2025 State of Collections Study

Part One: *Costs and Challenges Facing Collections Teams*

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Collectors face mounting pressure to control costs

Amid rising rates of household debt and delinquency, first-party creditors and collection agencies are facing more pressure than ever to control costs and enhance operations efficiency. Both first- and third-party collectors are experiencing increasingly complex cases, evolving consumer communications needs, difficulty enhancing their collection processes and a shifting regulatory and compliance landscape.

First-party collectors, in particular, will need to adapt to rising scrutiny from increasingly risk-averse regulators.[1]

Given this unique convergence of challenges, we wanted to learn more about how first-party creditors and collection agencies are planning to allocate their resources in the near future. So, we surveyed a broad range of first- and third-party collection teams. We identified five key insights emerging from our research.

PART ONE

In Part One of our two-part report, we dive into how lenders and third-party collection agencies are navigating current challenges, what their concerns for the future are and where they plan to focus their investments moving forward.

- Enhancing collections efficiency will remain a high priority for first-party creditors- and third-party agencies.
- Organizations are planning strategic investments in data acquisition, security and fraud prevention and systems integration to improve efficiency.
- First-party collectors will likely focus their efforts on augmenting technology and streamlining procedures, while third-party collectors are looking to enhance the consumer experience.
- Regulatory compliance and repayment program eligibility remain the key factors affecting consumer engagement priorities.

PART TWO

Part Two will explore the ways in which evolving contact strategies are shaping those investments and resource allocation decisions.

- Communications strategies need to evolve due to changing consumer preferences.

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NOTE: We will use original/first party creditors interchangeably with first-party collectors throughout this piece

Survey methodology and demographics

In October 2024, we worked with Celent, a leading research and advisory firm, to survey 156 first- and third-party collectors. Participants included banks, credit unions, business process outsourcers, debt collection law firms, debt buyers, and third-party collection agencies.

The respondents ranged in size from one employee to more than 100,000, with representation across the following asset classes: personal loans, Buy Now Pay Later (BNPL), credit cards, mortgages, home equity loans, student loans, auto/boat/RV loans, medical debt, government related debt and utilities. For more information on the survey methodology, refer to Celent's report.

What current industry challenges are most important to collectors?

The prevailing theme across the responses regarding current challenges was one of complexity.

Layers of complexity to modern collections efforts:

- Increasing intricacy of disputed cases
- Evolving consumer behaviors
- Difficulty enhancing processes and systems
- A shifting compliance ecosystem

For example, disputing a collections claim is slightly easier than it used to be, in part due to regulatory changes. The Consumer Financial Protection Bureau now allows some claims to be challenged after the 30-day dispute window has closed, and the Fair Debt Collections and Practices Act places strict disclosure obligations on collection teams who initiate debt recovery steps.[2] It stands to reason that the industry can expect more complex disputes as a result.

These trends show no sign of slowing down anytime soon, as delinquencies are expected to rise in 2025, albeit at a slightly slower pace than in the past few years.[3] While this will place pressure on collectors, it also means that organizations who invest in becoming more efficient may be able to position themselves to capitalize on the situation. *[See Figure 1]*

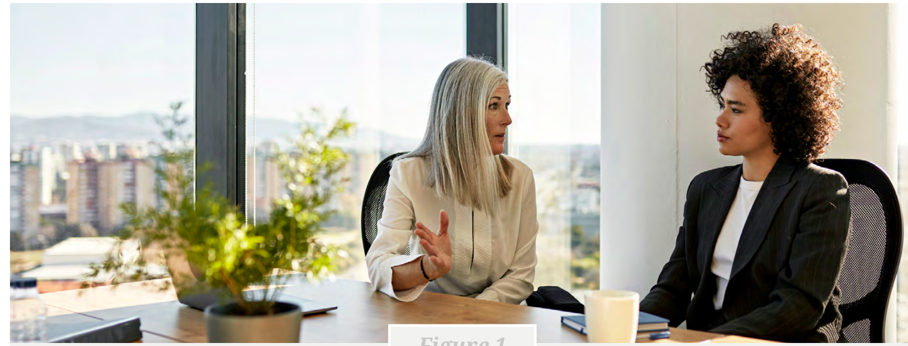

Figure 1

Which of the following are the biggest challenges facing your business at the moment?

