

2025 State of Collections Study

Part Two: *Changing Perspectives on Effective Communications Strategies*



Collectors face mounting pressure to control costs

Amid rising rates of household debt and delinquency, collection agencies are facing more pressure than ever to control costs and enhance operations efficiency.

To learn more about the challenges they face and their plans for future investment, we surveyed a broad range of first-party creditors- and third-party collection agencies.

In Part One of our report, one of the top challenges reported was meeting the communications needs of different customer demographics (55%), and many expect this to remain true over the next two years (56%). Additionally, most collectors are currently using data to improve the collections experience for customers (61%).

PART ONE

In Part One of our Cost of Collections report, we examined the state of the collections industry from the perspective of first-party creditors- and third-party collection agencies. We explored current and future challenges, areas of concern around costs and plans for future investments.

PART TWO

In Part Two, we will dive deeper into consumer engagement, focusing on the various ways organizations plan to evolve their consumer engagement to maximize collections ROI.

- Communications strategies need to evolve due to changing consumer preferences.
- Collectors are likely to focus their efforts on channels with the highest contact rates.
- Alternative data has a key role to play in supporting collections communications.

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](#).

How are collectors looking to improve consumer engagement?

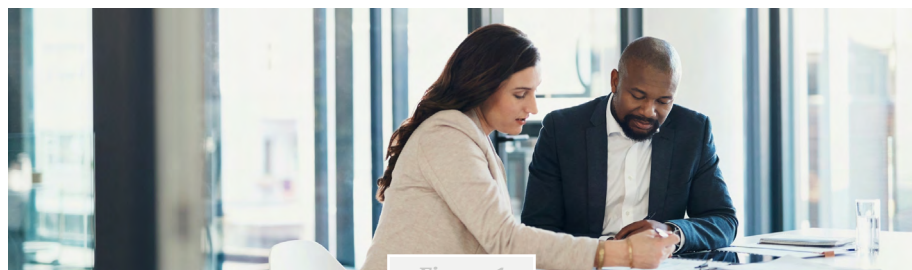
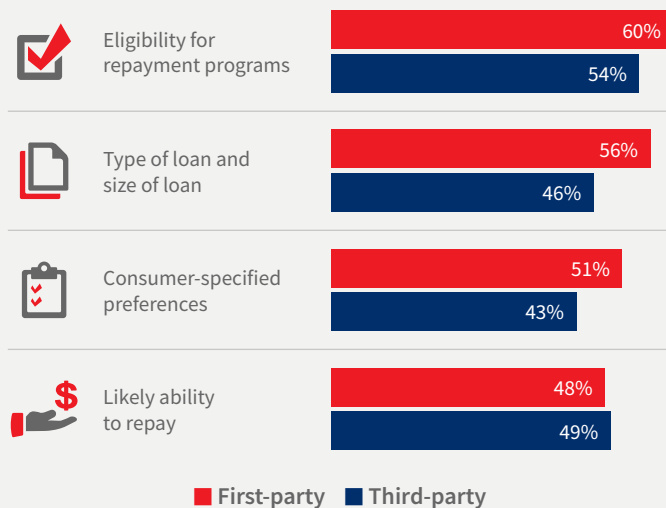


Figure 1

Which of the following do you use to prioritize your collections outreach?



Looking at respondents as a whole, the top four considerations for prioritizing collections outreach were eligibility for repayment programs, type and size of loan, compliance requirements and likely ability to repay.

In Part One we learned that 50% or more of collection teams are launching or enhancing data capabilities across their organizations or plan to in the future. Incorporating alternative data and advanced analytics solutions can help these organizations improve their outreach strategies by providing a clearer and more granular view of consumers to augment segmentation and prioritization capabilities. [See Figure 1]

Breaking down the data further

We found first-party creditors (56%) give more consideration to the type and size of the loan when making outreach choices than third-party collectors (46%). Third-party collectors (59%) reported compliance requirements were the most important consideration affecting their consumer outreach efforts, which they ranked significantly higher than first-party creditors (47%).

This is consistent with what we learned in the challenges section in Part One of this study, where third-party agencies (62%) ranked “keeping ahead of regulatory and compliance requirements” much higher than first-party creditors (49%), likely due to the impact of outreach regulations, including but not limited to the Fair Debt Collections and Practices Act and CFPB’s Regulation F.

Which channels are best suited to meet first-party creditors- and third-party outreach needs?

