TransUnion

REPORT

Seizing the Opportunity in Uncertain Times

The Third-Party Collections Industry in 2023

Prepared by:

Contents

Summary and Key Findings 5
Introduction 7
Methodology 7
State of the Industry 8
Consumer Credit and Macroeconomic Trends 9
The 3PC Industry 13
Industry Wrap-Up 14
Understanding Account Profiles 15
Accounts Disputed 20
Industry Challenges 21
Controlling Expenses 23
Compliance and Regulation Concerns 26
Communication Concerns 27
Macroeconomic Conditions Concerns 28
Human Resource Challenges 29
Financial Outlook 31
The Technological Toolset 32
Communication Tools 33
The Toolset Composition 36
AI Remains Underutilized 38
New Technology Integration and Adoption Challenges and Drivers 41
Liquidation Rates 44
Diversification and the Need for Change 47
Changes in Accounts and Business Strategies 49
Considering Other Business Areas 50
Conclusion 54
Appendix: Respondent and Company Profile 56

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List of Figures

FIGURE 1: Relationship Between FTEs and Number of Accounts 7
FIGURE 2: Seasonally Adjusted Civilian Unemployment Rate by Month 9
FIGURE 3: Consumer Sentiment by Year 10
FIGURE 4: Financial Hardship Conditions and Expectations 10
FIGURE 5: Number of Consumer Loans Originated, in Millions, by Loan Type 11
FIGURE 6: 60- or 90-Day Delinquency Rates by Loan Type 11
FIGURE 7: Collections tradeline snapshot 12
FIGURE 8: Number of Third-Party Debt Collection Firms, 2013 to 2023 13
FIGURE 9: Number of Debt Collection Employees, 2011 to 2021 13
FIGURE 10: Distribution of Collection Firms by Number of Employees 14
FIGURE 11: Debt Types Collected 16
FIGURE 12: Debt Types Collected by Company Size 17
FIGURE 13: Number of Debt Types Collected by FTE Count 17
FIGURE 14: Number of Debt Types Collected by Account Size 18
FIGURE 15: Top Three Debts Collected, by FTEs 19
FIGURE 16: Debt Ages Collected by FTEs 19
FIGURE 17: Number of Accounts Enrolled in Debt Settlement Programs by FTEs 20
FIGURE 18: Dispute Rates for Accounts Placed in the Last Twelve Months 20
FIGURE 19: Top Concerns Among Companies in the Debt Collection Space 22
FIGURE 20: Controlling Costs Is a Concern for Many Companies 23
FIGURE 21: Expense Outlook for Various Line Items 24
FIGURE 22: Compliance Management Costs Expected to Increase for Large Companies 24
FIGURE 23: Data Acquisition Expenses Expect to Increase for Larger Companies 25
FIGURE 24: Expected Rises in Technology Costs by FTEs 25
FIGURE 25: Expected Labor Costs by Company Size 26
FIGURE 26: Compliance Concern by Company Size 26
FIGURE 27: Companies with Large Account Bases are Extremely Concerned 27
FIGURE 28: Communicating With Consumers Is a Top Concern 27
FIGURE 29: Levels of Concern for Communicating with Consumers by Account Size 28
FIGURE 30: Macroeconomic Conditions Concern Most Companies 29
FIGURE 31: Comparing the Past to Today's Hiring Conditions 29
FIGURE 32: The Challenge of Hiring Collection Agents by Company Size 30
FIGURE 33: Retaining Employees Varies by Company Size 30
FIGURE 34: Most Companies Remain Optimistic about Their Financial Position 31
FIGURE 35: Financial Outlook by FTEs 31
FIGURE 36: 3PC Companies' Communication Channel Usage 33
FIGURE 37: Communication Channels Used by Company Size 34
FIGURE 38: Communication Additions Over the Next Two Years 35
FIGURE 39: Communication Additions Over Next Two Years by Company Size 35

TransUnion

FIGURE 40: Tools Used by Collection Companies 36
FIGURE 41: Tools Used for Debt Collection by Number of Accounts 37
FIGURE 42: Self-Service Options by Number of Accounts 38
FIGURE 43: Companies Position on Using AI 39
FIGURE 44: How 3PC Companies Are Using AI/ML-Based Technology 39
FIGURE 45: Use of AI by Company Size 40
FIGURE 46: How Companies Use AI Differs by Company Size 41
FIGURE 47: Companies With More Accounts Are More Concerned About Adoption and Integration 42
FIGURE 48: The Drivers Behind Technology Investments 42
FIGURE 49: Drivers of Technology Investments by FTEs 43
FIGURE 50: Liquidation Rates by Debt Type 45
FIGURE 51: Healthcare Liquidation Rates by FTEs 46
FIGURE 52: Healthcare Liquidation Rates by Number of Accounts 46
FIGURE 53: The Percentage of Companies Worried About Growing Their Business 48
FIGURE 54: Account Change Over the Past Year 49
FIGURE 55: Projected Account Change Over the Next 12 Months 49
FIGURE 56: Confidence Rates for Account Increases Vary by Company Size 50
FIGURE 57: Majority of Companies Believe Diversification is Necessary 51
FIGURE 58: Areas in Which Companies Are Planning to Diversify 51
FIGURE 59: FTE Count Impacts Areas in Which Companies Have Plans to Diversify 52
FIGURE 60: Greater Differentiation in Plans by Account Size 53
FIGURE 61: Leadership Role of Respondents 57
FIGURE 62: Types of Companies Surveyed 57
FIGURE 63: Distribution of Respondents by FTEs 58
FIGURE 64: Number of Accounts Placed at Company Last 12 Months 58

Summary and Key Findings

The operating environment for third-party collection (3PC) companies remains dynamic. Macroeconomic conditions are creating revenue opportunities, but 3PC companies face increasing pressure to improve operating margins and diversify their business models. Some believe companies face a stark choice: evolve or go out of business. Thankfully, solutions and strategies are emerging to help companies succeed. There is opportunity to be had if companies can seize it.

This whitepaper, commissioned by TransUnion and produced by Datos Insights, provides the latest annual look at trends, explores challenges facing the industry, examines tools companies are using to combat these challenges, and reveals industry leaders' future outlooks. It primarily leverages the survey results of 212 third-party debt collection professionals conducted in early Q2 2023.

Key takeaways from the study include:

- Controlling costs remained a top concern for many companies. Seventy percent of companies were at least moderately concerned about controlling costs. One of the biggest expense categories in the upcoming year will be technology solutions. Eighteen percent of companies expected technology costs to increase significantly, and another 45% expected a modest increase. These investments are heavily driven by the need for regulatory compliance/adherence and to stay a successful industry leader. Forty-seven percent of companies were mostly driven to make technology investments for compliance and regulatory reasons, while 30% make them to become a market leader.
- Adjusting to macroeconomic conditions is a concern for 57% of companies. Larger companies with 20 or more full-time employees (FTEs) were slightly more likely to be concerned. Despite the economy's uncertainty, most businesses remained fiscally optimistic. Fifty-eight percent of respondents said they believe their companies will be in a stronger financial position a year from now. Thirty-two percent thought their positions would remain the same, and only 10% believed they will be in a weaker position.
- Consumer communication preferences shifted significantly in recent years. Fifty-seven percent of companies were at least moderately concerned about communicating with consumers. Companies servicing 1 million or more accounts were more likely to be extremely concerned about communicating with consumers. Twenty-six percent of such companies were extremely concerned versus only 9% of companies servicing fewer accounts.
- In response to consumer expectations, the ways in which companies communicate with consumers are changing. Ninety-eight percent of companies use letters, 93% still use voice (telephone), and 69% use email. However, the use of text is expanding, albeit slowly, with 40% of companies using text or SMS messaging. Thirty-one percent of companies were considering adding text messaging to their channel options in the next two years. Twenty-nine percent of companies were planning to add chat boxes or digital assistants to their mix.
- The toolset used by 3PC companies in recent years remained consistent with prior years. Three tools were most used: Online portals were used by 79% of companies, 78% cited collection management software, and 77% employed manual skip tracing. The toolset varied substantially by company size, whether by FTE or account size. Self-service options are becoming table stakes for companies for their abilities to reduce costs and meet consumer expectations. Sixty-four percent of companies with a million or more accounts use self-service portals versus only 27% of companies with less than 100,000 accounts.

- As with all industries, artificial intelligence (AI)- or machine learning (ML)-based technologies are expected to have a significant impact going forward. Only 11% of companies were currently using AI/ML-based technology across their enterprises. However, in total, 60% of companies were somewhere along the deployment path to use AI/ML-based technology, whether it was considering it (40%) or in the process of developing or deploying it (8%). The top three uses of AI/ML-based technology by companies on the deployment path were to predict payment outcomes (e.g., willingness or ability to pay), augment the self-service platform (e.g., virtual negotiators), and segment and profile customers for various workflows.
- Economic pressures have forced many third-party debt collectors to make changes to their businesses. Over the past year, 47% of larger firms (20 or more FTEs) saw their number of accounts increase versus 29% of smaller firms. Half of small companies saw their number of accounts decrease, whereas 26% of larger firms experienced a decrease.
- Diversification is needed if companies are to survive. Sixty-four percent of companies agreed third-party debt collection firms must diversify their businesses (e.g., collect different types of debt, expand into other geographic regions) if they're to succeed, thrive or survive in the long term. Forty-five percent of companies had plans to enter into other types of businesses in the next 12 months. The largest category garnering attention was fintech/unsecured consumer lending.

The operating environment in collections remains a challenge for many. Companies must operate efficiently and wisely to survive in this business long term. Leveraging a host of technology solutions, effectively utilizing communication channels, and understanding the needs of consumers are paramount. Survey results revealed progress is being made in the 3PC industry, but there's still room for growth.

Introduction

The third-party debt collection market indirectly received a strong infusion of monetary support during the pandemic when many consumers used their stimulus payments to pay down debts. Arguably, it helped struggling firms stay afloat, and wise leaders invested in the tools necessary to adapt to changing market conditions. Now that the stimulus payments have dried up and the world continues its business as usual, debt collectors are left with a tough operating environment. Labor costs and inflation are high, and it is becoming harder to capture consumers' attention for collection purposes. However, the economic environment will also create a larger debt pool, or revenue opportunity, for debt collectors capable of capitalizing on the opportunity while driving down costs.

This report is the fifth in an annual series sponsored by TransUnion to understand the dynamics affecting the third-party collections industry. This report documents the experiences and challenges of the past year, as well as future outlooks of third-party collection companies.

Methodology

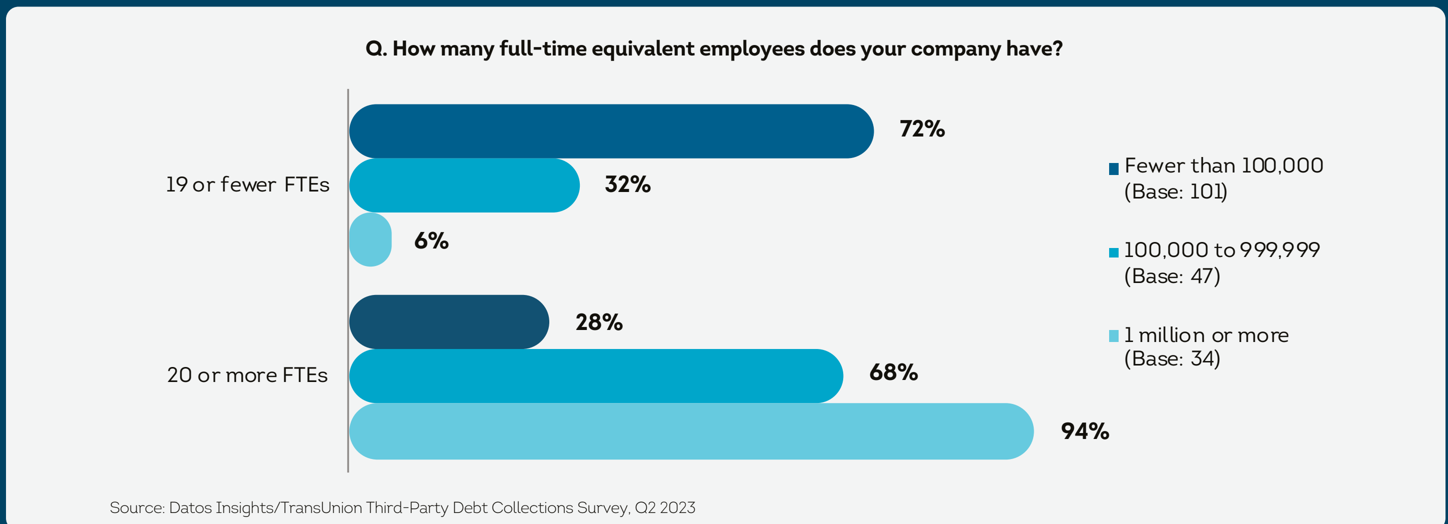
Insights on the challenges, trends and innovations occurring in the third-party collections industry are informed by a quantitative survey of 212 third-party debt collection professionals conducted in Q2 2023. A detailed look at the composition of survey respondents is provided in the appendix. Survey results are representative of the market at a 95% confidence interval with a 6.7-point margin of error. This report is the Datos Insights.

Any differences noted between survey respondents, such as breakouts by company size, collection footprint, or changes in year-over-year survey results, are significant at a 90% confidence interval.

The report also contains findings from desk research related to the collections industry market size, economic indicators, and consumer credit trends.

To better understand the needs and challenges of respondents, several questions were segmented by company size – defined by either the number of accounts or number of FTEs. The relationship between the two size categories is shown below in **Figure 1**.

FIGURE 1: Relationship Between FTEs and Number of Accounts



[1] Daniel J. Perez-Lopez and Lindsay M. Monte, "Household Pulse Survey Shows Stimulus Payments Have Eased Financial Hardship," U.S. Census Bureau, March 24, 2021, last accessed October 24, 2023, https://www.census.gov/library/stories/2021/03/many-american-households-use-stimulus-payments-to-pay-down-debt.html

[2] See "The Collections Industry in 2022: Charting the Course and Steering Toward Success," Datos Insights and TransUnion, November 2022; "The Collections Industry in 2021: A Transition to the Next Normal," Datos Insights and TransUnion, November 2021; "The Collections Industry in 2020: A Year of Pivots, Challenges, and Opportunities," Datos Insights and TransUnion, November 2020; and "Challenges, Trends, and Innovations: The State of Third-Party Collections," Datos Insights and TransUnion, November 2019.

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State of the Industry

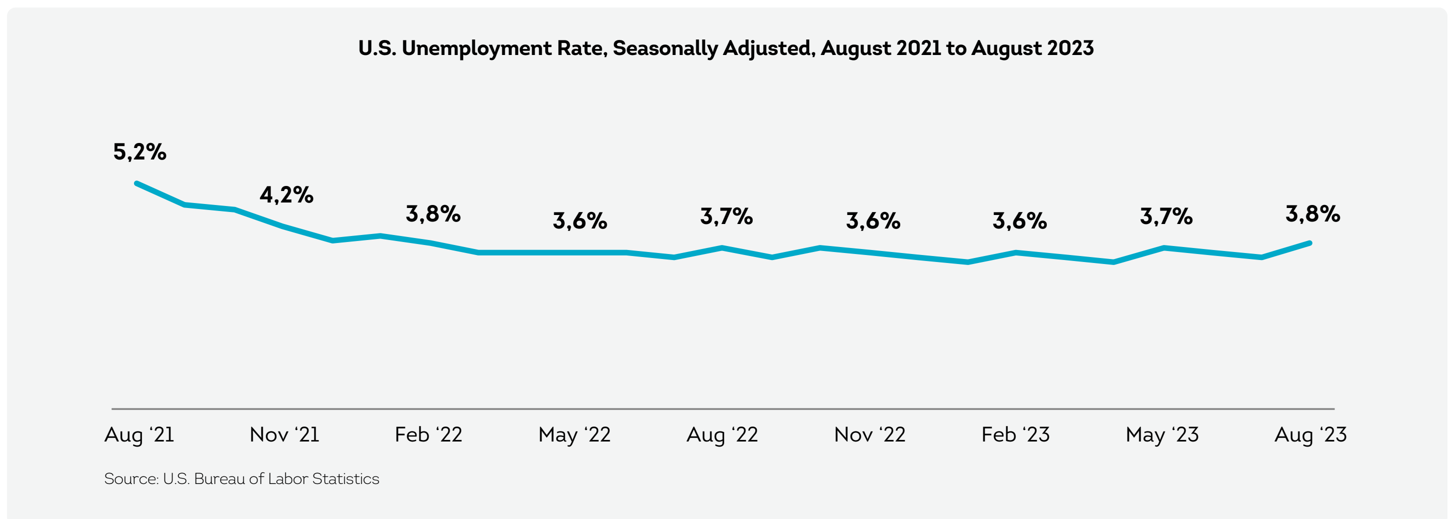
State of the industry

The following section details the current state of the 3PC industry.

Consumer credit and macroeconomic trends

The macroeconomic environment continues to be plagued by uncertainty. Fears of recession loom and market indicators contradict one another. Inflation remains high, increasing the cost of borrowing, yet the job market remains strong, so consumers are better positioned to their debts. Unemployment rates remained low this year; last reported at 3.8%, compared to 3.7% a year ago (**Figure 2**).

FIGURE 2: Seasonally Adjusted Civilian Unemployment Rate by Month



For the first time since 2021, wages outpaced inflation, but the margin is slim. Real average hourly earnings increased 0.5% (seasonally adjusted) from August 2022 to August 2023.[3] Recent reports show the job market is starting to cool as the effects of high interest rates trickle down through the industry. The U.S. Bureau of Labor Statistics recently reported a decline in job openings. It remains to be seen which way the labor market will turn.

Consumer confidence seems to remain strong despite the ambiguous conditions. The consumer sentiment index hit 71.6 in July 2023, the strongest number since October 2021. However, in September, it slipped to 67.7, but the year-to-date (YTD) average is higher than the average for 2022 (**Figure 3**).

[3] U.S. Bureau of Labor Statistics, last accessed September 13, 2023, https://www.bls.gov/news.release/realer.t01.htm.

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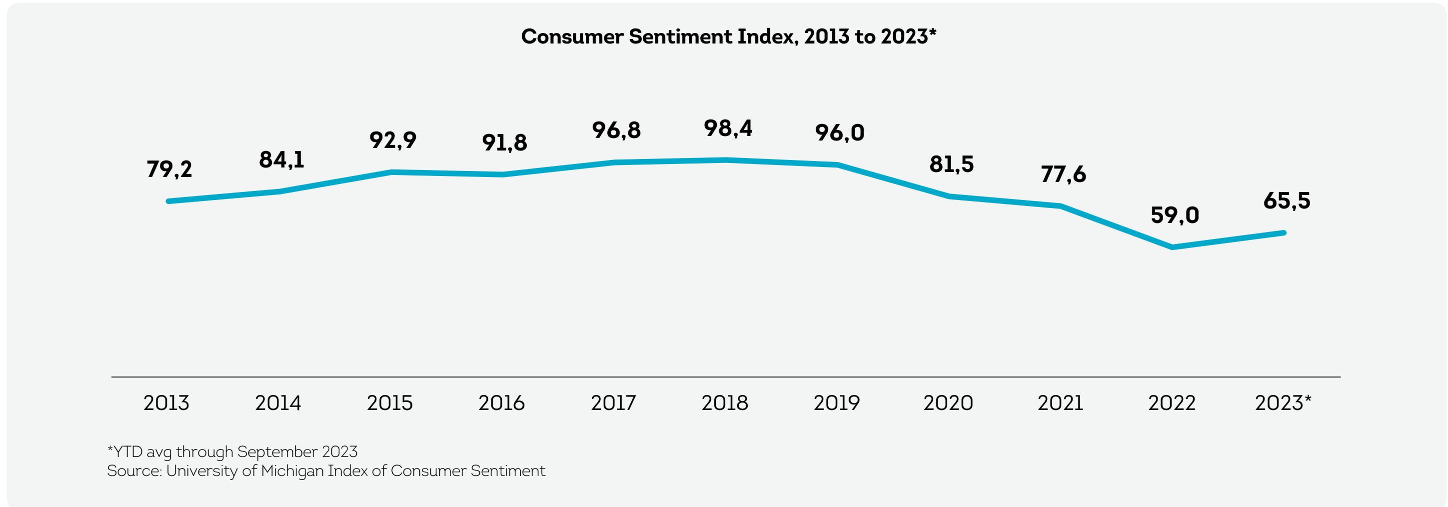
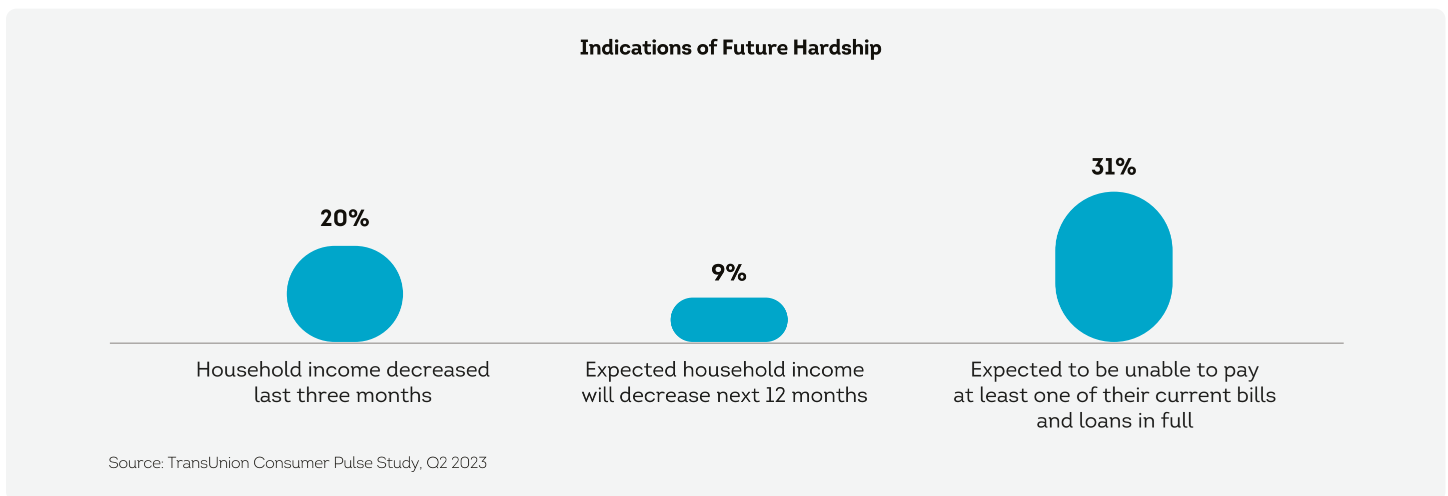
FIGURE 3: Consumer Sentiment by Year



According to TransUnion's Consumer Pulse Study, most Americans remained confidently optimistic. In Q2 2023, 57% of Americans reported optimism about their household finances in the next 12 months, the highest since Q4 2021 when TransUnion began tracking it. Fifty-one percent of consumers expected their incomes to rise in the next 12 months.