This data represents responses from first- and third-party participants.

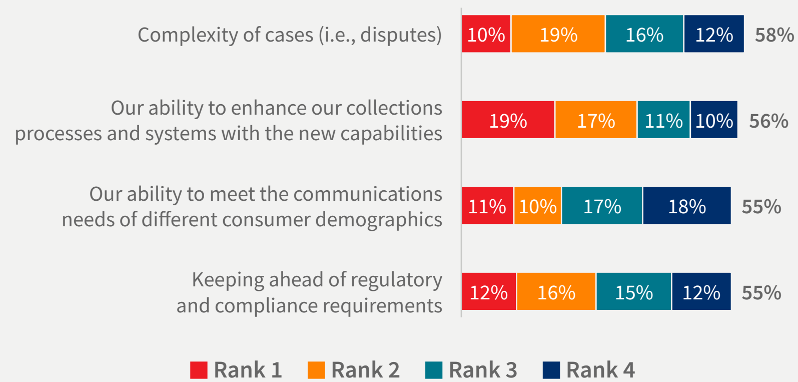

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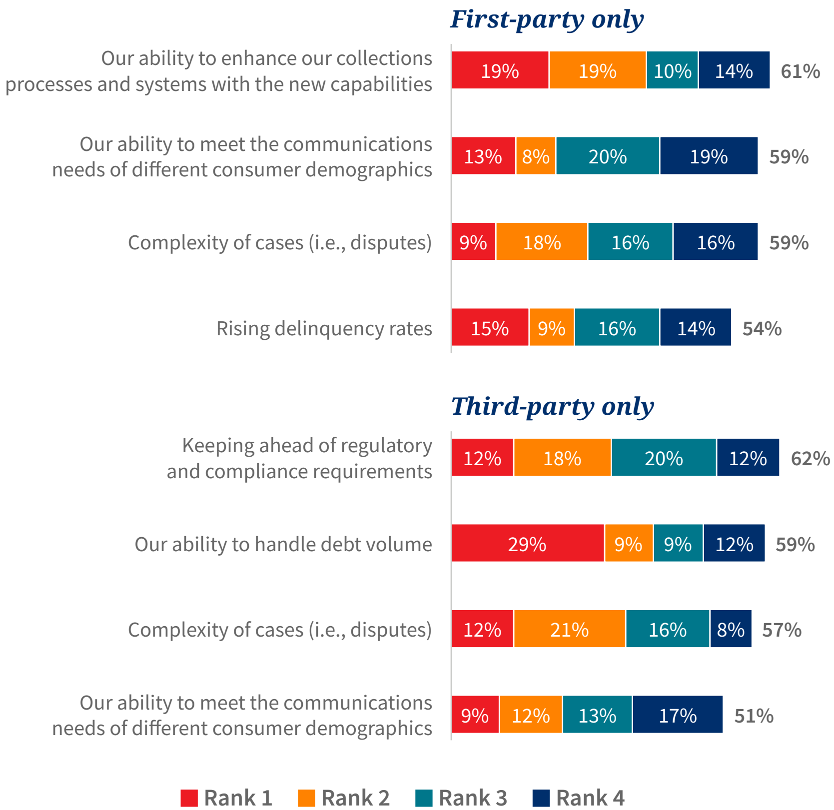
Figure 2

Which of the following are the biggest challenges facing your business at the moment?



Exploring distinctions between first- and third-party collectors

There are some key differences between these two response groups. For example, their respective views on rising delinquency rates are closely connected to their business models. They also must find a way to meet the communications needs of different consumer demographics.

First-party collectors are very concerned with delinquency, as it translates into increased risk to their business. As such, they have a vested interest in reducing delinquency rates to maintain a profitable portfolio. Third-party collection agencies, on the other hand, depend on delinquencies for their revenue. As such, they are more concerned about how they will handle that volume than mitigating growth of delinquent accounts.

Additionally, in line with the tighter regulations they operate under, third-party collectors (62%) were significantly more concerned than first-party collectors (49%) about keeping ahead of regulatory and compliance requirements, which didn't land in their top four challenges. *[See Figure 2]*

Generally speaking, the two groups share many concerns about current and future challenges. Let's explore how they feel about the next few years for the collections industry.

