TransUnion

DEBT COLLECTION INDUSTRY REPORT

Preparing for Opportunity

Investing in efficiency to scale operations

Contents

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Summary and Key Findings

Introduction

Operating margins in the debt collection industry continue to compress – while the volume of accounts acquired or managed has increased and is expected to continue to do so over the next two years[1]. Debt collection companies are aggressively investing in new technologies, including artificial intelligence (AI) and machine learning (ML), to enhance agent productivity and more efficiently manage the compliance risks associated with the rise in account volumes. This volume increase has been coupled with a decrease in the collectability of accounts since 2020. Debt collection companies need to find ways to service more accounts while earning less in fees.

This report, the sixth in an annual series sponsored by TransUnion, aims to understand the rapidly changing environment and dynamics of the debt collection industry. It summarizes the industry's current state and future trends to provide useful insights to improve stakeholders' understanding of their environment.

Methodology

To collect the information used to gain the insights in this report, a survey was conducted in Q3 2024 that included 225 debt collection professionals representing different disciplines of receivables management: creditors, debt buyers, collection agencies, collection law firms, BPO firms and other supporting organizations. The appendix provides a detailed look at the composition of survey respondents. In addition to the survey, this report also incorporates findings from secondary research pertaining to the debt collection industry's economic indicators, as well as consumer credit trends to provide additional context. Respondents in the 2024 survey represented a slightly different group of debt collection company types, with 300% more debt buyers participating and an increase in the percentage of creditors and law firms.

ReceivablesInfo.com conducted the report analysis, drawing upon the expertise of seasoned industry professionals with extensive experience in debt collection operations and debt buying.

[1] Figure 10 – Account Volume Change Next 12 Months

Executive summary

The debt collection industry is undergoing a period of transformation – driven by external regulatory and economic pressures. In response, businesses are **strategically enhancing their operational efficiencies** and service quality to improve the consumer experience. This is driving the adoption of new technology and communication channels for a self-service consumer experience. Charged-off account volumes are rising and expected to continue to do so in 2025, creating both challenges and opportunities for forward-thinking debt collection companies ready to evolve.

Consumers have faced a more difficult financial landscape in 2024, with rises in unemployment and costs of goods and services driven by inflation. **Over the next 12 months, debt collection companies expect a surge in account volume coupled with a potential decline in account liquidity**. This provokes a heightened focus on efficiencies achieved through investments in technologies like artificial intelligence/machine learning, the strategic utilization of business process outsourcing (BPO) services for scalability, and the optimization of communication channels to improve consumer self-service engagement. Debt collection companies face hiring and retention challenges, requiring further adoption of tools, data and services that enhance the value of existing human resources.

There's a notable trend toward the adoption of digital communication technologies, with a significant rise in the **utilization of SMS/text messaging and email for consumer outreach**. Debt collection companies successfully using SMS/text messaging and email are driving more traffic to their online payment portals, further supporting **a need for more online self-service options**.

Surveyed companies identified key areas of concern, including data security, cost management and business growth. To address these challenges and mitigate risk, many are diversifying their service offerings to include **expanding into new credit product verticals, exploring untapped geographic markets, and integrating adjacent services**, such as BPO customer care and performing loan servicing.

Debt collection companies are most concerned about data security and controlling their costs. **The rising costs of recruiting and retaining human capital has created new challenges** – which are helping fuel the adoption of BPO services by all types of debt collection companies.

Despite these challenges and concerns, companies remain optimistic about their financial performance over the next two years.

State of the Industry

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State of the industry

Consumer credit and macroeconomic trends

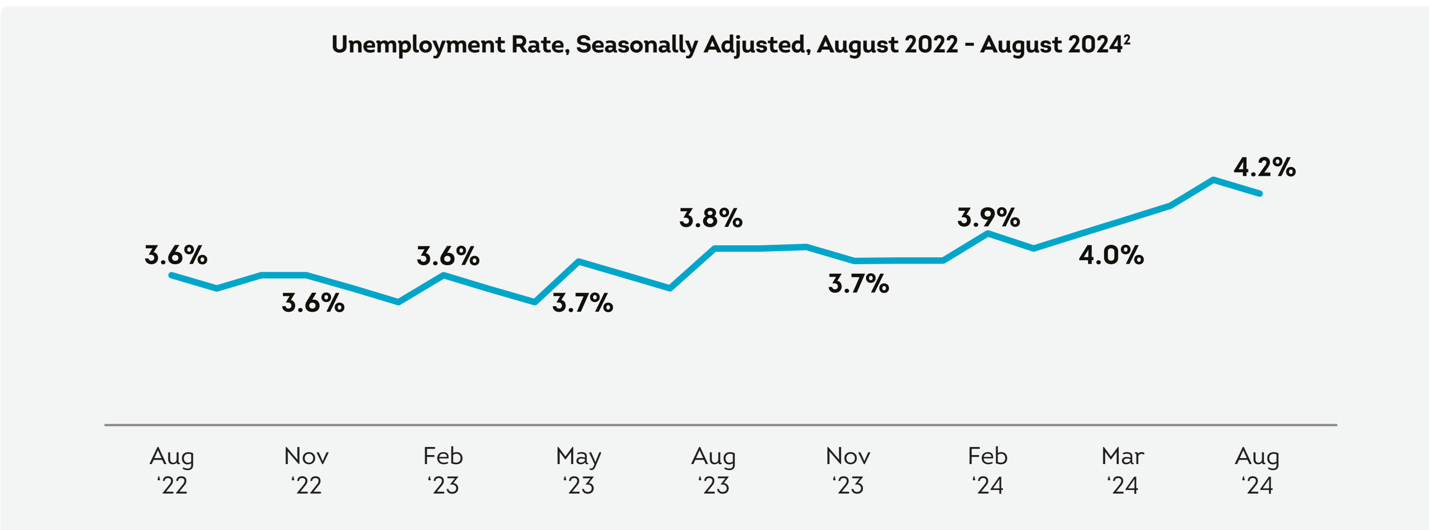
Further financial reliance on credit cards indicates consumers are under more financial pressure.

According to the TransUnion Q2 Consumer Pulse Study, "Consumers leaned heavily on credit cards to make ends meet: About 30% of consumers intended to apply for new or refinance existing credit in the next year, and 59% of those planned to apply for a new credit card – **the highest intent level TransUnion has ever measured and six percentage points higher than a year ago**. Consumers concerned by inflation were even more likely to pursue a new credit card: 62% vs. 52% for all others."

US unemployment

The US unemployment rate rose in the early months of 2024, with a slight decline observed in August. This upward trajectory in unemployment, combined with increasing interest rates over recent years, has contributed to a challenging financial landscape for many consumers.

FIGURE 01: Unemployment rate



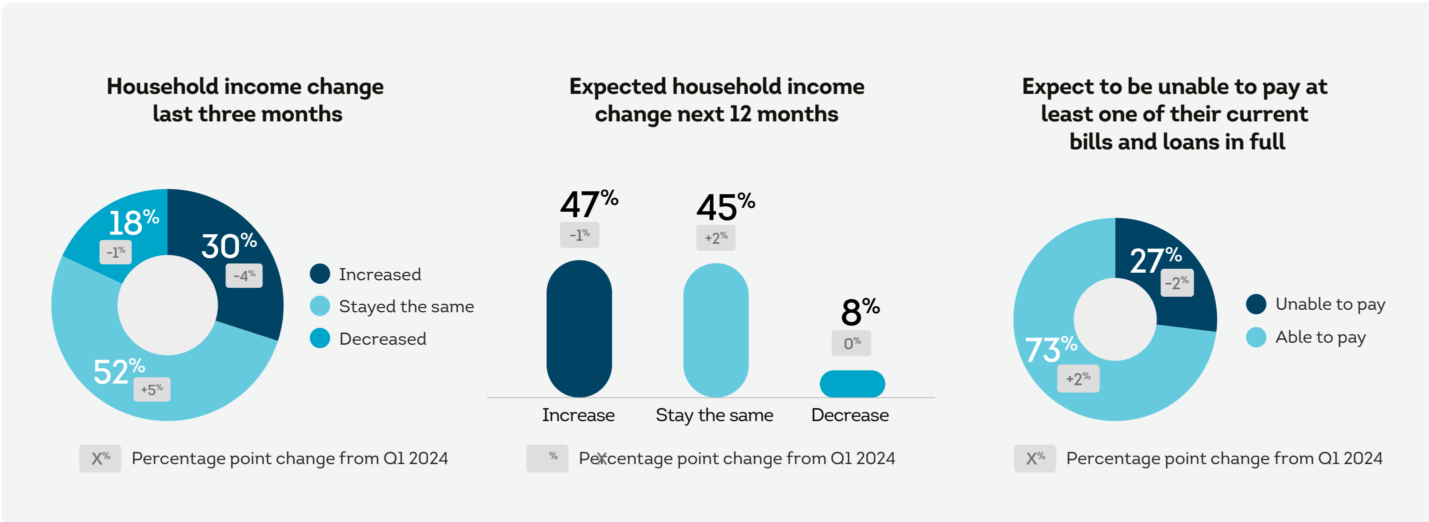
Indications of future hardship

Expected change to household income

TransUnion Pulse Survey Results indicated nearly half of respondents expected an increase in their household incomes over the next year. This contrasts with the 30% who reported an income increase in the preceding three months. Additionally, 27% of consumers expressed concerns about their abilities to fully meet their current bill and loan obligations, which further suggests ongoing financial difficulties.

[2] https://www.bls.gov/news.release/pdf/empsit.pdf

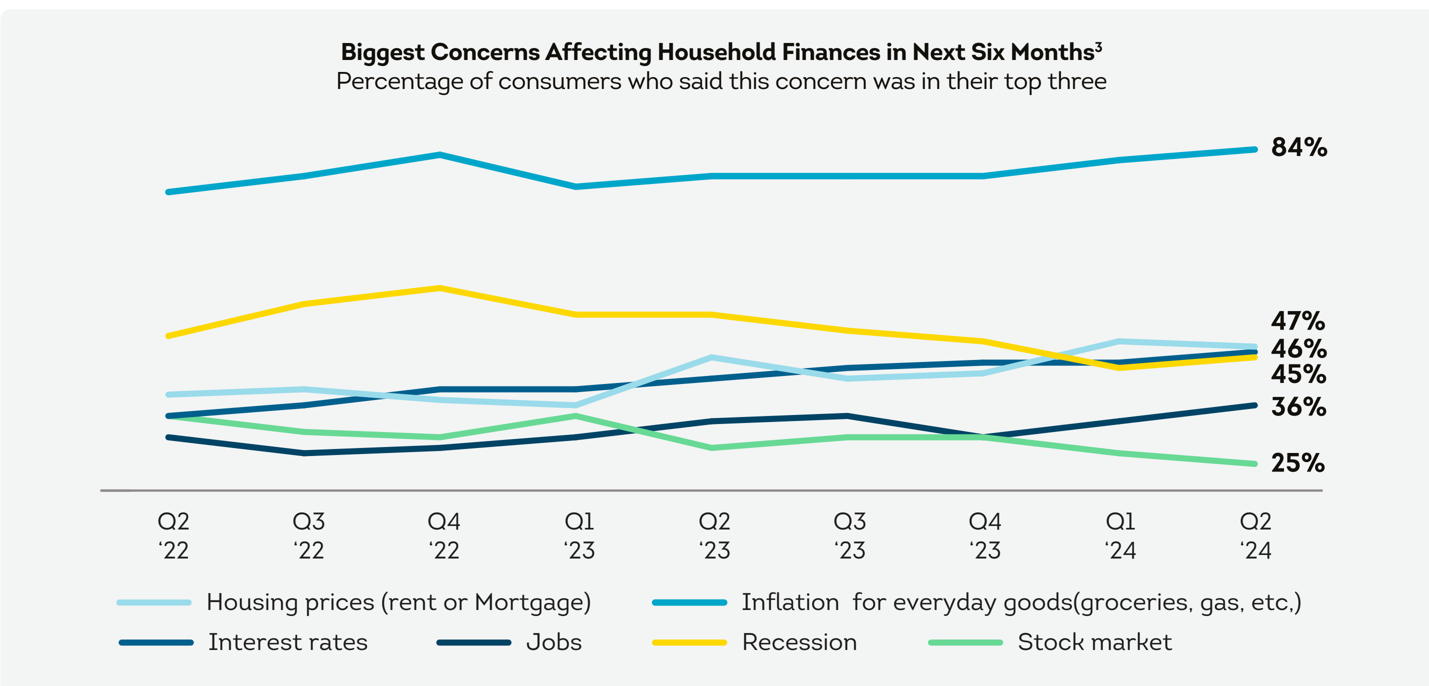
FIGURE 02: Consumer household income expectations



Inflation concerns

Consumers were overwhelmingly concerned about inflation over the next six months; 84% of respondents said it was in their top three financial concerns. The next highest concern was housing prices (rent or mortgage) with only 47% of consumers rating it in their top three concerns.

FIGURE 03: Consumers' biggest concerns affecting household finances



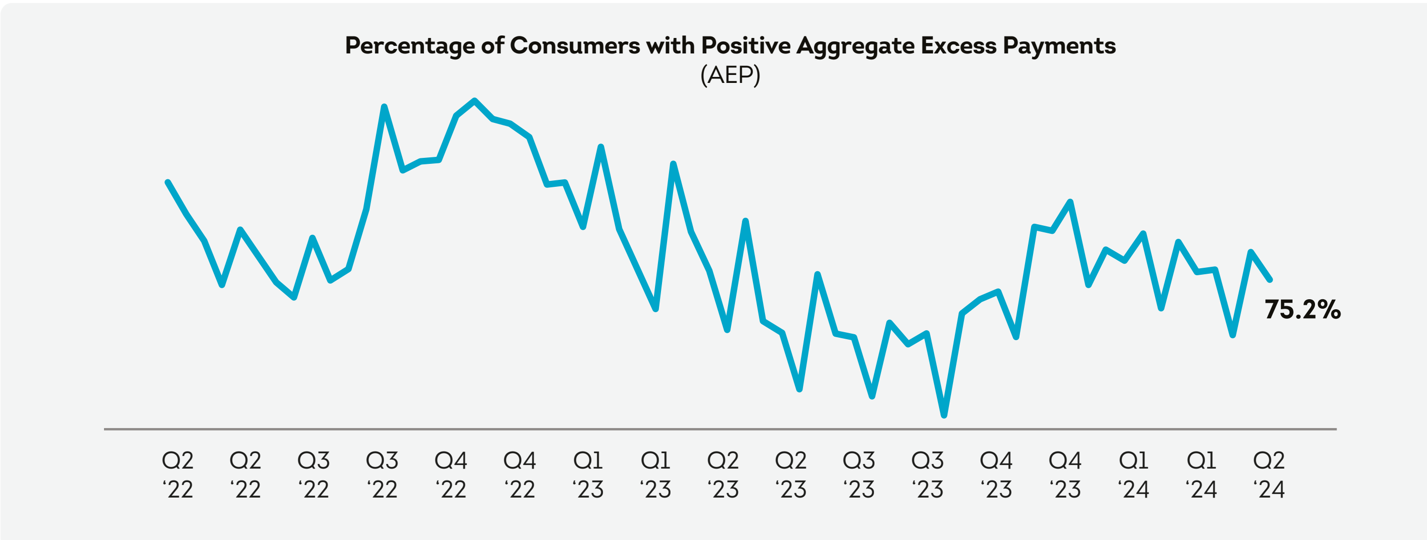
Biggest concerns affecting household finances in the next six months.[3]

[3] https://www.transunion.com/report/consumer-pulse/q2-2024

Aggregated excess payment

Consumers paid less in excess of their required minimum monthly payments, indicating more financially stressed households. Consumers with a healthy financial position frequently make payments above the minimum required payment. The downward trend of the aggregated excess payment (AEP) from Q2 2021 though Q2 2024 signals consumers are more financially stressed in servicing their existing outstanding debts.

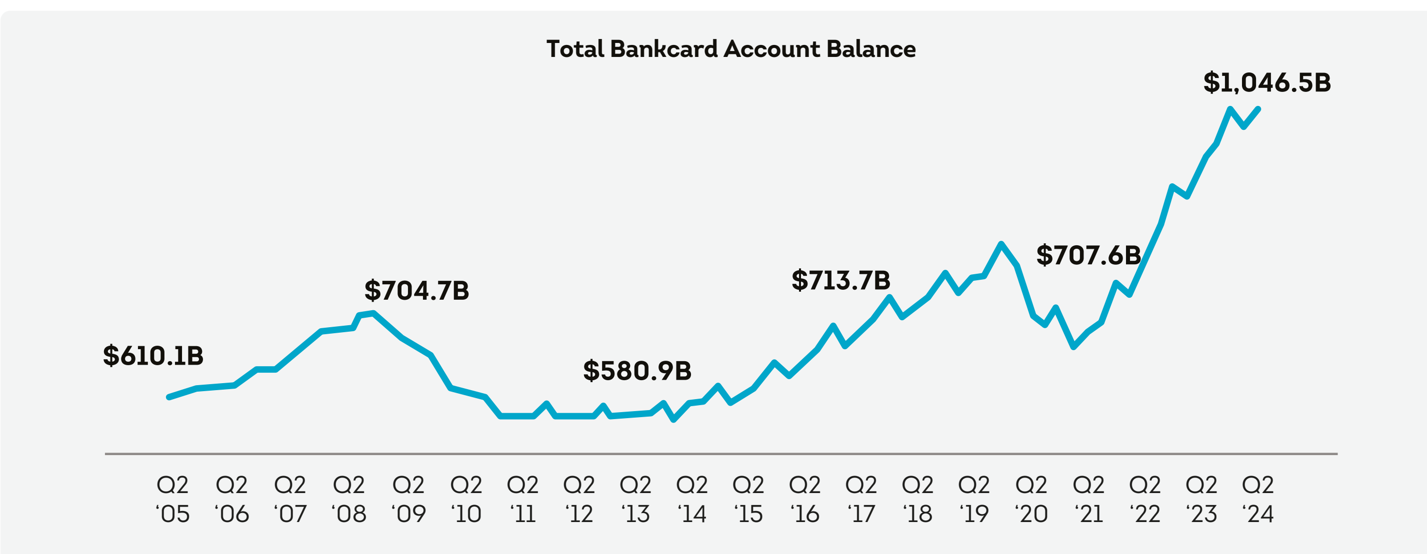
FIGURE 04: Aggregated excess payment (AEP)



Balances continue to rise

Specifically, bankcard product balances have skyrocketed since Q2 2021 and continued a steep increase through Q2 2024. With the rise in costs of goods due to inflation, these balances increasing, coupled with the decreasing aggregate excess payments, could be predictive of consumers taking on more new debt over the next few years than they'll be able to service.

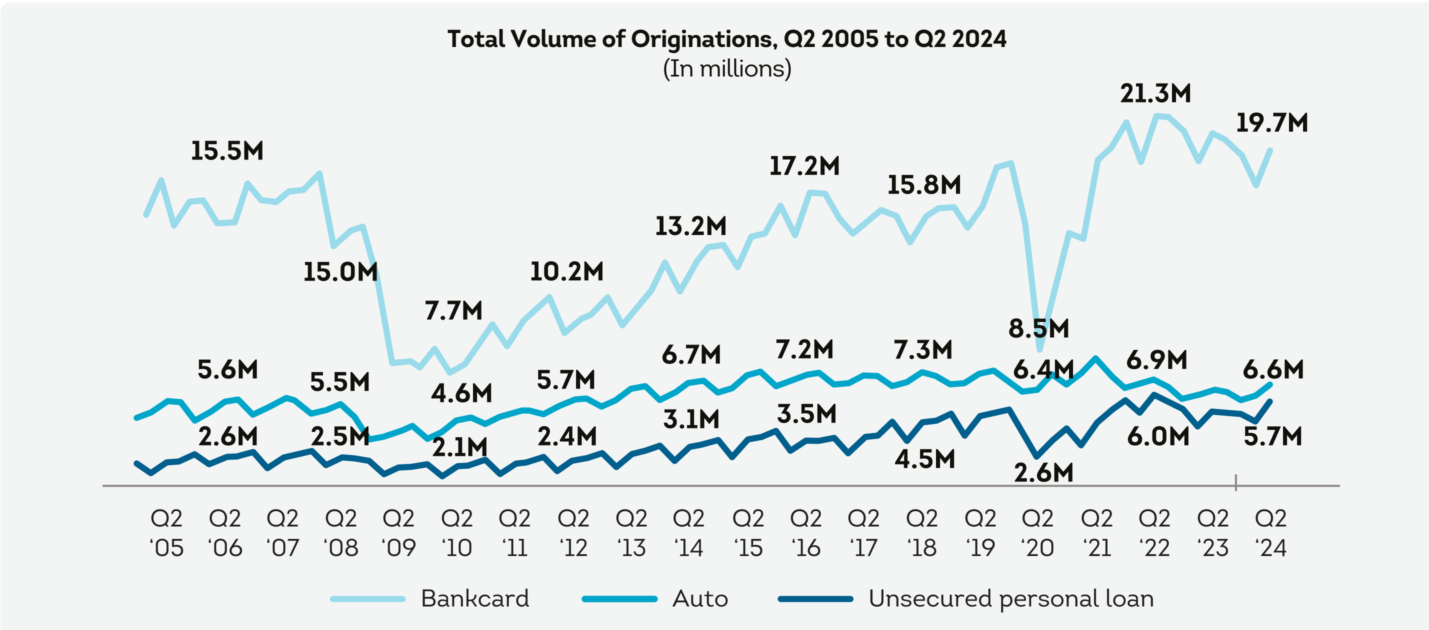
FIGURE 05: Bankcard account balances



Consumers continue to borrow

Downward economic pressure is not slowing the growth of consumers borrowing new money. In Q2 2024, there were millions of new bank cards (19.7M), auto loans (6.6M) and unsecured personal loans (5.7M) originated. These new origination volumes were all a steep increase from the previous quarter.

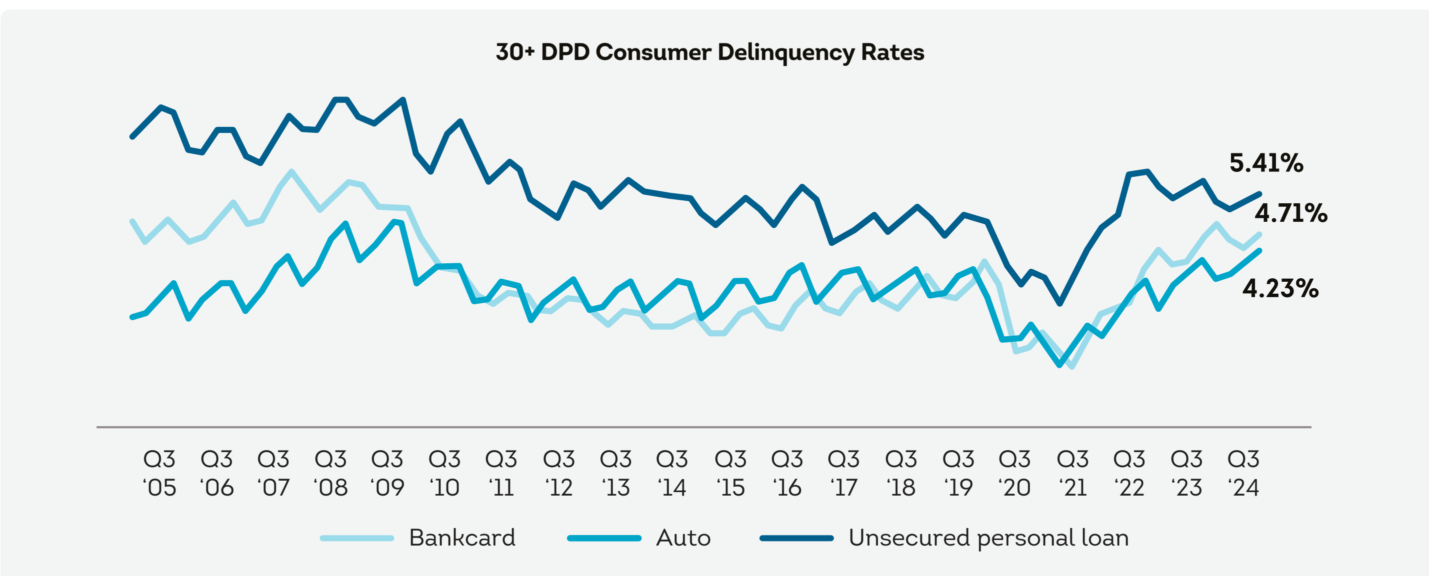
FIGURE 06: Total volume of loan originations (bankcard, auto, unsecured personal loans)



Consumer credit delinquencies

Delinquency rates for core credit products, including bankcard and auto originated credit, have been rising since the end of 2023 across the 30-, 60- and 90-day portfolio segments. Unsecured personal loans rose dramatically from Q2 2023 through the beginning of 2024 but have plateaued throughout 2024.