Of course, some consumers fared better than others, and some consumers' attitudes reflected greater financial concern than others. More than a third (38%) of consumers reported finances worse than planned at this point in the year. About the same percentage (31%) stated they expect to be unable to pay a current bill or loan in full compared to 32% of households in Q1 2022 (**Figure 4**).

FIGURE 4: Financial Hardship Conditions and Expectations



Perception aside, consumers' realities are a mixed bag of gains and losses. It remains to be seen how consumers will react going forward. Until recently, consumers remained resilient, and their spending was positive despite rate hikes. But an increasing number of economists are sounding the alarm that this may change, and spending is starting to wane. In addition, Federal Reserve economists are predicting that excess savings are likely to be depleted in Q3 2023.[4]

[4] Hamza Abdelrahman, Luiz E. Oliveira, "Excess No More? Dwindling Pandemic Savings," Federal Reserve Bank of San Francisco, August 16, 2023, last accessed September 13, 2023, https://www.frbsf.org/our-district/about/sf-fed-blog/excess-no-more-dwindling-pandemic-savings/.

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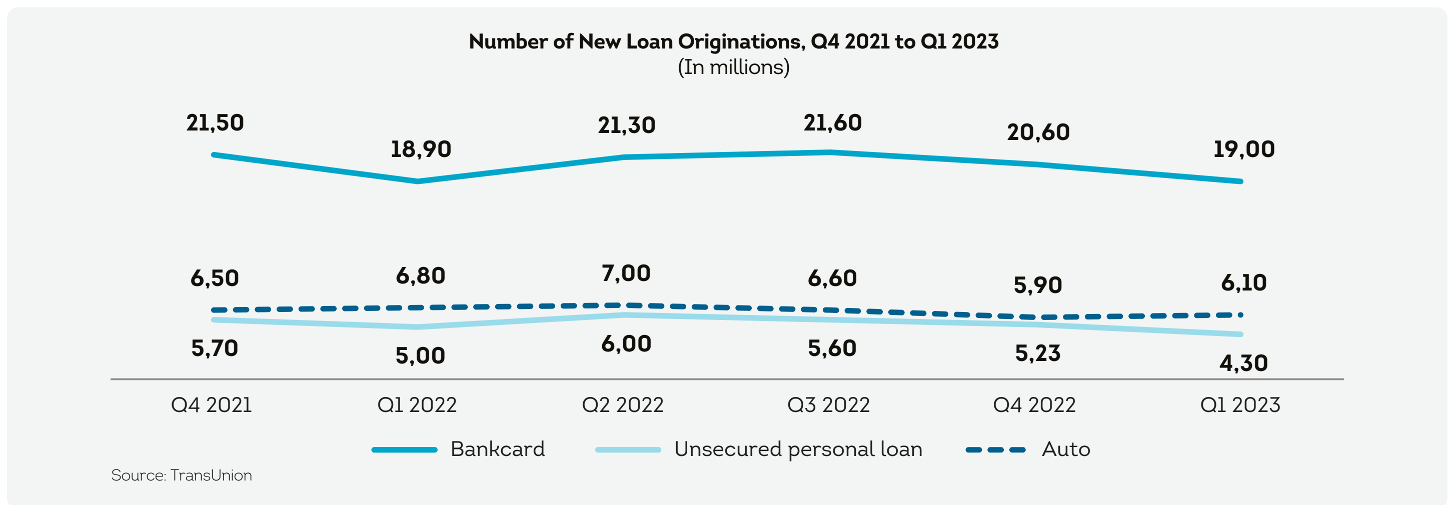
Historically, high interest rates tend to increase demand for revolving credit and decrease demand for nonrevolving credit. Record inflation rates can drive demand for credit in areas consumers cannot trim back. Consumer credit increased at a seasonally adjusted annual rate of 2.3% during Q2 2023. In the same period, revolving credit increased at an annual rate of 6.8%, while nonrevolving credit increased at an annual rate of 0.8%. In July, consumer credit increased at a seasonally adjusted annual rate of 2.5%. Revolving credit increased at an annual rate of 9.2%, while nonrevolving credit increased at an annual rate of 0.2%.[5]

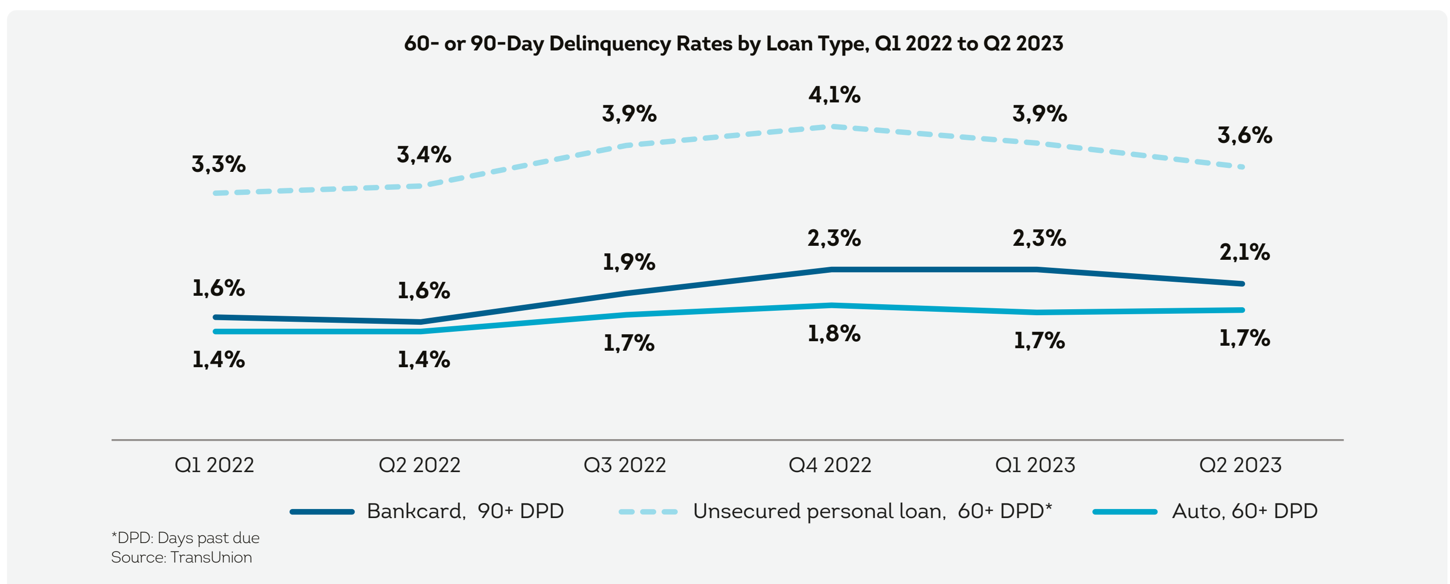
The number of unsecured personal and auto loan originations decreased from a year ago, and bankcard originations dipped in Q1 2023 to 19 million, just 100,000 more than a year ago (**Figure 5**).

FIGURE 5: Number of Consumer Loans Originated, in Millions, by Loan Type



As the labor market softens, more consumers will have trouble repaying their debts. Data from TransUnion showed delinquency rates are starting to rise. Unsecured personal loan, auto loan and bankcard delinquency rates have all risen slightly from a year ago, with bankcard delinquency rates having the greatest year-over-year increase of 31% (**Figure 6**).

FIGURE 6: 60- or 90-Day Delinquency Rates by Loan Type



[5] "Consumer Credit – G.19, July 2023," Federal Reserve, September 8, 2023, accessed September 13, 2023, https://www.federalreserve.gov/releases/g19/current/.

Today, 32% of Americans have at least one collection tradeline and a total of US$153.4 billion in collections. Healthcare accounts for the largest share of this debt (43%) followed by banking and financial services (25%) and retail (12%) (**Figure 7**).

FIGURE 7: Collection Tradeline Snapshot

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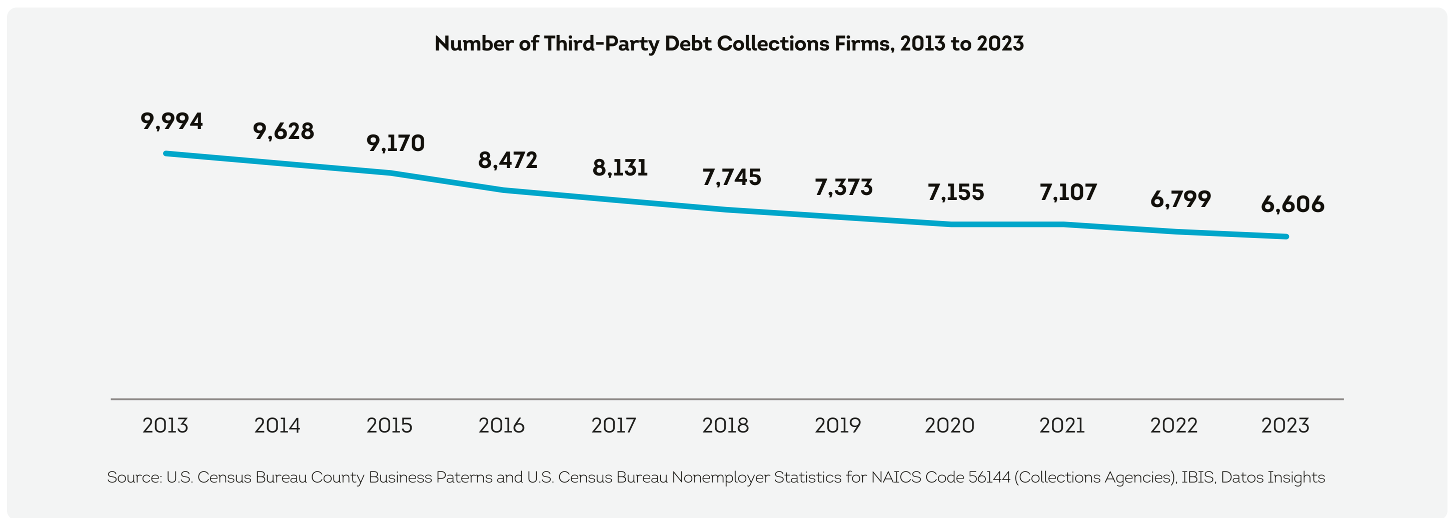
The 3PC Industry

While it appears market conditions are becoming favorable for the 3PC market, the operating environment is not without challenges. Regulation and compliance continue to impact collection efforts and raise the cost of doing business. The economic environment is also creating human resource challenges by way of increased labor costs and hiring difficulties. There's substantial pressure to improve operating margins by taking on more accounts while driving down costs. Consolidation continues to be the solution for many firms to improve profitability. Other firms are simply closing their doors.

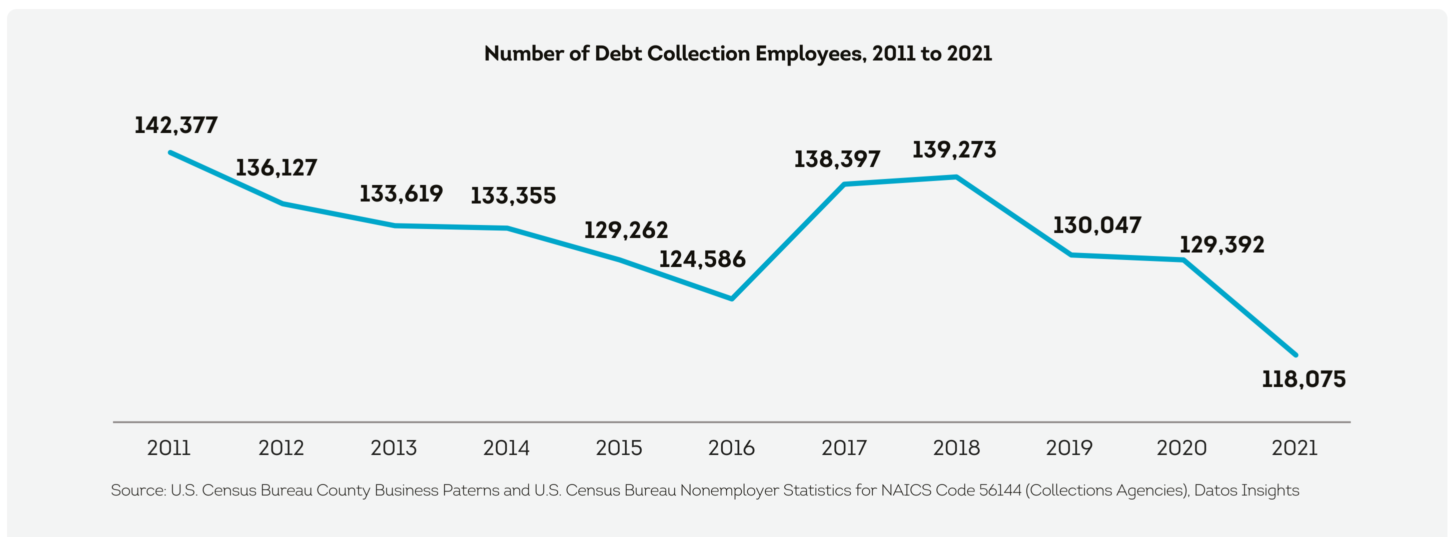
The number of firms has steadily decreased for more than a decade. In 2023, the number of companies has declined 2.8% to 6,606. This number includes companies that do not have employees on the payroll (non-employer firms) but may hire contractors to collect debts or fulfill other duties (**Figure 8**).

FIGURE 8: Number of Third-Party Debt Collection Firms, 2013 to 2023



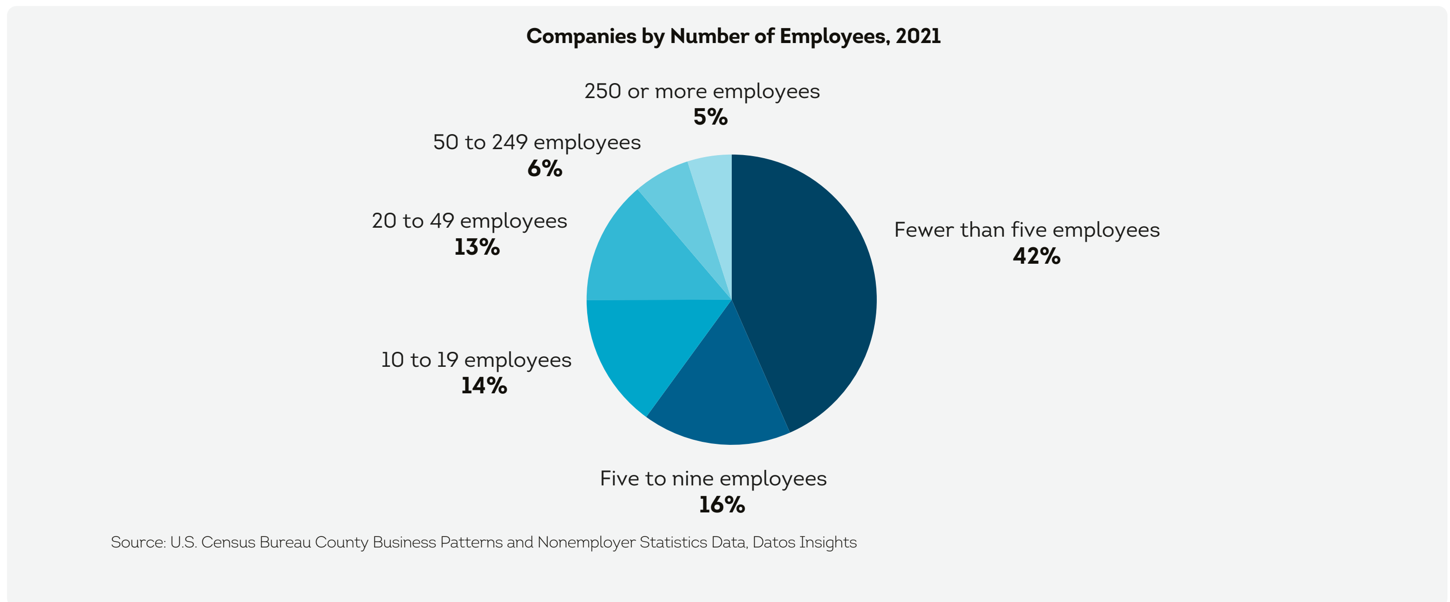
The number of employees employed by debt collection firms has declined substantially in recent years. The number of employees hired by collection companies in 2021 was 118,075 (**Figure 9**).

FIGURE 9: Number of Debt Collection Employees, 2011 to 2021



While the number of small firms may be dwindling, they still account for most firms. Approximately 73% of debt collection firms employ less than five employees. A little over half (54%) of these companies are non-employer firms. If such firms are removed, 42% of debt collectors have fewer than five employees (**Figure 10**).

FIGURE 10: Distribution of Collection Firms by Number of Employees



Industry Wrap-Up

With profit margins compressing, third-party debt collectors need to increase their accounts, ideally while cutting costs. Market conditions continue to be favorable, and there is ample opportunity for firms to grow revenue and cut costs in the long term.

The following pages explore the findings of TransUnion's recent survey and whether firms are positioning themselves well for this opportunity, the challenges they're facing, and the ways in which they can improve their standings – regardless of whether they're a small mom-and-pop collection business or a large collections house.

Understanding Account Profiles

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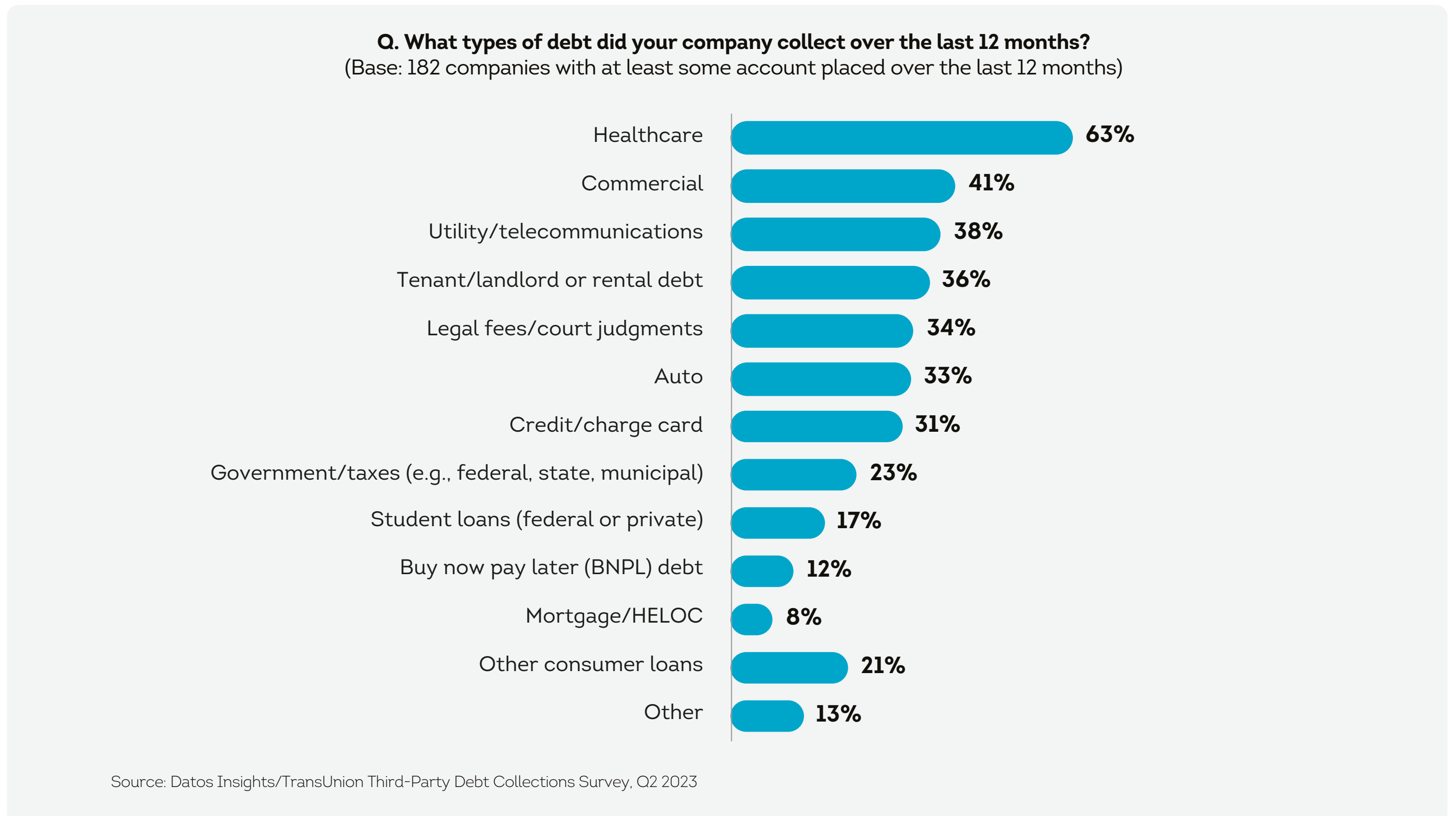
Understanding Account Profiles

Healthcare has been the top debt collected by respondents for the past four years. Sixty-three percent of respondents collected healthcare over the last 12 months. Commercial debt was collected by 41% of respondents, and telecommunications debts were collected by 38% of companies (**Figure 11**).