What are collectors most concerned about in the next two years?

Many of the current challenges discussed in Section One surfaced again when we asked about the next two years. Enhancing processes and systems, rising delinquency rates, evolving consumer communications needs and navigating compliance requirements were the top four challenges across all respondents.

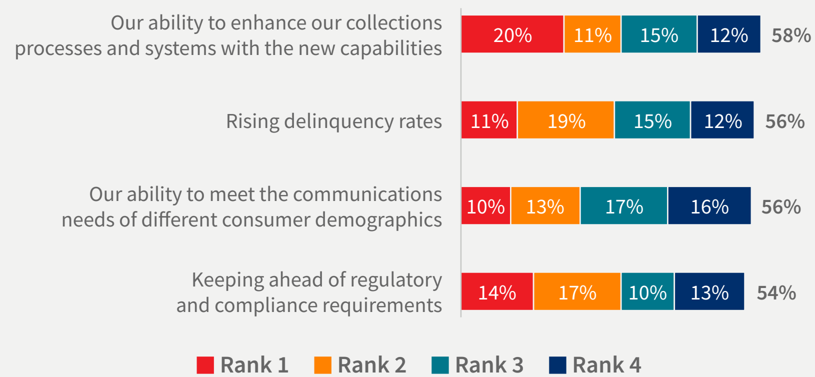
Many of the current and future challenges facing collectors are related to market trends beyond their control.

As a result, many of them are looking at what they can control, such as investing in ways to improve their bottom line and maintain their competitive advantage. Before we explore those areas, let's look at the primary operational challenges identified by our respondents. *[See Figure 3]*

Figure 3

Which of the following do you expect to be the biggest challenges facing your business in two years?

This data represents responses from first- and third-party participants.

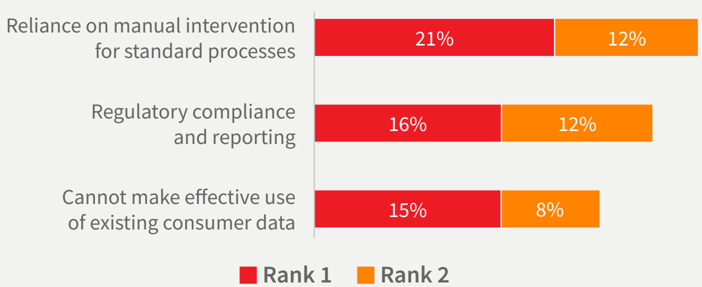


How are collectors thinking about their operational challenges?

Figure 4

Which of the following are your biggest operational challenges?

This data represents responses from first- and third-party participants.



It's important to understand what market forces collectors are facing. Because of the fundamental differences in their business models, biggest operational challenges for first- and third-party collection teams are likely to be quite different.

Primary first-party collector challenges

31%
Collections portals and services need improvements

19%
Need to integrate additional services into operational workflows

Primary third-party collector challenges

38%
Reliance on manual intervention for standard processes

32%
Regulatory compliance and reporting

Because of the likelihood that delinquency rates may continue to grow, it also makes sense that many in the industry are looking for ways to invest their time, money and human resources more efficiently.

How is the cost per dollar collected shifting?