When looking at effectiveness of contact channels, reported as changes in contact rates across channels, we see that mobile apps, email and text experienced the largest increases in effectiveness, while outbound calling has decreased the most. Meanwhile, paper mail is the least used channel, and its effectiveness has barely changed.

The reasons for these changes include:

- Shifting consumer preferences
- Long-awaited guidance on email and text from CFPB's Regulation F
- 7-in-7 Rule prohibiting more than 7 calls in a 7-day period

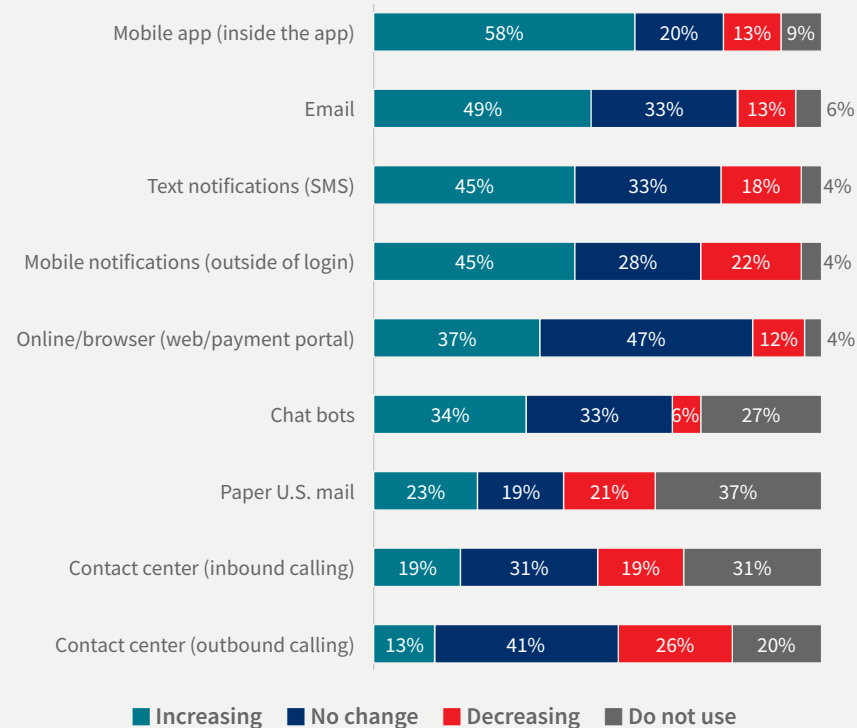
Mitigating the impact of collections costs over time

Another factor to consider when examining communications priorities for collections is how the cost per dollar collected increases over time, especially for first-party collectors. The more time that passes after an account becomes overdue, the more expensive it becomes to recoup the money owed.¹ As a result, outreach strategies should place a premium on more accurate and more up-to-date contact information, while prioritizing the fastest and most effective channels (which tend to be digital) to drive value while delivering a better experience for their consumers. [See Figure 2]

Figure 2

For each of the following consumer contact points, indicate if your contact rate has changed vs. a year ago

This data represents answers from first- and third-party respondents.



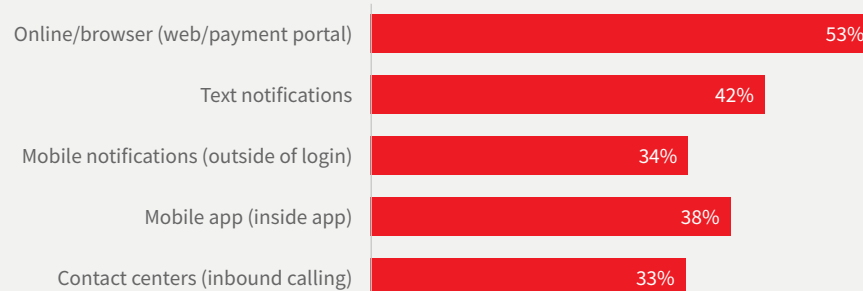
How will priorities shift in the coming year?



Figure 3

Do you plan to change your priority or usage of any of the following contact channels over the year?

All respondents net change (increase minus decrease)



Collectors are planning to prioritize using more digital channels, a trend driven by their ease of use and consumer preferences. Looking at the net change in investment priority, it is clear that online payments portals, SMS/text notifications, contact centers and mobile channels are likely to see the greatest growth.

[See Figure 3]

Which channels will become higher priorities?

	<i>First-party</i>	<i>Third-party</i>
Online/browser (web payment portal)	67%	51%
Text notifications	58%	44%
Mobile notifications (outside of login)	55%	40%
Mobile app (inside app)	47%	53%
Contact centers (inbound calling)	51%	47%

How do contact rates impact prioritization of communication channels?