FIGURE 11: Types of Debt Collected



Smaller company respondents (less than 19 FTES) were far more likely to collect tenant or landlord debt than larger firms (20 or more FTEs). Larger firms were significantly more likely to collect auto and student loans, in addition to credit or charge card debt (**Figure 12**). Smaller companies tend to be regionally focused, as are rental debt clients, so this result is not surprising. The opposite is true for credit card companies; their reach is national like larger debt collectors.

FIGURE 12: Debt Types Collected by Company Size

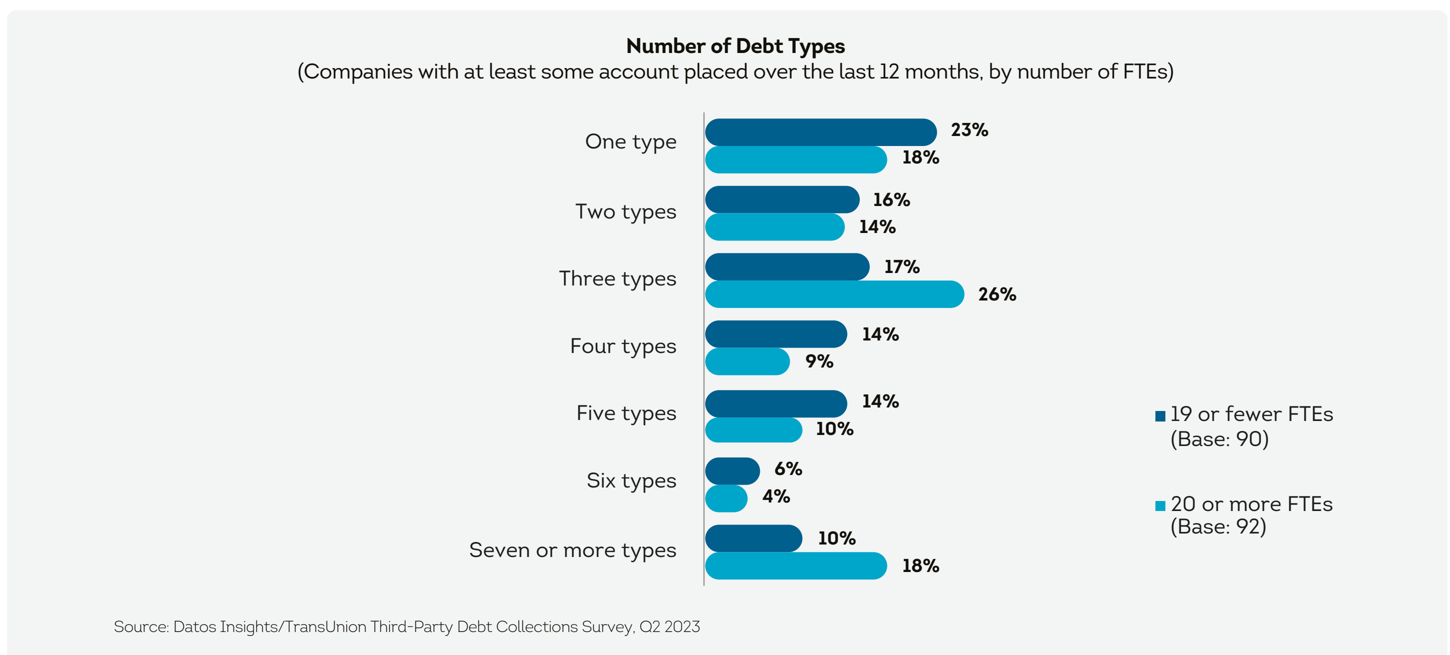
Q. What types of debt did your company collect over the last 12 months?
(Companies with at least some account placed over the last 12 months, by number of FTEs)

	19 or fewer FTEs (Base: 90)	20 or more FTEs (Base: 92)
Healthcare	67%	59%
Utility/telecommunications	36%	41%
Commercial	47%	36%
Tenant/landlord or rental debt	50%	23%
Legal fees/court judgments	39%	28%
Auto	24%	41%
Credit/charge card	18%	45%
Government/taxes	20%	26%
Student loans	10%	24%
BNPL debt	8%	15%
Mortgage/HELOC	6%	10%
Other consumer loans	18%	25%
Other	13%	13%

Source: Datos Insights/TransUnion Third-Party Debt Collections Survey, Q2 2023

Most companies collect at most three types of debt. The number of debt types collected varies across companies – but is little influenced by the number of FTEs (**Figure 13**).

FIGURE 13: Number of Debt Types Collected by FTE Count



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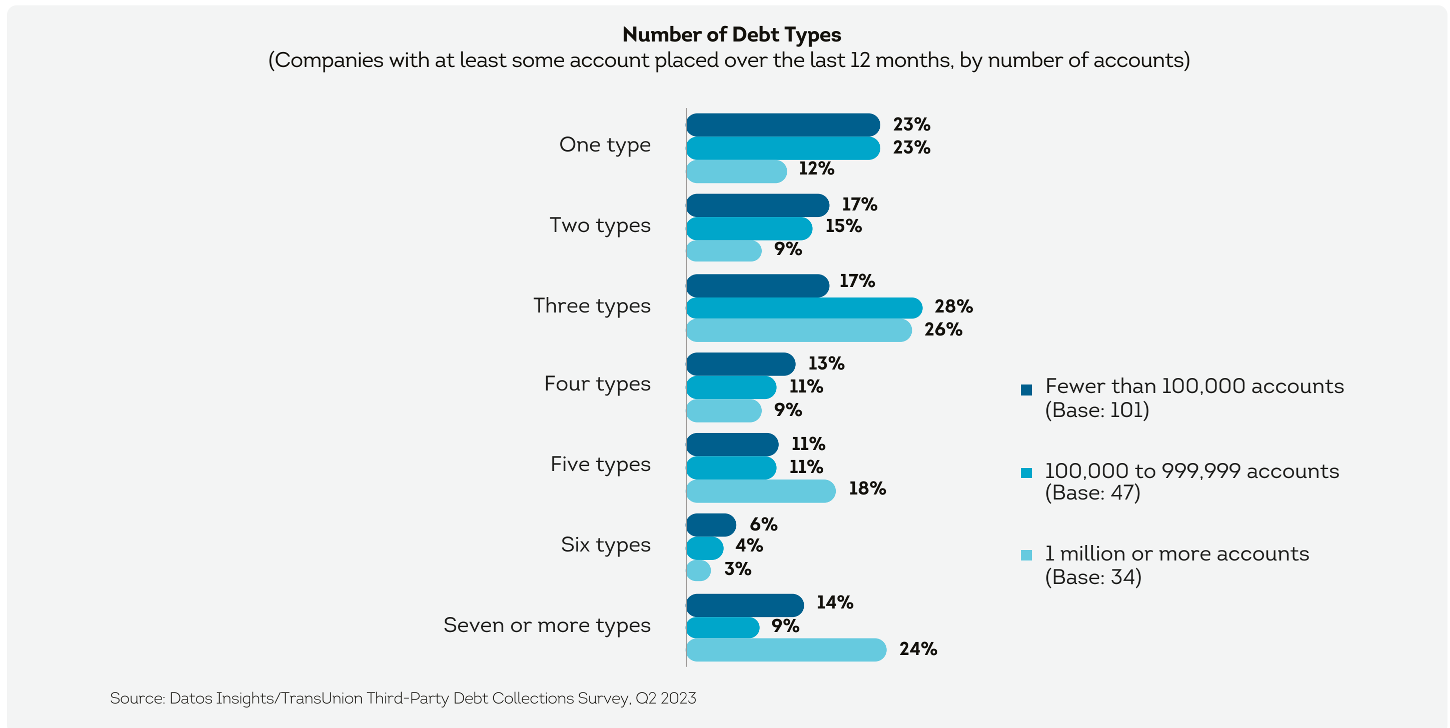
The number of accounts collected also seems to have little impact on the debt types collected. The only statistically significant difference was between midsize to large firms in the seven or more debt types collected category. Fourteen percent of companies with less than 100,000 accounts collected seven or more debt types versus 24% of companies with 1 million or more accounts (**Figure 14**).

FIGURE 14: Number of Debt Types Collected by Account Size



Source: Datos Insights/TransUnion Third-Party Debt Collections Survey, Q2 2023

For those collecting on four or more debt types, healthcare, tenant/landlord and commercial debt were the top three debts collected by small companies (19 or fewer FTEs). Healthcare, credit/charge cards and auto loans were the top three for large firms (20 or more FTEs); (**Figure 15**).

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FIGURE 15: Top Three Debts Collected, by FTEs

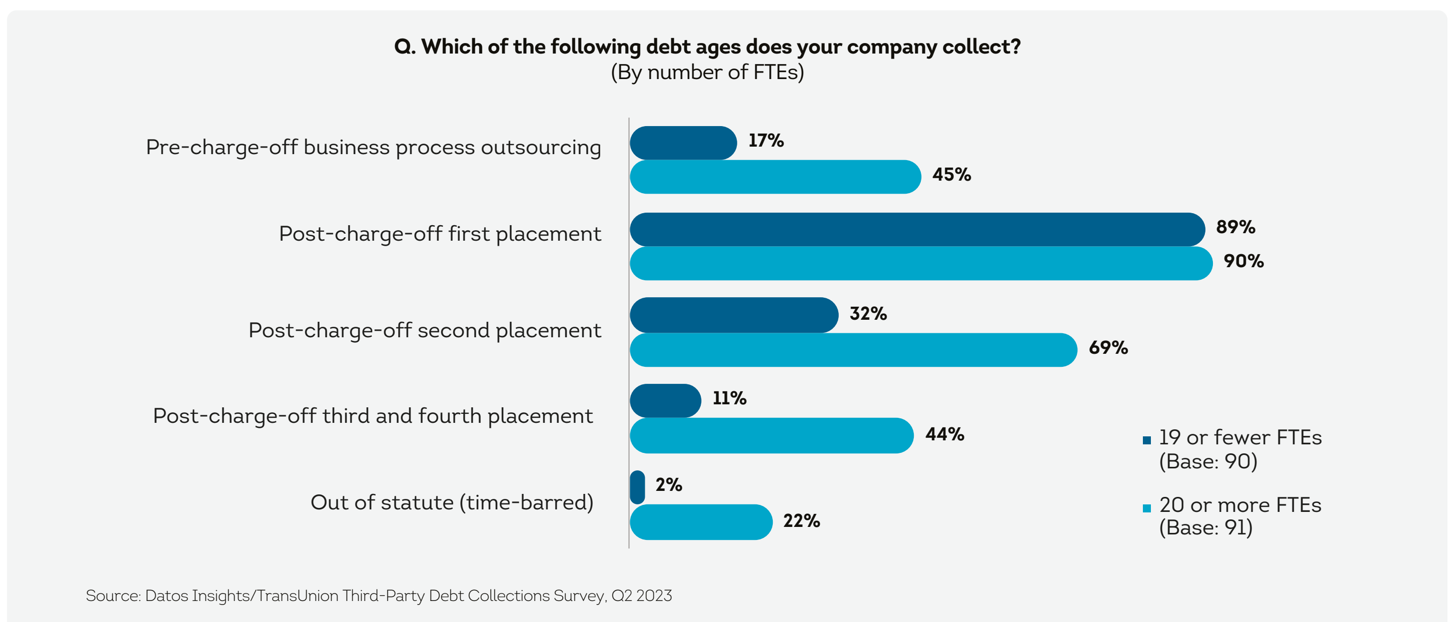
Q. Please select the three debt types that make up the largest share of the total accounts collected over the last 12 months.
(Companies with at least some account placed over the last 12 months, by number of FTEs)

	19 or fewer FTEs (Base: 90)	20 or more FTEs (Base: 92)
Healthcare	61%	52%
Credit/charge cards	11%	41%
Utility/telecommunications	17%	24%
Tenanty/landlord or rental debts	39%	9%
Commercial	28%	15%
Auto	11%	28%
Government/taxes	11%	18%
Legal fees/court judgments	23%	10%
Student loans (federal or private)	6%	9%
BNPL debt	1%	3%
Mortgage/HELOC	1%	2%
Other consumer loans	12%	24%
Other	11%	11%

Source: Datos Insights/TransUnion Third-Party Debt Collections Survey, Q2 2023

Most firms collect post-charge-off first placement debts. Larger firms have greater diversity. Forty-five percent of large companies (20 or more FTEs) collected pre-charge-off business process outsourcing debts versus 17% of companies with fewer employees. Sixty-nine percent of larger companies collected post-charge-off second placement debts versus 32% of smaller firms, defined by FTEs (**Figure 16**).

FIGURE 16: Debt Ages Collected by FTEs



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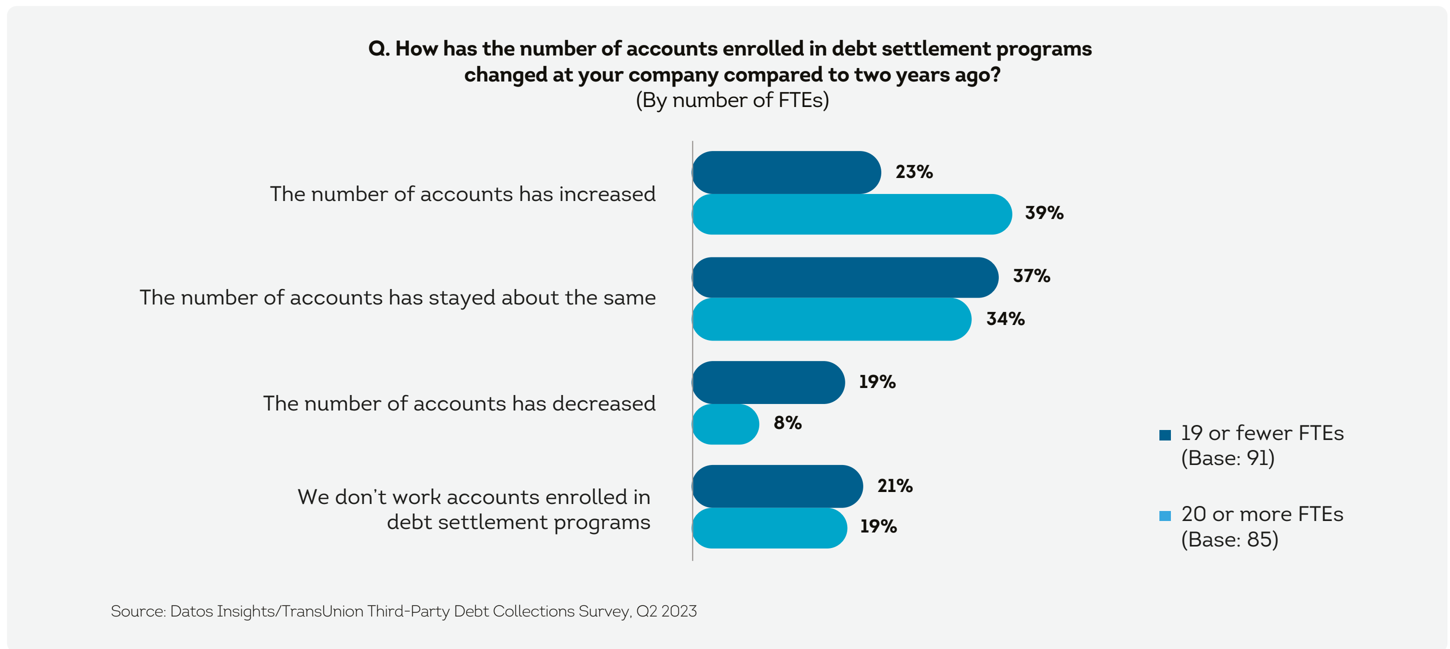
Eighty percent of firms worked with accounts enrolled in debt settlement programs. Thirty-nine percent of larger firms (20 or more FTEs), versus 23% of smaller firms, increased the number of accounts enrolled in debt settlement programs compared to two years ago. Approximately a third of all companies haven't changed the number of accounts enrolled in such programs (**Figure 17**).

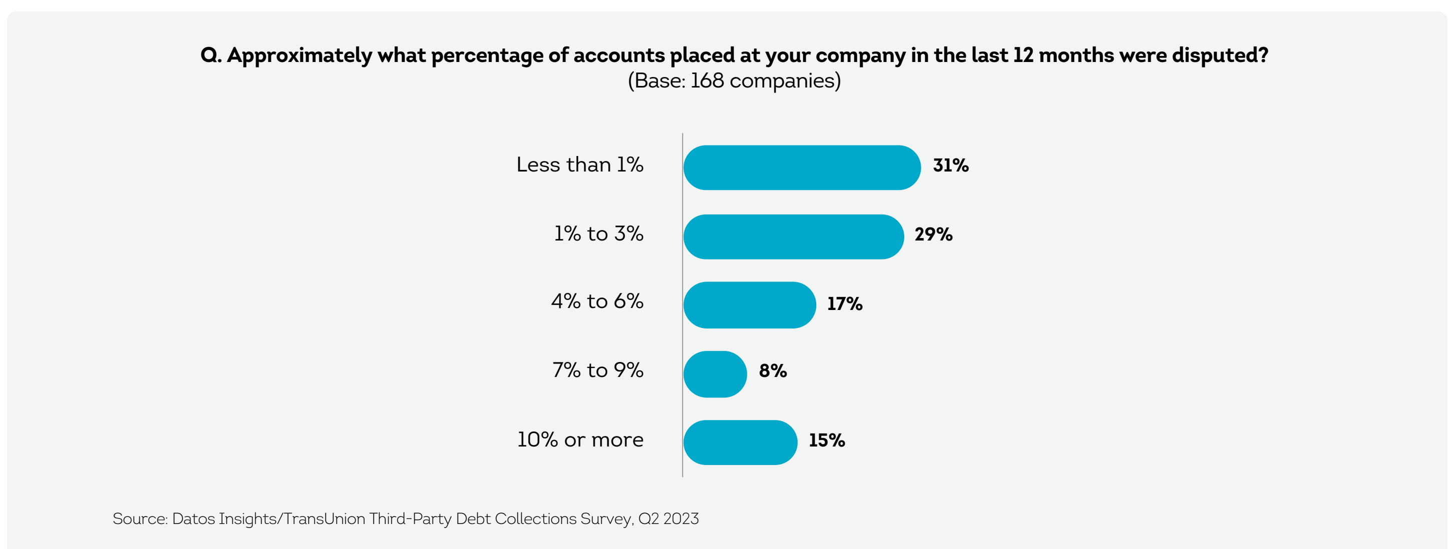
FIGURE 17: Number of Accounts Enrolled in Debt Settlement Programs by FTEs



Accounts Disputed

When asked about dispute rates, almost a third (31%) of companies had dispute rates of less than 1%. Almost a third (29%) had dispute rates between 1% and 3%, while 40% of respondents had dispute rates greater than 3% (**Figure 18**).