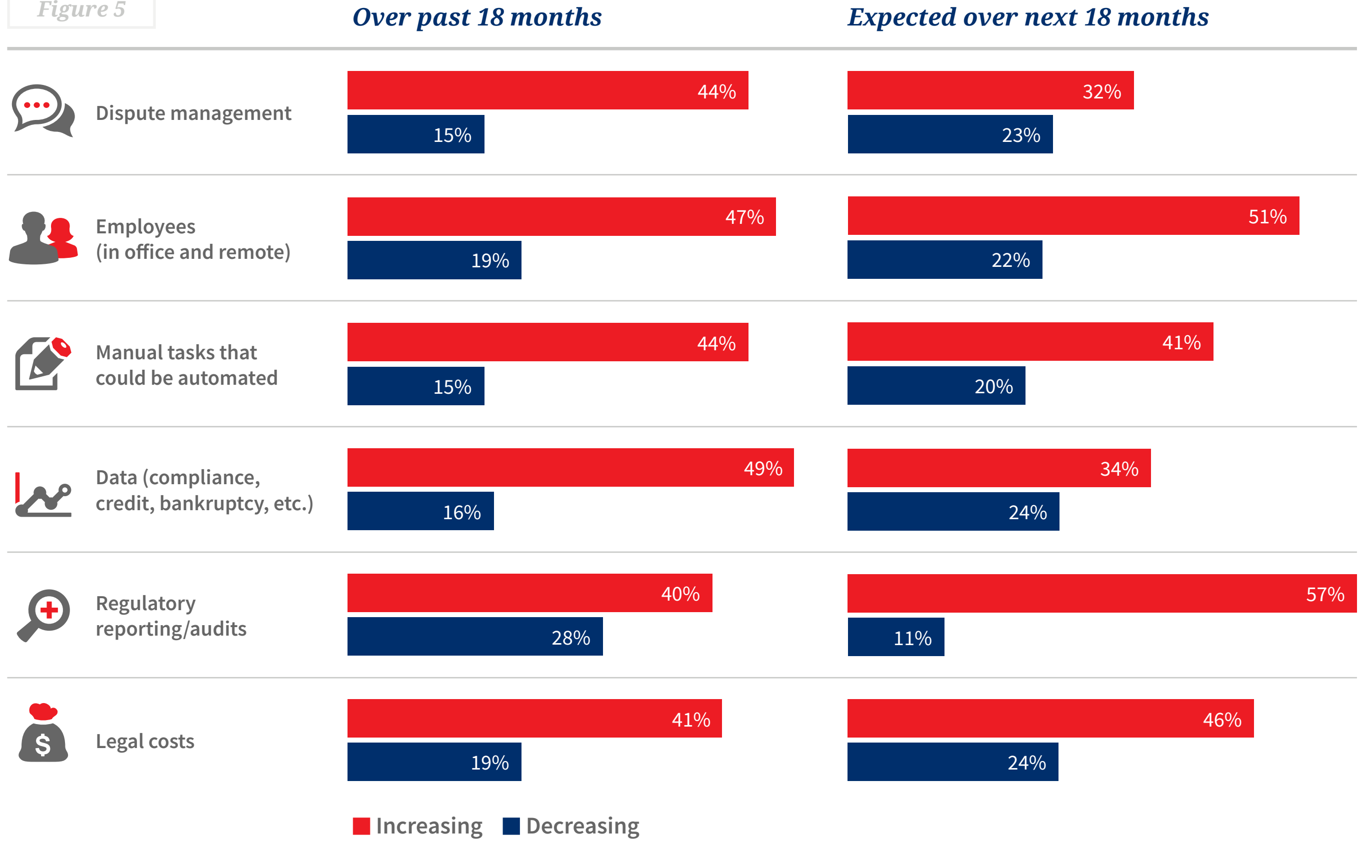
Over the past 18 months, collectors report that costs related to data (49%) and employees (47%) have increased the most, while regulatory reporting costs (28%) have decreased the most.

As we shift toward asking about the next 18 months, collectors report that they expect costs related to employees (51%) and regulatory reporting (57%) to increase the most. *[See Figure 5]*

Changing costs

The differences between first- and third-party were not significant.

Figure 5



In terms of cost per dollar collected, our respondents report that employees, regulatory reporting and legal costs have the biggest impact. This can help shed light on how they plan to allocate their resources in the coming years.

Diving deeper into investment priorities and spending plans

Across the ecosystem, collection teams share many of the same concerns with respect to how and where they plan to invest in operational improvements.

Three challenges rose to the top among our respondents:

58% Security, fraud and operational resilience

56% Enhancing our consumer experience

54% Better integrating collections systems with other internal systems and processes

How will automation and data analytics support the collections industry in coming years?

When we drill down further into these plans and ask how much collectors plan to grow their spending increases, a strong emphasis on data and technology emerges.

Top 3 areas of increased investment (by % increase) — process, data and technology

Reducing expenses and improving operational efficiency (75%)

Improving or expanding data acquisition (67%)

Augmenting or integrating systems and technologies (59%)

It's worth noting that investing in enhanced consumer experience was far more important to third-party collectors than first-party collectors. Given the intense regulatory scrutiny under which they operate and given what we know about the connection between consumer experience and debt recovery success, this is logical.[4] It also provides a glimpse into the role that advanced data analytics can play in supporting positive collections outcomes.