FIGURE 07: 30-day delinquency rates (bankcard, auto, unsecured personal loans)



The debt collection (3PC) industry

The debt collection industry is currently experiencing a notable surge in account volumes, primarily attributed to prevailing economic conditions. This upward trajectory is projected to persist over the next two years, introducing a dual landscape of challenges and opportunities for industry stakeholders. **More than half (52%) of debt collection companies have experienced an increased or significantly increased volume of accounts** placed or acquired over the last 12 months[4].

Larger companies, particularly those with **over 100 full-time employees (FTEs), have experienced a more significant increase in account volumes** as compared to smaller organizations of less than 20 FTE. This disparity may be attributed, in part, to the digital debt collection infrastructure of larger firms, enabling them to attract and manage a greater number of accounts through efficient collection strategies.

FIGURE 08: Change in account volumes last 12 months

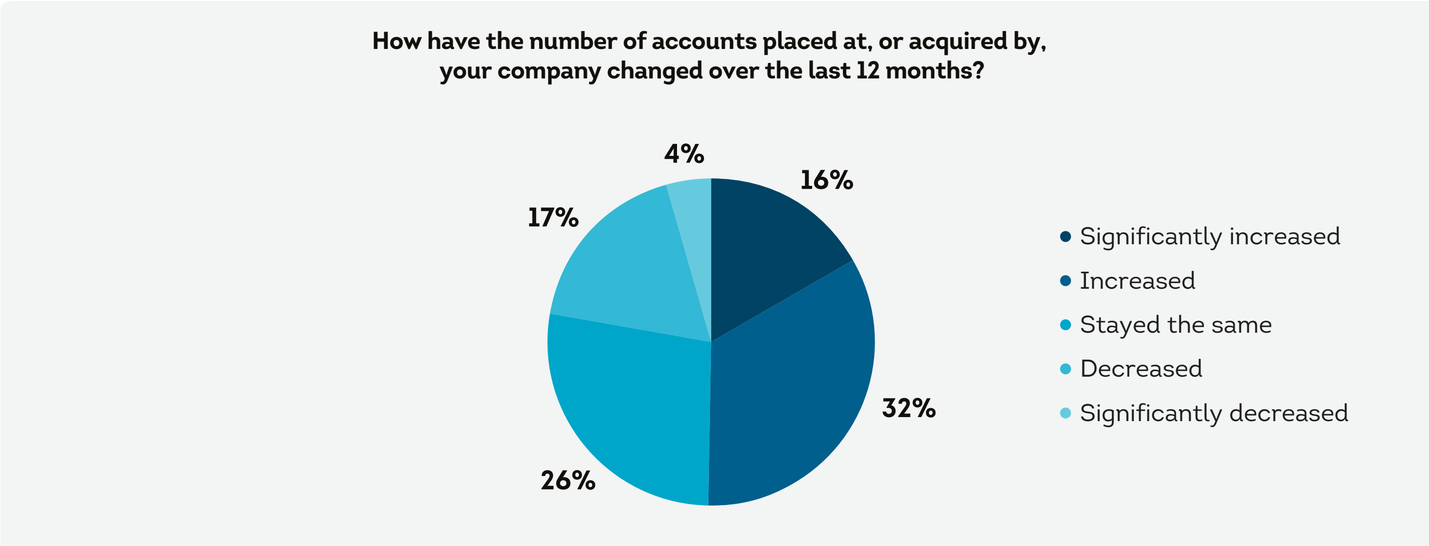
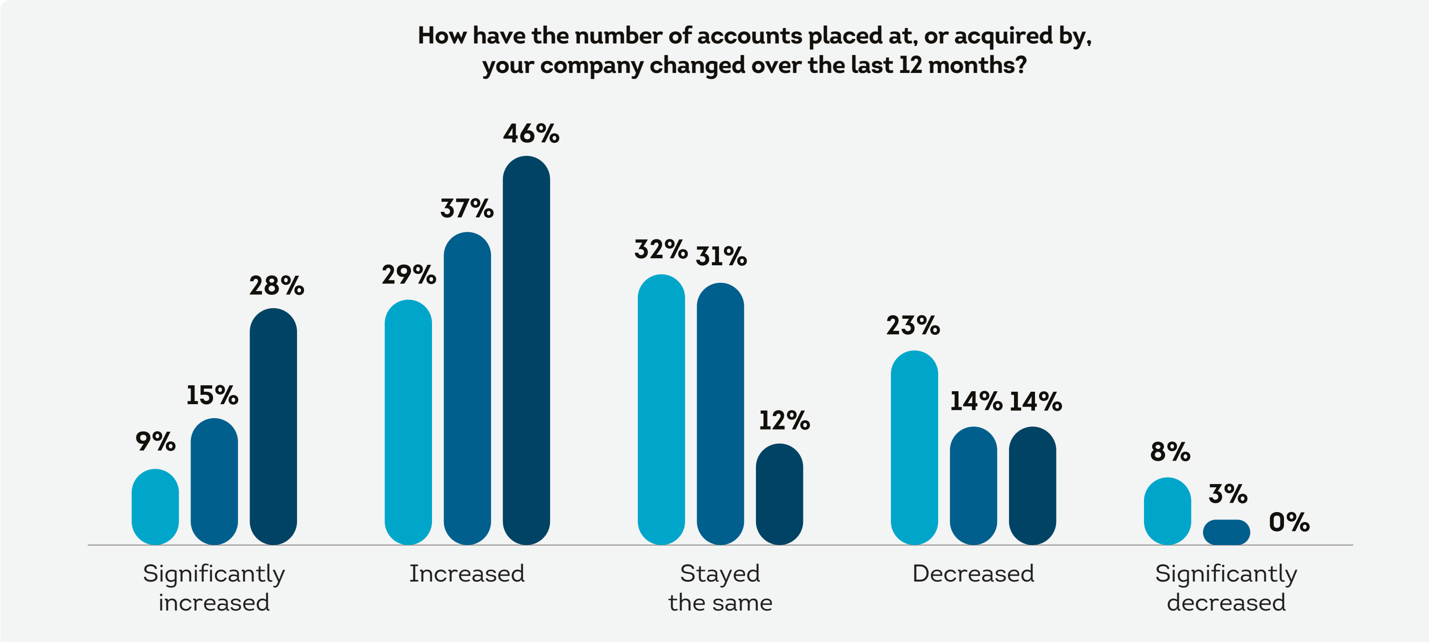


FIGURE 09: Change in account volumes by FTE



[4] Figure 8 – Change in account volumes last 12 months.

Almost half of debt collection companies have already experienced growth in their placed or acquired account volumes. **Ninety percent of participating companies expect at least a 10% increase in account volumes** over the next 12 months.

Companies with **over 20 FTEs expressed the highest confidence in achieving over 10% growth in placed or acquired accounts within the next 12 months**. Conversely, more of the smaller organizations under 20 FTE have recently faced a decline in account volumes and anticipate this downward trend to persist.

FIGURE 10: Account volume change next 12 months

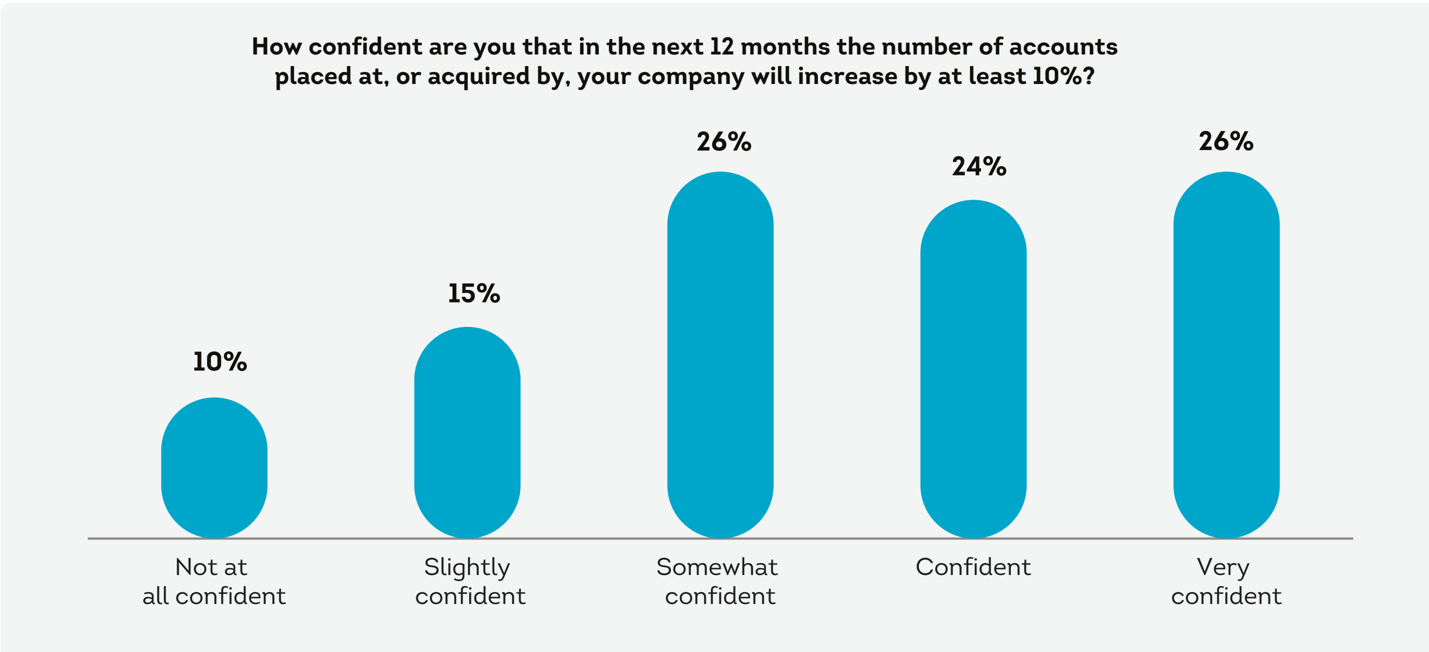
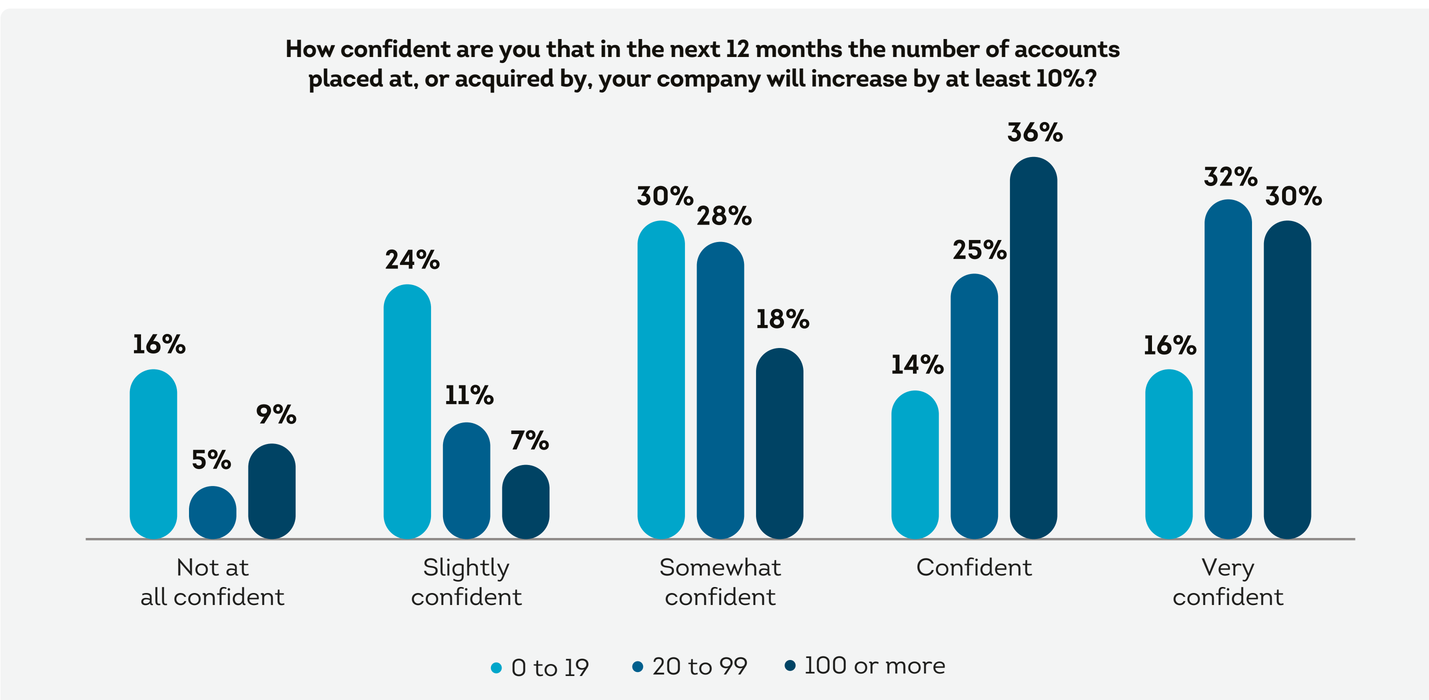
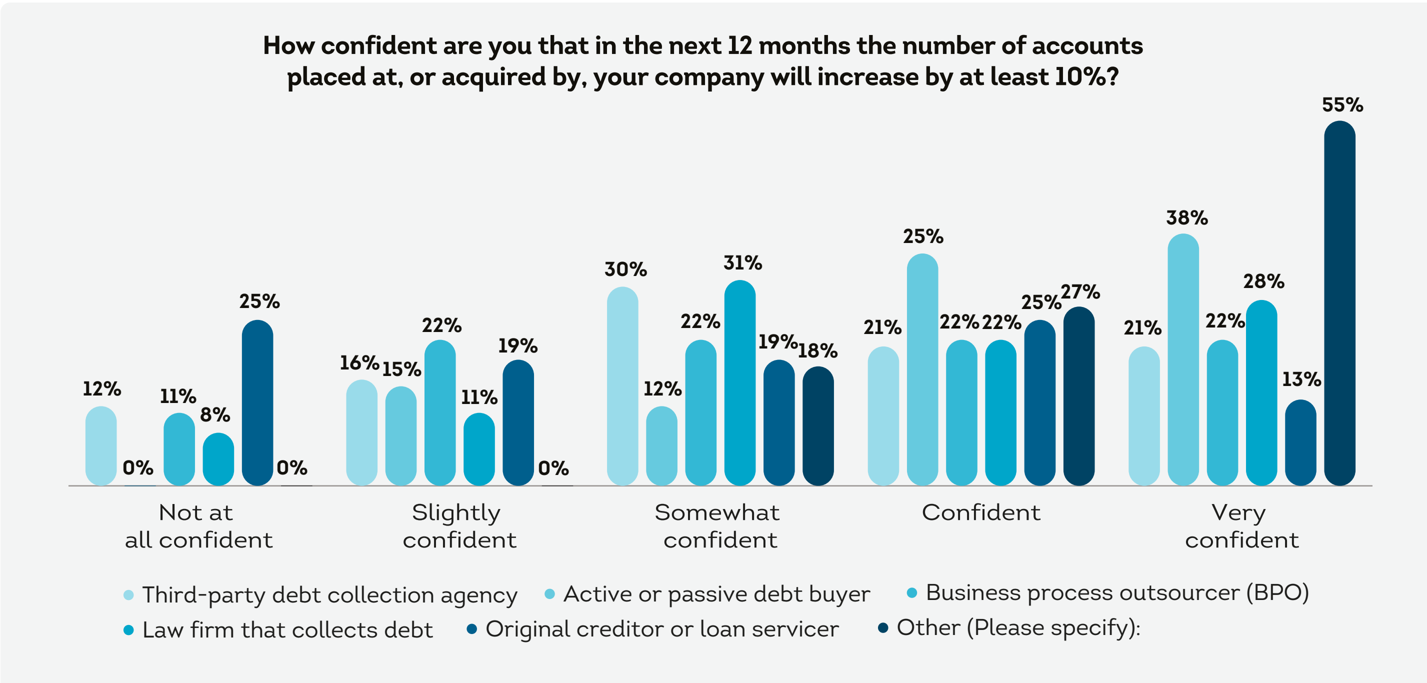


FIGURE 11: Account volume change next 12 months by FTE



Debt buyers expressed the highest degree of confidence in anticipating a minimum 10% growth in account volumes within the next 12 months. **Seventy-three percent of debt buyers were confident or very confident account volumes would increase next year**. The optimism of the debt buyer segment can be partially attributed to their concentration on acquiring accounts in rapidly expanding credit products, including FinTech, financial services and commercial credit products.

FIGURE 12: Account volume change next 12 months by company type



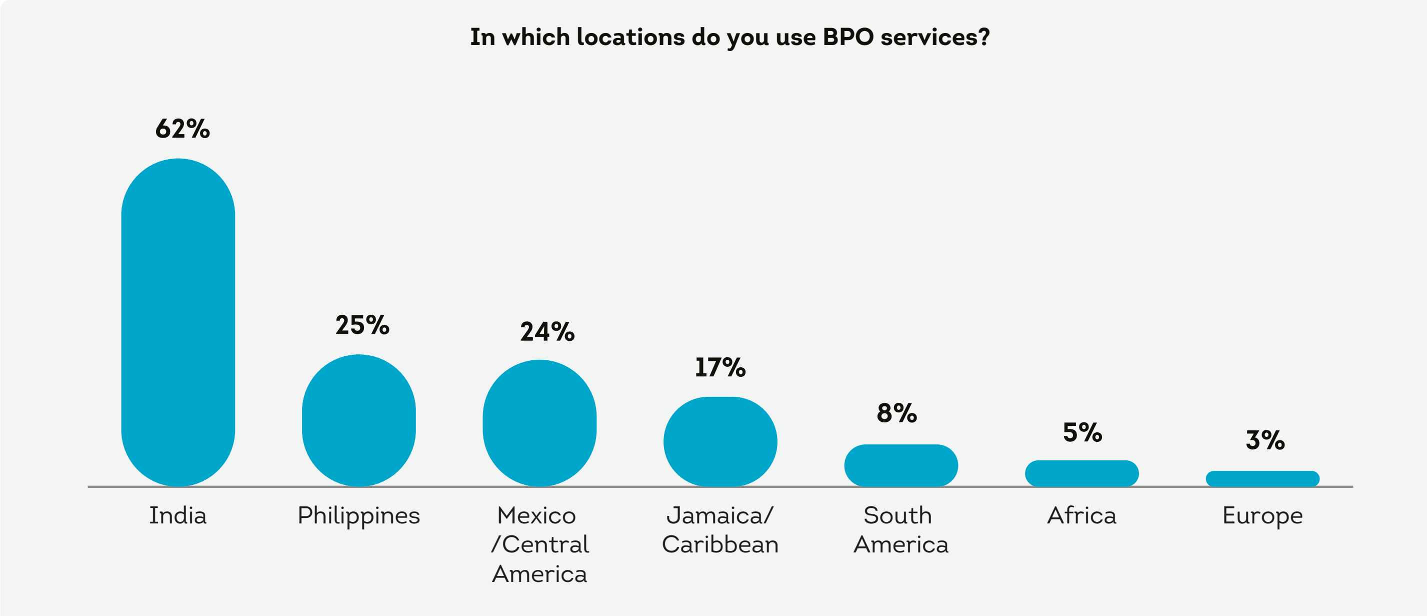
Growth of BPO

While business process outsourcing or BPO services are not a recent development in the debt collection industry, their adoption is continuing to increase as companies grapple with staffing availability and cost challenges. To mitigate these challenges, companies are **exploring options, such as remote workforces and offshore or near-shore BPO services**, focusing on leveraging labor pools in geographic regions like India, the Philippines, Central America and the Caribbean.

Debt collection companies have experienced more success in some geographic locations compared to others. For example, across all respondent companies, **organizations are 240% more likely to use India** as an international location for BPO services than the next most popular destination[5].

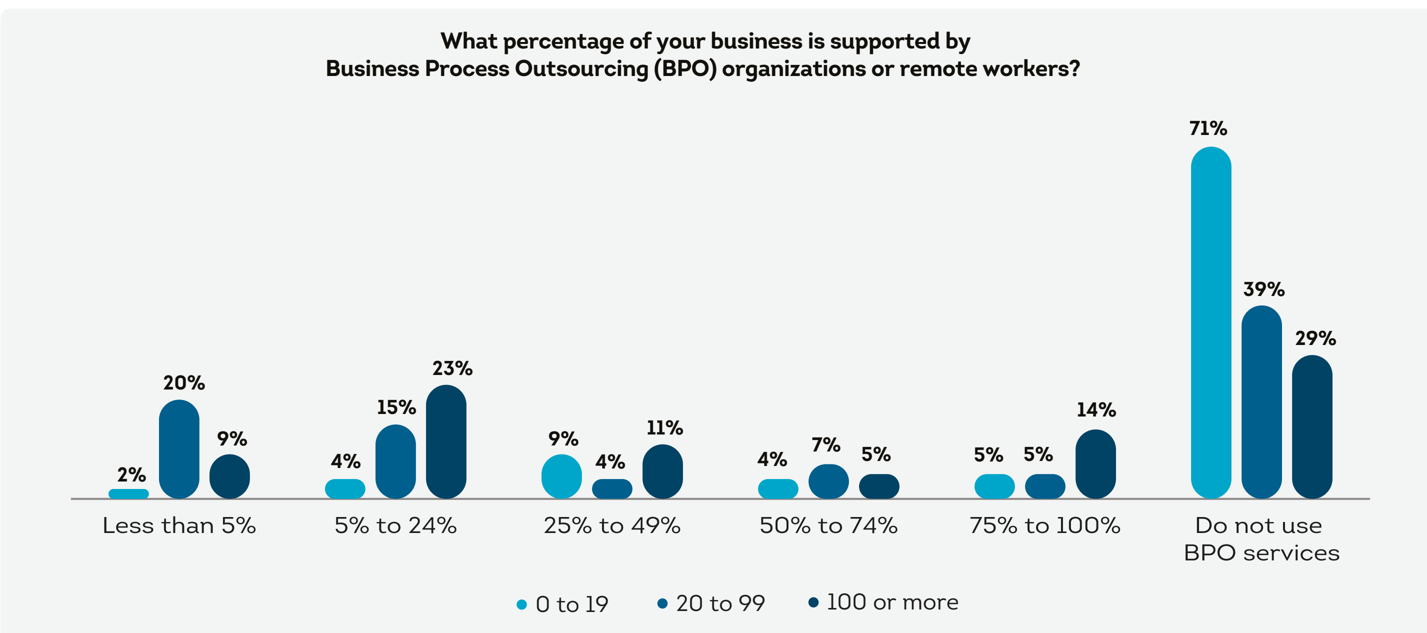
[5] Figure 13 – BPO services geographic locations

FIGURE 13: BPO services locations



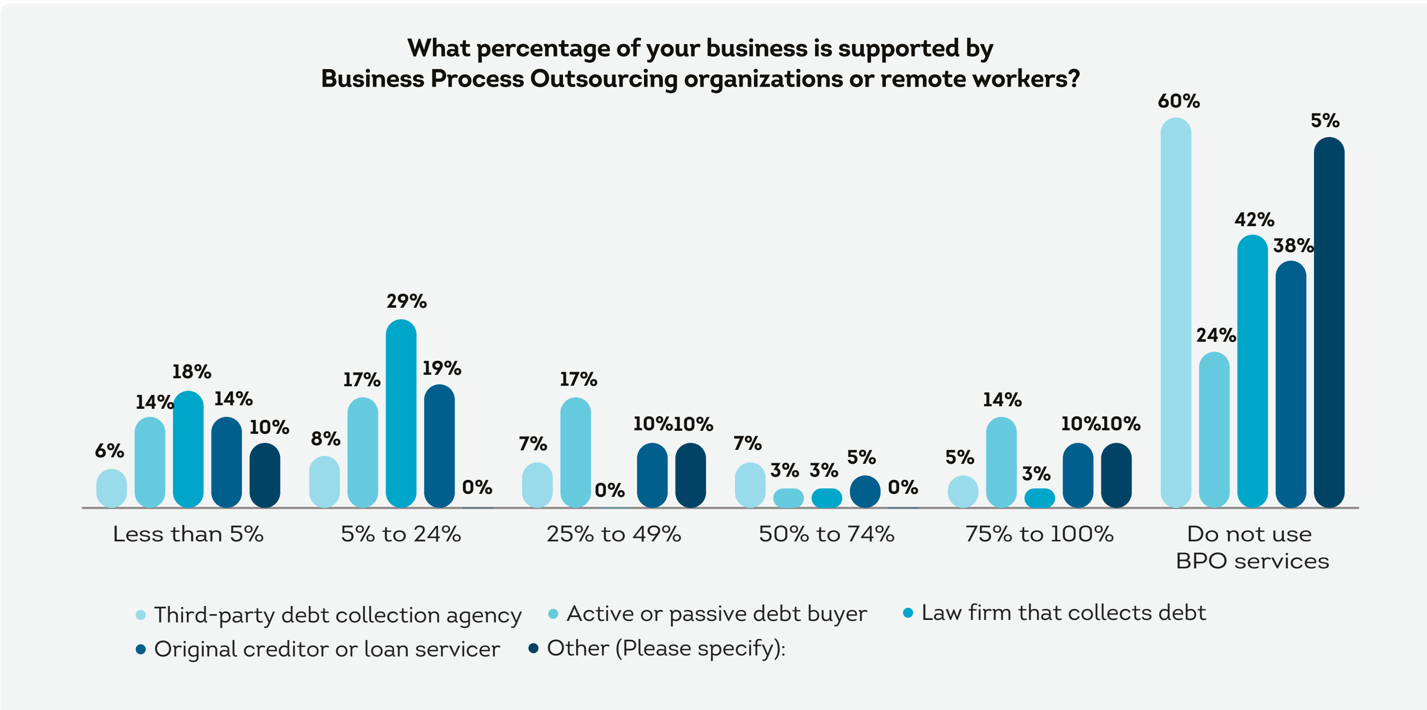
Almost half (48%) of all receivables management firms are currently using BPO services for at least some portion of their work. The smaller the company is, the less likely they are to be using BPO services. Of firms with over 20 FTE, 61% are using BPO services to perform at least part of their work. This may show larger companies have a greater challenge to expand the local talent pools to manage the expected larger account volumes.