FIGURE 18: Dispute Rates for Accounts Placed in the Last Twelve Months



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Industry Challenges

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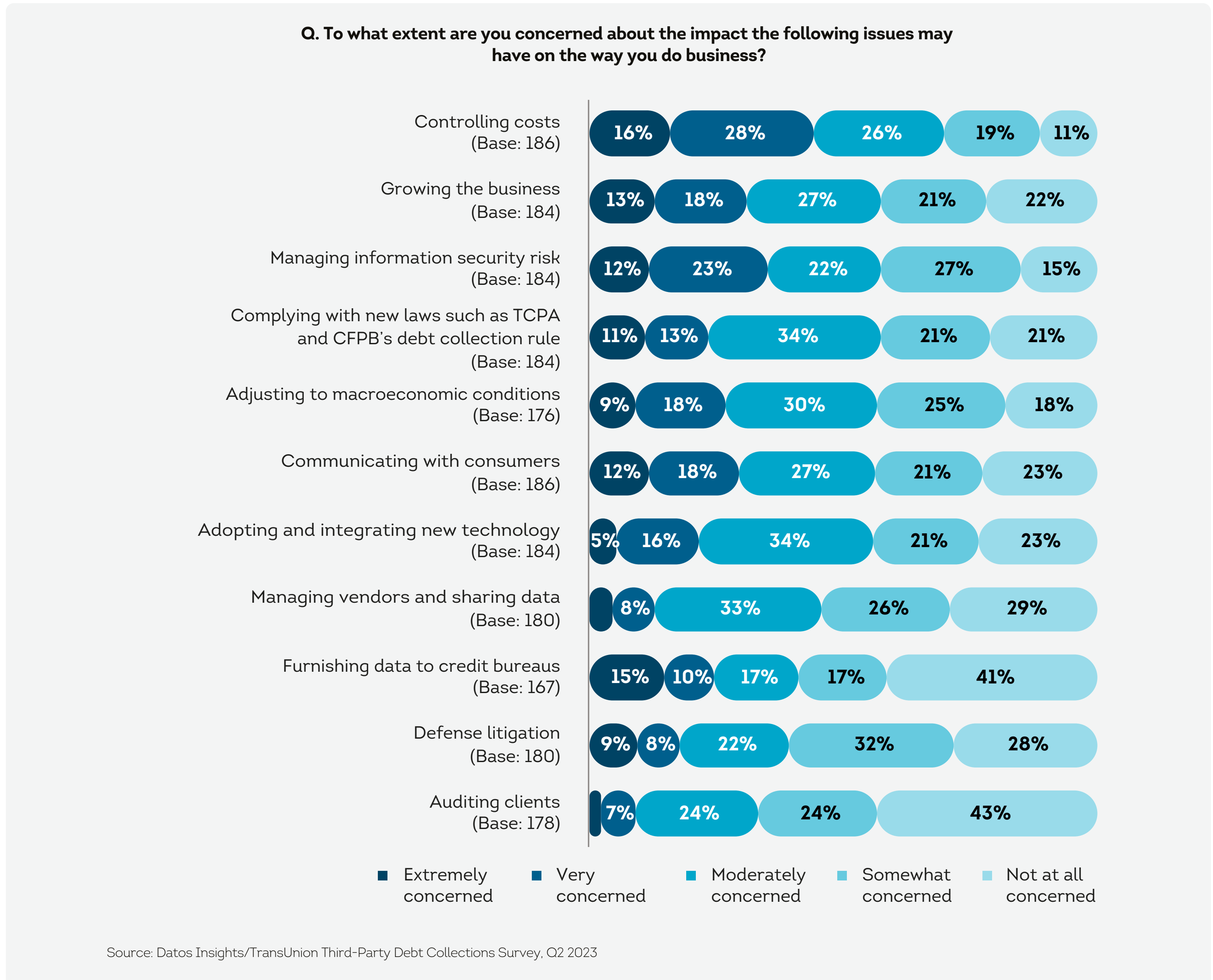
Industry Challenges

Third-party collection companies have many concerns spanning from profit margins to consumer-related challenges to data security. Controlling costs tops the list of concerns with many others closely behind (**Figure 19**).

FIGURE 19: Top Concerns Among Companies in the Debt Collection Space

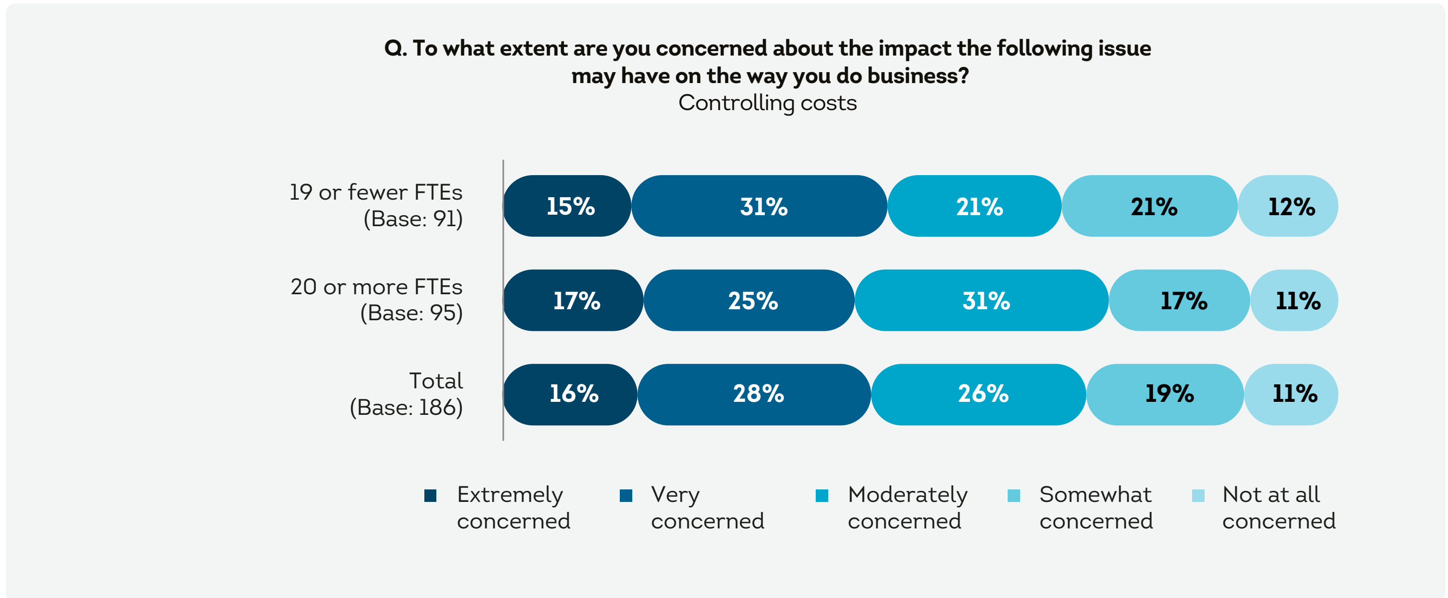


Source: Datos Insights/TransUnion Third-Party Debt Collections Survey, Q2 2023

Controlling Expenses

Financial outlook considers cost or operating environment and revenue opportunities. Overall, controlling costs is a concern for many companies; 70% are at least moderately concerned about controlling costs. This concern does not vary significantly across different size companies (**Figure 20**).

FIGURE 20: Controlling Costs Is a Concern for Many Companies



Despite the concern, few companies expected a significant increase in major expense categories, but most expected an increase to some degree.

Technology is the largest cost category expected to see an increase in the upcoming year. Eighteen percent of companies expected technology costs to increase significantly, and another 45% expected a modest increase. Fifty-three percent of companies expected labor costs to increase, and 50% expect compliance management system costs to increase (**Figure 21**).

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FIGURE 21: Expense Outlook for Various Line Items

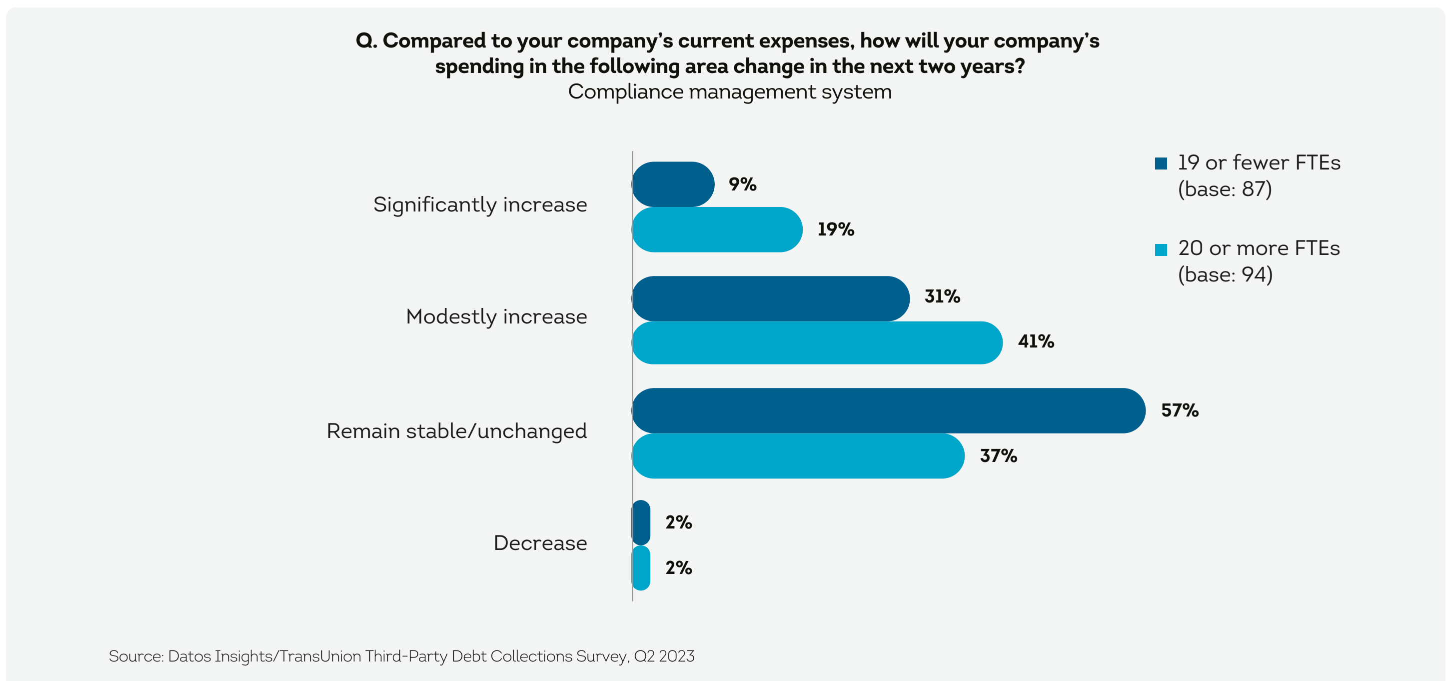
Q. Compared to your company's current expenses, how will your company's spending in the following areas change in the next two years?

	Significantly increase	Modestly increase	Remain stable/unchanged	Decrease
Technology solutions (collections management software, payment processing, telephony)	18%	45%	34%	
Compliance management system (Base: 181)	14%	36%	47%	
Employee compensation and benefits (Base: 185)	7%	46%	37%	10%
Data acquisition (Base: 170)	7%	30%	58%	5%
Marketing/business development (Base: 186)	6%	39%	50%	5%
Legal defense and settlement (Base: 170)	6%	19%	65%	9%
Legal settlement (Base: 168)	5%	18%	66%	11%

Source: Datos Insights/TransUnion Third-Party Debt Collections Survey, Q2 2023

Perspectives differed based on company size for a few expense categories. Fifty-nine percent of small companies (19 or fewer FTEs) did not expect to see an increase in their compliance management systems, whereas 61% of larger companies (20 or more FTEs) did expect to see an increase (**Figure 22**).

FIGURE 22: Compliance Management Costs Expected to Increase for Large Companies



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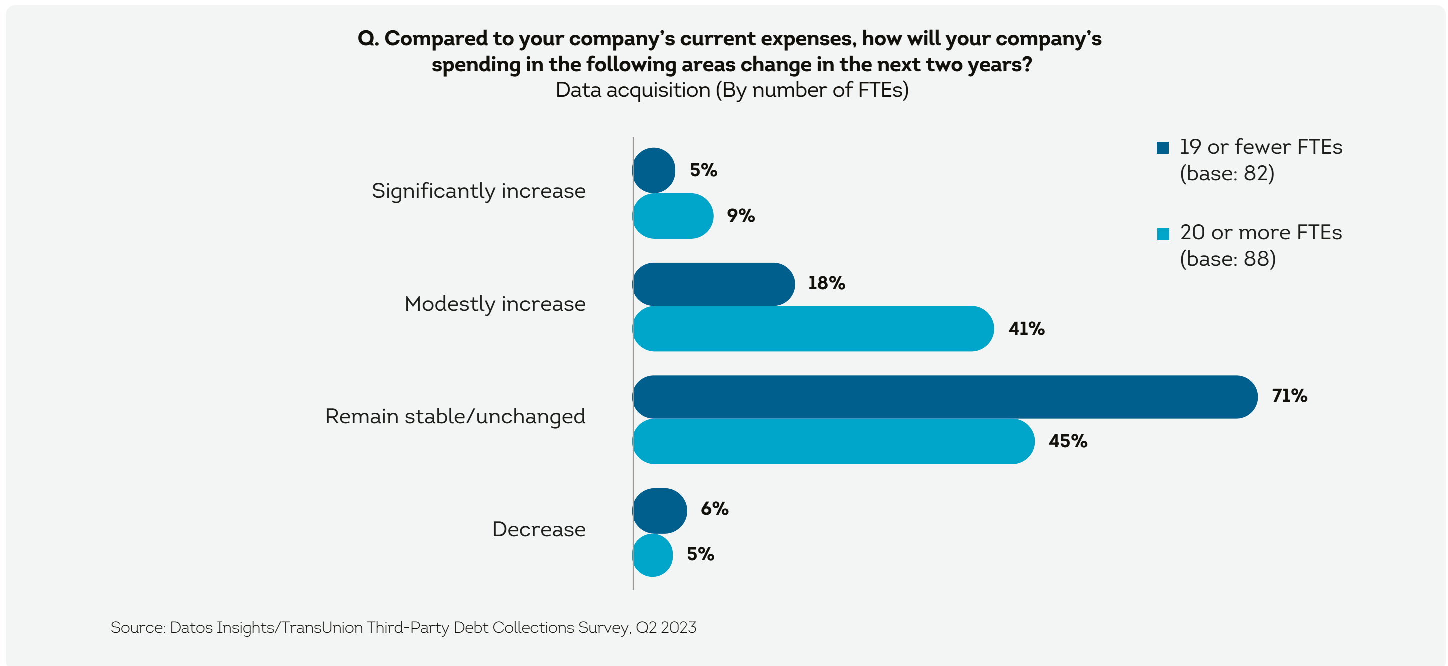
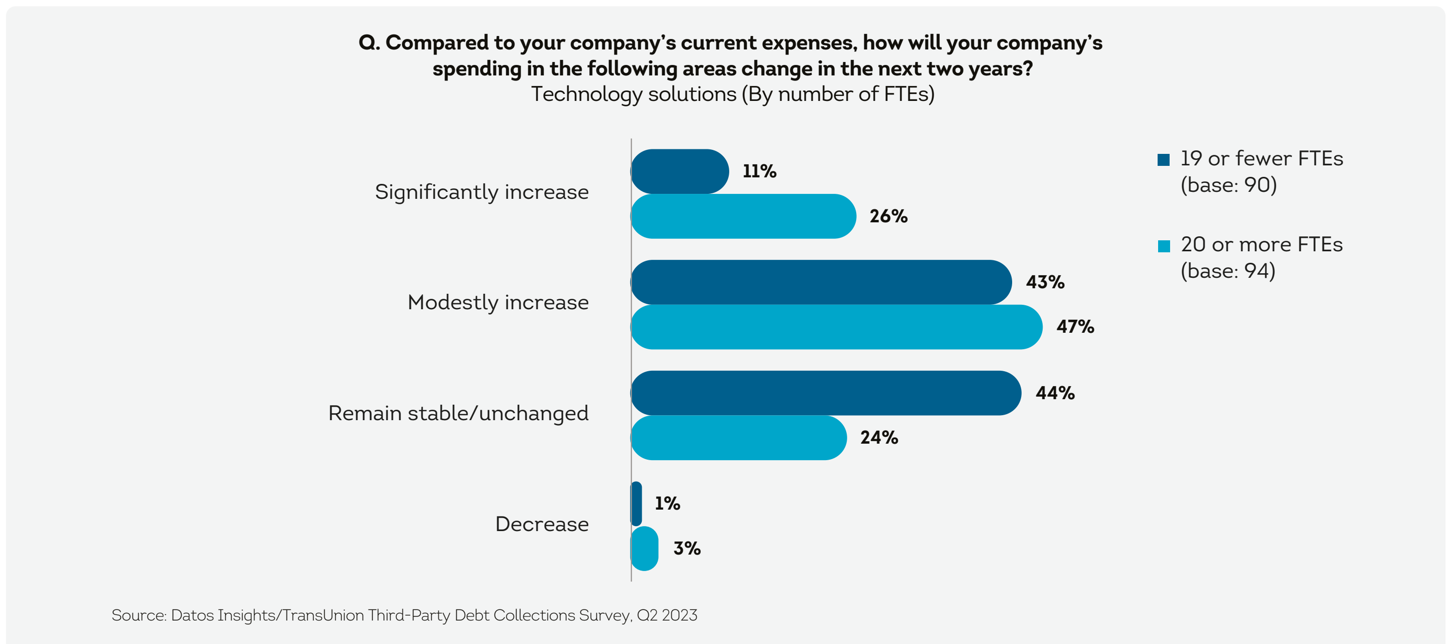
Seventy-seven percent of smaller companies expected their data acquisition costs to remain unchanged or to decrease. Half of larger companies shared this sentiment (**Figure 23**).

FIGURE 23: Data Acquisition Expenses Expect to Increase for Larger Companies



Larger companies were more likely to make investments in technology over the next two years. Thus, they expected to see their costs in this category rise significantly. Twenty-six percent of companies with 20 or more FTEs expected to see a significant increase versus only 11% of smaller companies. Forty-four percent of smaller companies expected technology costs to stay the same versus 24% of larger companies. Very few companies, regardless of size, expected technology costs to decrease (**Figure 24**).

FIGURE 24: Expected Rises in Technology Costs by FTEs



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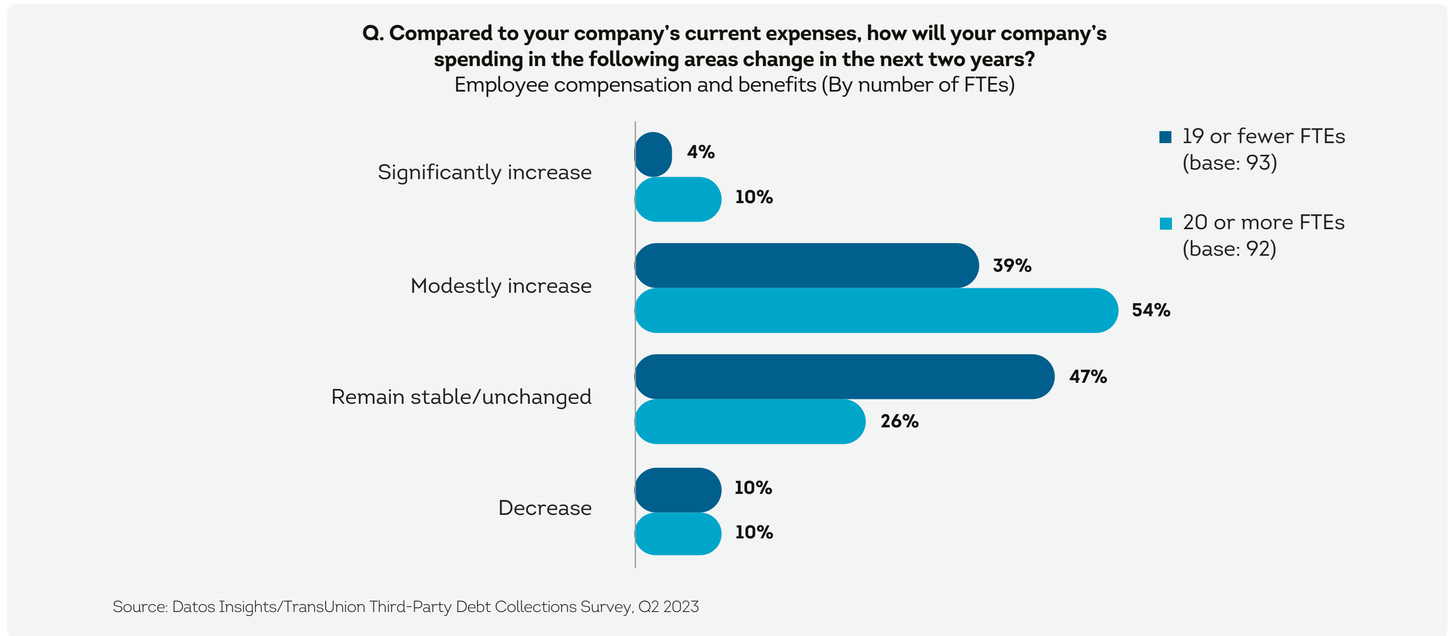
Labor costs were another factor driving profit and loss concerns. Sixty-four percent of companies with 20 or more FTEs expected their labor costs to increase, versus only 43% of companies with 19 or fewer FTEs (**Figure 25**).

