation:

The Conversational AI solution...

✅ Speaks to Your Customer Base

A basic criterion for a Conversational AI platform is that it needs to be able to talk to your customers. If your customers are primarily Spanish-speaking, for example, you need to ensure that your provider has the capabilities to cater to a multilingual customer base.

✅ Integrates to Existing Infrastructure

Personalization is crucial. Your AI provider needs to be able to integrate with your CRM platform, whether you are using Automaster or Dealersocket. Only then can it engage using your customer's updated information. An integrated platform can also record details of customer interactions into the CRM, removing a lot of agent effort.

✅ Processes Payments Securely

To collect payments from customers, the platform needs to integrate with your payment gateway and secure sensitive transaction information. The provider should be able to integrate with standard payment gateways such as PayNearMe. You can verify transaction data safety by ensuring that they have PCI-DSS certification.

✅ Is Familiar with the Industry

A referral is always an excellent way to gain trust with the platform provider. You can always find out if your provider is working with any of your peers; either ask for feedback directly from your peers or ask the provider to arrange a reference call.

✅ Offers After-Sales Service

Just like when you purchase a car, it's important to check if there is an after-sales service for your Conversational AI platform. Ask for SLAs to understand the response time in case of any issues. You should verify if there will be a Customer Success team assigned to you. Arrange a regular meeting with the Customer Success team to help them understand your expectations.

✅ Provides a Timeline of Deployment

Before onboarding a vendor, explain your existing call center infrastructure (dialer, CRM, payment gateways) and ask for a timeline of deployment. It is critical to gauge any kind of IT effort or roadblocks to a seamless integration. Extended timelines and extensive IT effort increase costs and lead to loss of value estimated.

Conclusion

> The whole world is adapting to the ongoing AI revolution. Things are moving at a faster pace than ever before, and that can make the adoption of new technology intimidating.

We are at a crucial juncture in the auto finance Industry. Business growth in a challenging lending environment, paired with increased inflation, requires businesses to balance customer expectations and business interests. Increasing competition in the lending market, with the rise of fintech companies, makes it fundamental to improve efficiency while managing costs. Technology, if adopted correctly and timely, has always created leaders.

The adoption of artificial intelligence, just like the World Wide Web is already taking place. The question is no longer "if and why" but "when and how."

Want to learn more?

Schedule a free demo with one of our experts

Visit www.skit.ai

Skit.ai is the leading Conversational AI company in the accounts receivables industry, empowering collection agencies and creditors to automate collection conversations and accelerate revenue recovery. Skit.ai's suite of multichannel solutions—featuring voice, text, email, and chat in both English and Spanish, powered by Generative AI—interacts with consumers via their preferred channel, elevating consumer experiences and consequently boosting recoveries.

Request a Demo