FIGURE 14: BPO services supported by FTE



Collection agencies are the least likely of debt collection company types to use a BPO service or remote workers with only 35% of companies participating. **Debt buyers are the most likely companies to use BPO services to assist with some part of their organizations with 73% participating** followed by creditors (60%) and law firms (56%). The disparity between the company types may in part be driven by the use cases and services provided by a BPO service to each marketplace segment – where law firms, debt buyers and creditors may be more likely to use BPO services for administrative and call center services and collection agencies may be more likely to focus on the use of call center services.

FIGURE 15: BPO services supported by company type



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Understanding Account Profiles

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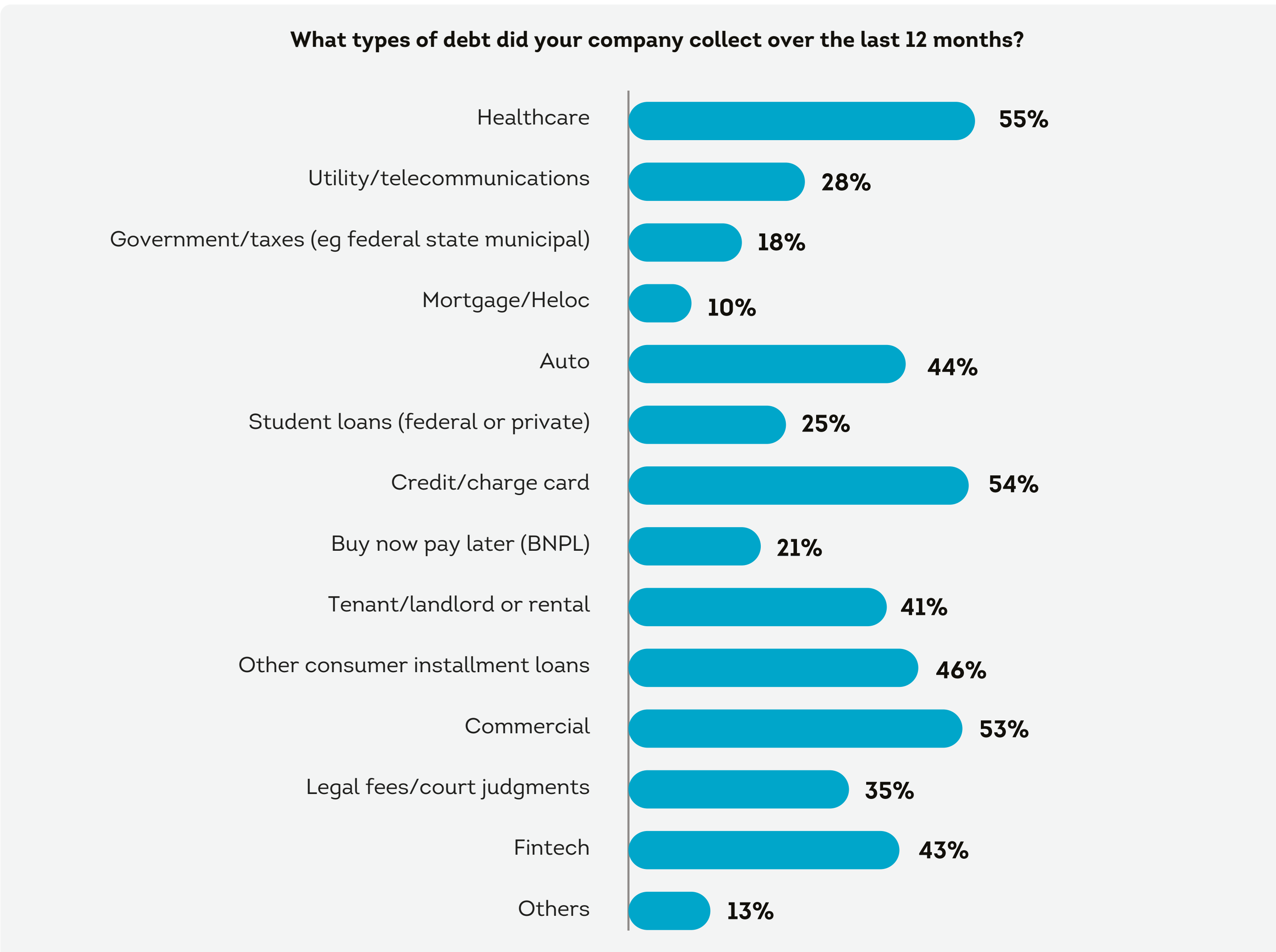
Understanding Account Profiles

Account profile trends

Product types

Across all the responding debt collection companies, the three most common types of credit products collected included: healthcare (55%), credit card (54%), and commercial (53%). In the last four years, healthcare has been the top product, which is now closer in comparison to the result from the two next most common products. This shift may be the result of both challenges faced in the healthcare finance space (including credit reporting limitations) and a larger pool of both debt buyers and larger collection agencies amongst the respondents.

FIGURE 16: Product types worked by debt collection companies



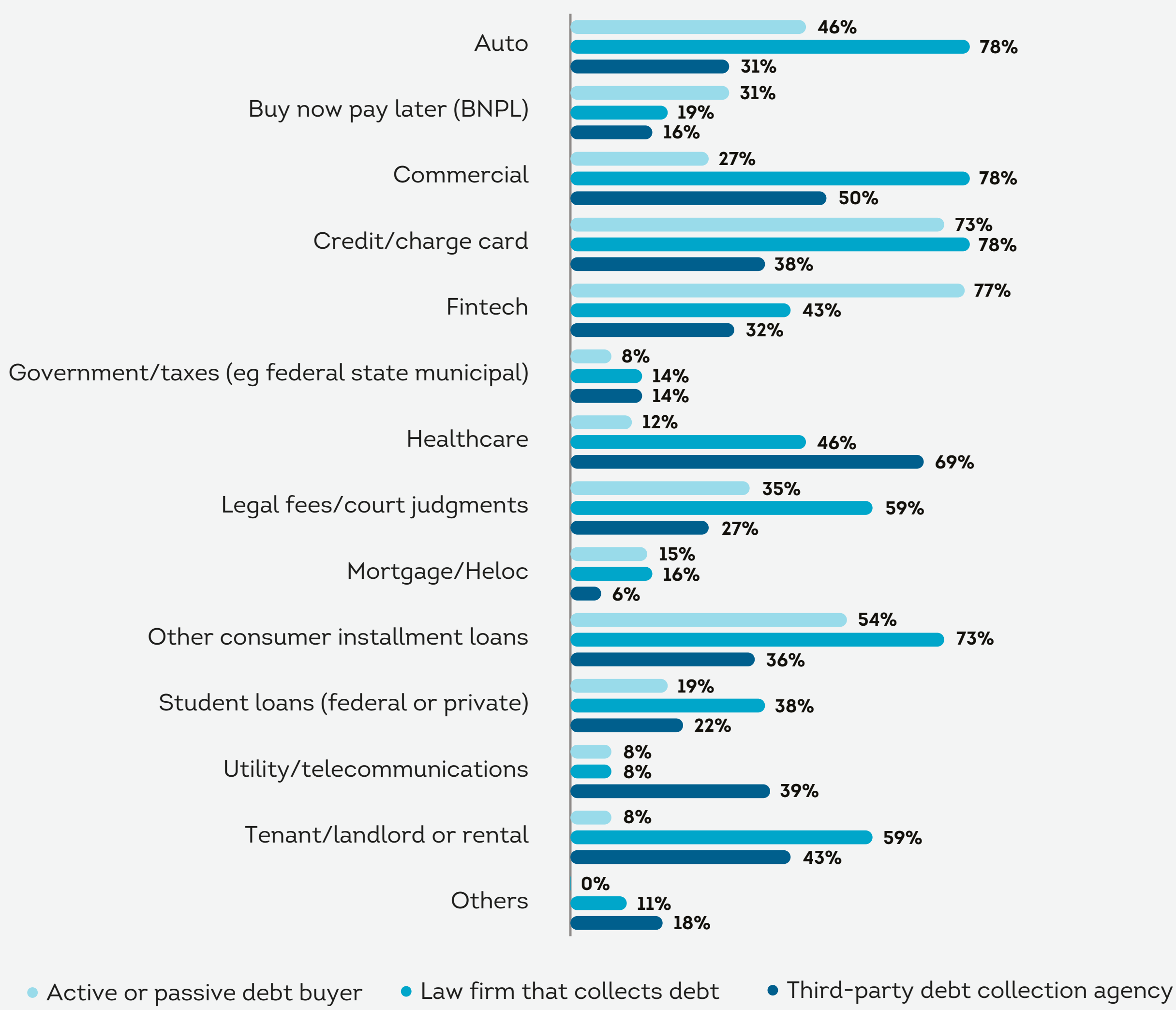
The concentration of credit product type worked differs between debt collections company types. Collection agencies work an overwhelmingly large segment (40%) of the healthcare accounts, while the second most popular product type represents a significantly smaller portion (28%) of their commercial accounts.

Debt buyers were found to be far more likely to purchase, service or manage accounts in the FinTech, credit card and other installment loans credit product categories. This may in part be driven by the availability of portfolios to purchase in the marketplace.

Law firm respondents represented a more evenly distributed credit product type mix. Auto, credit card, commercial, tenant/landlord and other installment loans were all represented in the responses. This product mix represents credit products with higher average balances – more likely to meet the requirement criteria of a creditor's legal strategy.

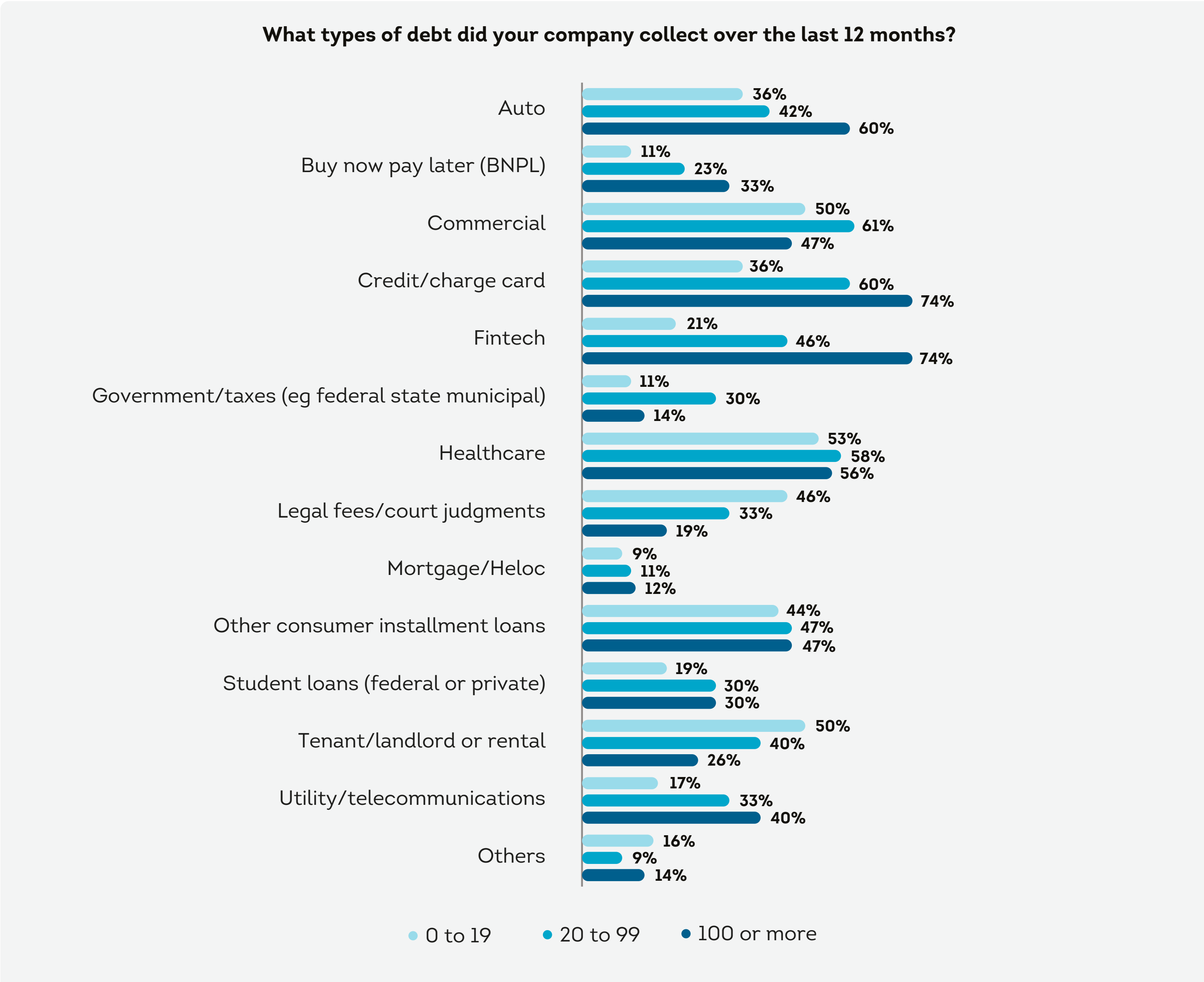
FIGURE 17: Product types worked by company type

What types of debt did your company collect over the last 12 months?



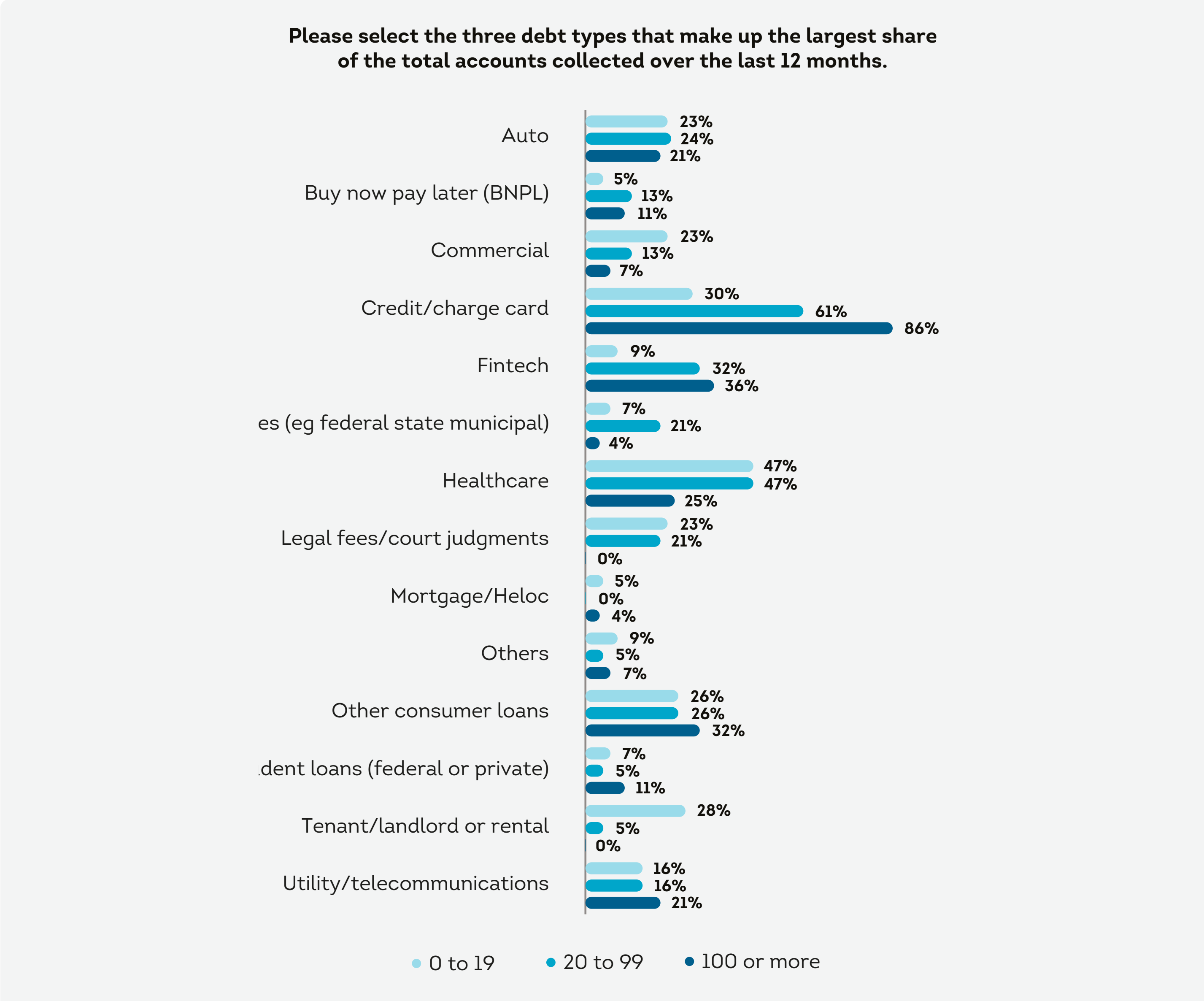
Organizations of different sizes represented different credit product type concentrations. Debt collection companies under 20 people are more likely to collect regionally originated accounts, including healthcare (53%), tenant/landlord (50%) and commercial (50%) compared to larger organizations with over 100 FTE which are more focused on collecting nationally originated products like credit card (74%) and FinTech account types (74%).

FIGURE 18: Product types worked by FTE



When comparing the three largest market shares of accounts at companies, the deviation between products is more dramatic when considering the size of the organization. Smaller organizations are far more likely to collect healthcare (47%) accounts, while larger companies are far more likely to collect credit cards (86%), FinTech (36%). FinTech credit products demonstrate the largest variance in product types between large and small debt collection companies. **Debt collection companies with more than 100 FTE are 400% more likely to work with FinTech products when compared to companies under 20 FTE**.

FIGURE 19: Top three products by FTE

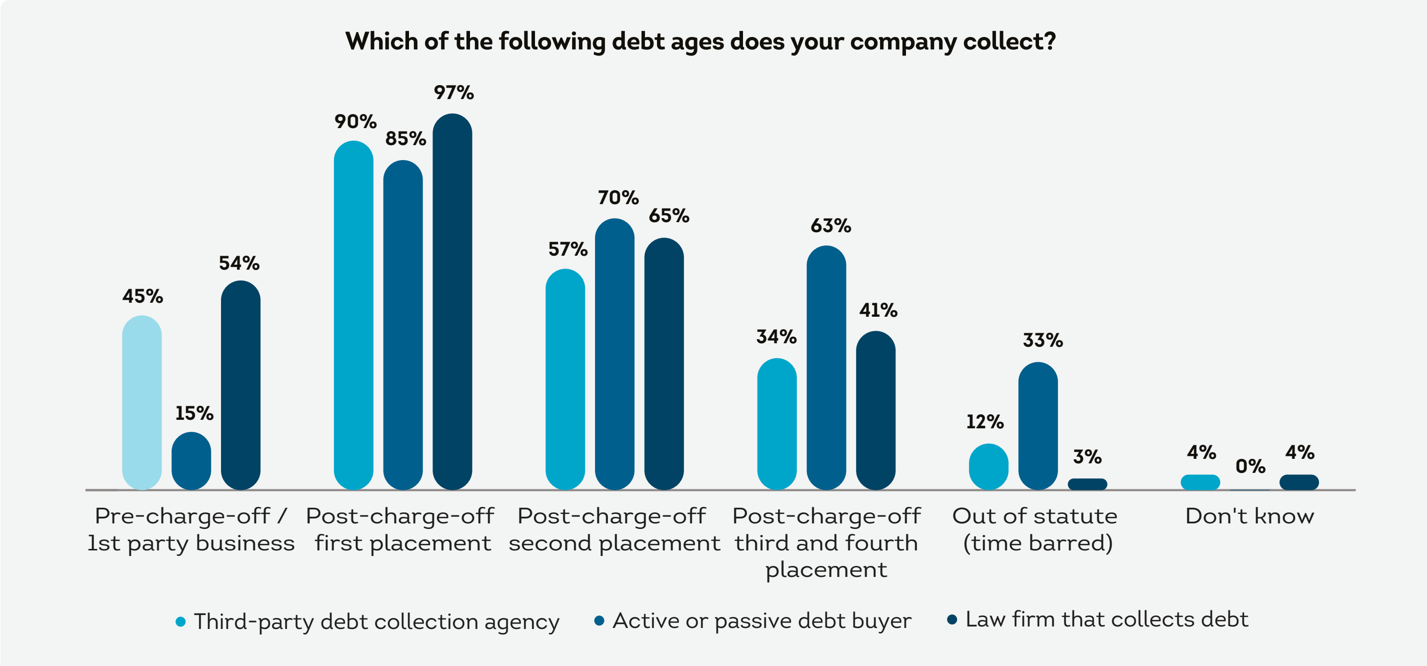


Product age

Product ages placed or acquired by each type of debt collection company are directly related to the nature of their work at different stages of the account lifecycle. As an example, law firms work far fewer accounts in the pre-charge-off/first-party business stage than they do during the first and second placement positions when creditors are more likely to use the courts as a method to recover delinquent accounts.

In contrast, collection agencies work mostly early in the debt collection process during the first placement stage. Collection agencies become less likely to work an account as it gets later in the account lifecycle – until only a small volume is worked after the statute of limitations expires.

FIGURE 20: Account age by company type

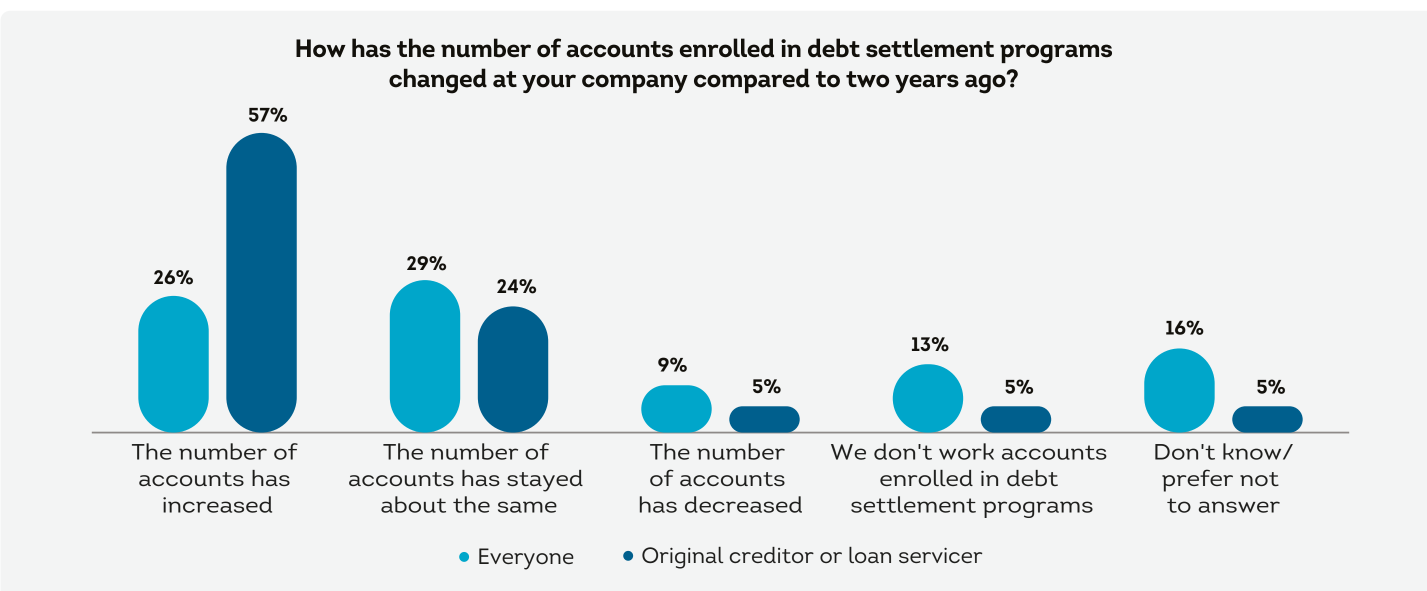


Debt settlement

Debt settlement continues to have an increasing impact on the debt collection industry. Respondents across all company types expressed experiencing an increase in the volume of accounts (57%) enrolled in debt settlement programs.