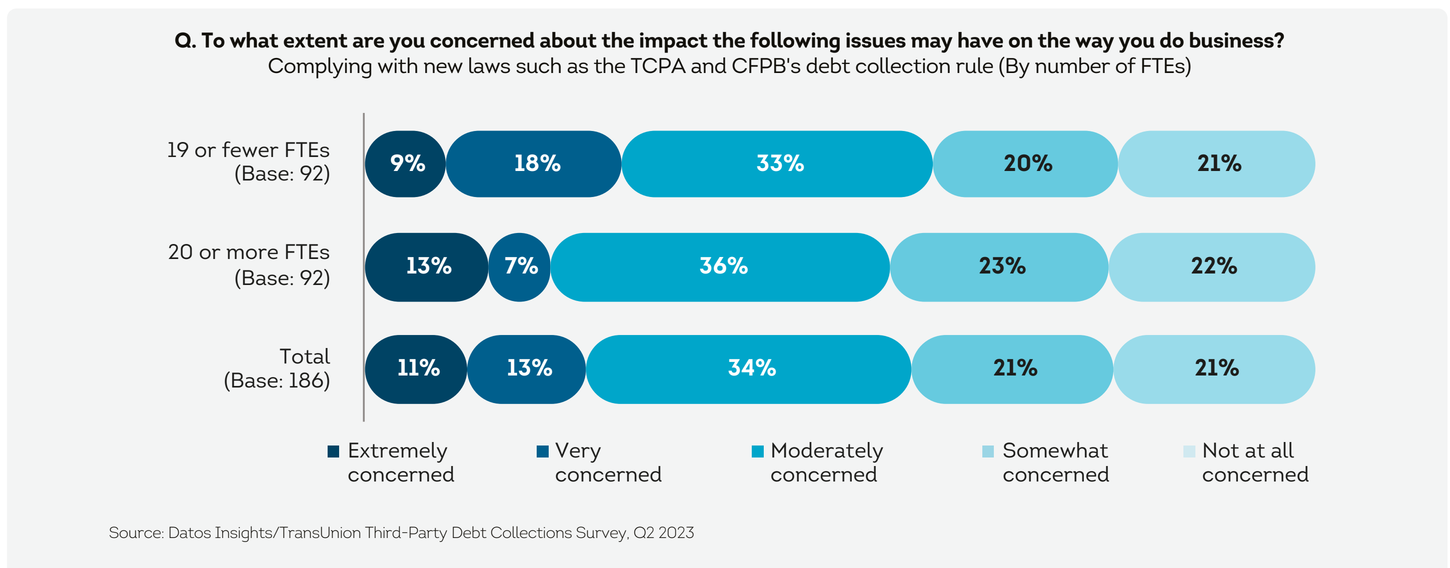
FIGURE 25: Expected Labor Costs by Company Size



Compliance and Regulation Concerns

With respect to concern and compliance issues, companies in both FTE groups (large and small) evenly share their concerns with complying with new laws like the Telephone Consumer Protection Act (TCPA) and Consumer Financial Protection Bureau's (CFPB's) debt collection rule (**Figure 26**).

FIGURE 26: Compliance Concern by Company Size



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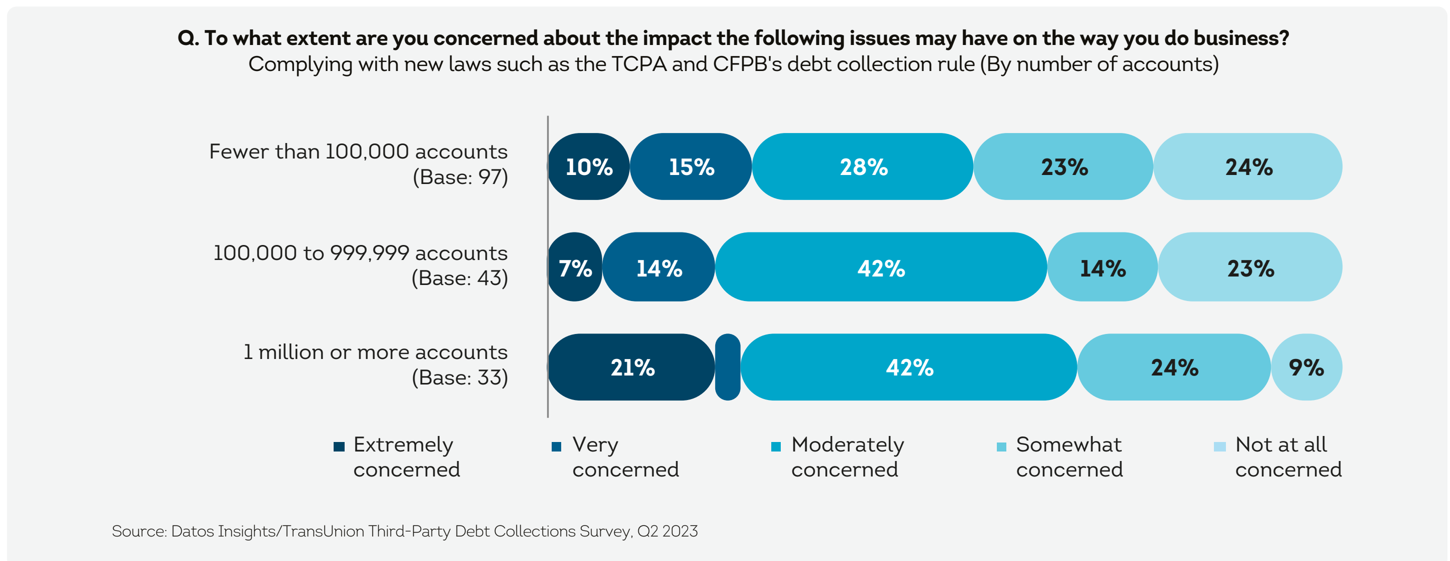
However, there was a significant difference in companies with a million or more accounts. Twenty-one percent of these large companies were extremely concerned about such compliance issues versus, at most, 10% of smaller companies (**Figure 27**).

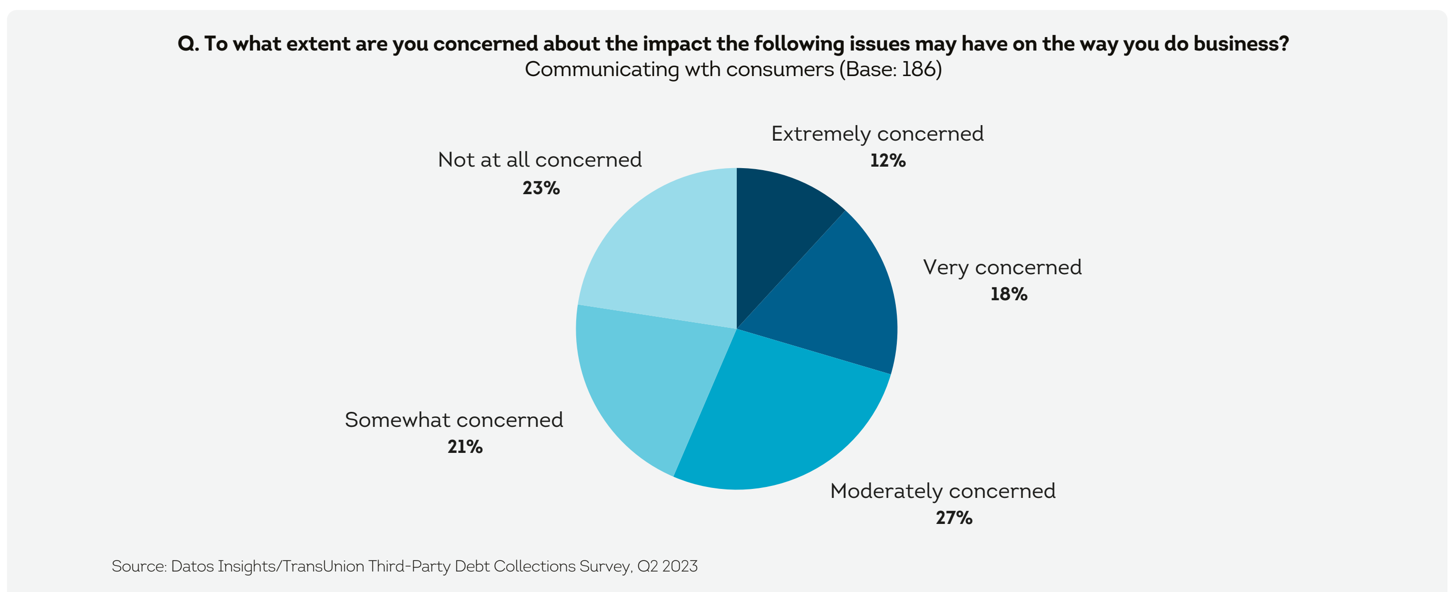
FIGURE 27: Companies with Large Account Bases are Extremely Concerned



Communication Concerns

Communicating with consumers remained a top concern for many companies. Fifty-seven percent of companies were at least moderately concerned (**Figure 28**).

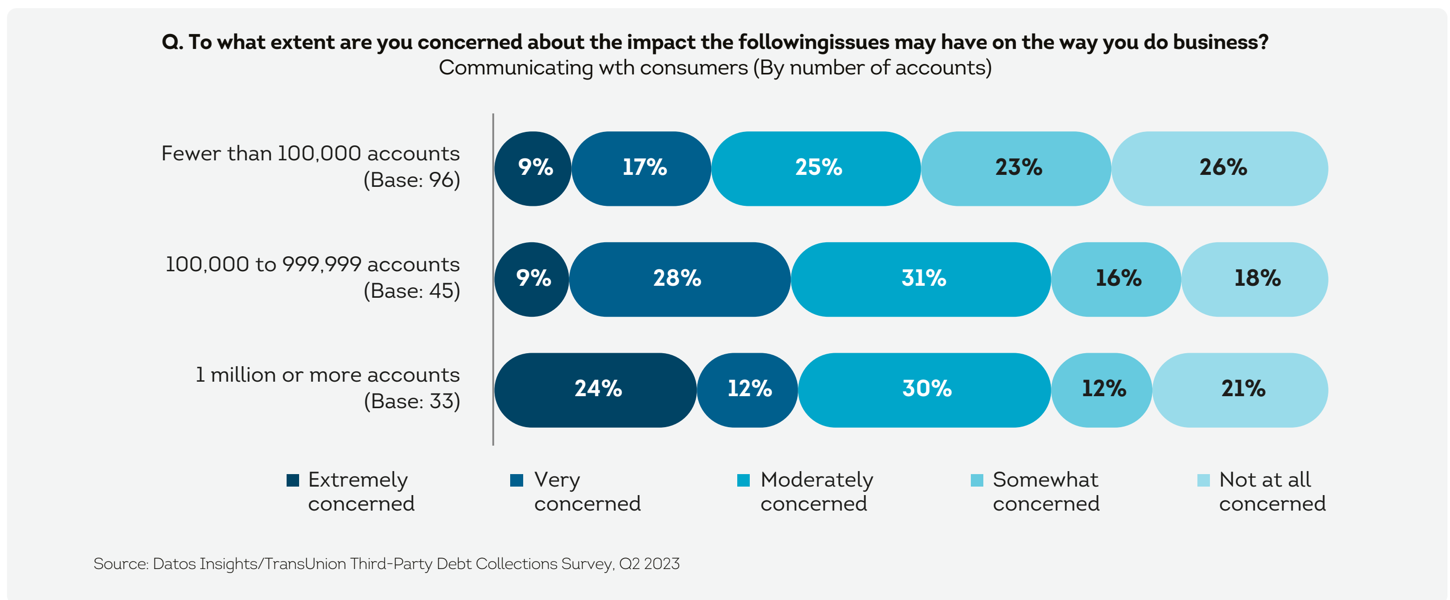
FIGURE 28: Communicating With Consumers Is a Top Concern



Capturing a consumer's attention is necessary for communication. It's difficult during a time when their short attention spans are inundated with information and stretched across a variety of channels. This is particularly the case when consumers are in financial trouble and wish to avoid the unpleasant repercussions. Add to it compliance and regulatory hurdles, and it is no wonder communicating with consumers is a top concern shared across companies servicing the third-party collection space.

Given their bigger market presence, larger companies feel the scrutiny of regulators. We see this reflected in survey results. Companies servicing 1 million or more accounts were more likely to be extremely concerned about communicating with consumers. Twenty-four percent of such companies were extremely concerned versus only 9% of companies servicing fewer accounts (**Figure 29**).

FIGURE 29: Levels of Concern for Communicating with Consumers by Account Size



Macroeconomic Conditions Concerns

The macroeconomic environment seems volatile, with uncertainty being driven by inflation, the risk of recession and changes in consumer behavior. Fifty-seven percent of companies were at least moderately concerned about adjusting to the current macroeconomic conditions. Larger companies with 20 or more FTEs were slightly more likely to be concerned. Twenty-three percent of companies with 19 or fewer FTEs were not concerned about macroeconomic conditions versus 14% of companies with 20 or more FTEs (**Figure 30**).

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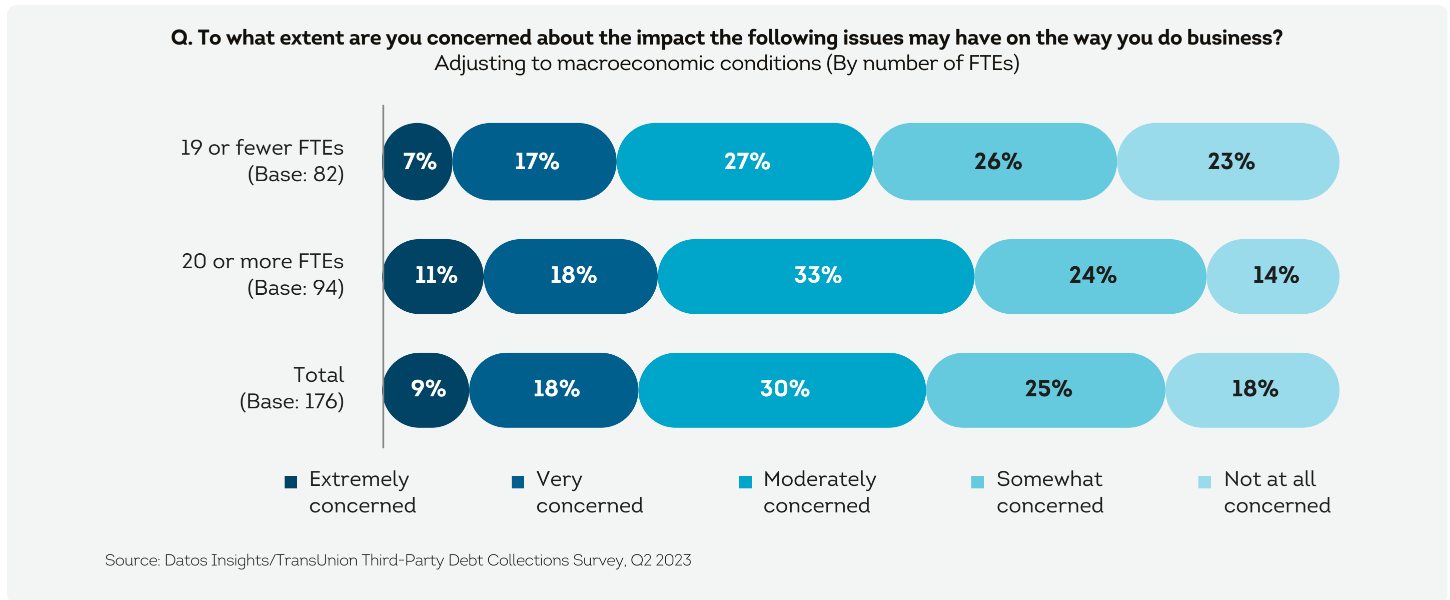
FIGURE 30: Macroeconomic Conditions Concern Most Companies

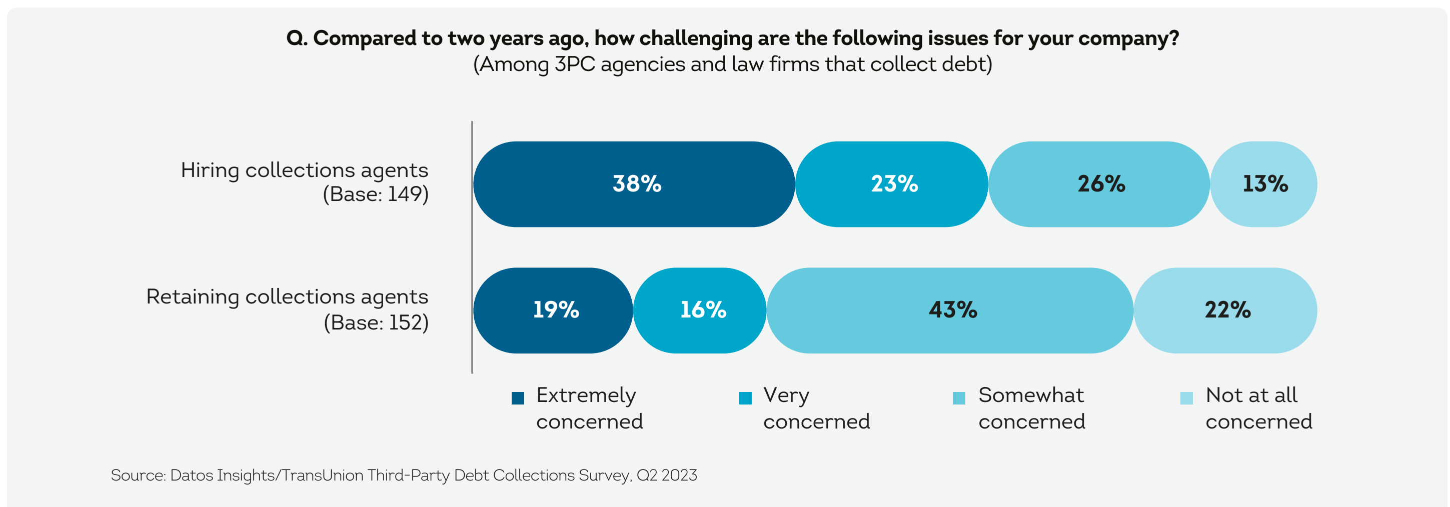


Source: Datos Insights/TransUnion Third-Party Debt Collections Survey, Q2 2023

Human Resource Challenges

Hiring challenges continue to impact 3PC companies. The labor market, as discussed earlier, remains strong, which can make employee acquisition difficult. Almost two-thirds (61%) of companies still found hiring collections agents at least very challenging. Retaining agents was less challenging for many. Only 35% of companies found retaining agents at least very challenging (**Figure 31**).

FIGURE 31: Comparing the Past to Today's Hiring Conditions



Source: Datos Insights/TransUnion Third-Party Debt Collections Survey, Q2 2023

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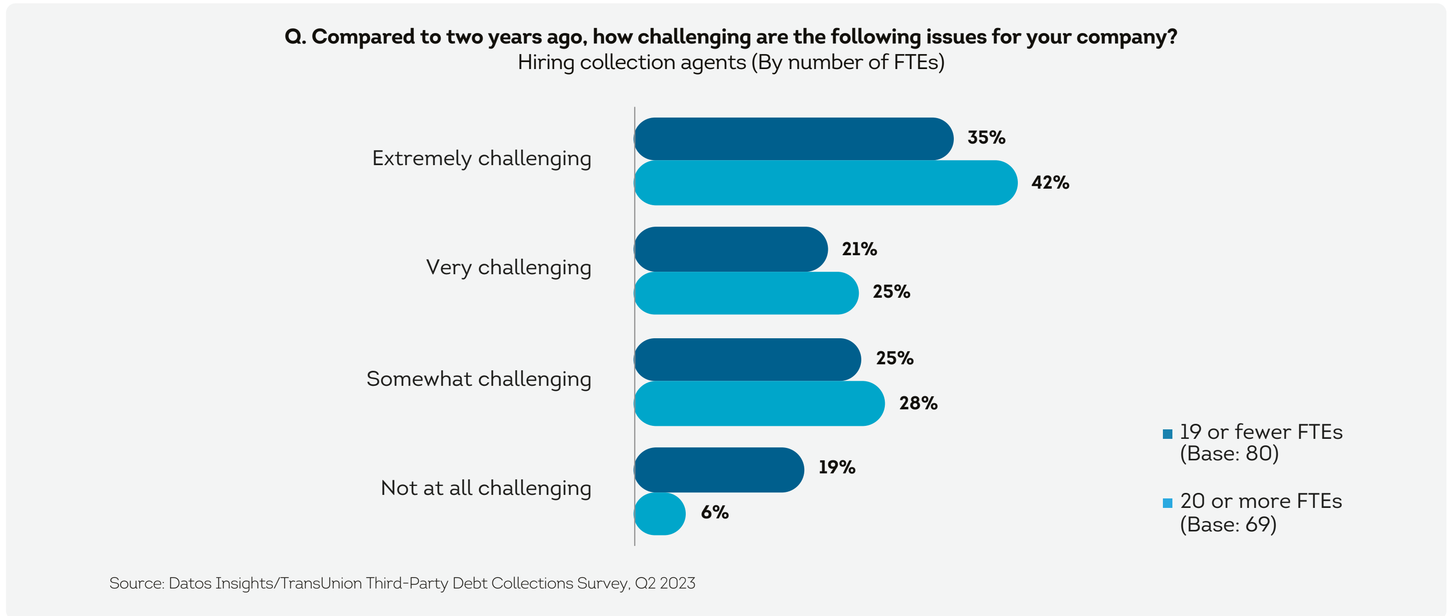
Hiring challenges were shared by companies of all sizes. Forty-two percent of large companies (20 or more FTEs) found it extremely challenging versus 35% of smaller companies (**Figure 32**).

