Mobile Handset Financing and Leasing: 
Best Practices for Mitigating Carrier Risk

The world as mobile carriers have known it is changing. The days of subsidized handsets are quickly giving way to financing and leasing plans, to the tune of $37 billion by US carriers in 2015—and $50 billion by 2017. While there’s a lot of good in this for carriers and customers, there’s also a significant amount of risk which, if not mitigated, can have a devastating impact on your bottom line.

The good is very good. These new, more affordable installment plans offer customers an easier way to pay, compared to traditional lump-sum payments. Because of this, customers are more likely to sign up for the latest mobile devices. The plans also help carriers remain competitive with other carriers’ offerings, which is crucial in an increasingly commoditized industry.

The risks can cripple your business. Customer confusion and fraud are already resulting in payment defaults, unreturned handsets and millions of lost dollars for carriers. As leasing and financing plans grow in popularity, many carriers stand to lose even more.

The Risks

- **Customer confusion**
  Customers who are used to subsidized phones under contract may have a hard time sorting out which of the various plans carriers now offer—leased, financed, pre-paid and post-paid—is best for them. Many end up choosing leased or financed handsets because of the low monthly cost without truly understanding what they’ve committed to do.

  For instance, consumers who fall behind in service payments are often surprised to learn they have to return the handset. Others, who want to return newly acquired phones because they don’t like them, are stunned when they get a large bill for outstanding services and device payments.

  Their confusion is exacerbated by the variety of handset sales channels, from electronics and big box stores to online self-service and carrier-assisted purchases. With all these methods and sellers, consumers who shop around are likely to get inconsistent purchasing information.

- **High unreturned equipment charges**
  With the high price of handsets, many carriers now have more value tied up in assets associated with bad debt than in outstanding service fees. Carriers often end up having to chase $1,000 worth of inventory and about $250 in service fees for the average customer with two financed or leased handsets, compared to subsidized phone collection, which is more heavily weighted to service fees. While this shift has made asset recovery more urgent than ever, bundling equipment and service collections is extremely challenging and costly for carriers.

  - **No way to reach the customer**
    You can’t get people to return handsets or pay debts if you can’t communicate with them. Once a phone is disconnected, whether by customer choice or by carrier, which is the typical course of action with non-pay customers, many people are unreachable. This is because, for many carriers and retailers, the only contact number on file is the cell phone that’s been disconnected. Some providers try to circumvent this problem by obtaining a credit card number at the time of purchase, which they then charge unreturned equipment against. However, if the card has expired, which often happens within the life cycle of a customer, you’re out of luck, and if the purchaser has moved, you can’t track them down.

  - **Fraud**
    Fraud has always been a major concern for carriers, but with the rise in leased and financed handsets, it’s becoming easier than ever to commit. All it takes is placing an initial payment for multiple devices on a credit card, cancelling the card and selling the phones online for people to use with a different carrier’s service. In 2015, global carriers lost $2.55B in identity subscription fraud alone.

- **Underwriting losses**
  When customers don’t return leased handsets or financed handsets that weren’t paid for in full, not only do you lose out on the ability to resell the devices, you also lose out on hard cash. You’re obliged to pay your underwriting partner for each of these handsets, and those costs can add up quickly.
Best Practices for Mitigating the Risks

• **Decouple services debt collection from handset recovery**
  Customers can't always afford to pay their services debt on your timetable. But that shouldn't preclude them from returning valuable handsets that are owned or financed by you. To improve your chances of recovery, separate your fee collection and asset recovery processes, and use best practice customer experience methodology to procure those handsets. Also, keep in mind that because many customers are embarrassed by debt, they don't want to return devices in person at the retail outlet. Enable them to do this anonymously by providing pre-paid return shipping labels.