In 2024, creditors reported seeing almost double the increase to the number of debt settlement enrolled accounts they were seeing compared to any other debt collection company types. This may indicate consumers are seeking out these programs earlier in the account lifecycle pre-charge-off as historically, fewer creditors have engaged directly with debt settlement companies.

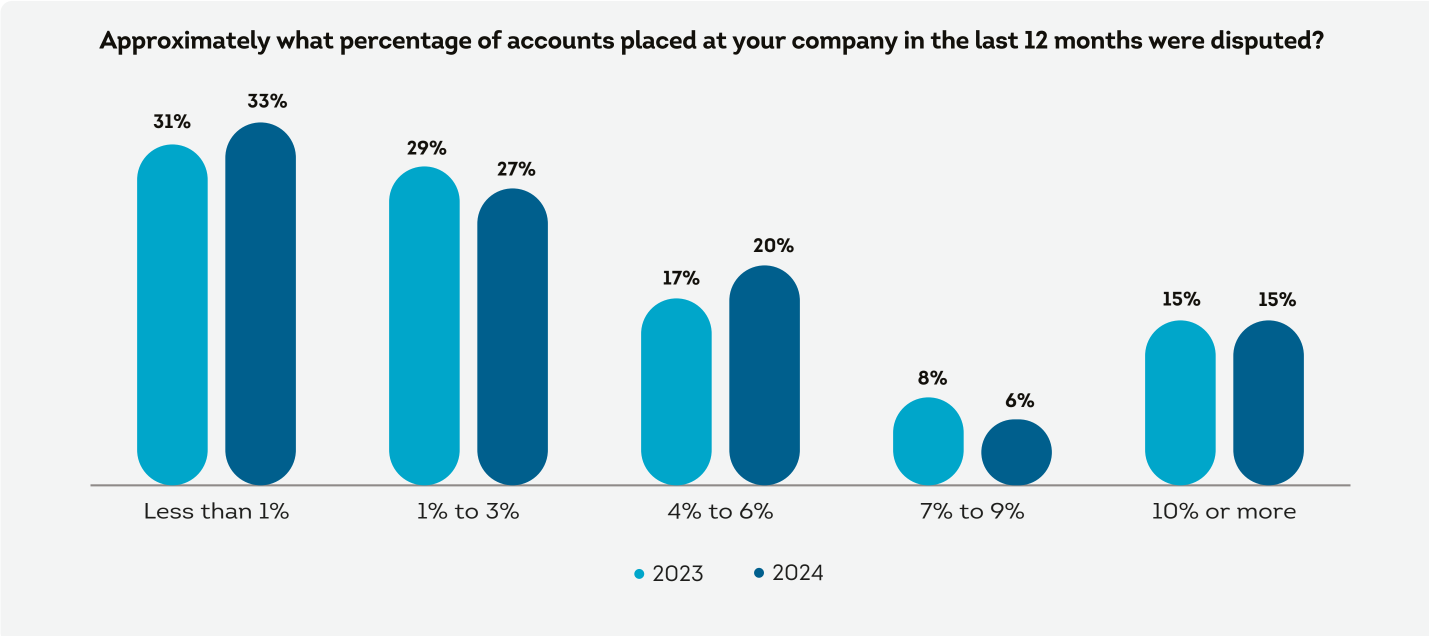
FIGURE 21: Debt Settlement volume change for creditors



Accounts disputed

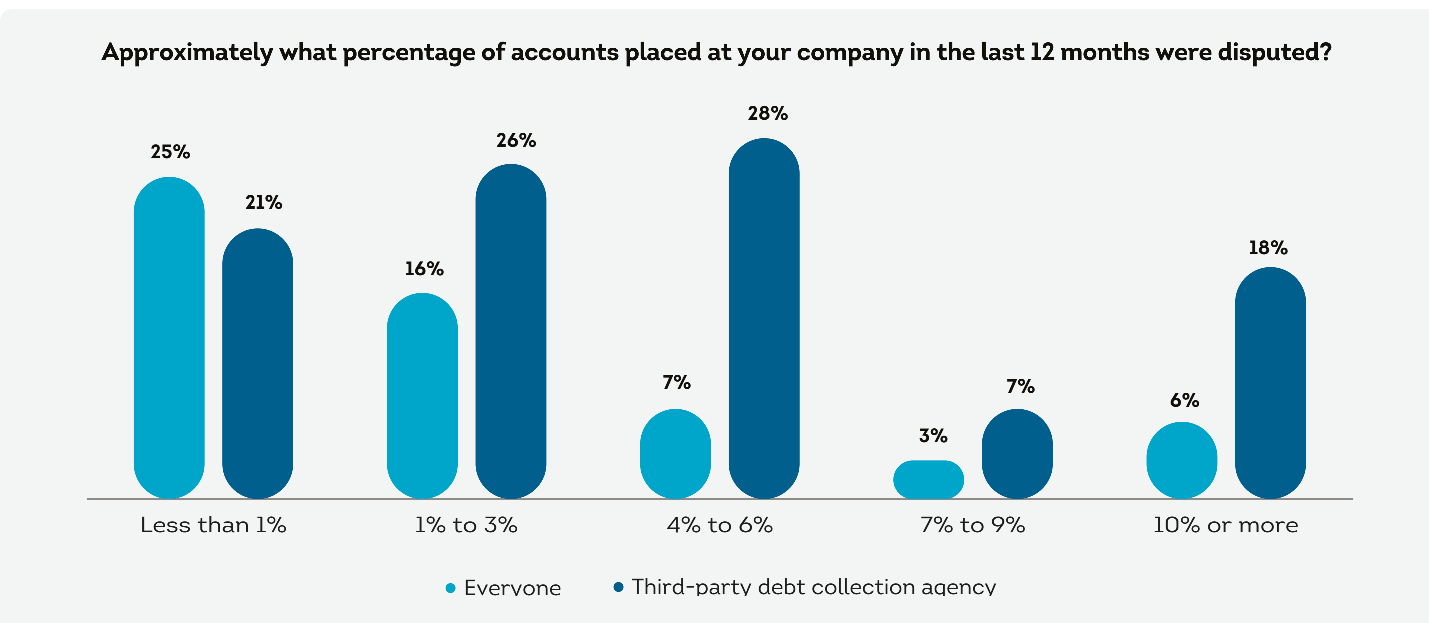
Dispute rates remained stable between 2023 and 2024 across all company types and sizes. **A third of respondents reported a dispute rate of less than 1%**, and more than half (60%) reported a dispute rate below 3%. Only 21% of companies reported a dispute rate higher than 6%.

FIGURE 22: Dispute volumes comparing 2023 and 2024



Collection agencies reported receiving a disproportionately high volume of disputes on accounts; 53% experienced dispute rates higher than 3%. Comparatively, other types of debt collection companies surveyed found only 16% of companies experienced dispute rates higher than 3%.

FIGURE 23: Dispute volumes for collection agencies



Industry Challenges

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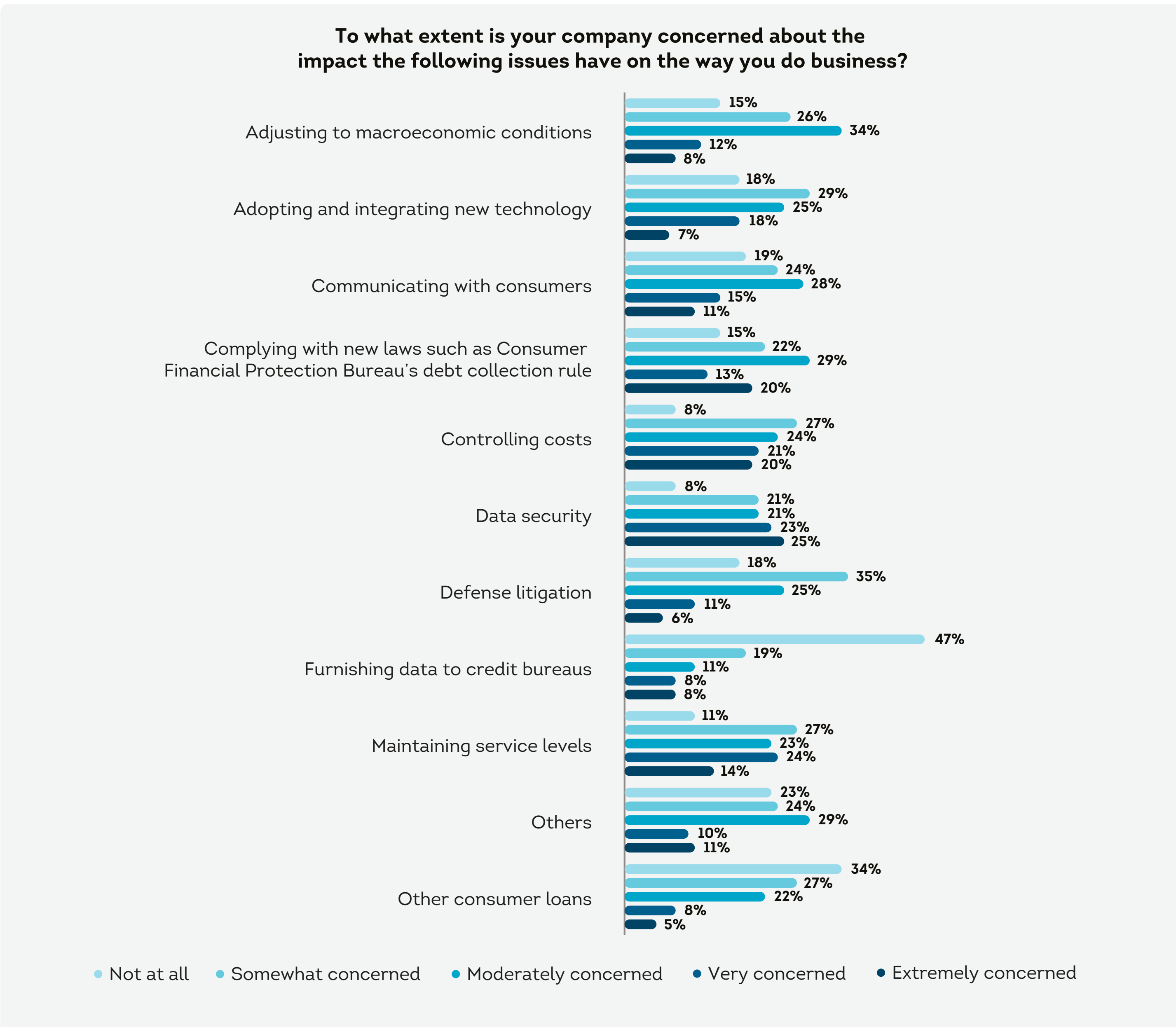
Industry Challenges

Top concerns

Data security has been the top concern across all types of debt collection companies in 2024. **Forty-eight percent of companies were very or extremely concerned about data security, representing a 40% increase compared to 2023 survey results**[6]. This fear may be fueled by the volume of high-profile data security incidents disclosed by collection agencies or other financial services firms in Q1 and Q2 of 2024.

Other major impact concerns were related to controlling costs (41%), growing the business (38%), and complying with new laws (33%).

FIGURE 24: Top concerns impacting business



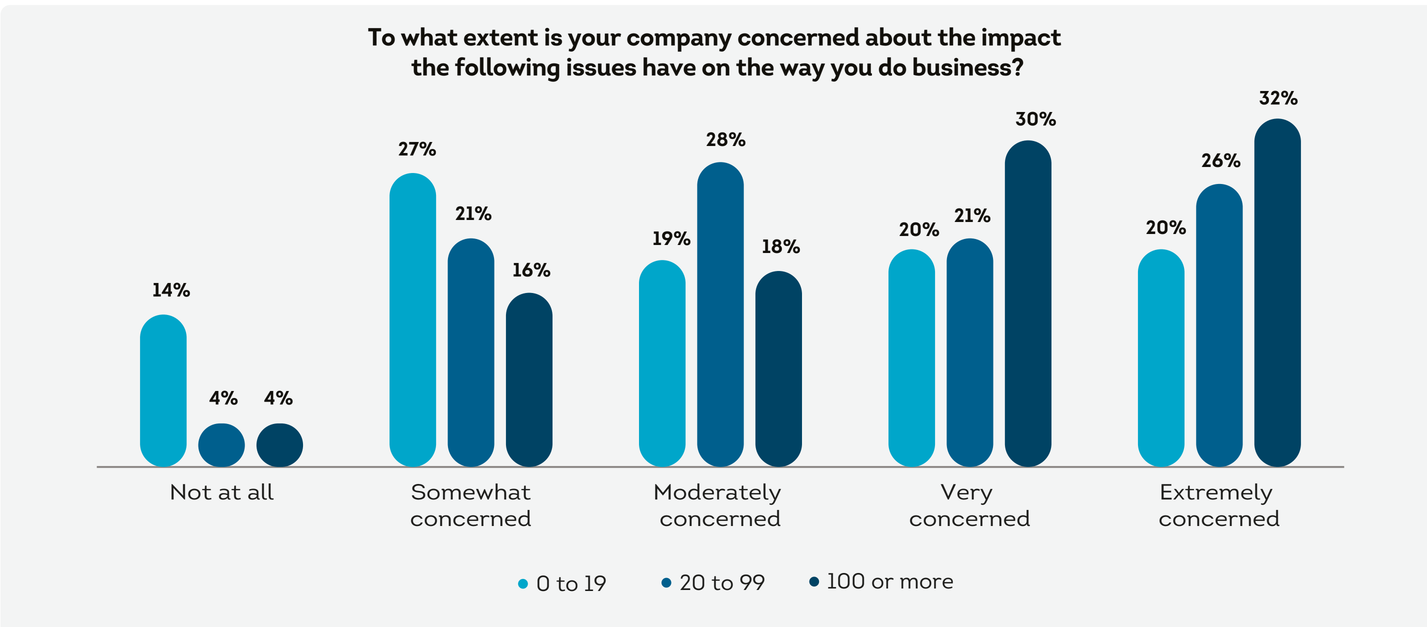
[6] TransUnion's Seizing the Opportunity in Uncertain Times: The Collections Industry in 2023 - https://www.transunion.com/lp/seizing-the-opportunity-in-uncertain-times-the-collections-indus?atvy=%7B%22261809%22%3A%22Experience+B%22%7D

Data security

Collection agencies (53%) were the most concerned about the impact data security could have on the way they do business. Although data security is a concern for all debt collection companies, collection agencies have witnessed high-profile incidents, rising cyber insurance premiums and additional layers of auditing, all potentially impacting the way they do business.

Larger organizations are more concerned about data security impacting their businesses than smaller companies. Of debt collection companies over 100 FTE, 62% were concerned about a data security impact compared to only 40% of companies under 20 FTE. Larger companies present a larger attack surface and have more data records at stake, contributing to additional concerns about data security.

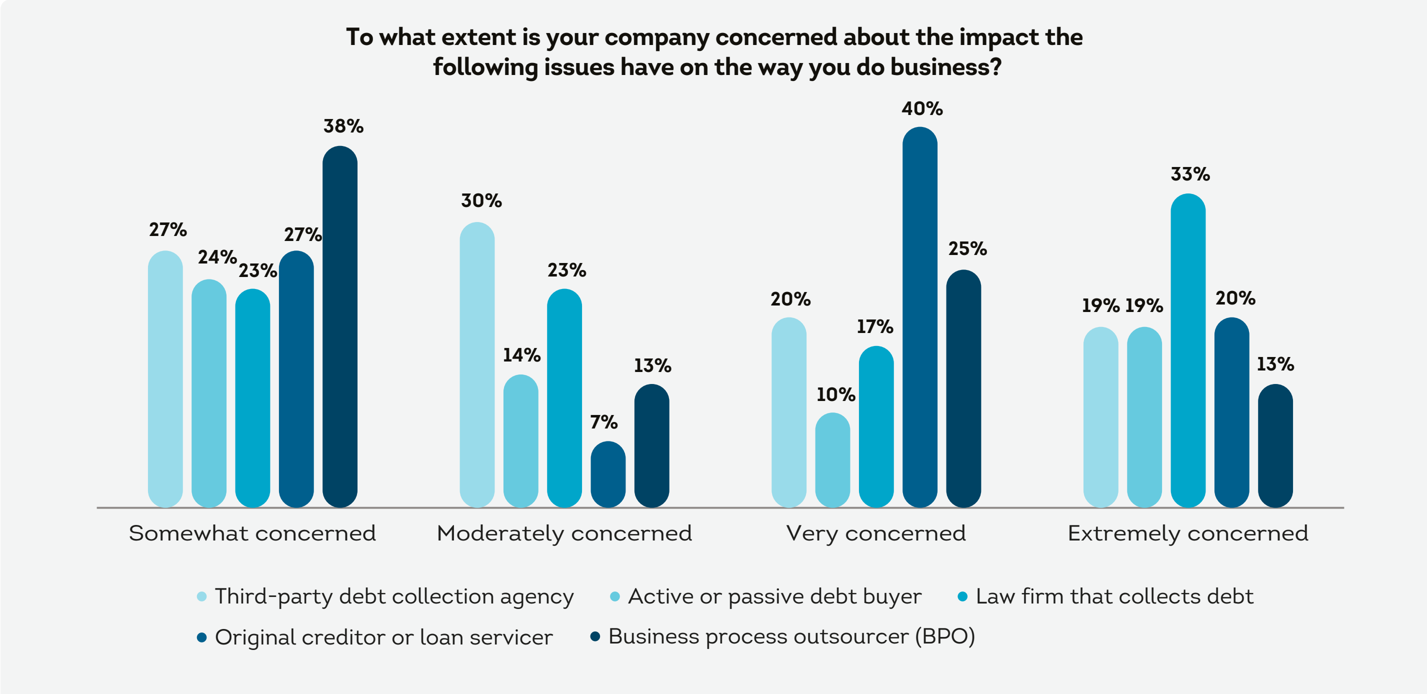
FIGURE 25: Data security concerns by FTE



Controlling expenses

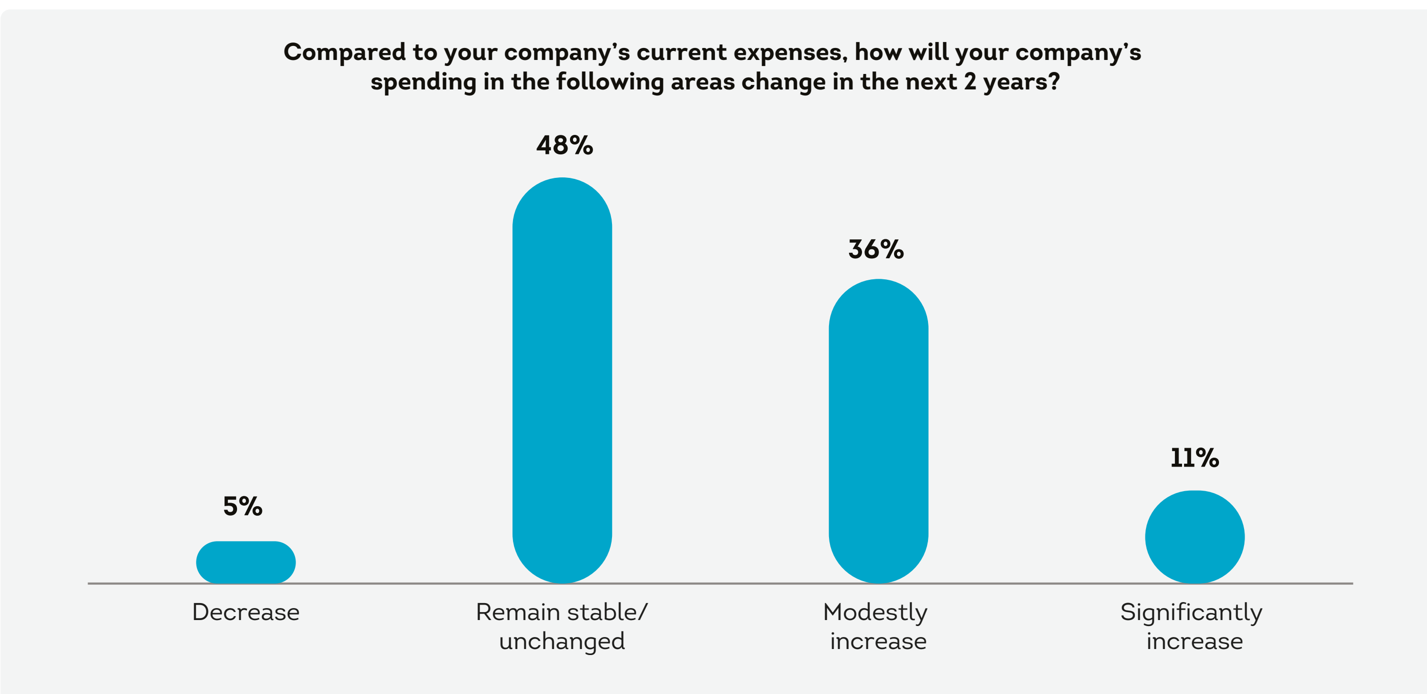
Controlling expenses remains a major concern for companies in the current economic environment. Creditors (60%) and law firms (50%) are the most concerned – with the majority very or extremely concerned about controlling costs in the coming year.

FIGURE 26: Cost impact by company type



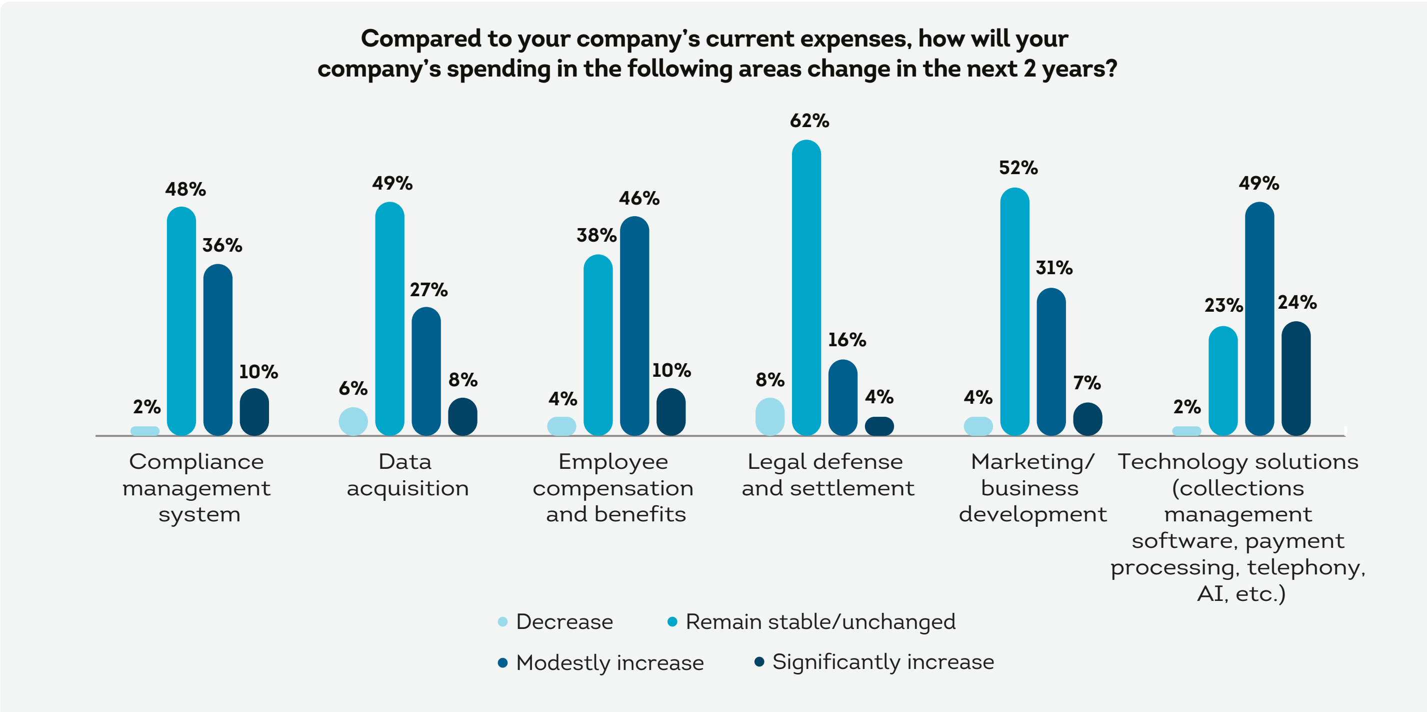
Almost half (46%) of debt collection companies expected their company expenses to rise in the next two years.