Despite seeing increasing contact rates through mobile channels, each group of collectors has different priorities for their use in the next 12 months.

However, first-party collection teams do plan to prioritize online browsers and contact centers in the future.

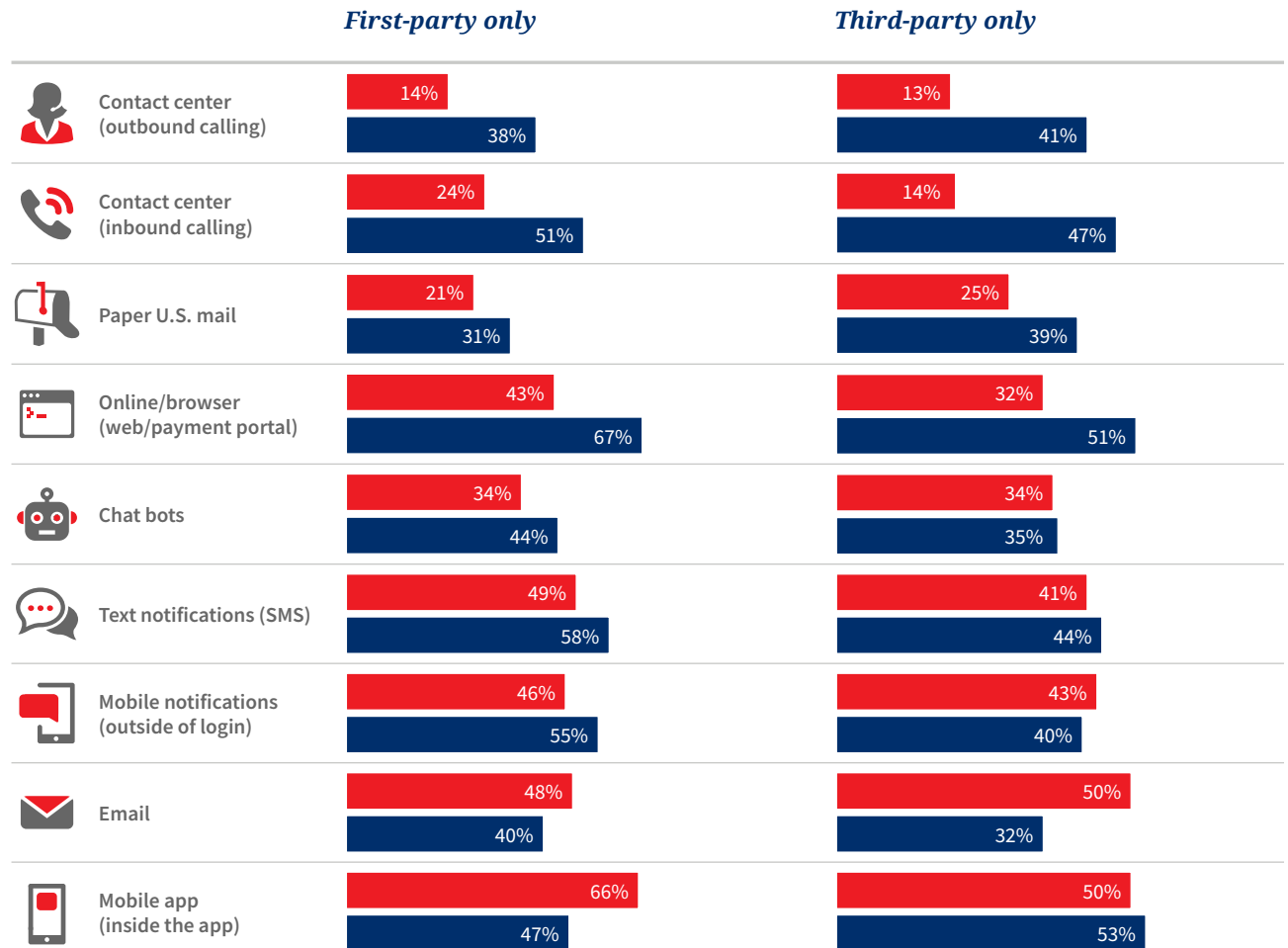
This will likely focus on inbound contact centers, which can be prompted with an email or text that allows the consumer to call.

[See Figure 4]

When we consider where collectors plan to decrease their investment in communication channels over the next year, the two most important reasons given were cost savings or switching to a different channel with a higher consumer connect rate.