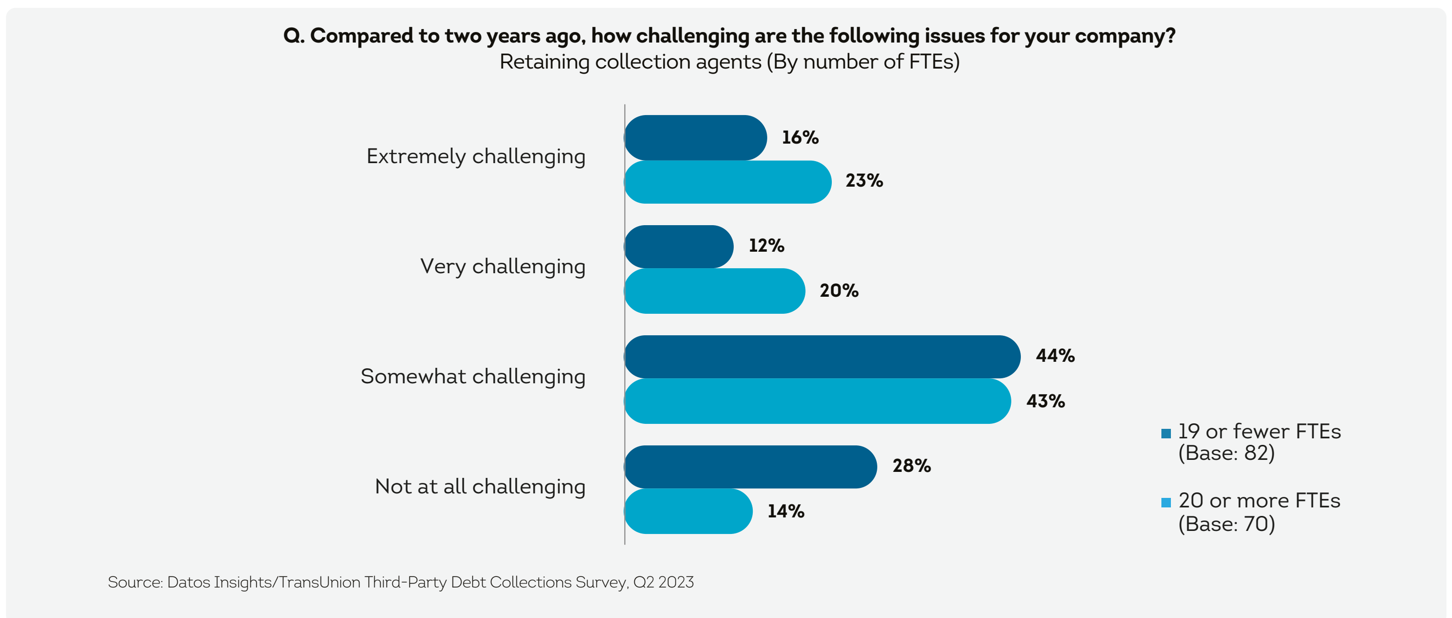
FIGURE 32: The Challenge of Hiring Collection Agents by Company Size



Source: Datos Insights/TransUnion Third-Party Debt Collections Survey, Q2 2023

Larger companies seemed to be more troubled with employee retention than smaller companies. Forty-three percent of large companies (20 or more FTEs) found retaining agents at least very challenging versus 28% of smaller companies (**Figure 33**).

FIGURE 33: Retaining Employees Varies by Company Size

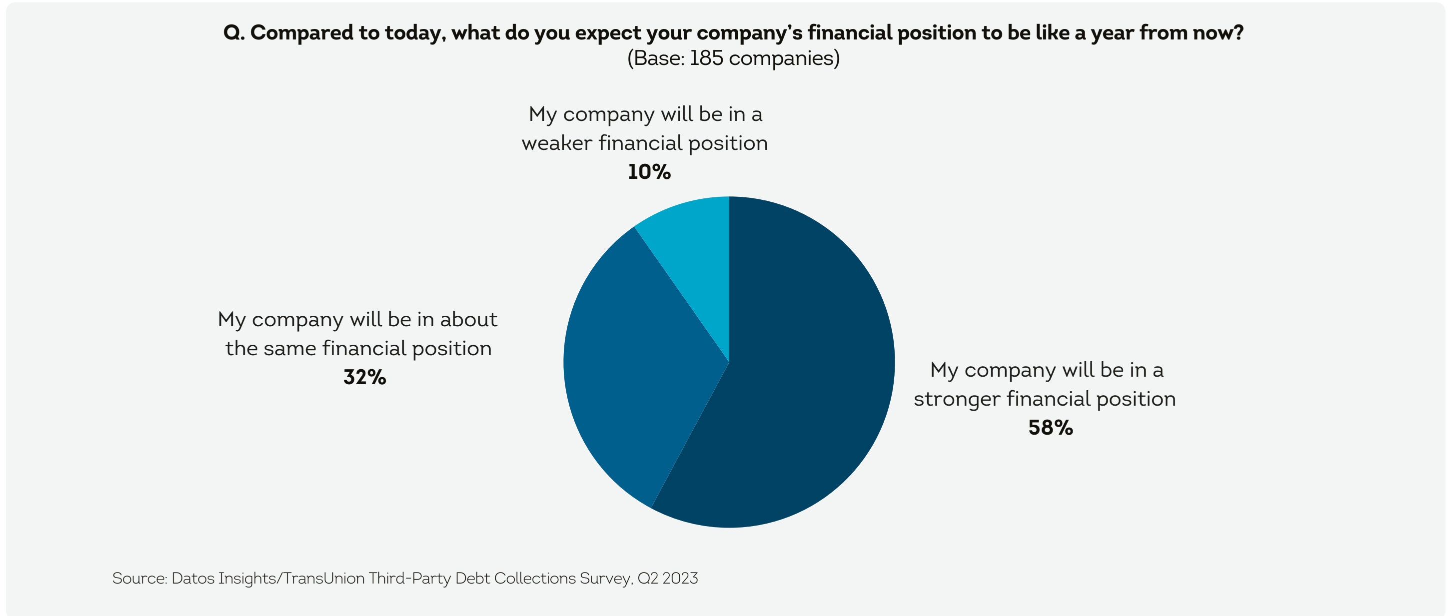


Source: Datos Insights/TransUnion Third-Party Debt Collections Survey, Q2 2023

Financial Outlook

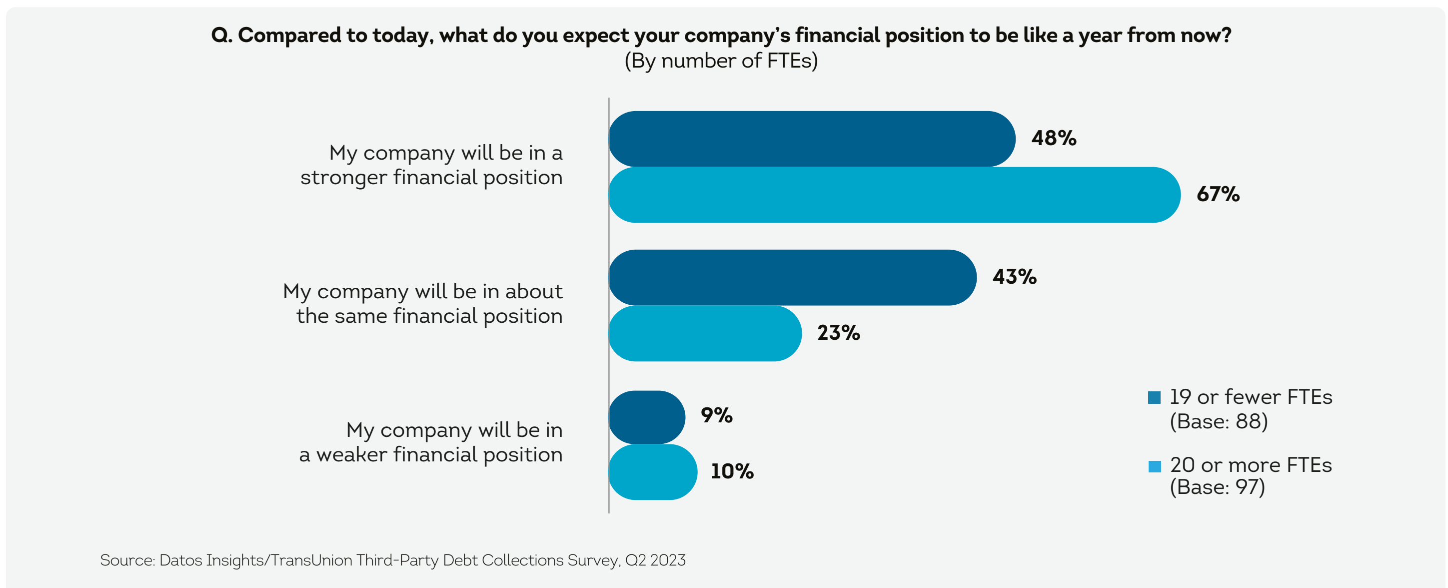
Despite the uncertainty, concerns and challenges facing the industry, most businesses remained fiscally optimistic. Fifty-eight percent of respondents said they believe their company will be in a stronger financial position a year from now. Thirty-two percent thought their positions would remain the same, and only 10% thought they'd be in a weaker position (**Figure 34**).

FIGURE 34: Most Companies Remain Optimistic about Their Financial Position



This sentiment varied significantly by company size. Forty-eight percent of small firms (19 or fewer FTEs) believed their financial positions would be better in a year compared to 67% of larger firms. Ultimately, only 9% of small firms and 10% of large firms believed they'd be in a worse position (**Figure 35**).

FIGURE 35: Financial Outlook by FTEs



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The Technological Toolset

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The Technological Toolset

The following section investigates the state of the technological toolset in the 3PC market.

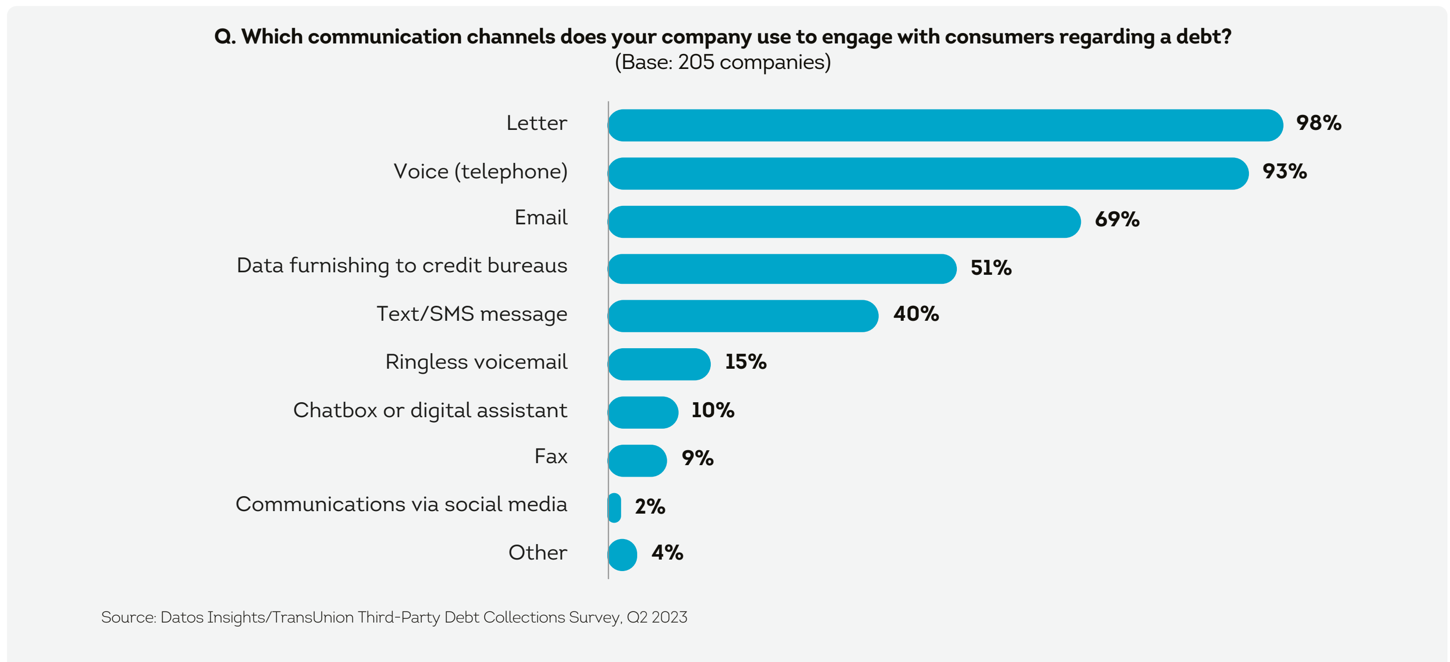
Communication Tools

The ways in which Americans communicate have changed significantly over the past two decades. Today, only 26.7% of American households have a landline, while 72.6% of households have only a wireless phone.[6] The adoption of smartphones drastically changed the way consumers communicate. On this single device, a consumer can receive emails, access websites, use mobile apps, text, and place voice calls. Consumers use a multitude of channels to communicate with businesses and individuals across the customer lifecycle, and there's no one-size-fits-all approach to servicing them.

Companies are moving from a single communication strategy applied across portfolios to a multichannel approach that may cater to a customer's preference. Successful businesses will not only leverage a variety of communication channels, but they'll also create a frictionless experience across channels. A frictionless, omnichannel experience is defined as having the same experience across channels with complete channel visibility across customer service channels. For example, if a consumer begins an online application and needs assistance, an agent will be able to see where the consumer left off and help.

The channels today's 3PC companies leverage are expanding, albeit slowly. Ninety-eight percent of companies use letters, 93% of companies still use voice (telephone), and 69% use email. Only 40% of companies use text or SMS messaging (**Figure 36**).

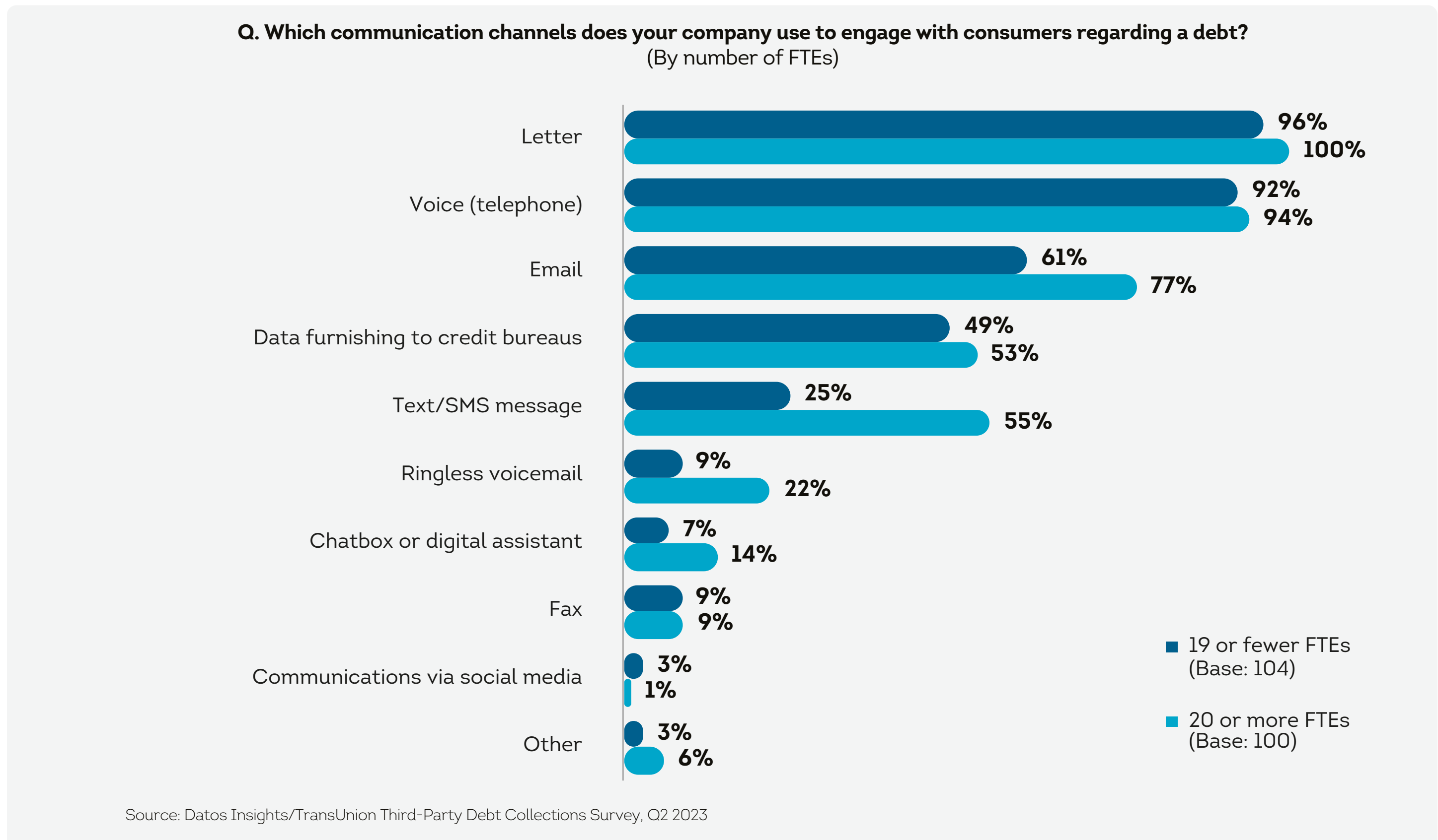
FIGURE 36: 3PC Companies' Communication Channel Usage



[6] See Aite Group's report, "U.S. Consumer Payment Experience: A Blueprint for Creating Positive Behaviors," November 2018.

There were some significant differences between small and large companies defined by the number of FTEs. The greatest difference in communication channels was found in text messaging. Fifty-five percent of companies with 20 or more FTEs use text versus only 25% of smaller companies (**Figure 37**).

FIGURE 37: Communication Channels Used by Company Size



Text messaging is a newer channel that will become table stakes for any company servicing customers. Until recently, regulatory uncertainty was a hurdle and it may cause companies to slowly embrace it. However, text significantly captures the attention of consumers and improves operational efficiencies. This is not surprising given the ubiquitous use of text messaging among the consumer population, and the need for information to be delivered in bite-sized, easily digestible pieces.

Today, at least 85% of Americans own a smartphone,[7] and at least 97% of them text often.[8] Studies have shown text messages best capture a consumer's attention and are quickly becoming the preferred choice for communications like payment reminders. A survey conducted by EZ Texting in 2022 found 54% of respondents preferred text for payment reminders versus 39% for email and 3% for phone calls.[9] The same survey found for the time being, text remains an underutilized channel for business communications like email. Seventy-eight percent of respondents received (at most) five texts per day from businesses or organizations, whereas 65% of respondents received at least six emails per day from businesses.

There's a misconception that older generations have little interest in newer communication channels. However, multiple studies have shown this is not true, and the pandemic also accelerated digital adoption across all generations. While they may not be as heavy adopters as younger generations, older generations are still embracing the digital age. For example, at least 41% of Baby Boomers and seniors log into their financial accounts at least once a week using a smartphone.[10]

[7] "Mobile Fact Sheet," Pew Research, accessed August 8, 2023, https://www.pewresearch.org/internet/fact-sheet/mobile/.

[8] Aaron Smith, "U.S. Smartphone Use in 2015," Pew Research, April 1, 2015, accessed August 8, 2023, https://www.pewresearch.org/internet/2015/04/01/us-smartphone-use-in-2015/.

[9] "2022 Consumer Texting Behavior Report," EZ Texting, accessed December 5, 2022, https://www.eztexting.com/report/2022-state-of-texting-consumer-behavior-report.

[10] ADatos Insights financial behaviors survey of North American and U.K. consumers, Q3 and Q4, 2022.