• **Proactively educate new customers**
  The best defense is a great offense. To minimize confusion and its potential repercussions, reduce churn and turn new customers into repeat customers, you need to proactively reach out to them. Contact them immediately post-purchase to make sure they understand their plan. Of course, it would be cost-prohibitive to reach out to all your new financing and leasing customers. That’s why the best practice is to segment customers according to risk score and provide tailored outreach based on the score. High-risk customers warrant phone calls where you can engage in conversation. Less risky customers can be cost-effectively handled via email.

• **Contact before disconnecting**
  The best way to connect with delinquent customers is via their mobile device. Ninety percent of cellphone owners say they frequently carry their phone with them 3, while 87 percent of millennials always have it at their side, day and night 4. So it follows that, before disconnecting handsets of delinquent customers and, thereby, eliminating the optimal communication channel, you should call them. Reach out during that small window that exists between account suspension, when they can still receive calls, and termination. Set expectations about what will happen if they don’t pay by a certain date, provide them the opportunity to pay during the call, or discuss how to return the phone.

• **Intelligently target returns**
  The goal here is to get customers to quickly return financed devices that aren't fully paid for at termination, and leased devices that are early-life, non-pay cancellations, before costly collections activities kick in. By using predictive analytics and rules-based processes, you can determine the optimal time and method for starting an asset recovery, and which customers make the most fiscal sense to pursue. Focus on customers whose phones are far from obsolescence. This way, your recovered phones can be resold or used for parts while they still have value—and you’re not spending more on recovery programs than you gain from the recovery itself.

• **Make returns easy and more attractive than the alternative**
  Getting customers to return leased and financed phones is part art, part science. First, you need to artfully show customers you're their advocate, not their adversary. In a consultative fashion, explain why reducing their debt and avoiding collections by quickly returning phones is in their best interest. And then, make it very easy to return the device, for instance, by helping the customer obtain contacts and emails beforehand and using the lowest-cost transportation mode that's convenient to the customer.

To accomplish this, it helps to have a specialized mobile device recovery program. A program that leverages the science of advanced and predictive analytics to gain visibility into customer behavior and actions you can take to accelerate recovery rate and velocity. For example, a multibillion dollar broadband provider was able to boost non-pay handset disconnect recovery by four percent and voluntary handset disconnect recovery by seven percent by tailoring a recovery process for each customer segment. This resulted in $24 million worth of incremental equipment recovered annually.

www.onprocess.com
• **Expand anti-fraud arsenal**
  Most carriers maintain a database of their fraudulent customers. However, because these databases typically aren’t shared with competitors, fraudsters can easily repeat their crimes with other carriers. Figuring out a mutually-beneficial way to share this data, while maintaining privacy, can go a long way to reducing fraud.

  Other tactics you should consider include limiting the number of handset purchases per credit card or per purchaser within a specified period of time. This would make it more difficult for fraudsters to conduct their ‘business.’ You can also block IMEI numbers from being reactivated so that stolen phones can’t be used with other carriers.

• **Label handsets**
  Many customers with leased handsets don’t realize the phone isn’t theirs. They don’t know they’ll have to return it when the lease is over. To eliminate this misconception, put a label on leased handsets that states “Property of Carrier Name.”

• **Collect more customer data**
  Gather as much customer contact data as possible at the point of sale. If you can collect street addresses, alternative phone numbers and emails, you’ll be in a much better position to reach customers if their handsets are disconnected, or even if they’re active but the customer has been unresponsive to calls.

In these changing times, carriers need to be more astute than ever about how to manage customer relationships, starting at the point of sale. By putting best practices for handset education and asset recovery in place, you can minimize the risks associated with leasing and financing plans, and achieve results that are more of a win-win for you and your customers.

To find out how OnProcess Technology can help improve your handset customer education and asset recovery practices, contact us at [sales@onprocess.com, 508-520-2711](mailto:sales@onprocess.com, 508-520-2711) or visit [www.onprocess.com](http://www.onprocess.com).

1 Verizon, AT&T, Sprint and T-Mobile likely to finance $37B in devices this year
2 CFCA 2015 Global Fraud Loss Survey
3 Americans’ Views on Mobile Etiquette
4 Mitek and Zogby Analytics