Channel priorities among those answering ‘contact rate increasing’

Figure 4



Chat bots: Challenge or opportunity?

 **Increasing chatbot use**
due to ease of use, faster processing

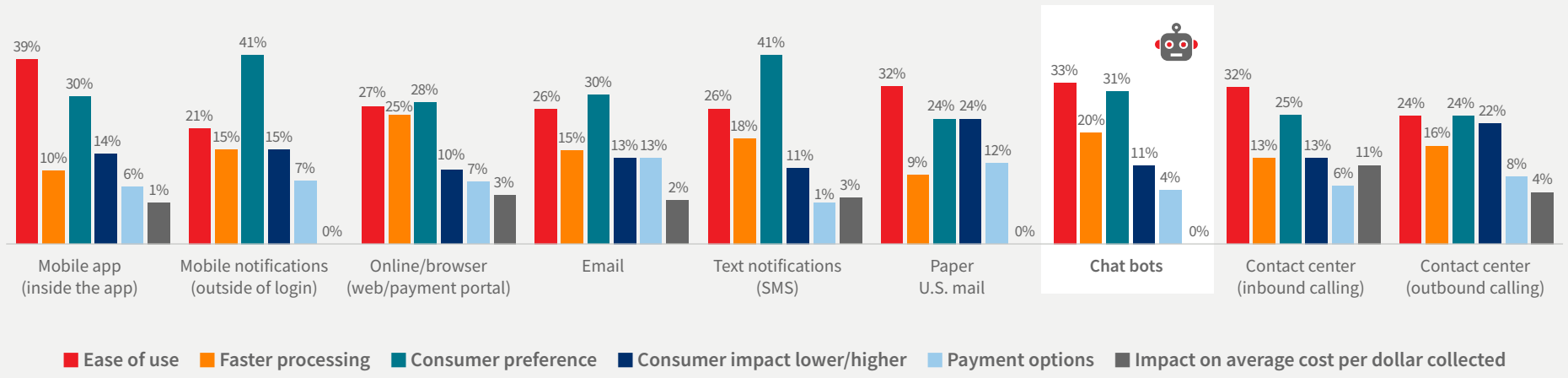
 **Decreasing chatbot use**
due to staffing challenges

On the whole, consumer preference and ease of use consistently rank highest among the reasons collectors plan to increase their use of any particular channel. This is in line with increasing contact rates in those channels. However, there is still a disconnect between interest in investing in a channel and that channel’s ability to provide all the necessary functionality to make the investment worthwhile. [See Figure 5]

Chat bots were recognized as a valuable channel but were noted to be tough to operate manually.

Figure 5

For each of the following contact channels you indicated is increasing in priority, what is the most important reason for your planned shift?



How can collection teams improve customer outreach efforts?

The collections landscape is undergoing transformative changes driven by market forces, technological innovation and evolving consumer expectations. Additionally, regulations continue to change in unpredictable ways, placing further pressure on the industry.

In response, collectors are reallocating resources where they can be most effective across a range of outreach strategies. As they continue looking to meet critical business goals related to reducing costs and accelerating collections workflows, the role of alternative data and advanced analytics will become more prominent.

When considering which channels to invest in, it's important to remember that user experience for consumers still matters a great deal when it comes to incentivizing willingness to repay and recovering the debt.²

Overall, the most successful approaches going forward will balance digital efficiency with human empathy.

Routine interactions can be handled through digital self-service or chat bots, while complex cases will still require human interventions.







Across the digital and human domains, having clean, current and actionable data will make a critical difference.

By leveraging data and harnessing technology to improve consumer engagement, collection teams can set themselves apart from their competitors and ensure long-term success.

The future of collections: data analysis for litigation strategies and fully integrating collections solutions

Collections processes, current vs. future capabilities, First- and Third-party

	<i>Currently using</i>	<i>Planning to launch</i>
 <p>Using non-credit data to supplement traditional scoring strategies</p>	38%	36%
 <p>Leveraging our existing data to improve the collections experience for consumers</p>	30%	31%
 <p>Using new sources of data to support collections processes</p>	40%	26%
 <p>Analyzing data for determining litigation strategies</p>	30%	45%



Collectors realize the importance of data for supporting their efforts.

Having clean, current and actionable data can help collectors optimize the impact of digital and personal communications with customers.



Contact us to learn more about how data can support your collections goals

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

Sources:

1. <https://www.highradius.com/finsider/cost-of-collections/>
2. <https://www.contactcenterpipeline.com/Article/4-ways-to-maintain-a-good-customer-experience-during-collections>

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