FIGURE 27: Cost changes over next two years



Almost three fourths (73%) of debt collection companies were expecting an increase in their technology costs over the next two years. These technology costs are partially driven by the expansion into new technology tools, including AI/ML, and investing in additional data security.

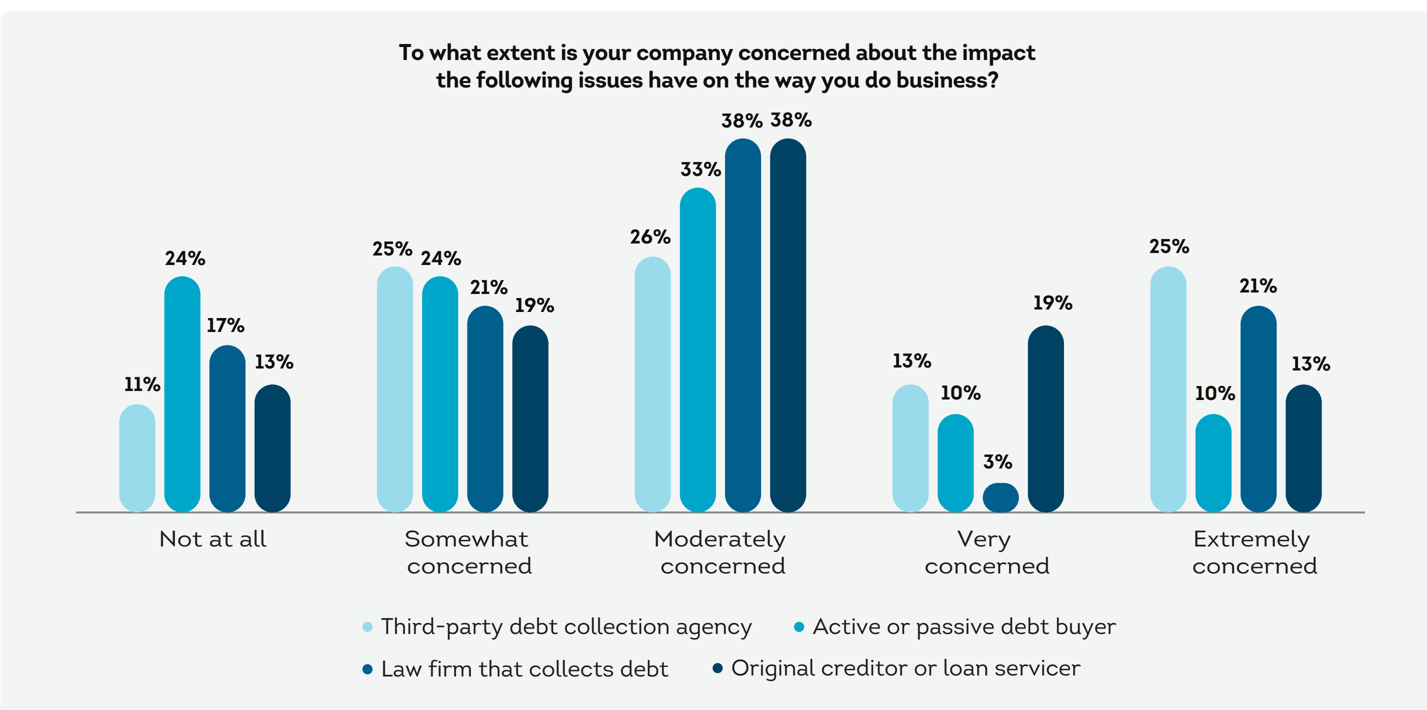
FIGURE 28: Changes to spending areas



Compliance and regulation

Collection agencies (38%) and creditors (32%) were the most very or extremely concerned about complying with new regulations impacting the way they do business – compared to only 24% of law firms or 20% of debt buyers.

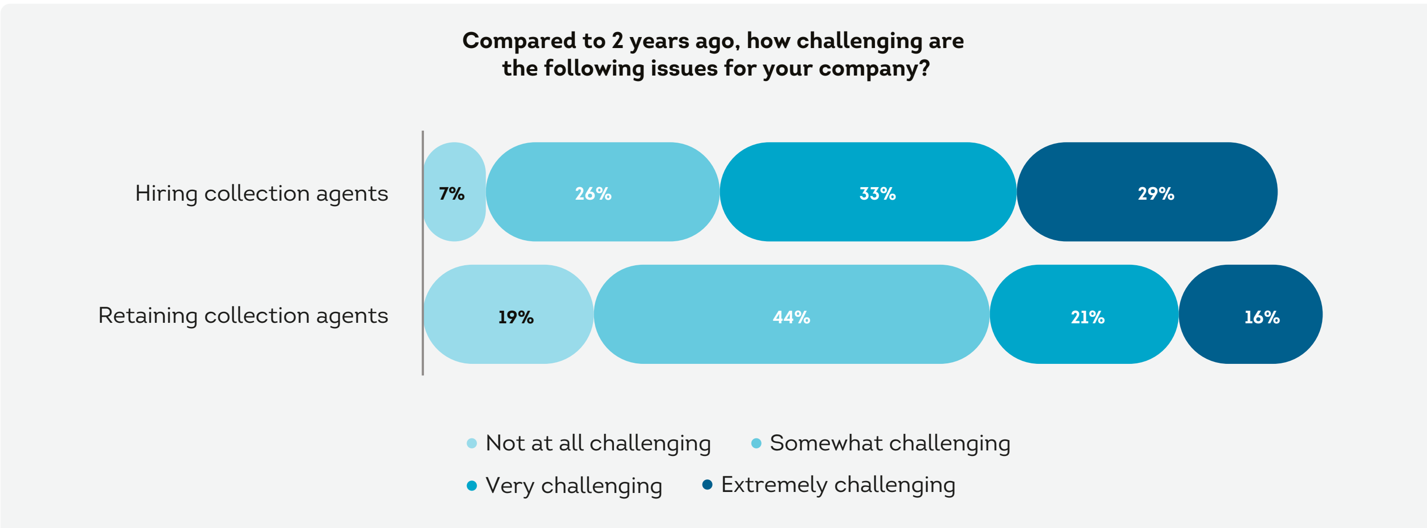
FIGURE 29: Compliance impact by company type



Human resources

Hiring and retaining human talent continues to be a major challenge for debt collection companies. Eighty-eight percent of debt collection companies found it at least somewhat challenging to hire collection agents over the last two years, while 81% noted some difficulty in retaining agents over that period. Companies are addressing this challenge through investments in technology focused on agent performance to improve available human resources, as well as the exploration of remote workers and BPO services partnerships to expand the labor pool beyond the local market.

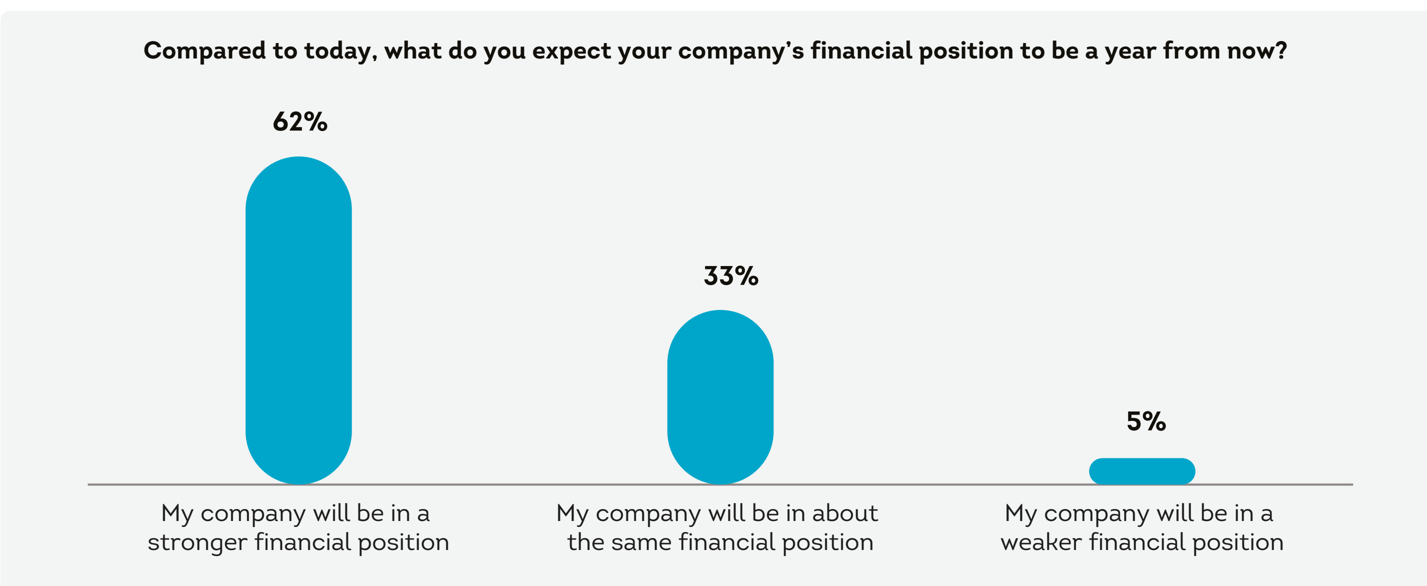
FIGURE 30: Hiring and retaining collection agents



Financial outlook

Despite the challenges faced by debt collection companies, they remain optimistic about their financial outlook over the next year. Sixty-two percent of companies expected to be in a better financial position next year, while only 5% expected to be in a weaker financial position.

FIGURE 31: Debt collection company financial future



Technology Tools

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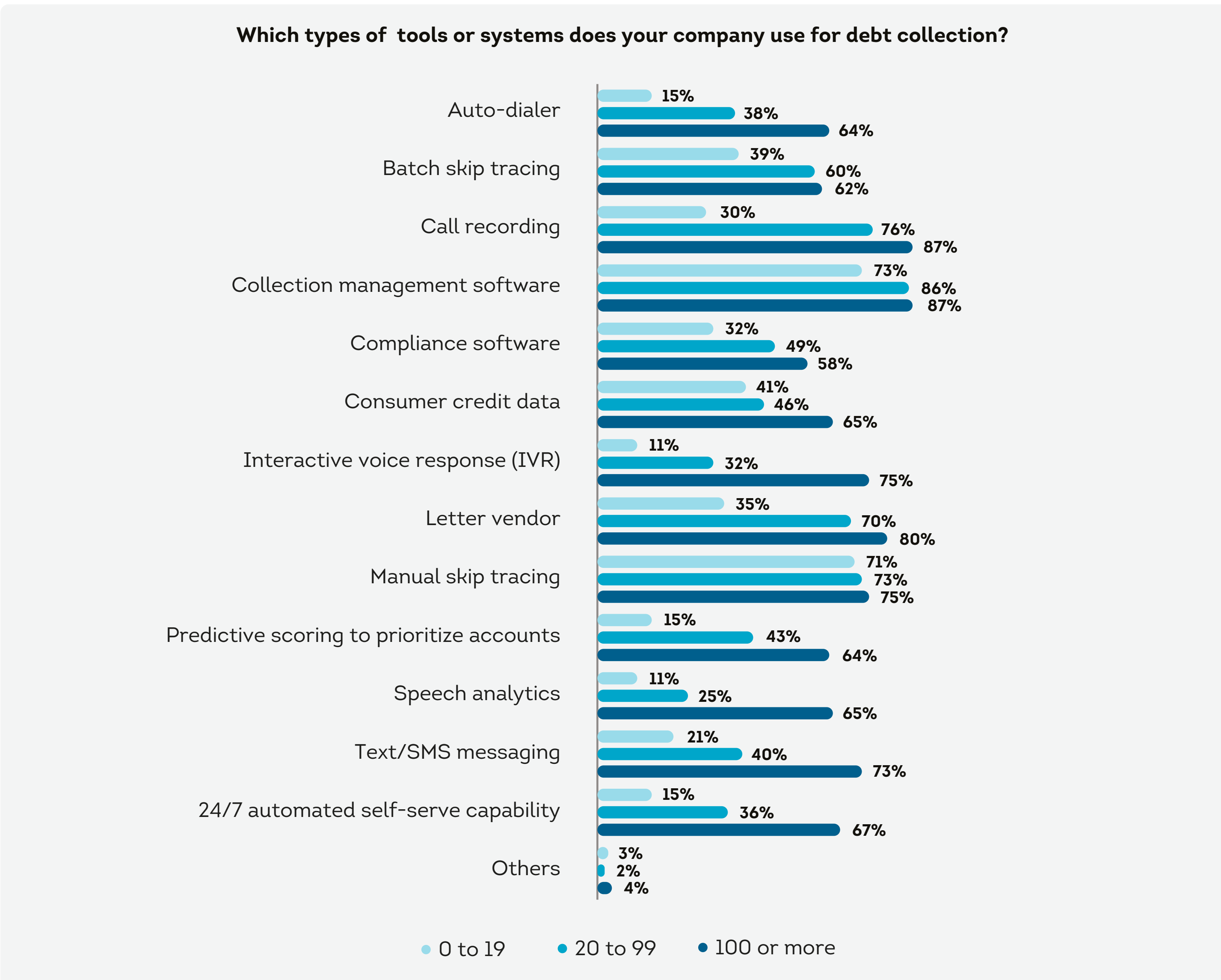
The Technological Toolset

Debt collection technology

More than half (52%) of debt collection companies are making **investments in technology, primarily driven by the need to enhance agent production and improve margins**[7]. This strategic focus for technology investments is evident in the diverse range of technological solutions being implemented to optimize agent performance.

The scale of investment in debt collection technology is closely correlated with company size. Smaller firms with less than 20 FTE are less inclined to invest in modern technology solutions, such as self-service portals, speech analytics, SMS/text messaging, auto-dialers and interactive voice response (IVR) systems. In contrast, **debt collection companies over 100 FTE are significantly more likely to make technology investments**, especially new communications related tools like auto-dialers, speech analytics, text/SMS messaging, self-service portals or voice IVRs.

FIGURE 32: Debt collection technology tools by FTE



[7] Figure 34 – Technology investment drivers for debt collection companies

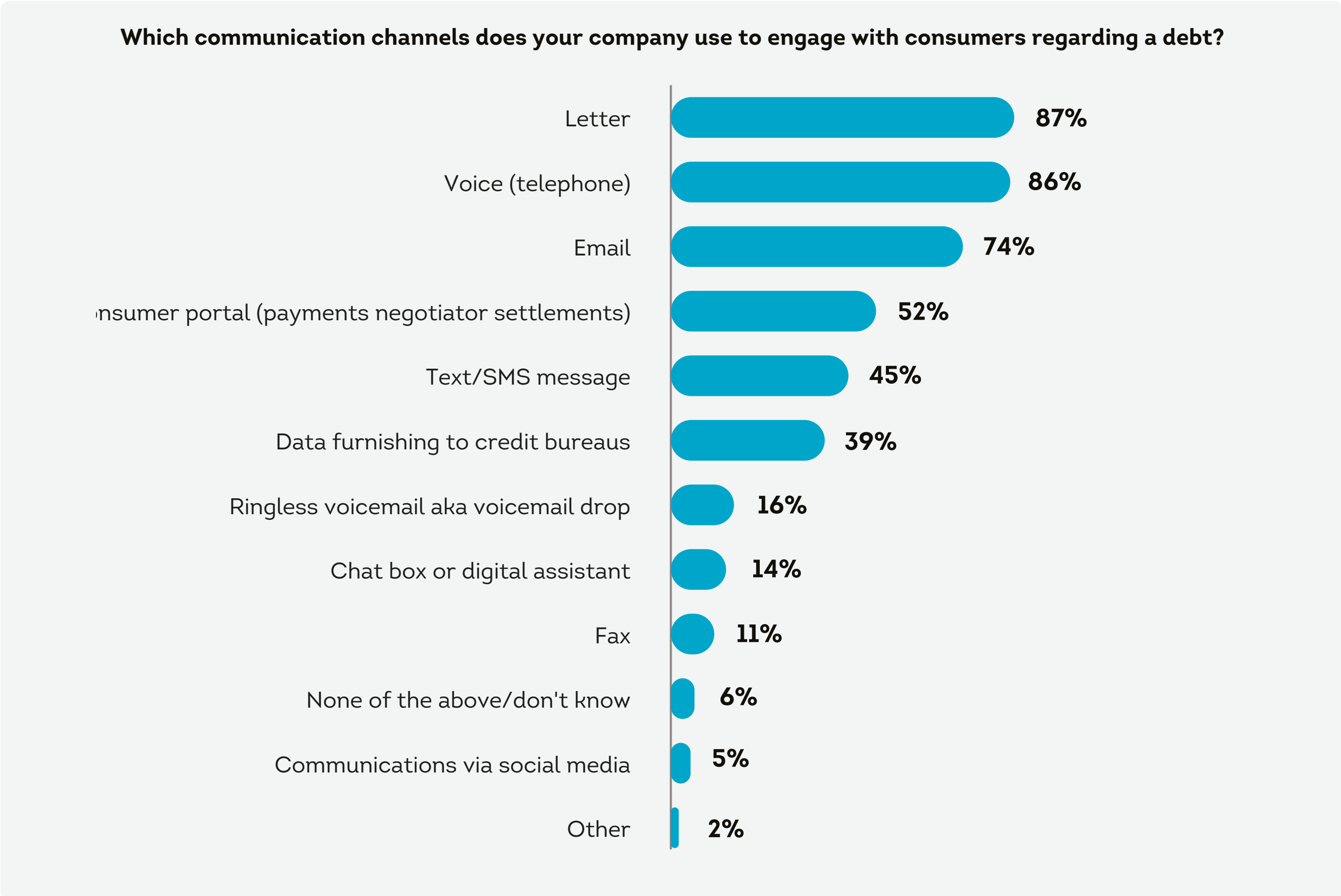
Communication tools

Consumer communication preferences continue to evolve, and the debt collection industry is starting to move more toward email and text messaging as viable channels for communicating. **Letters (87%) and telephone (86%) followed by email (74%) continue to be the most widely used communication channels for debt collectors**, partially driven by legal and regulatory requirements focused on these channels.

Email communications (74%) have continued to grow quickly with 6% more companies responding they've started using email as a channel this year, while growth of 5% was experienced for text/SMS messaging between 2023 and 2024. Companies continue to explore modern communication channels, but often face new challenges related to effectively integrating these channels into their collection strategies. For example, a debt collection company may find it more difficult to obtain a SMS short code approval to start sending text messages compared to the relative ease of starting to send email messages.

Only 39% of debt collection companies reported using data furnishing to credit bureaus as a communication channel to engage consumers regarding a debt. In 2023, 51% of respondents were using data furnishing, representing a decrease of 24% over the past year.

FIGURE 33: Debt collection communication channels

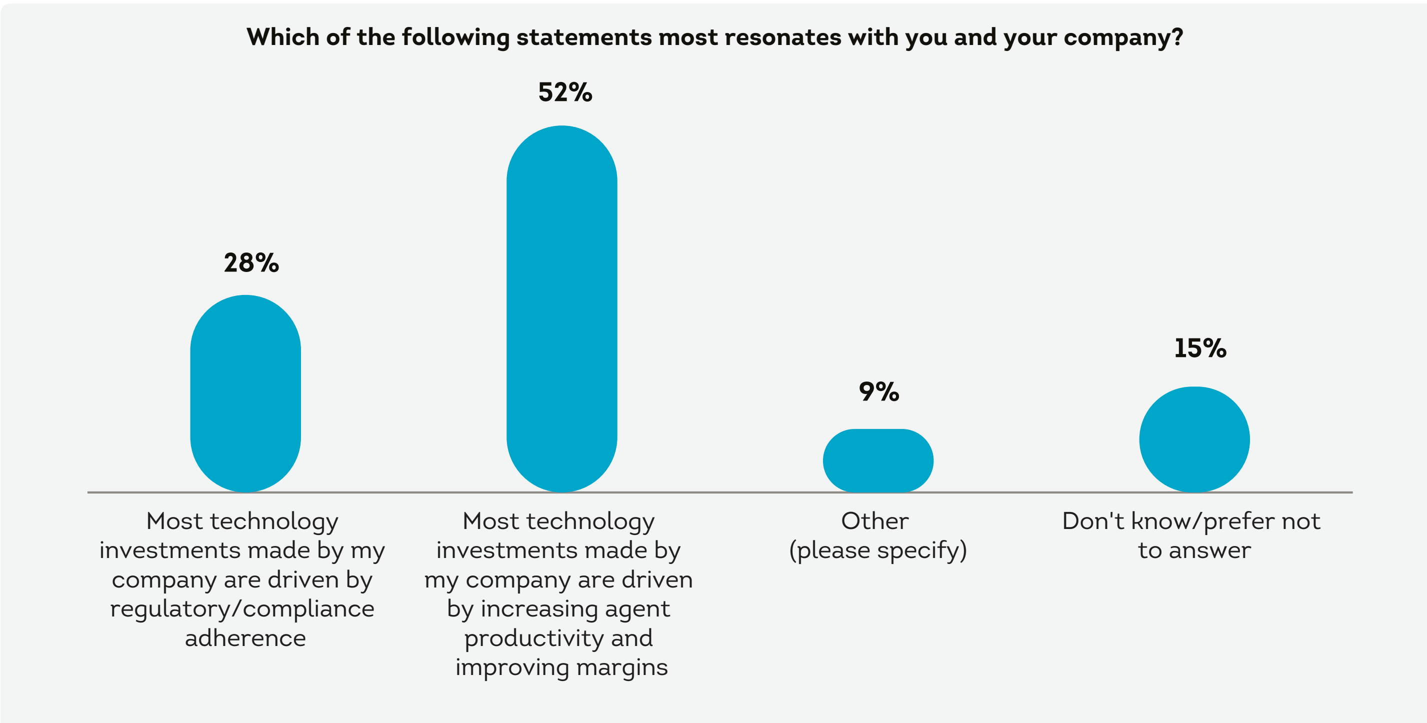


Technology investments

More than half (52%) of debt collection companies believed their technology investments are mainly being driven by a need for increased agent production and improved margins. Margin compression is affecting bottom-line profitability, and investments that amplify the value of each agent are being prioritized with the expected increase in account volumes and decrease in account liquidity.

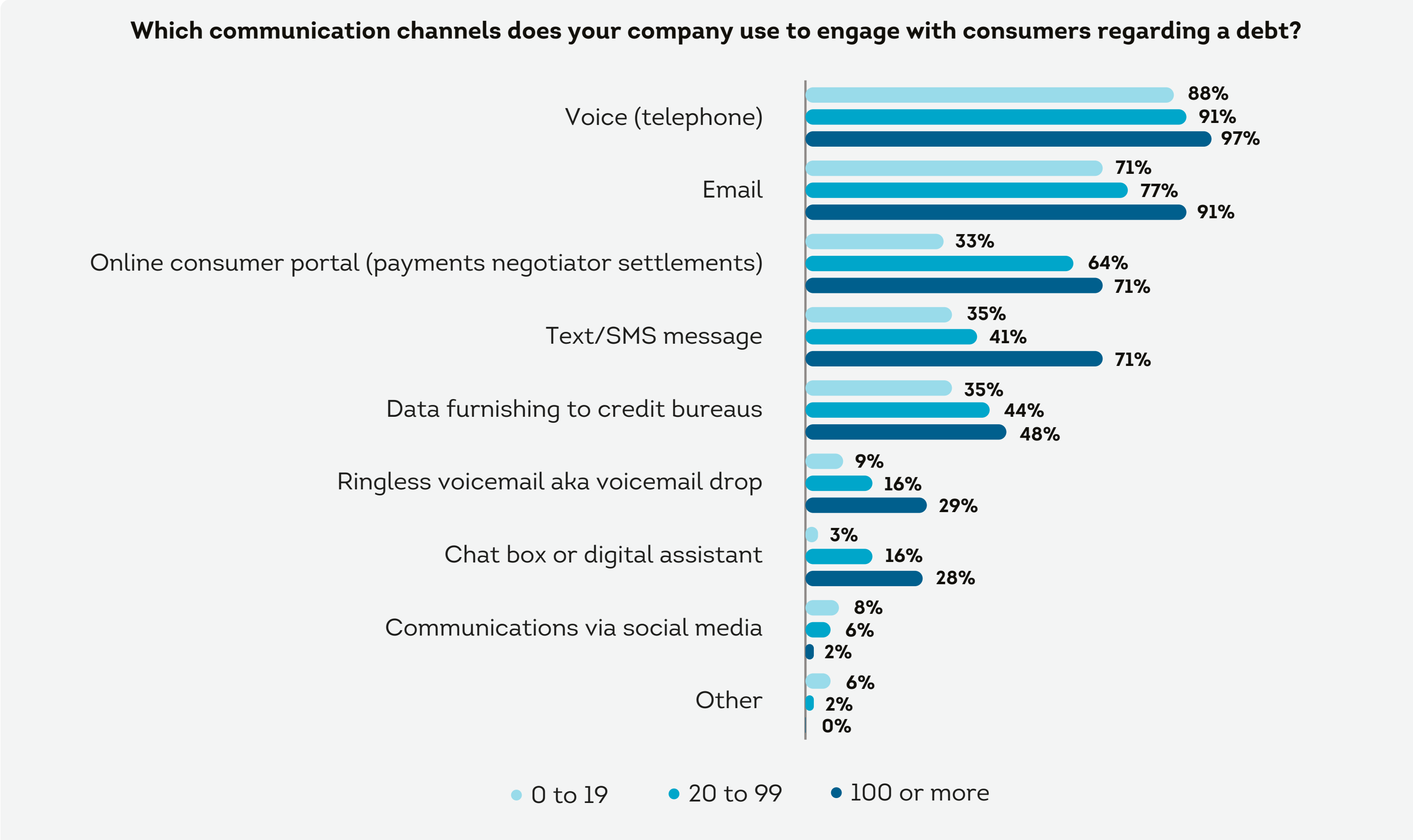
Twenty-eight percent of companies still believe regulatory/compliance adherence is driving their technology investments in the immediate future.