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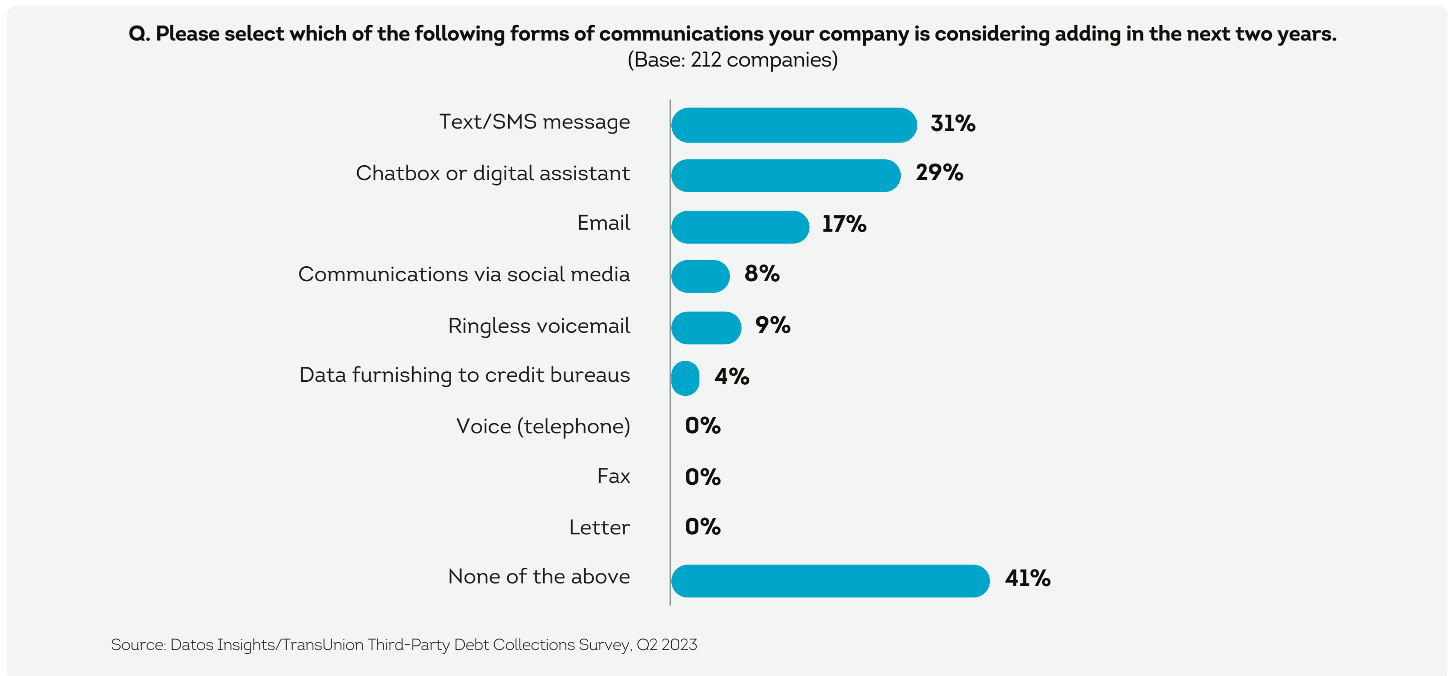
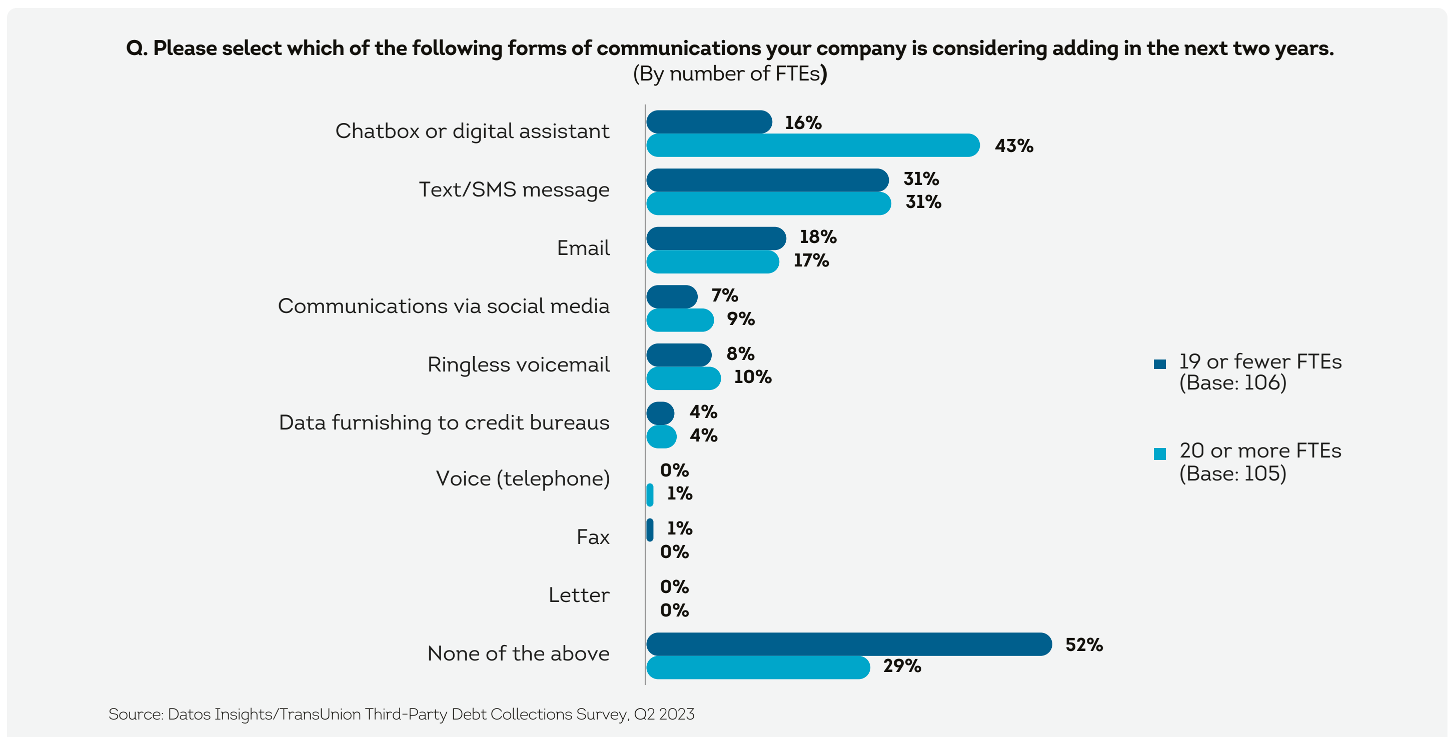
Thirty-one percent of companies were considering adding text messaging to their channel options in the next two years. Twenty-nine percent of companies were planning to add chat boxes or digital assistants to their mix (**Figure 38**).

FIGURE 38: Communication Additions Over the Next Two Years



Chat boxes and digital assistants were more popular among companies with 20 or more FTEs, but small and large firms were considering text messaging equally (**Figure 39**).

FIGURE 39: Communication Additions Over Next Two Years by Company Size



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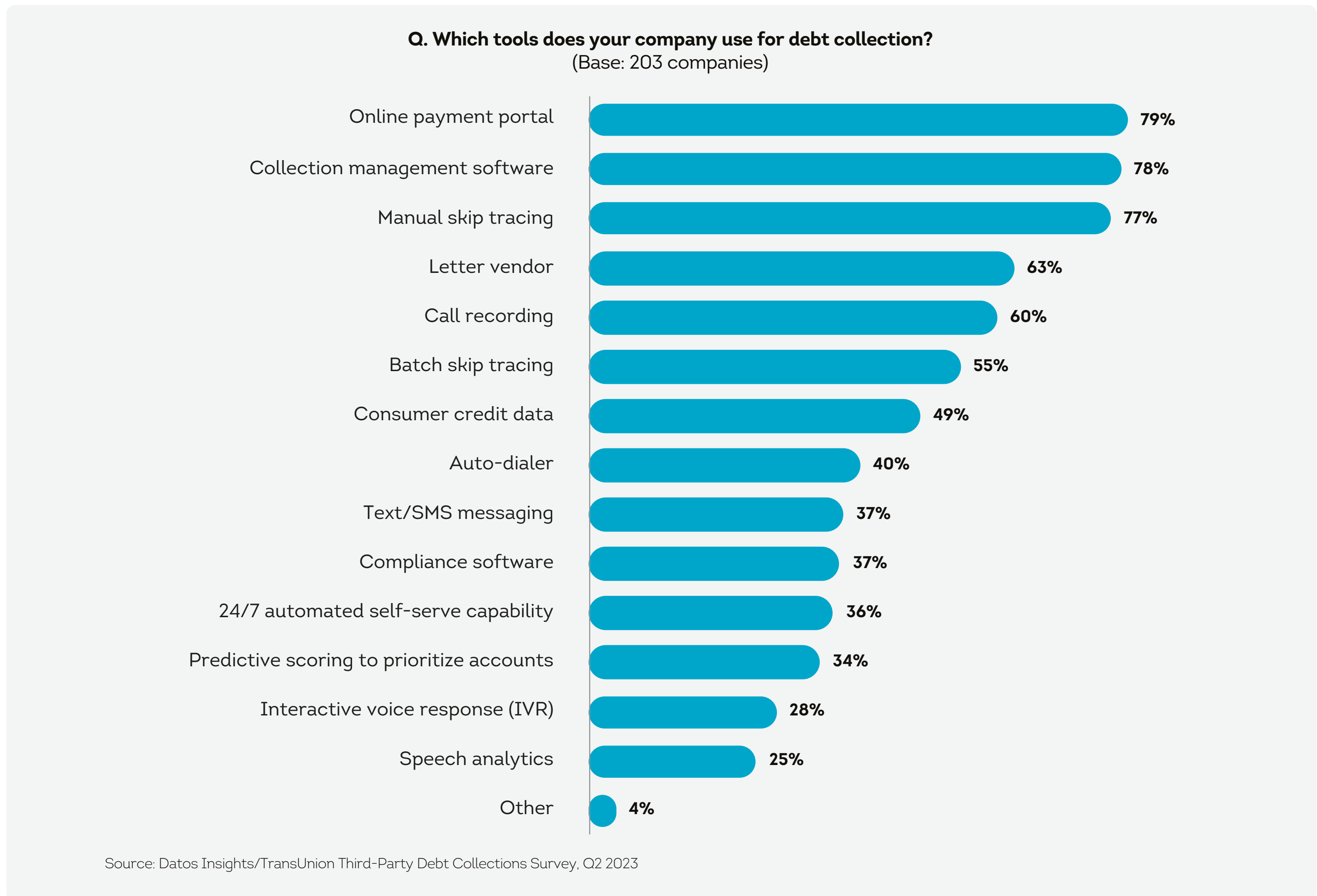
The Toolset Composition

Communication methods influence the overall toolset used by 3PC companies, the composition of which has remained consistent over the past few years. Three tools are most used: 79% of companies use online portals, 78% use collection management software, and 77% use manual skip tracing (**Figure 40**).

FIGURE 40: Tools Used by Collection Companies



The toolset varied substantially by company size, whether by FTE or account size. For example, larger companies were much more likely to use online portals. Ninety-seven percent of companies with one million or more accounts used online portals versus 73% of companies with fewer than 100,000 accounts. Sixty-four percent of companies with a million or more accounts also used self-service portals versus only 27% of companies with fewer than 100,000 accounts (**Figure 41**).

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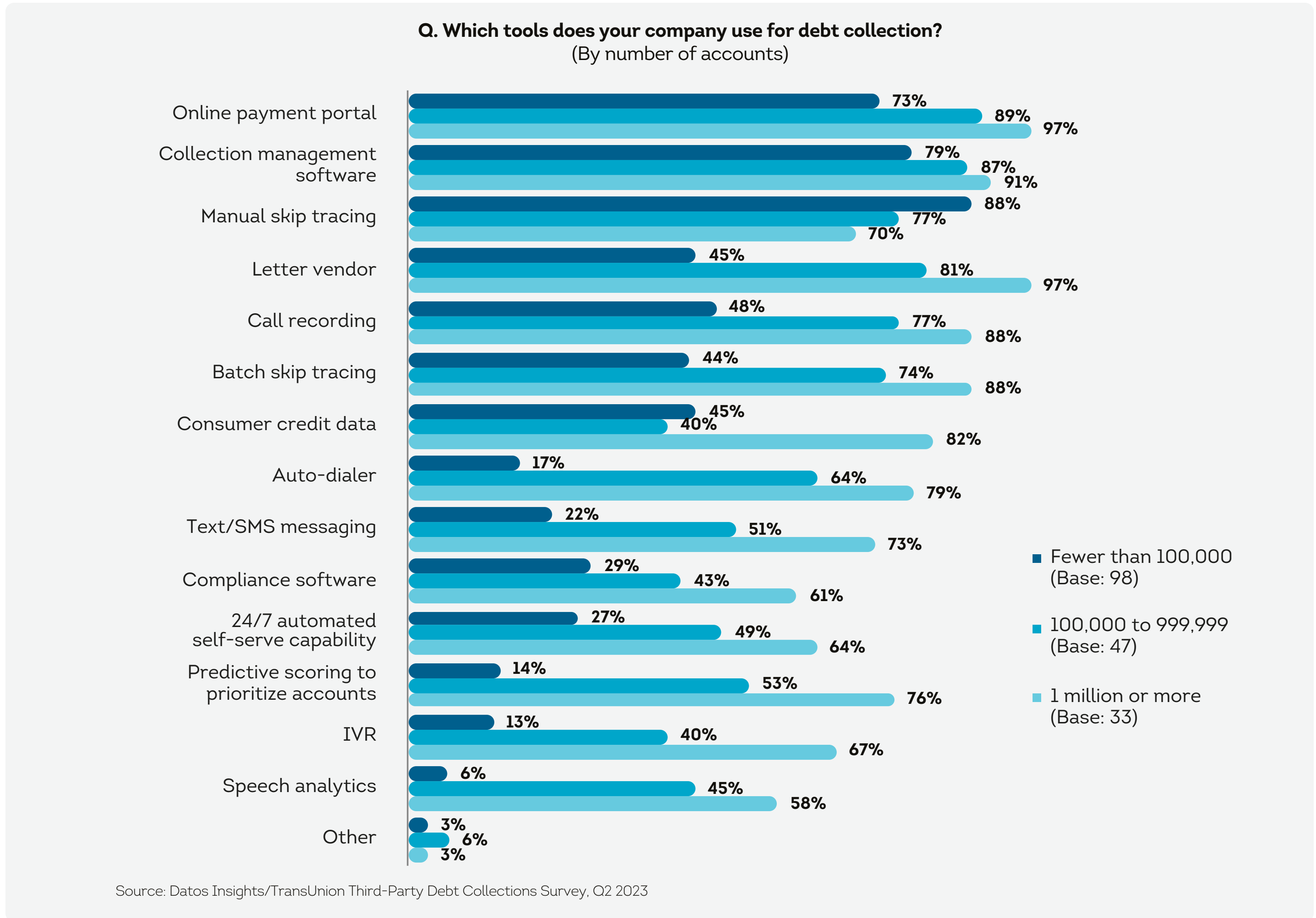
FIGURE 41: Tools Used for Debt Collection by Number of Accounts



Self-service tools and online service portals are multifaceted: They give consumers the flexibility they want and deliver cost savings to those who deploy them. They can reduce the workload of agents by shifting tedious tasks to automated channels. This in turn can reduce the cost of labor. Moreover, they can increase payment probabilities because consumers prefer them.

There are many self-service features and functionalities available today, and their adoption varied by company and account size. For example, all companies with a million or more accounts allowed customers to set up recurring auto-payments versus only 72% of companies servicing less than 100,000 accounts. Ninety-five percent of companies with a million or more accounts allowed consumers to view basic information like account balances and status, but only 68% of companies with less than 100,000 accounts did so (**Figure 42**).

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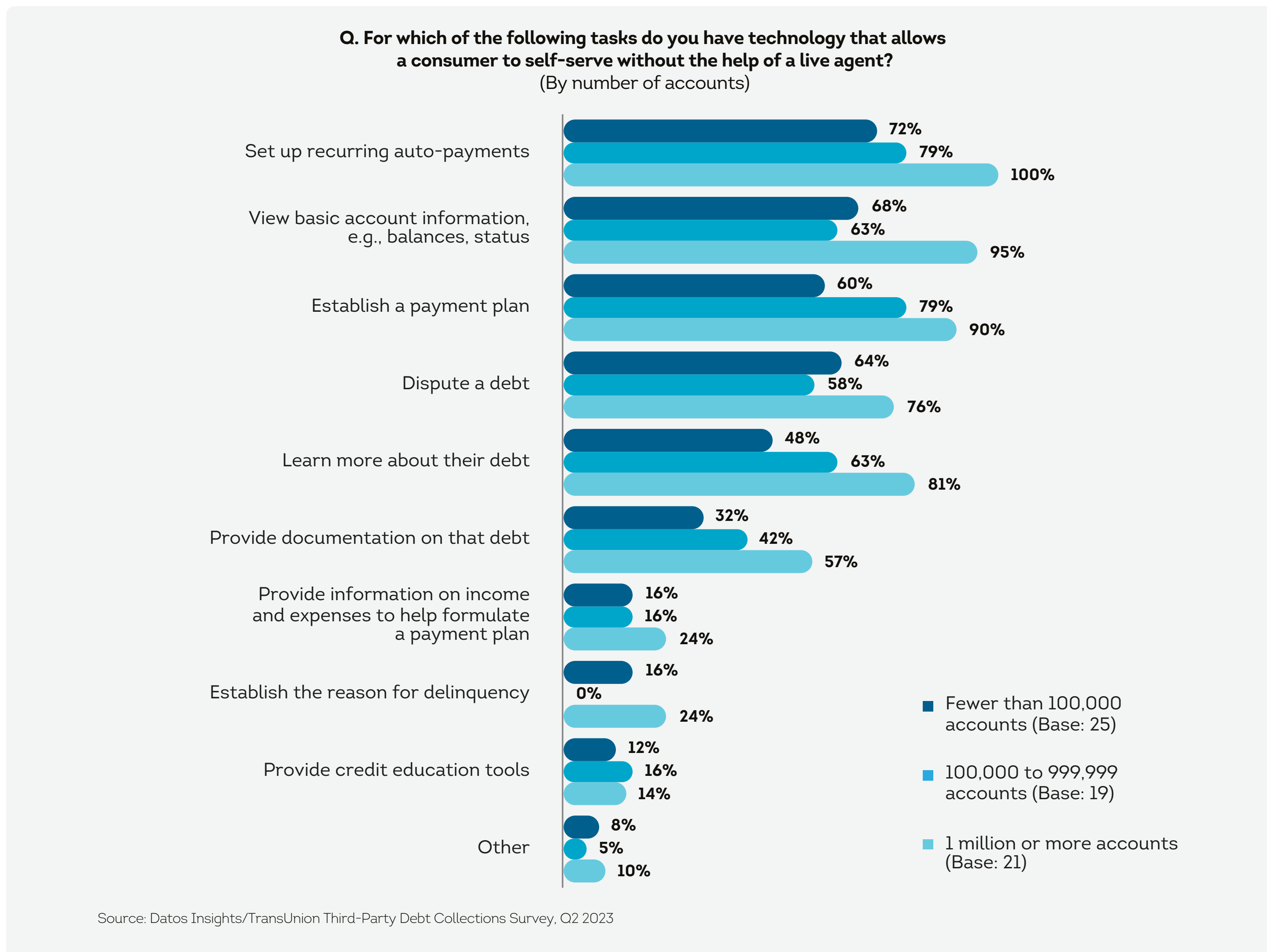
FIGURE 42: Self-Service Options by Number of Accounts



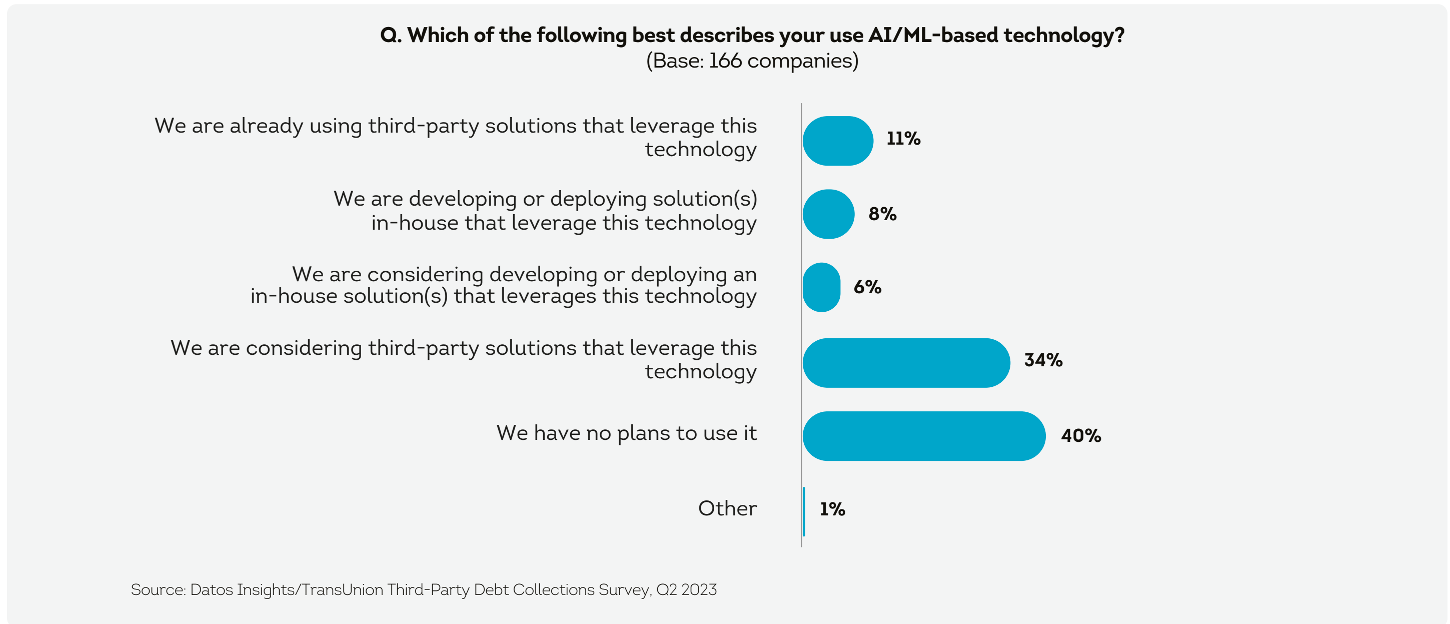
The higher adoption of self-service technologies by larger companies suggests these companies are better positioned to scale their businesses in the face of rising labor costs.

AI Remains Underutilized

AI- and ML-based technology has the potential to increase efficiencies and collection rates and help manage labor expenses. AI/ML tools are rapidly being integrated into solutions, such as offer engines, segmentation and prioritization models, as well as optimizing workflow processes, among others. One of the most interesting applications is creating one-on-one communication channel strategies.