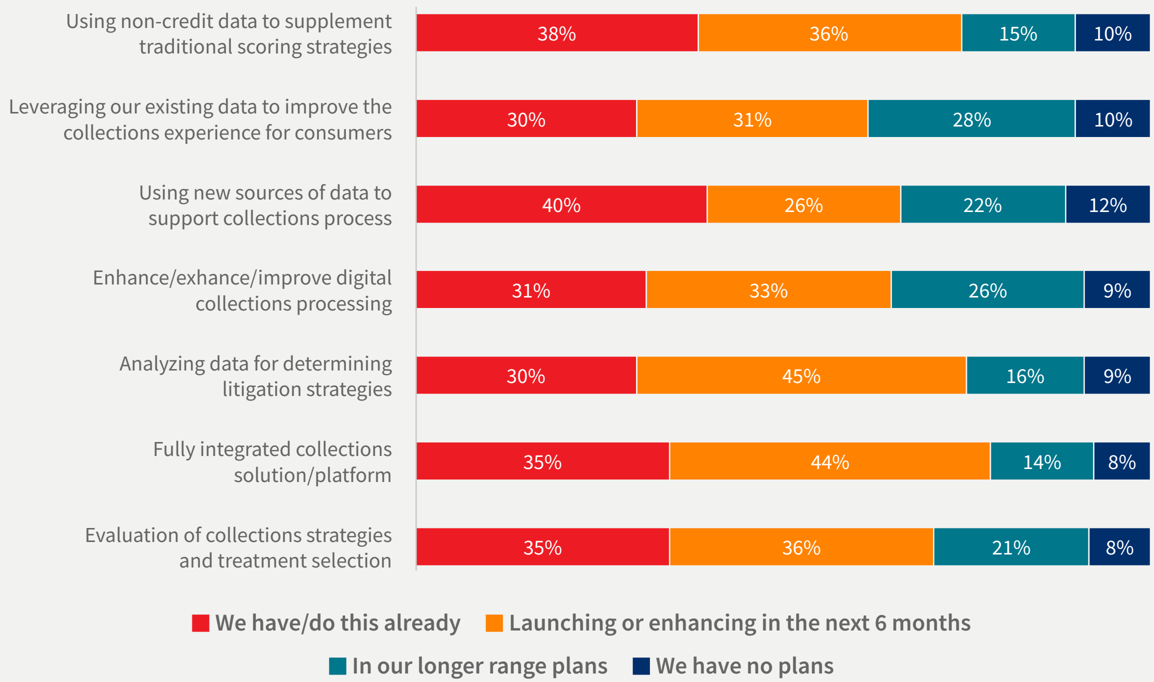
To best navigate the challenges they face, the collections industry needs to obtain clean, current and actionable data while monitoring for ongoing changes. Doing so can be a differentiator, allowing well-prepared organizations to achieve a competitive advantage.

How data investments can enhance operations

Figure 6

Thinking specifically about the collections processes supported by your employees, which of the following do you consider current capabilities of your company, and which do you plan to deliver in the future?

This data represents responses from first- and third-party participants.



Both groups expressed a desire to invest more in data, though they intend to apply that data to support different business goals. First-party collectors are more likely to use non-traditional credit data to supplement their scoring strategies for segmentation and prioritization, while third-party collectors are looking to analyze non-traditional credit data to improve their litigation strategies.

Across both groups, another clear trend can be seen — at least 50% of the respondents are either launching or planning to launch investments in a wide range of capabilities built on a foundation of data analytics.

[See Figure 6]

How can collection teams lower their cost per dollar collected?

While there are some differences between original creditors' and third-party collection agencies' attitudes toward challenges and investment opportunities, both groups face the same market trends and serve the same large pool of consumers.

Most importantly, both groups understand the value of expanding their data capabilities to incorporate alternative data and strengthening their analytics capabilities. As they continue to try to maximize their collections ROI and increase profitability, data solutions will play a critical role, especially as they relate to consumer experience strategies.

In Part Two of our State of Collections report, we will explore how the collections industry plans to invest more in contact strategies to support consumer engagement, with the help of alternative data and advanced analytics.

Learn more about how data can support your collections goals

Visit risk.lexisnexis.com/state-of-collections

Sources:

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