FIGURE 34: Technology investment drivers



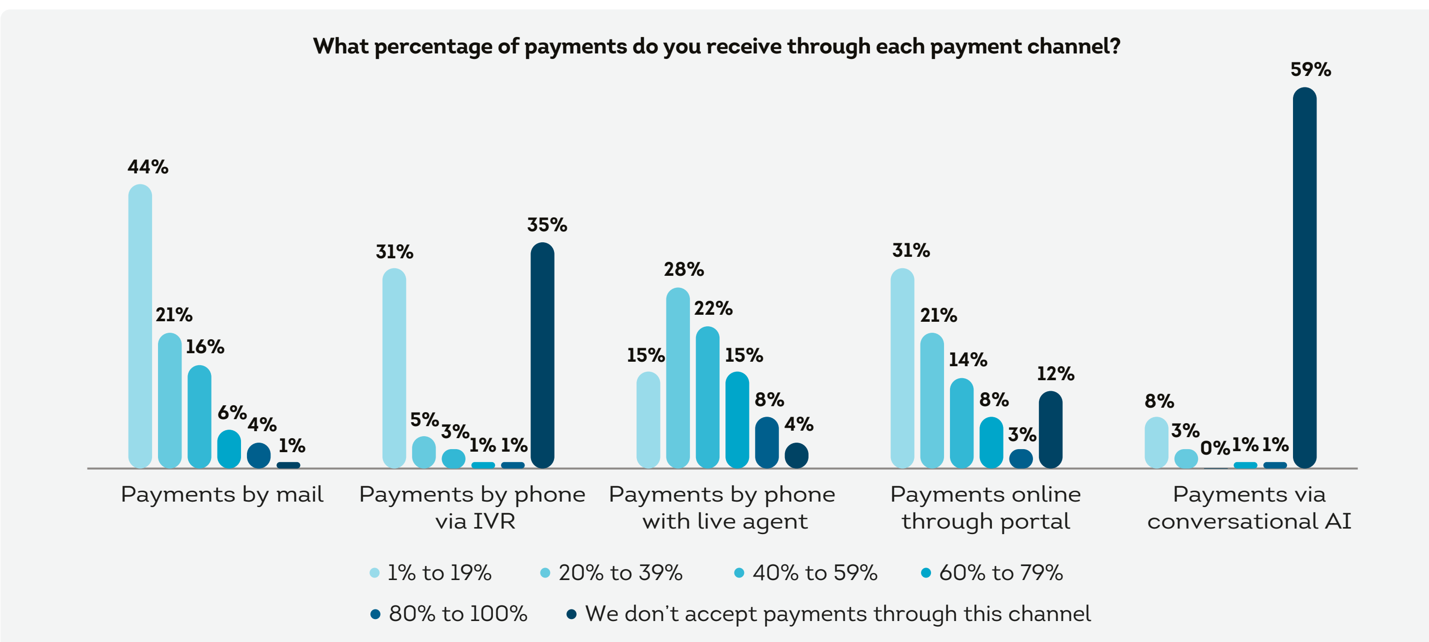
Larger companies are more likely to be using modern communication technologies with consumers, including text, email and online portals. Although more smaller companies under 20 FTE have started to adopt these modern communication methods, it has come at a slower pace than companies over 20 FTE.

FIGURE 35: Debt collection communication channels by FTE



The top communication channel for receiving payments remains **payments by mail (99%) and live collectors by phone (96%). Payments online through portal (88%)** is the most popular of the newer debt collection technologies, with companies larger than 20 FTE twice as likely to collect payments online.

FIGURE 36: Debt collection payment channels



Text/SMS message is significantly more likely to be deployed by companies with over 100 FTE. The infrastructure, data management and reporting for establishing a short code to effectively send through this channel requires a significant resource commitment. Larger organizations are generally better prepared and more likely to take on the challenges of this digital communication channel.

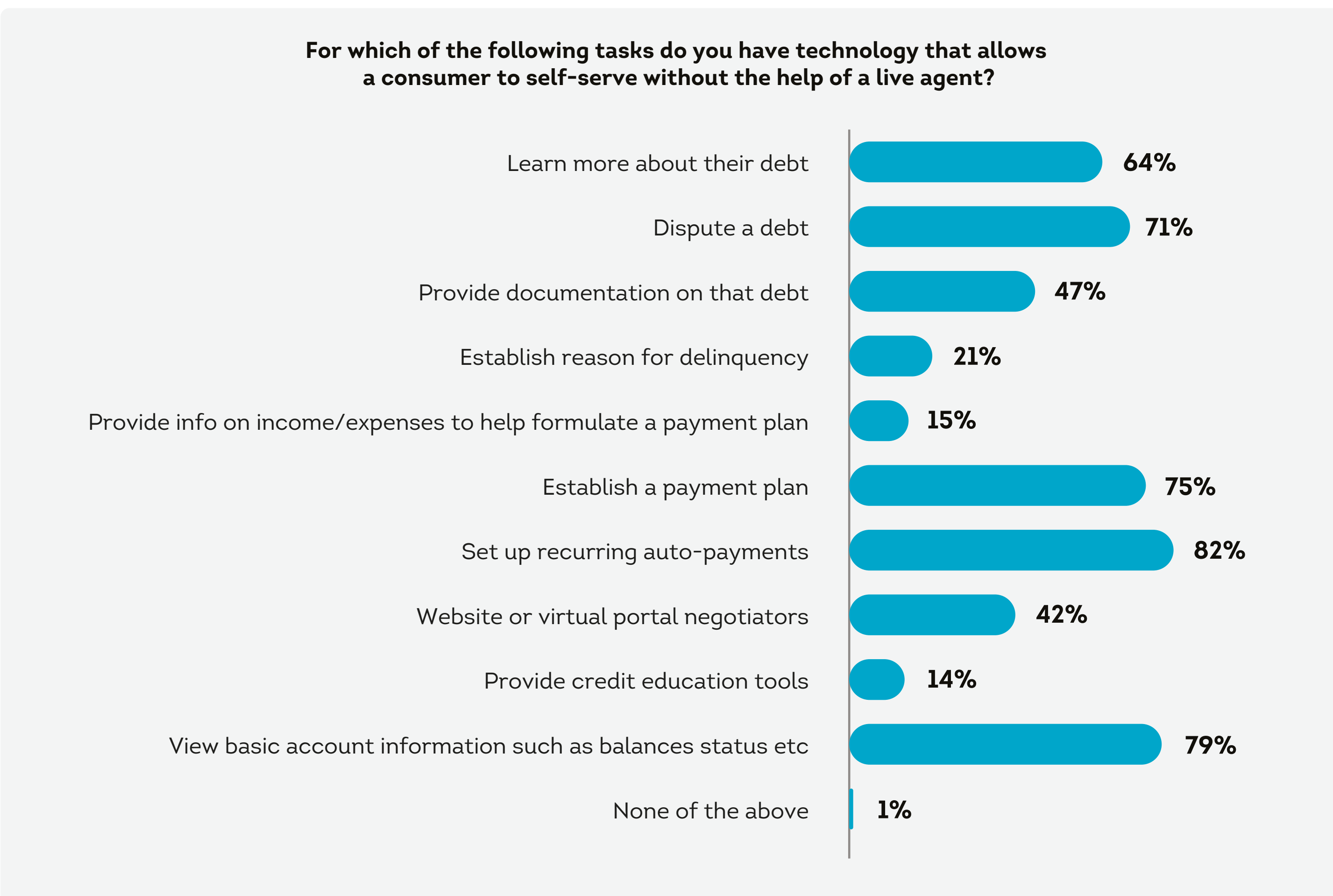
Self-service options

Self-service options for consumers to inquire about or pay their accounts have become an essential part of the debt collection process as the industry has continued to adopt more ecommerce style tools. Frictionless debt collection portals have increased in importance: **88% of debt collection companies reported having a self-service online portal** for consumers compared to 79% just last year.

The increased use of email and text/SMS campaigns drives additional traffic to online portals to engage with consumers. The investments into digital communication channels require an interaction point with the consumer like that of ecommerce websites consumers have grown accustomed to using over the last 10 years. Ecommerce in the B2C space has continued to grow from $540 billion in 2019 to an estimated $1.2 trillion in 2024, and debt collection companies are contributing to that growth.[8]

The most popular self-service features available on the online portals are aimed at enabling the **consumer to set up recurring auto payments (82%) or view information about their accounts (79%)**.

FIGURE 37: Self-service features

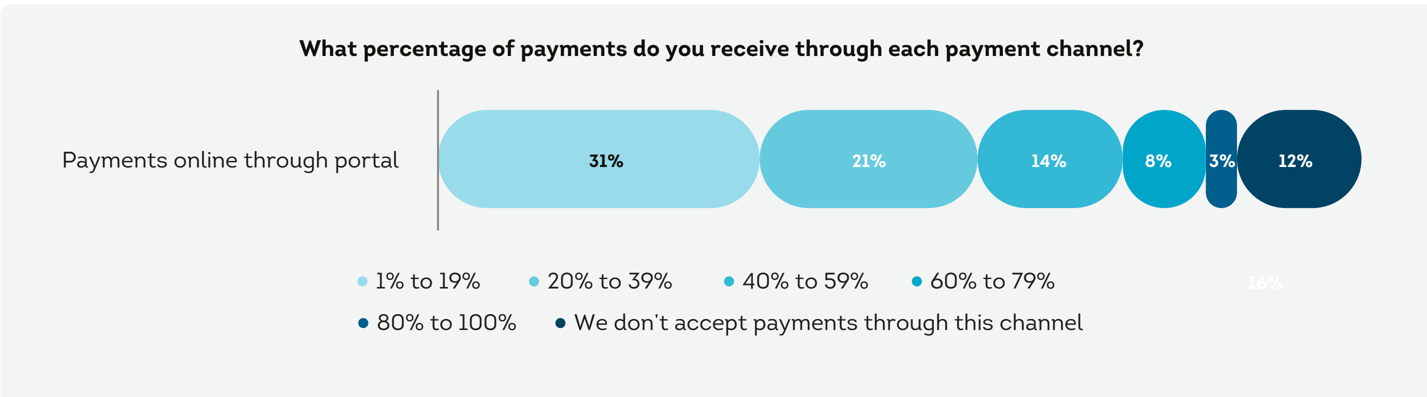


[8] Revenue of the ecommerce industry in U.S. 2019-2029 - Statista

Adoption of online payment portals has continued to climb with 88% of respondents using self-service payment portals in 2024 compared to 79% in 2023. **Only 12% of debt collection companies are not currently using online payment portals**.

This adoption is likely related to following consumer preferences, but also the adoption of SMS/text messaging and email as digital communications become a larger part of debt collection strategies. **SMS/text and email communications generally drive the consumer to the online payment portal to facilitate collecting payments** with minimum human friction. The move toward more online payments i s growing: 25% of companies are collecting more than 40% of their payments through the online portal channel.

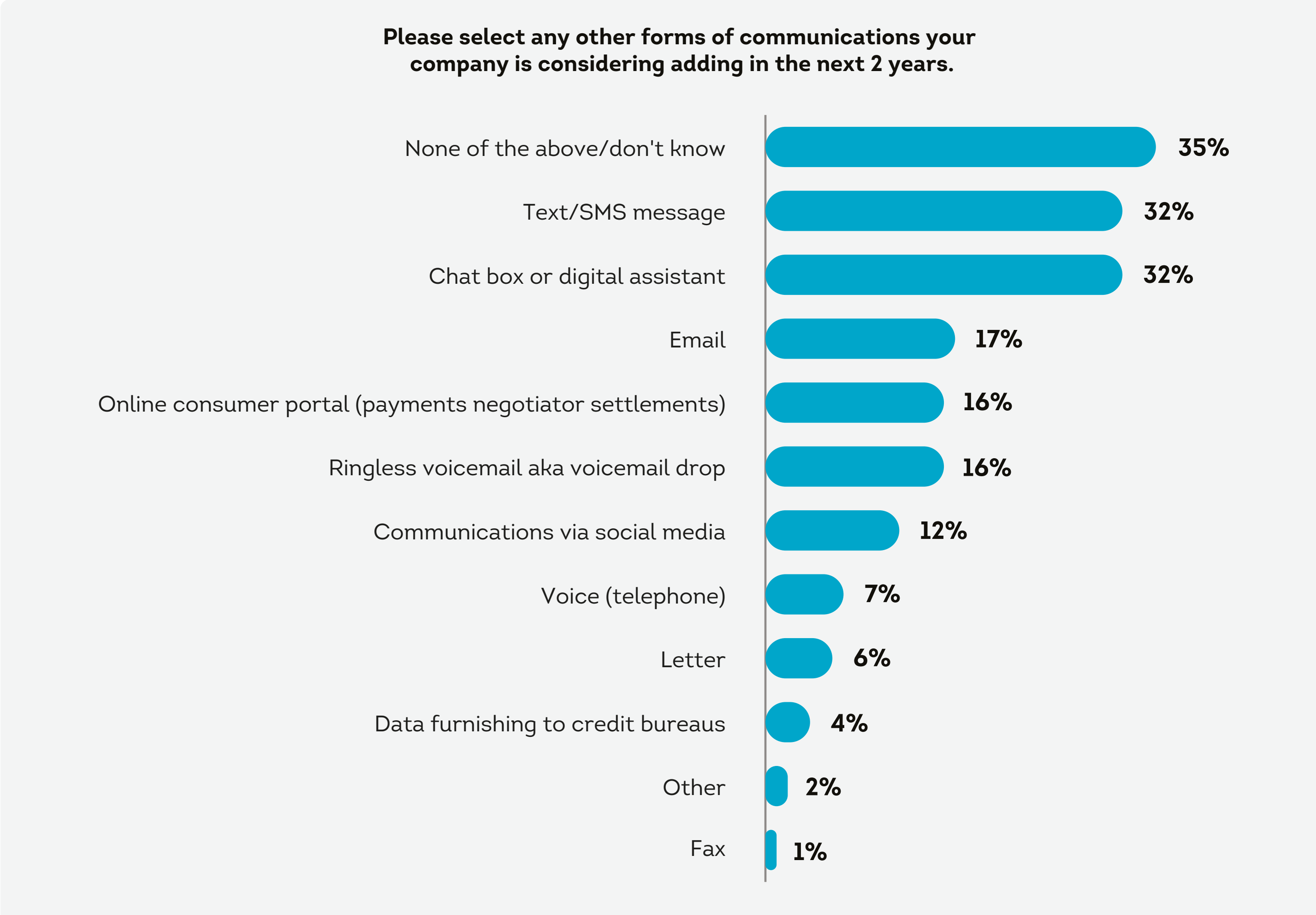
FIGURE 38: Payment % through online portal



Technology integration and adoption challenges and drivers

Almost half of debt collection companies are deploying new technology solutions to improve or expand their communication channels over the next two years, including text/SMS messaging (48%) and chat bots (48%). **Twice as many debt collection companies were expecting to deploy text/SMS messaging (32%) than email (16%) over the same time period**. This could in part be due to more debt collection companies already using emailing as a communication tool in their current practices. Over one-third of respondents were not expecting to deploy any new technology in the next two years or they did not know.

FIGURE 39: New debt collection communication channels



Artificial intelligence

Artificial intelligence adoption

Artificial intelligence and machine learning has continued to be underutilized by debt collection companies, although more organizations are exploring efficiency opportunities the technology may provide. In 2023, 40% of companies responded with "we have no plans to use it [AI/ML based technology]." However, as the deployment of AI/ML becomes more prevalent across industries, more companies are becoming open to the idea – with only 27% feeling the same way in 2024. This **33% shift toward an interest in exploring AI/ML based technologies** demonstrates reluctance to adopt this technology may be changed as new business use cases provide opportunities for organizational improvement and efficiency.

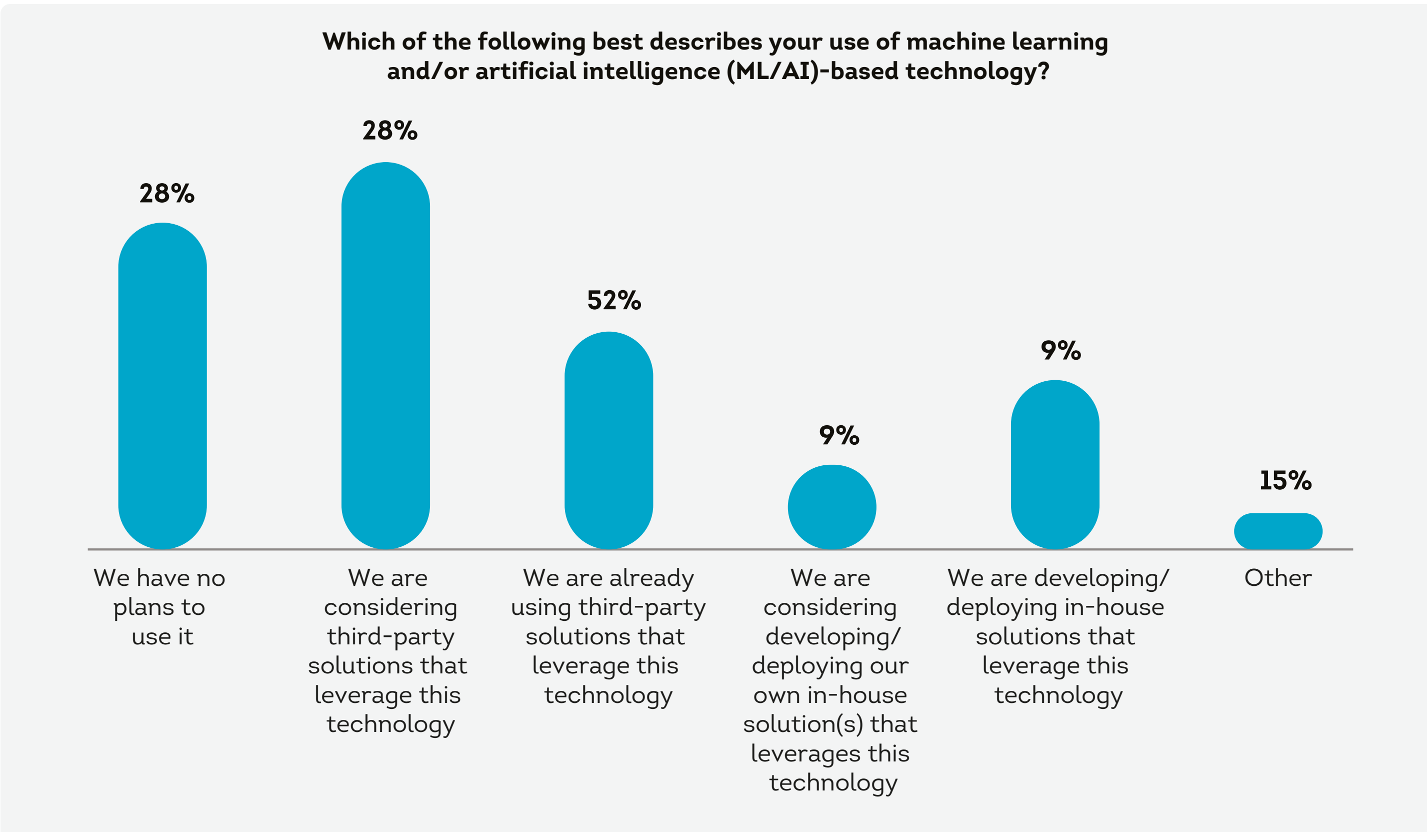
Adoption of AI/ML based technologies has also continued to grow by almost 40% (increasing from 11% to 18%) as companies find opportunities to either build new, in-house technologies or begin leveraging third-party tools available in the marketplace to solve specific use cases.

Adoption of AI/ML is currently focused on the use of third-party solutions that leverage the technology. **Half (50%) of debt collection companies were either using or exploring AI/ML technology through the use of a third-party vendor**, where only 21% of organizations were deploying or considering in-house technology solutions leveraging AI/ML.

The use case for conversational AI for debt collection companies has been growing but more slowly than other uses. **Sixty percent of companies reported not taking any payments through the conversational AI payment channel**. The slower growth in this channel may in part be due to the resources required for training and deploying this type of AI/ML technology.

Almost half of companies that had no plans to use AI/ML technology in 2023 are now considering third-party or in-house solutions. In 2023, 47% of companies had no plans to use the technology, down to 27% in 2024. The adoption of AI/ML in other industries and explosion of companies and solutions available in the marketplace may be driving this continued exploration of the technology.

FIGURE 40: Debt collection companies using AI/ML



The size of an organization is highly likely to affect the desire to adopt AI/ML tools in the debt collection industry. **Both FTE size and account volume both have an impact on the AI/ML strategy of a debt collection company**. Thirty-nine percent of companies acquiring or servicing more than 100,000 accounts are using either a third-party or in-house AI/ML solution while an additional 43% are considering a third-party solution that leverages the technology.

More than half (56%) of debt collection companies with more than 100 FTE are already using AI/ML technology. **This group of large debt collection companies are also the most likely to deploy an in-house AI/ML solution**. This may be driven by the capability of hiring dedicated data science teams, as well as the need to service more accounts.

FIGURE 41: Debt collection companies using AI/ML

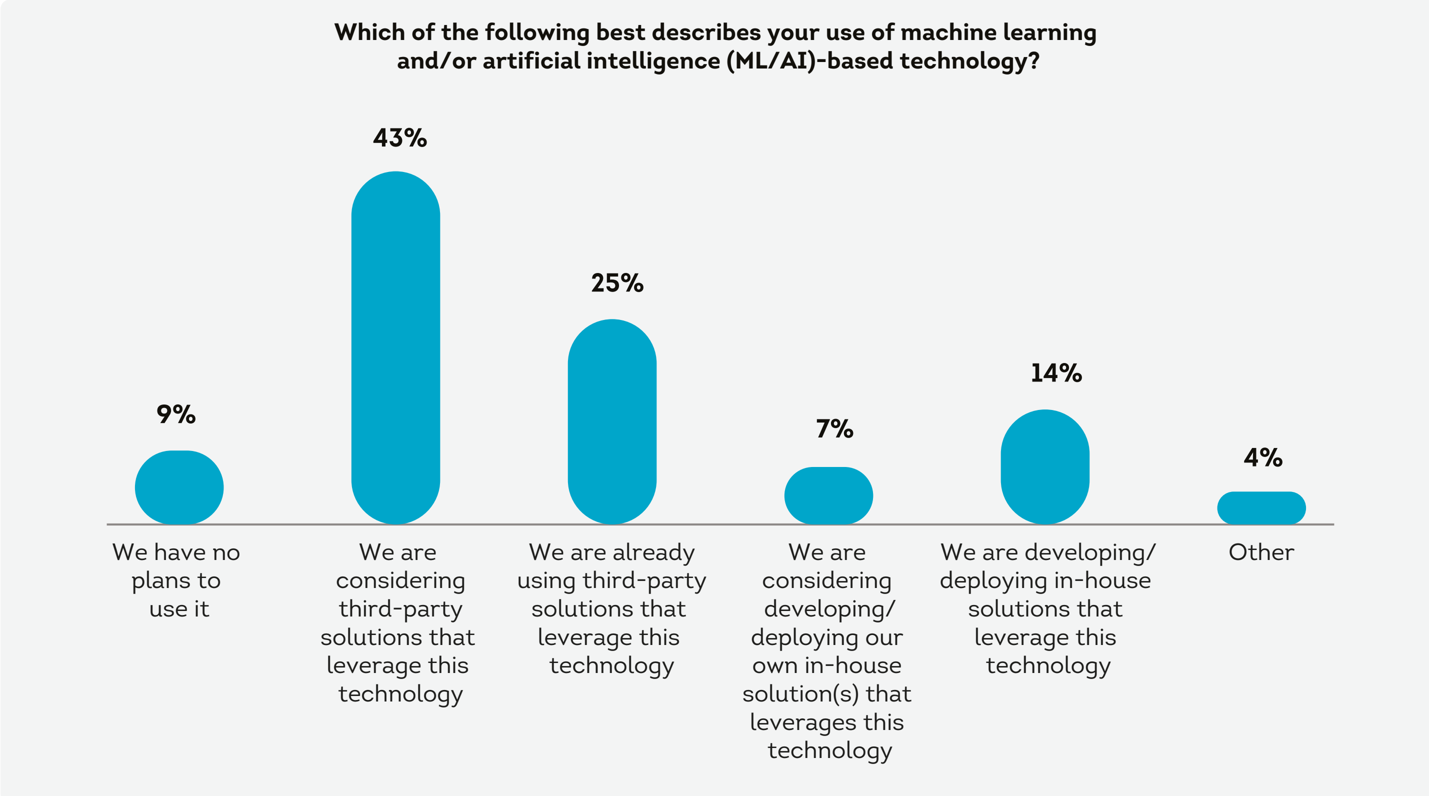
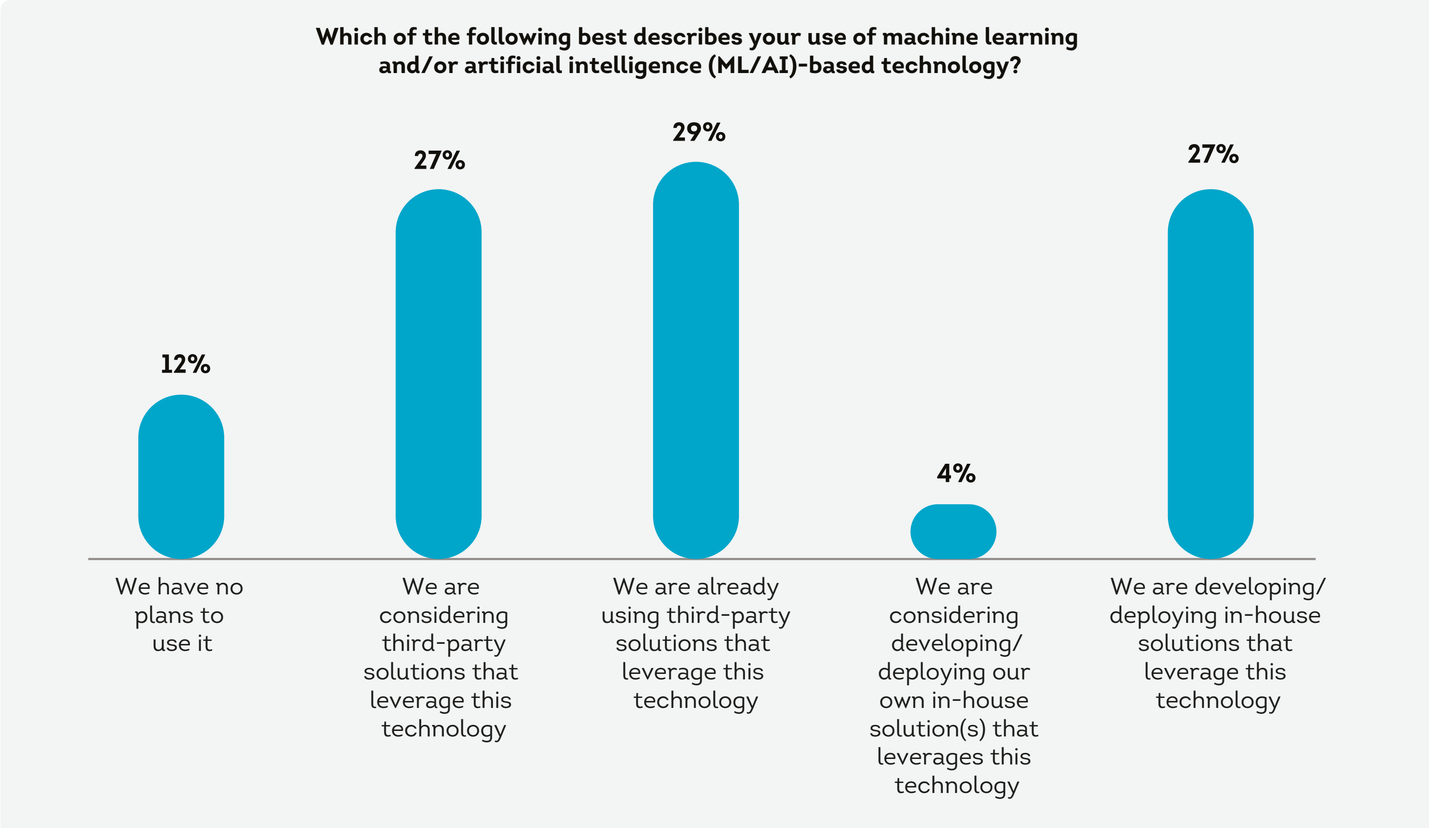


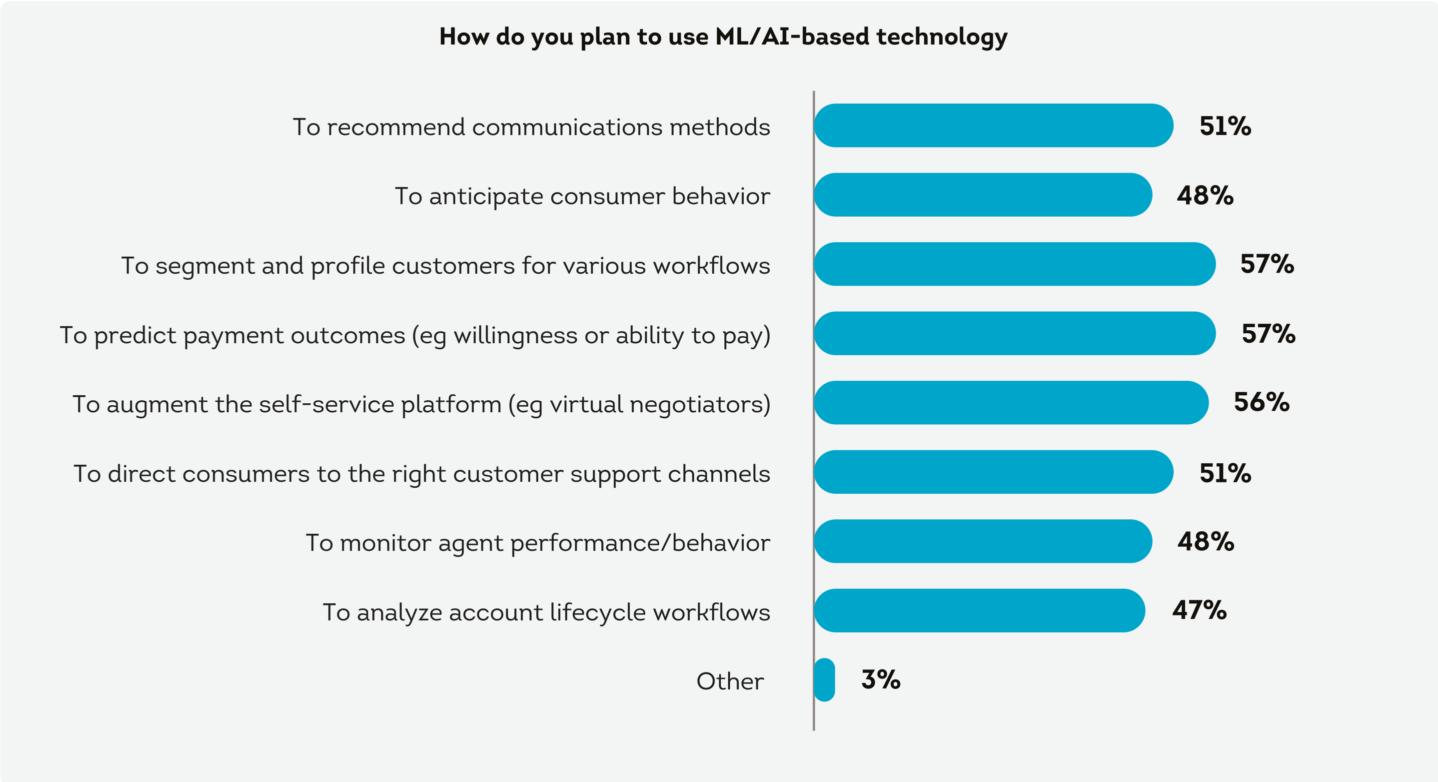
FIGURE 42: Debt collection companies over 100 FTE using AI/ML



Artificial intelligence use cases

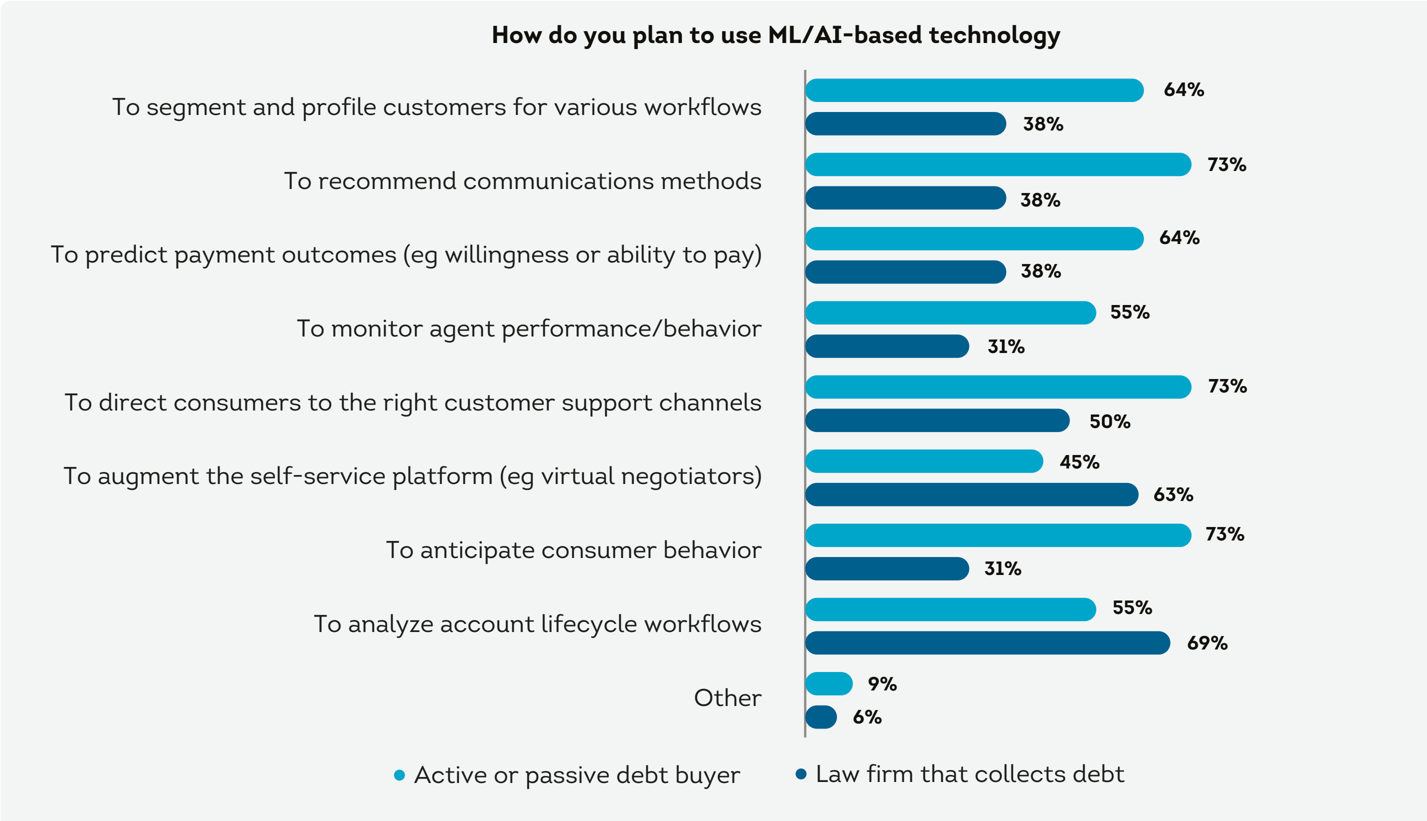
The deployment of artificial intelligence in the debt collection industry has been explored across a variety of use cases. **Debt collection companies have focused their AI/ML efforts on three main use cases:** predict and segment accounts (57%), predict payment outcomes (57%), self-service/virtual negotiations (56%).

FIGURE 43: Use cases for debt collection AI/ML technology



Different **debt collection company types are exploring the uses for AI/ML in different ways based on their approaches and positions within the credit account lifecycle**. Debt buyers are mostly focused on directing consumers to the right communication or support channels (73%), while debt collection law firms are more focused on using AI/ML technology to augment self-service platforms (63%) or analyze account lifecycle workflows (69%).

FIGURE 44: AI/ML use cases for debt buyers and law firms



Artificial intelligence budgeting

Of debt collection companies actively using AI/ML, 61% found their investments in the technology met or exceeded their expectations. **Larger companies with more than 100 FTE were more satisfied with their investments into AI/ML technology;** 71% of companies met or exceeded their expectations. Debt collection companies managing more than 1 million accounts were the most likely to be satisfied with their AI/ML investment with 80% meeting or exceeding their expectations.

FIGURE 45: AI/ML budget expectations

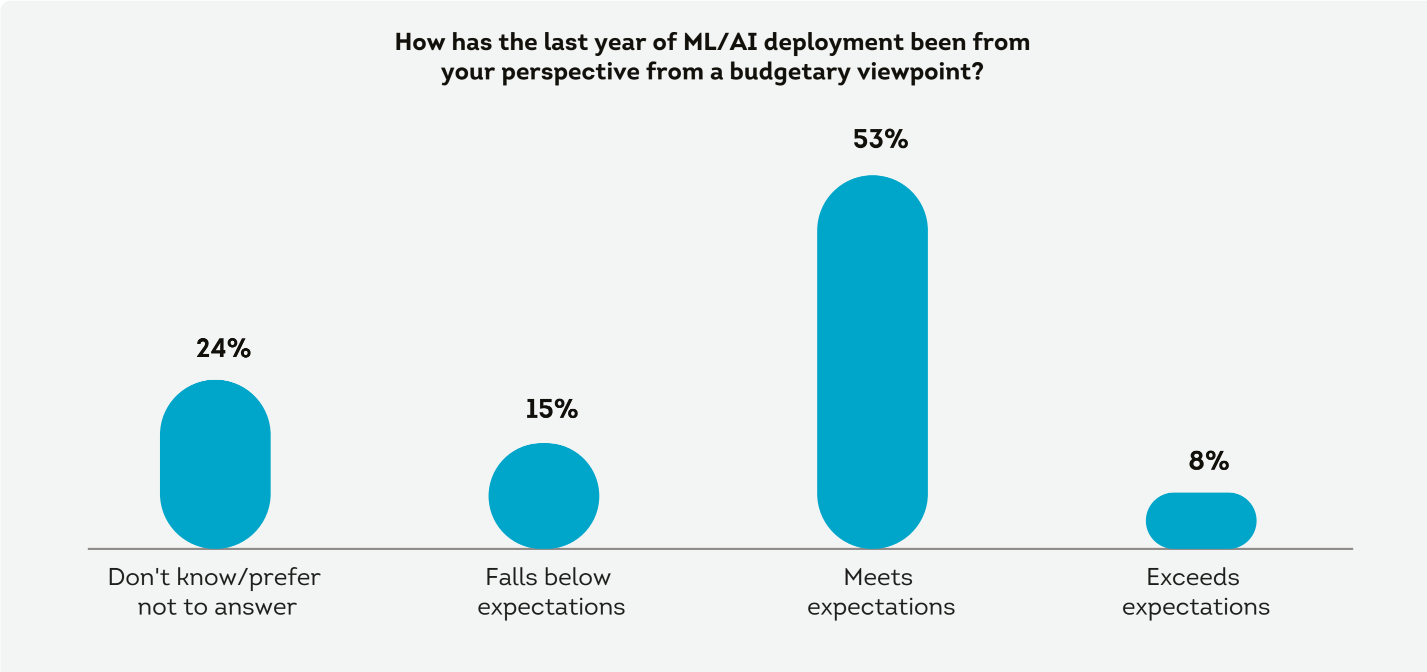
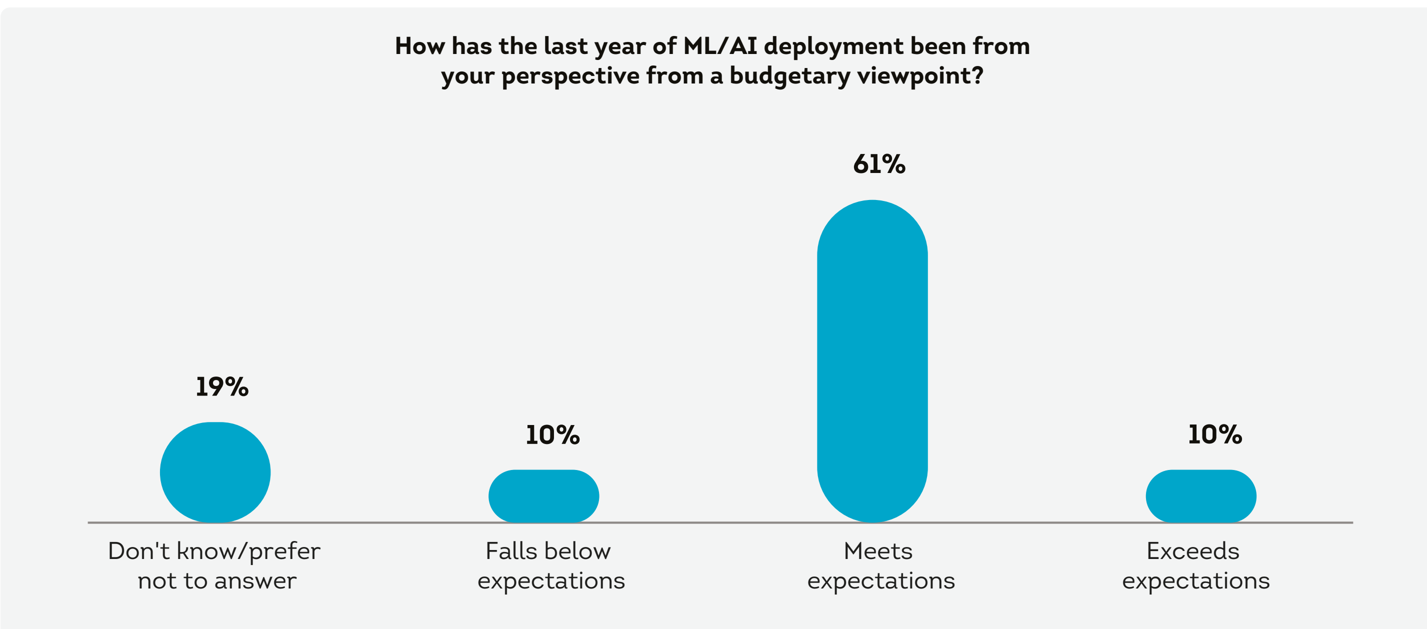


FIGURE 46: AI/ML budget expectations over 100 FTE



Liquidation Rates

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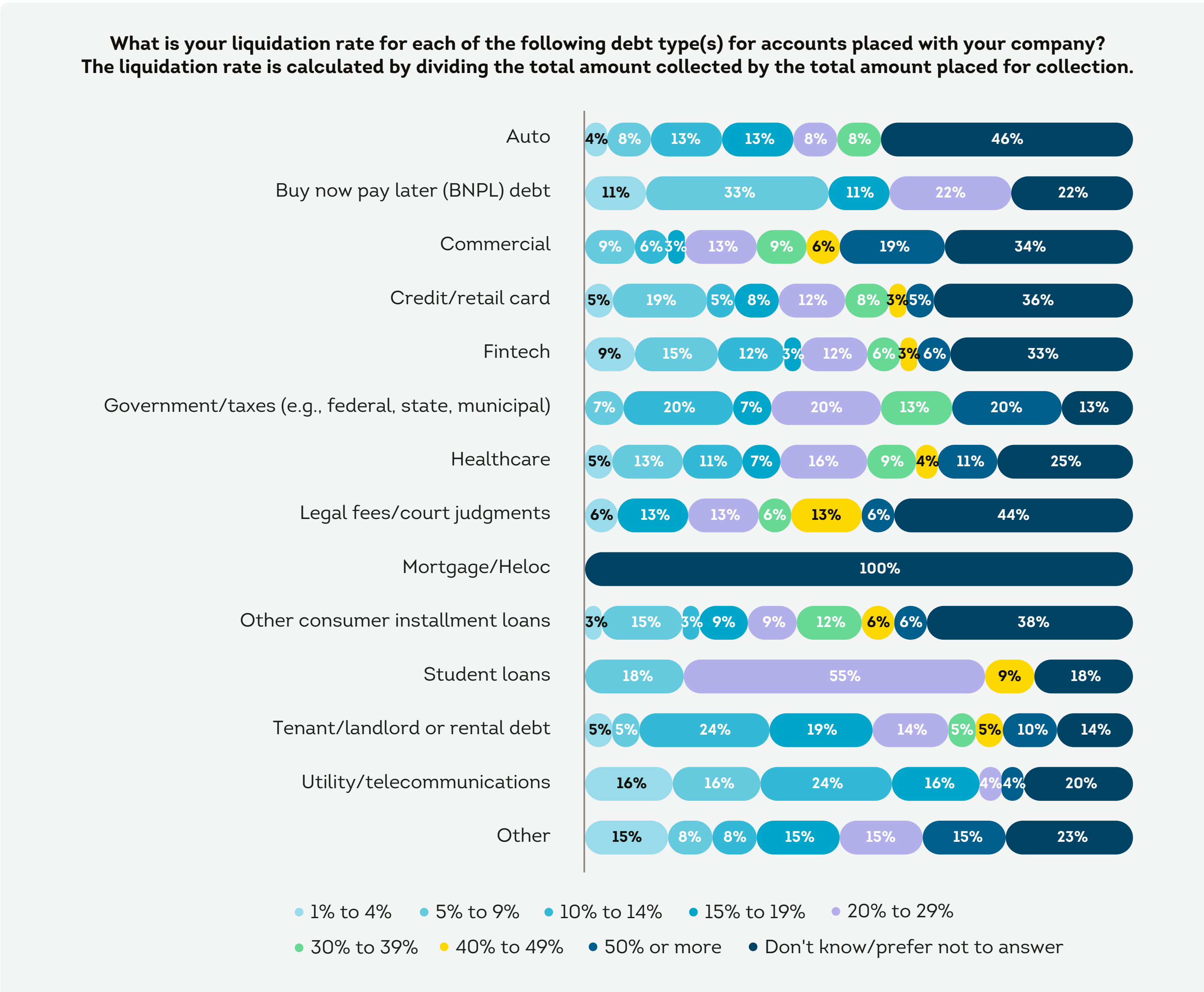
Liquidation rates

The underlying objective of debt collection companies is to liquidate portfolios by collecting outstanding balances. Liquidation rates are calculated by dividing total dollars collected by total dollars placed with or acquired by the debt collection company. **A variety of factors may dramatically impact the liquidation rates of an account portfolio**, including the original credit product type, geographic location, account age and work treatment history, among other factors.

FIGURE 47: Liquidation rates



Across the entire debt collection industry, liquidation rates for the top credit product types, including commercial (19%) and healthcare (11%), were reported to liquidate at better than 50%, but the majority was significantly lower.

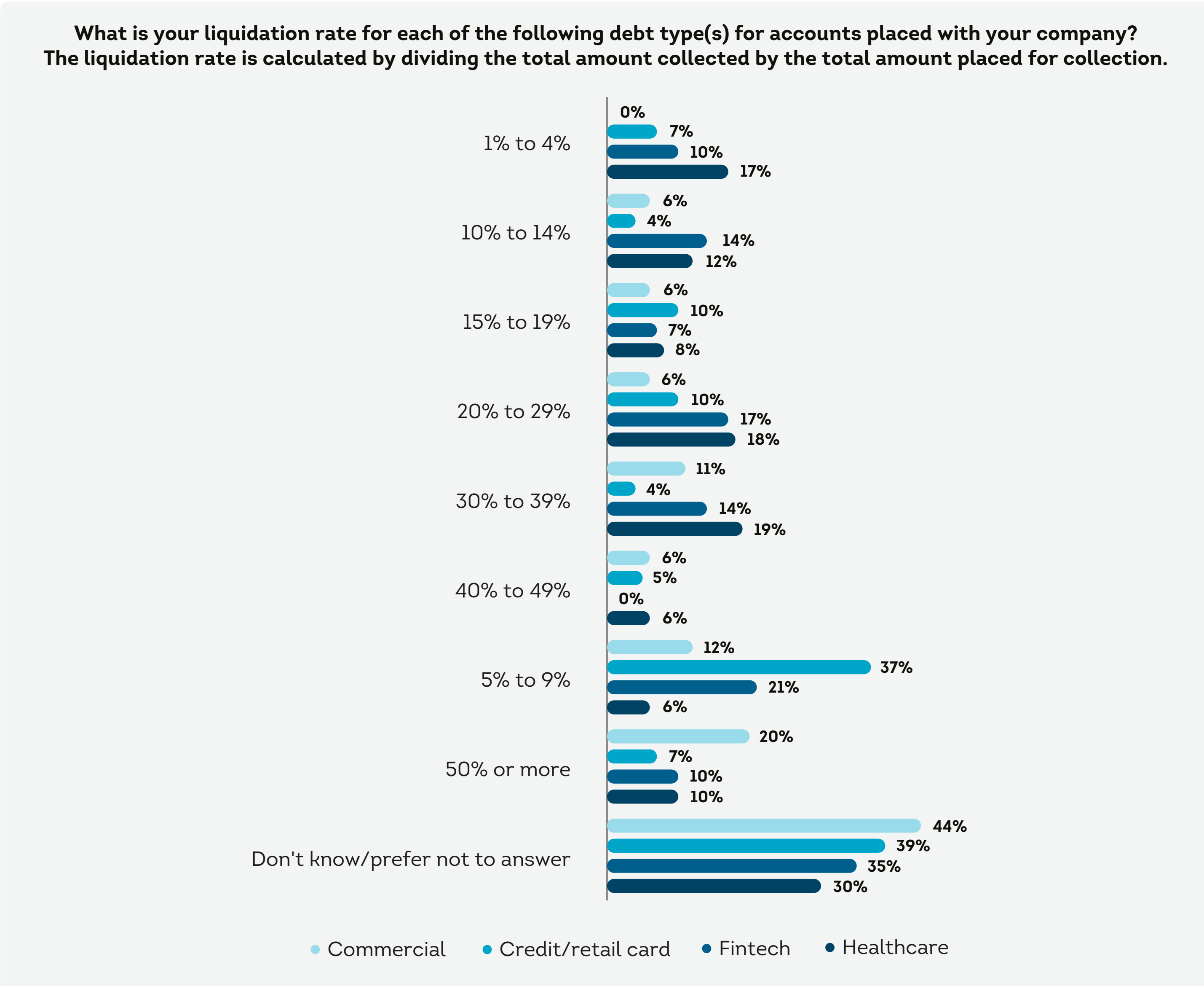
Liquidation rates across credit products, including FinTech and healthcare, have increased over the last year. This growth may be at least partially fueled by the increase of inventory in the marketplace.

Automotive loan liquidation remained consistent, and the debt collection industry has just begun to see the flood of auto related accounts in the ecosystem in the latter half of 2024.

Installment loan default rates have continued to increase over the last 12 months, although liquidation rates appear to have remained consistent across 2023 and 2024 survey results.

Healthcare receivables liquidation has also remained consistent across 2023 and 2024 surveys, although many in the industry expect that to change as less (and potentially all) medical accounts are no longer included in credit reports.

FIGURE 48: Liquidation by product type



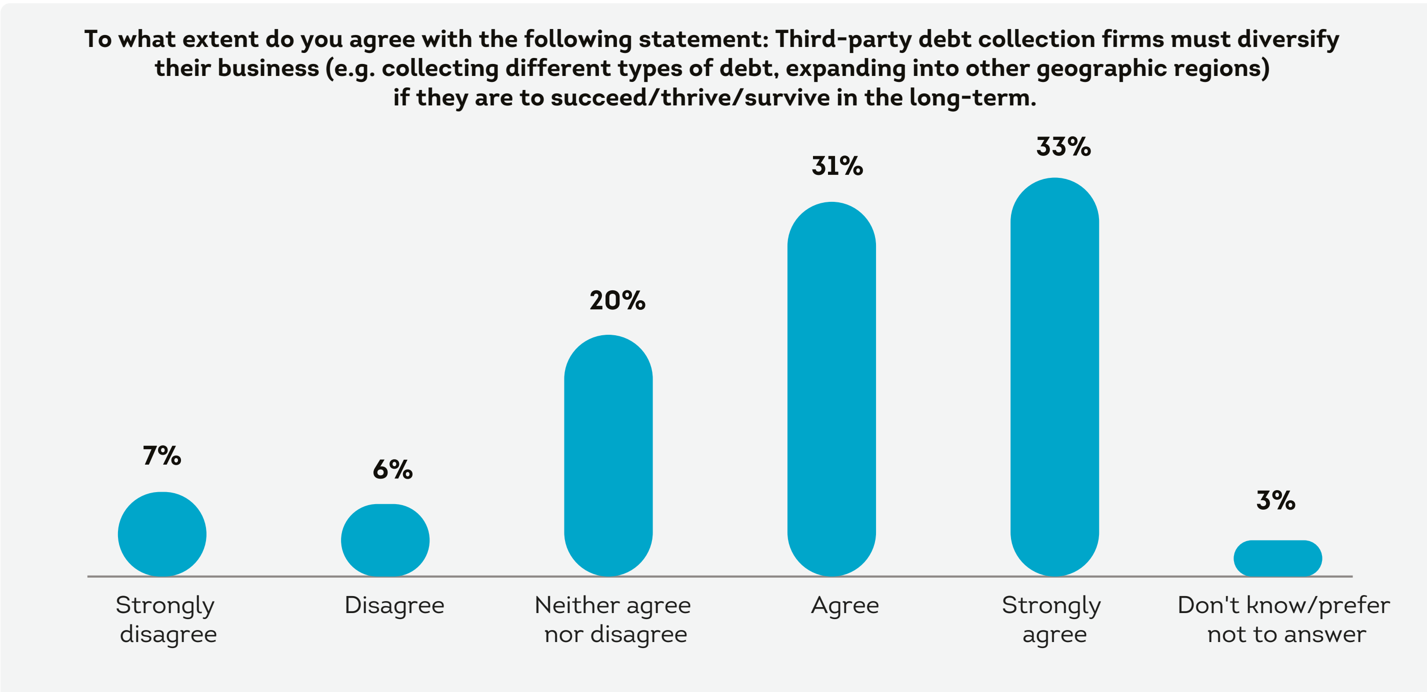
Diversification and the Need for Change

Diversification and the need for change

Changes in accounts and business strategies

Almost two-thirds (64%) of debt collection companies agreed their companies need to diversify their businesses to survive/thrive in the long term. Regulatory challenges and increasing labor and technology costs – coupled with tightening fee structures – is leading debt collection companies to diversify their service offerings.

FIGURE 49: Need for business diversification



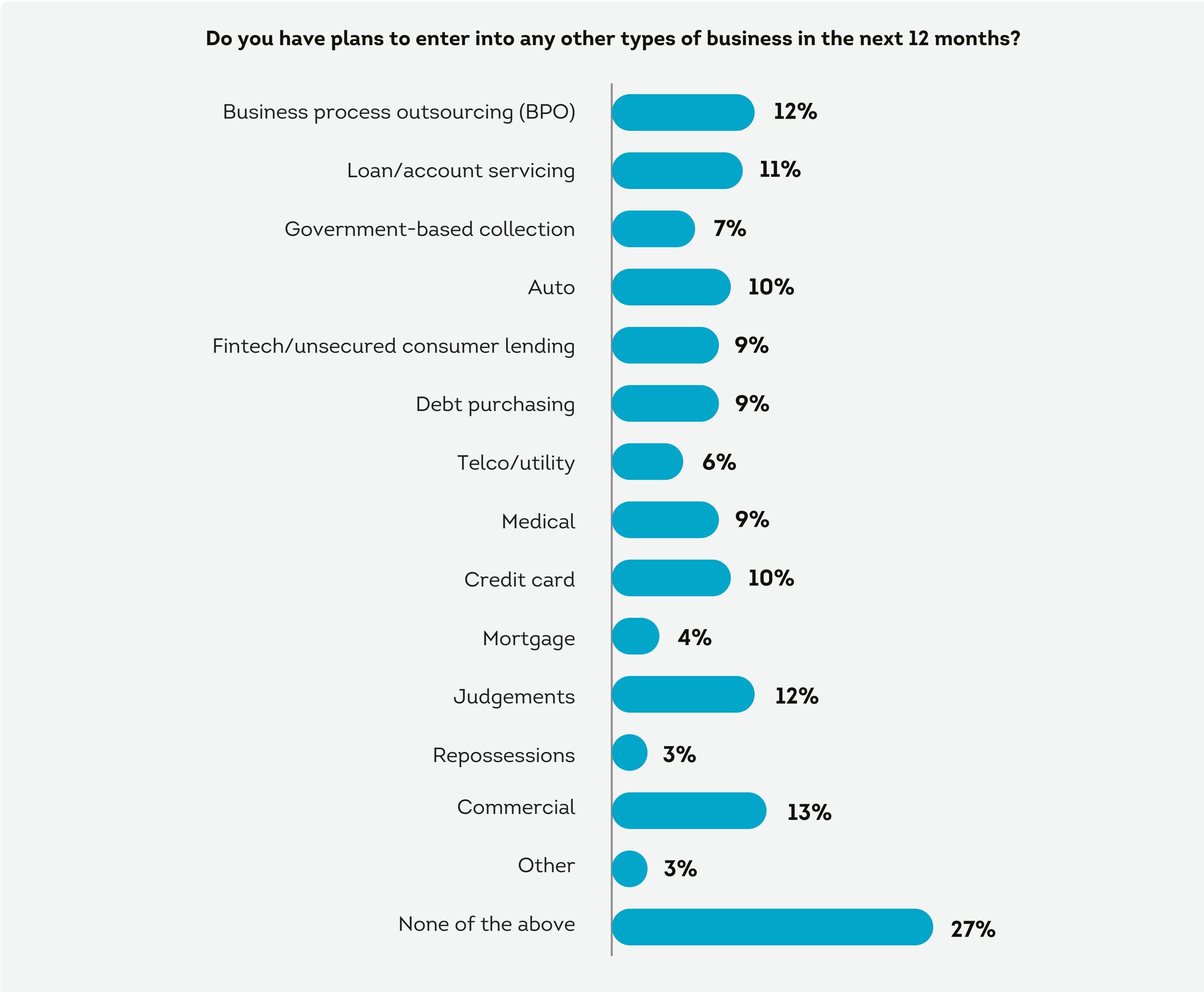
Considering other business areas

Debt collection companies have started looking at business opportunities that enable them to leverage their existing resources through economies of scope. **Using the same resources and knowledge to provide new service offerings to generate new cash flow** may be seen as the path of least resistance for debt collection companies to diversify. Twenty-seven percent of responding debt collection companies stated they had no plans to move into any other type of business in the next 12 months.

Although different types of debt collection companies may approach the problem differently, the expansion from consumer credit products into commercial (13%) is in focus for all company types.

Exploring opportunities to expand the geographic footprint of their services or focusing on new credit products provides the path of least resistance for some debt collection companies. Others may look to move up the debt lifecycle by providing BPO/customer service type offerings or managing servicing of performing accounts. Debt collection companies already have much of the required infrastructure in place to assist consumers both pre- and post-delinquency, making it a natural service by which to find growth.

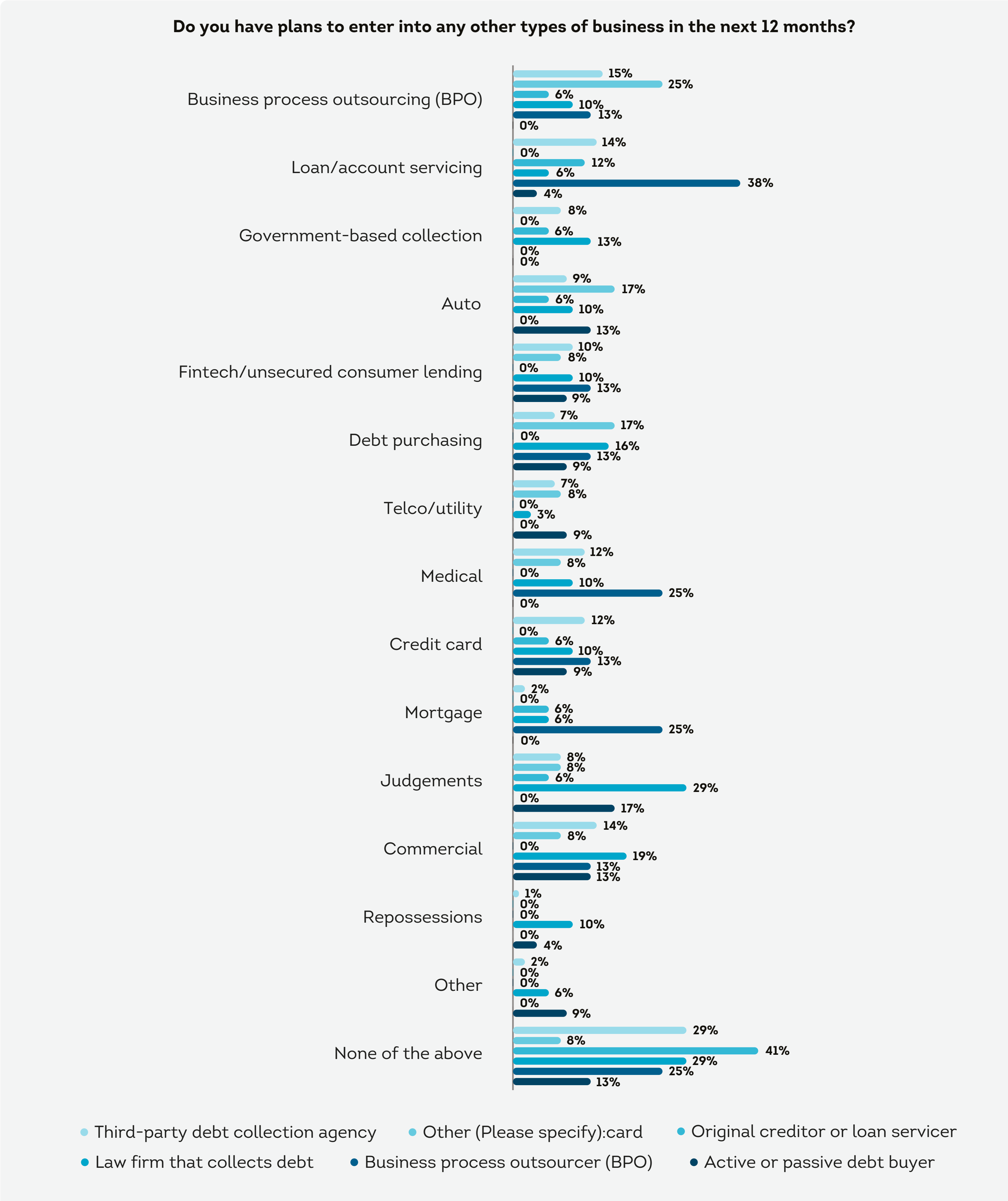
FIGURE 50: Business diversification opportunities



Business diversification preferences appear to be based on the underlying core competencies of the company types. Debt buyers (17%) and attorneys (30%) were focused on product and geographic expansion into judgments, focusing on their core competencies of data management, skip tracing and judgment enforcement.

Call center-focused companies like collection agencies were more focused on leveraging their core competencies into business services like business process outsourcing (15%), loan servicing (14%) or moving into commercial (14%) credit product types.

FIGURE 51: Business diversification opportunities by company type



Appendix: Respondent and Company Profile

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Appendix: Respondent and company profile

The survey received 225 responses from 80% ownership, c-suite executives and directors at debt collection companies. More than 60% of survey respondents were owner/president or a c-level executive.

The respondent company types were majority third-party collection agencies (47%) – but also law firms that collect debt (17%), debt buyers (13%) and creditors (9%).

FIGURE 52: Respondent role at company

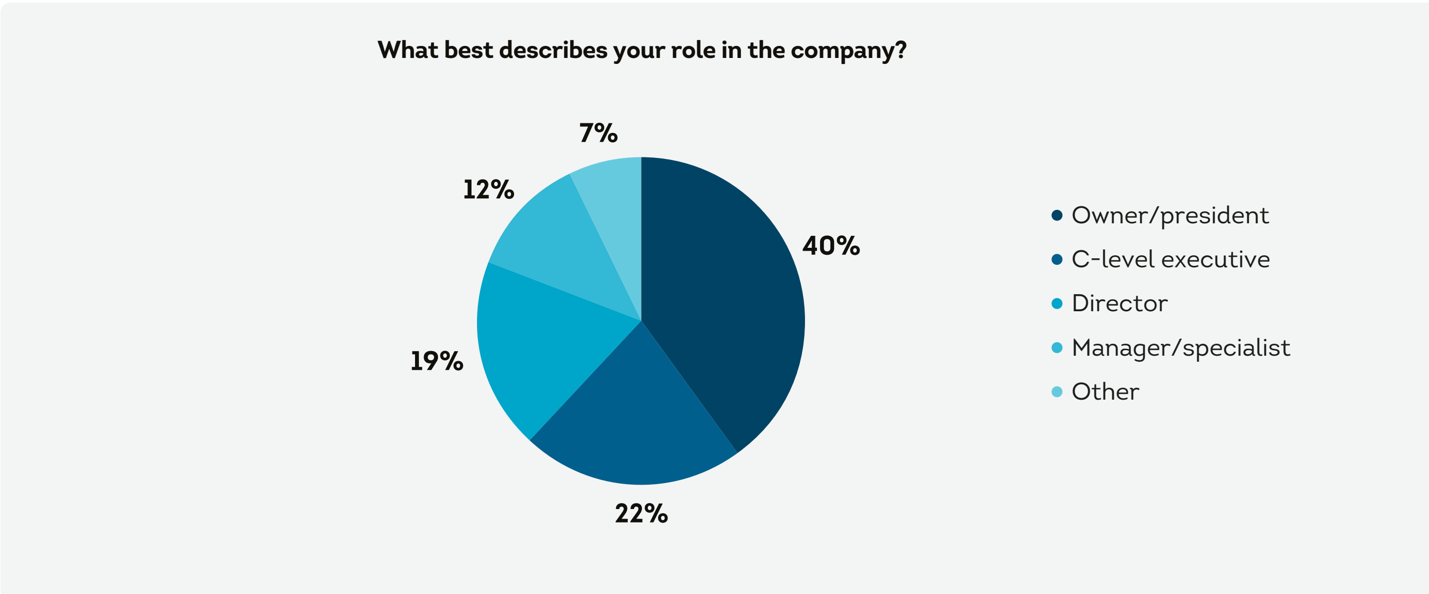
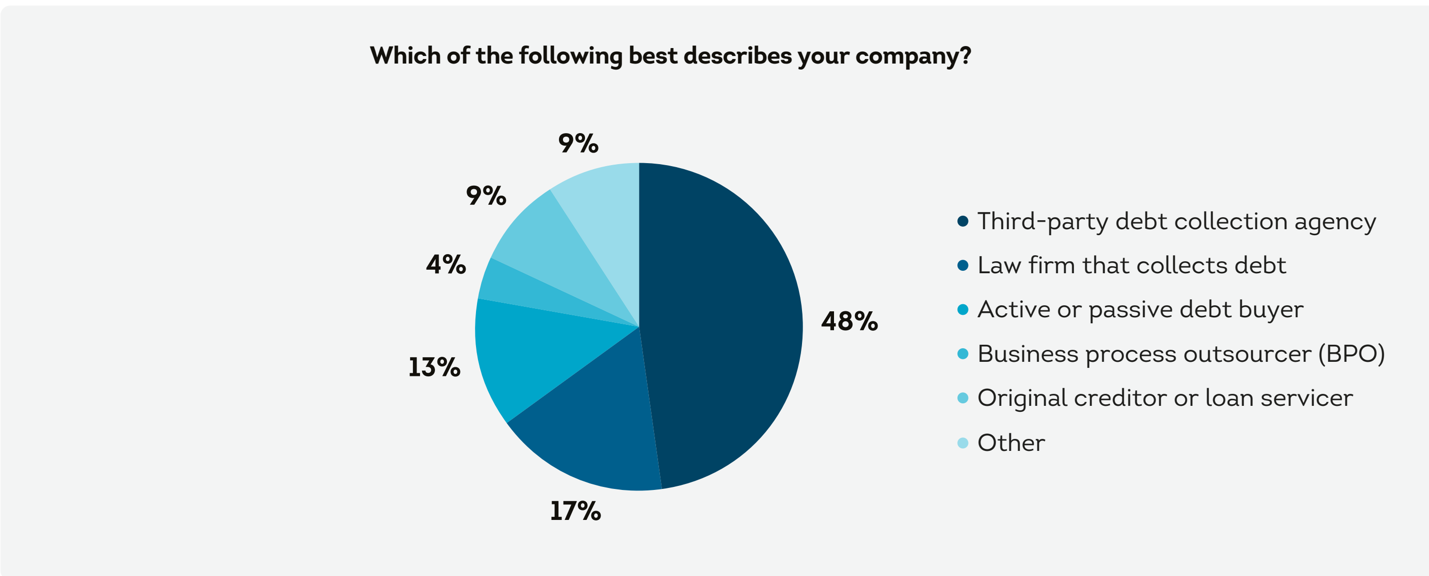


FIGURE 53: Respondent company type



Debt collection companies participating in the survey represented a diverse mix of company sizes based on FTE. A relatively even mix of companies over 100 FTE (29%), between 20 to 99 FTE (33%) and companies less than 20 FTE (37%) were represented in the 2024 survey results.

Participating debt collection companies were almost evenly distributed across account volumes as well. Forty-seven percent of companies reported fewer than 100,000 accounts in the last 12 months, while 52% acquired or serviced more than 100,000 accounts in the last 12 months.

FIGURE 54: Respondent by FTE

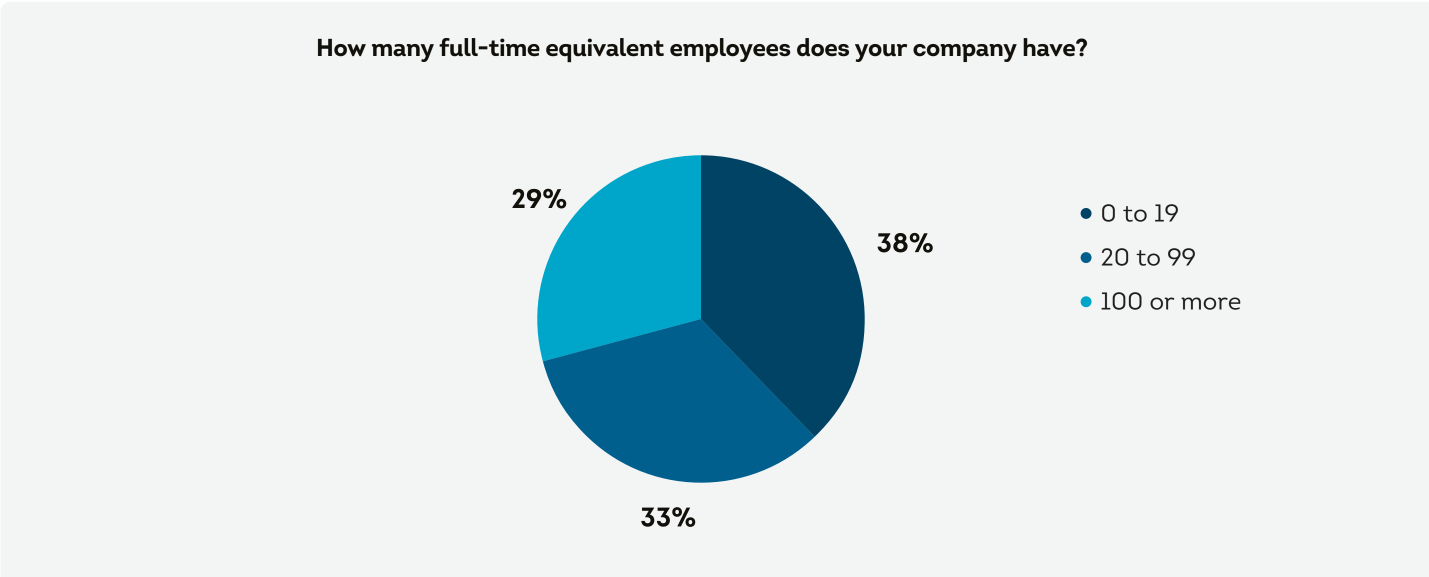


FIGURE 55: Respondent by account volume

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