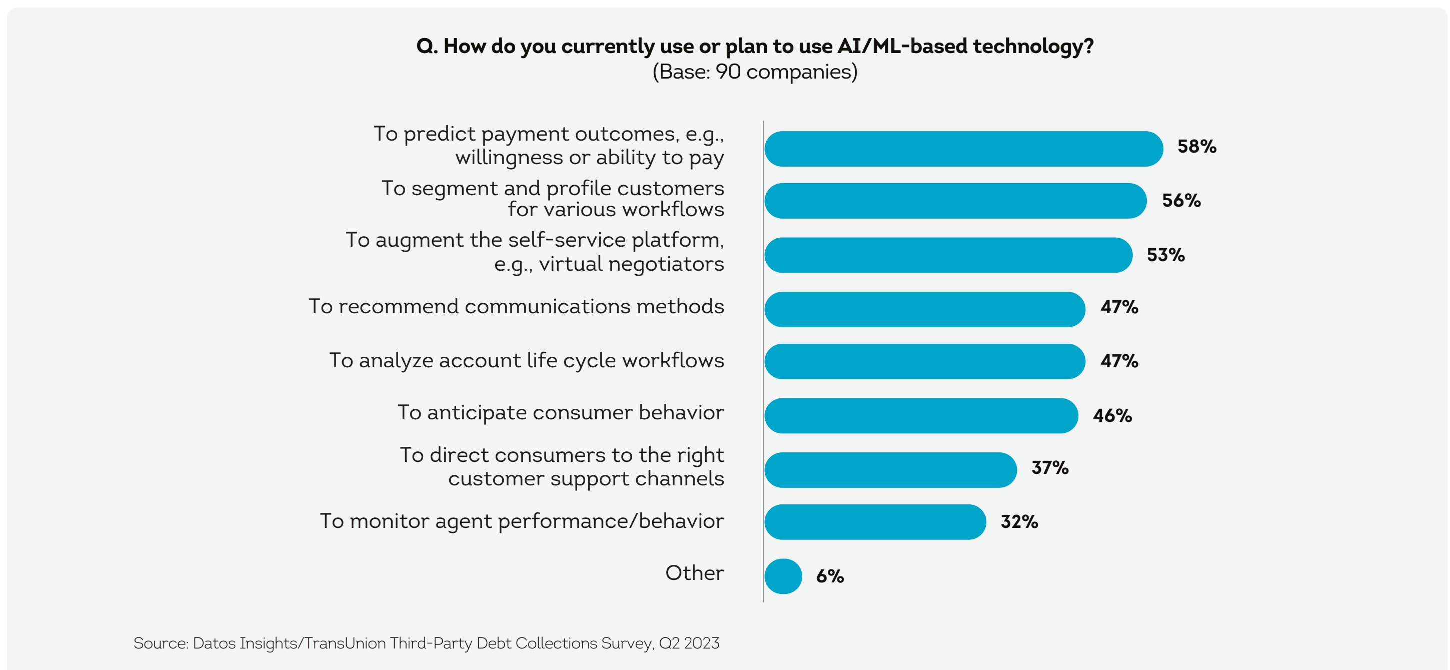
Only 11% of 3PC companies currently use this technology across their enterprises. However, in total, sixty percent of companies were somewhere along the deployment path to use AI/ML-based technology, whether considering it (40%) or being in the process of developing or deploying it (8%; Figure 43).

FIGURE 43: Companies Position on Using AI



The top three uses of AI/ML-based technology by companies on the deployment path are to predict payment outcomes (e.g., willingness or ability to pay), augment the self-service platform (e.g., virtual negotiators), and segment and profile customers for various workflows (Figure 44).

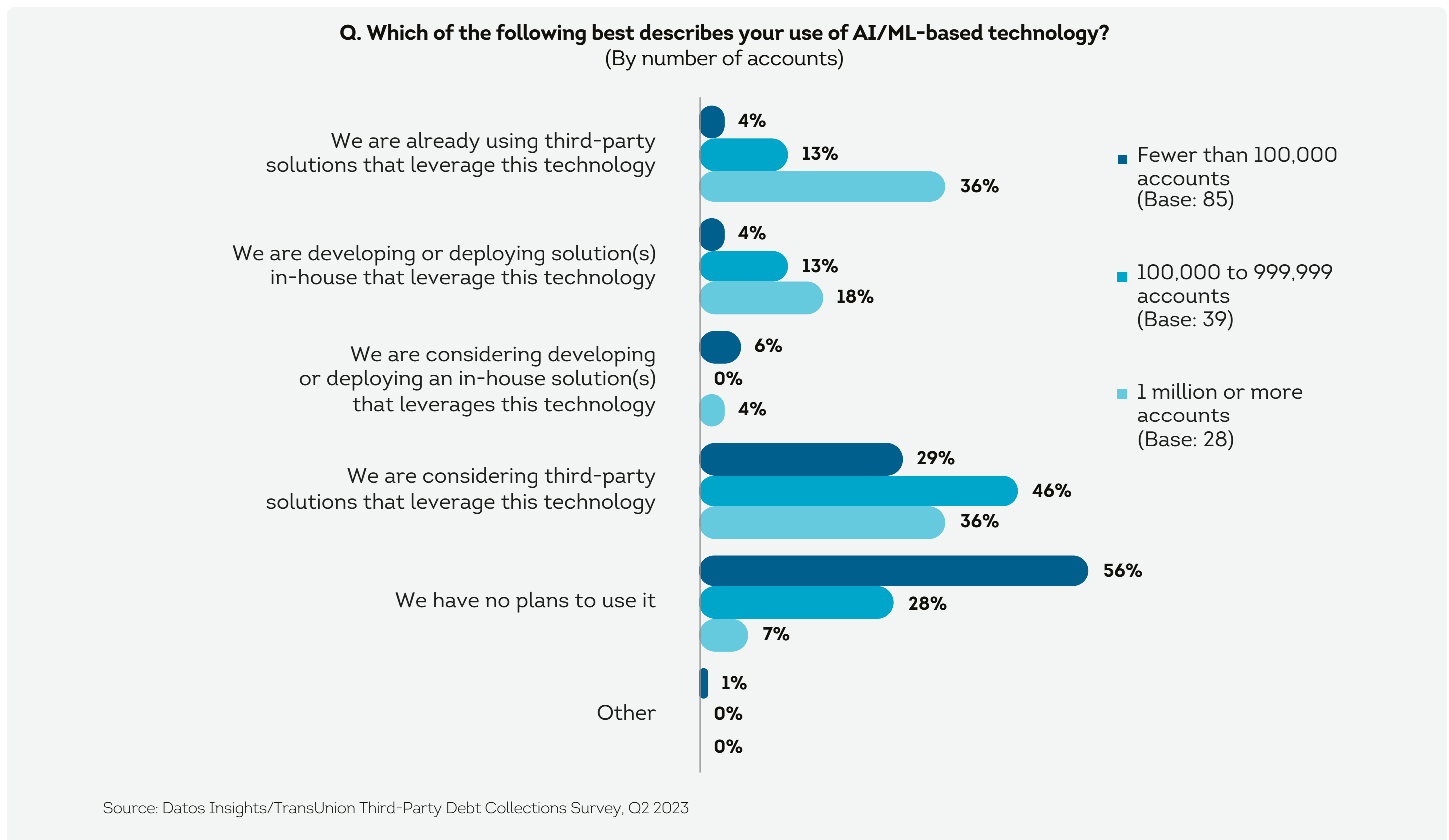
FIGURE 44: How 3PC Companies Are Using AI/ML-Based Technology



Larger firms have been more aggressive in embracing AI. Thirty-six percent of companies with a million or more accounts already use AI/ML-based technology. Adoption by companies servicing less than 100,000 accounts is far lower: Only 4% of these firms actively use it. Fifty-six percent of companies with less than 100,000 accounts have no plans to use AI, versus only 7% of companies with a million accounts or more.

Historically, such low adoption has not been surprising – given the need to hire the right talent and the expense of installing these sophisticated solutions. However, the technology is developing rapidly and is being integrated into a variety of cloud-based solutions (e.g., CSS Impact's HD 2.0 solution set). This will give smaller firms access to the technology and may even the playing field.

FIGURE 45: Use of AI by Company Size



There was inconsistency in how companies are using AI/ML-based technology. Not a single use case was found across most users, which is more apparent when broken down by account size. Most large companies (a million or more accounts) used the technology similarly, but smaller firms have not reached majority status. For example, the greatest consensus is that 55% of small companies used the technology to predict payment outcomes or augment self-service platforms (**Figure 46**).

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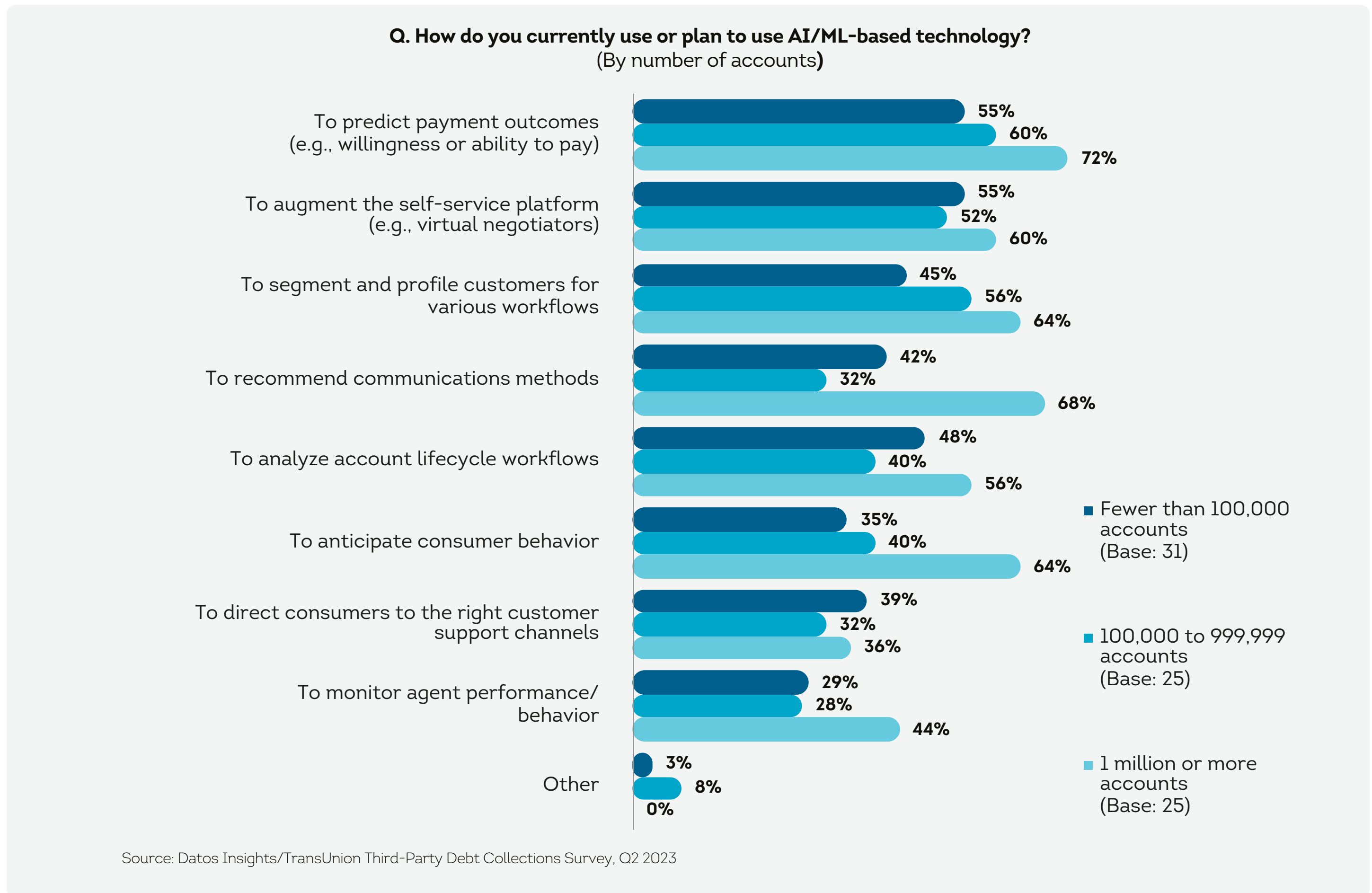
FIGURE 46: How Companies Use AI Differs by Company Size



New Technology Integration and Adoption Challenges and Drivers

Implementing new technologies, like text and AI, will become a necessity for many companies. At the same time, adopting and implementing new technologies creates concerns, such as compliance hurdles, interruptions to business and profit disruption.

Larger companies tended to be more concerned with these issues than smaller ones, which may be due to the fact that more larger companies are actively installing or contemplating new technologies (Figure 39 and Figure 45). Eighty-eight percent of companies with a million or more accounts were at least somewhat concerned about implementing and adopting new technologies versus 69% of companies with less than 100,000 accounts (**Figure 47**).

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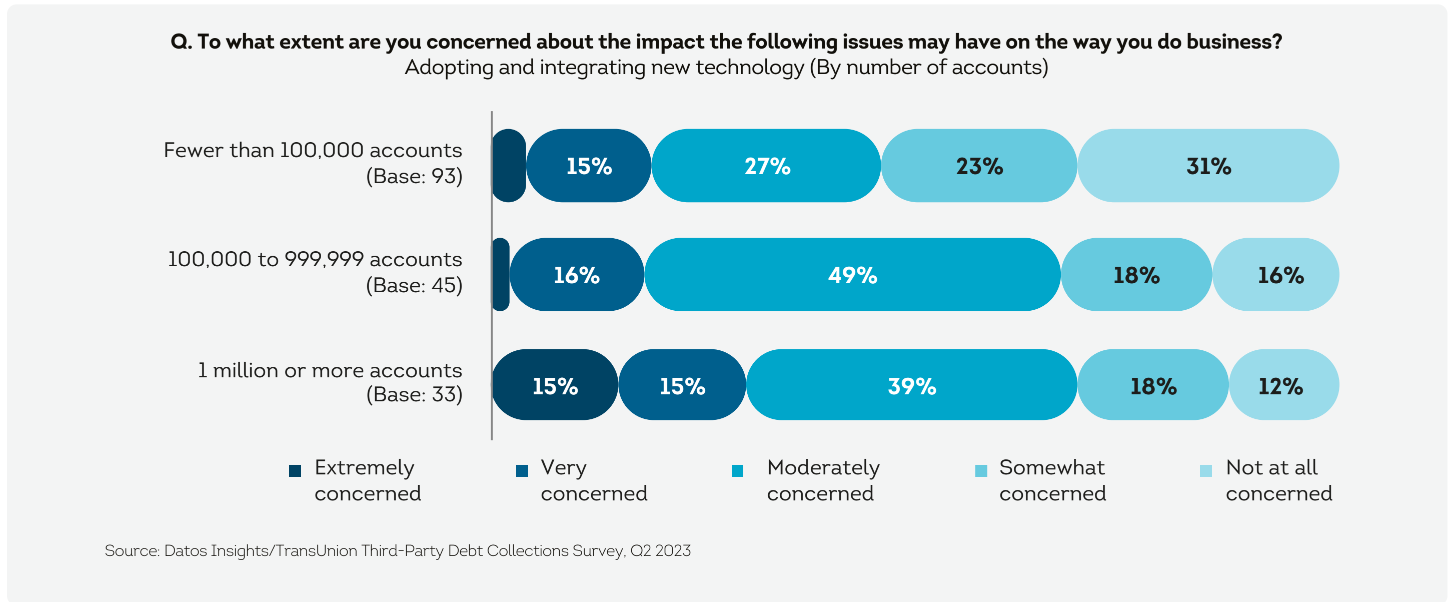
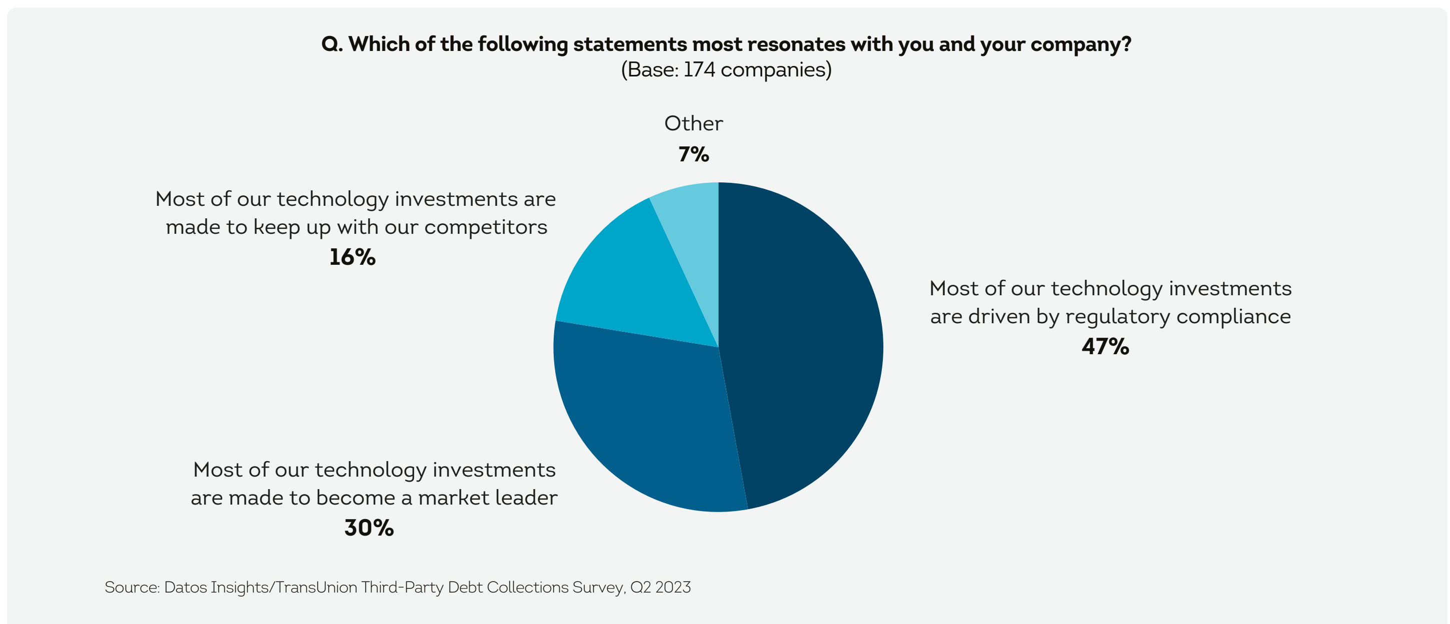
FIGURE 47: Companies With More Accounts Are More Concerned About Adoption and Integration



According to respondents, these technology investments were heavily driven by the need for regulatory/compliance adherence and to stay a successful market leader. Forty-seven percent of companies were mostly driven to make technology investments for compliance and regulatory reasons, while 30% make them to become a market leader (Figure 48).

FIGURE 48: The Drivers Behind Technology Investments



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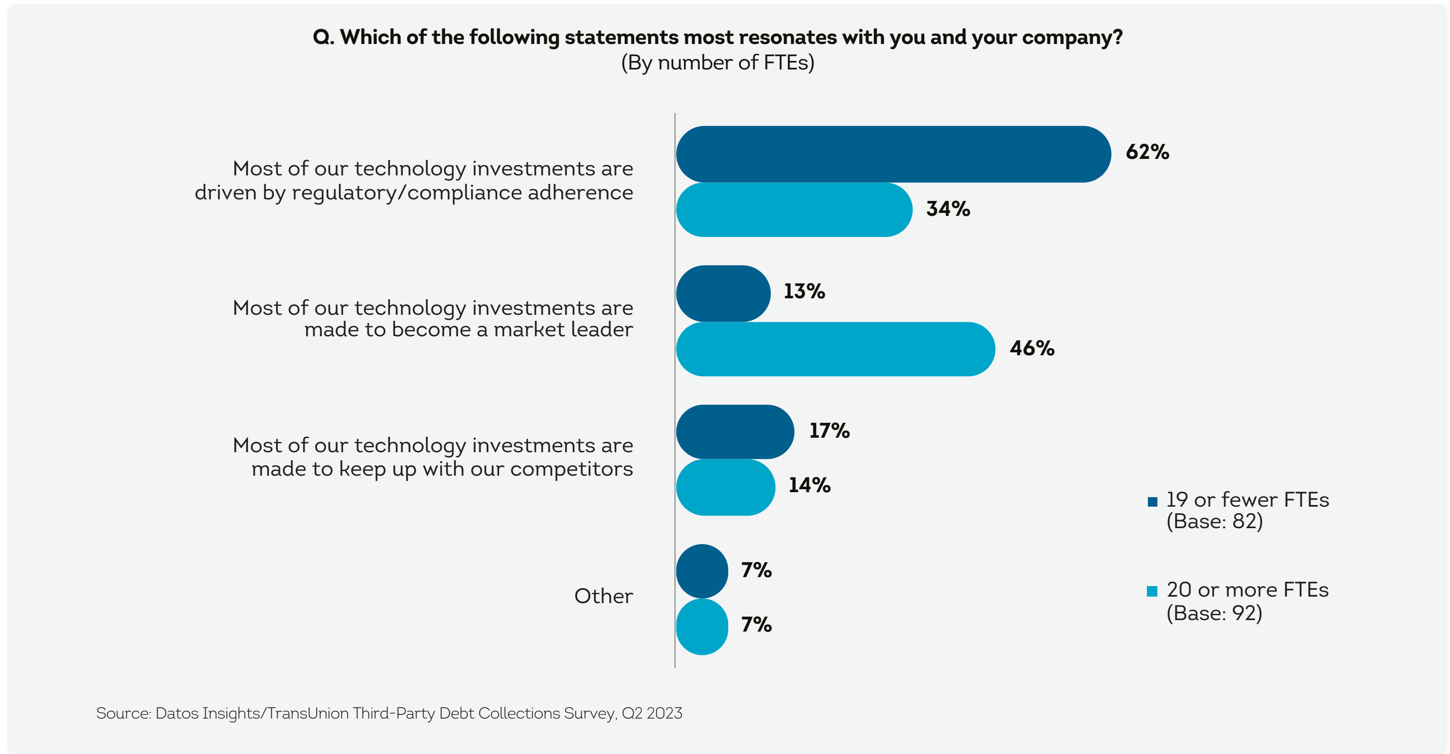
The difference between the two drivers was very apparent by company size. Sixty-two percent of smaller companies (19 or fewer FTEs) were more likely to make technology investments because of compliance versus 34% of large companies. Only 13% of smaller companies made such investments to become market leaders versus 46% of larger companies (**Figure 49**).

FIGURE 49: Drivers of Technology Investments by FTEs



Source: Datos Insights/TransUnion Third-Party Debt Collections Survey, Q2 2023

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Liquidation Rates

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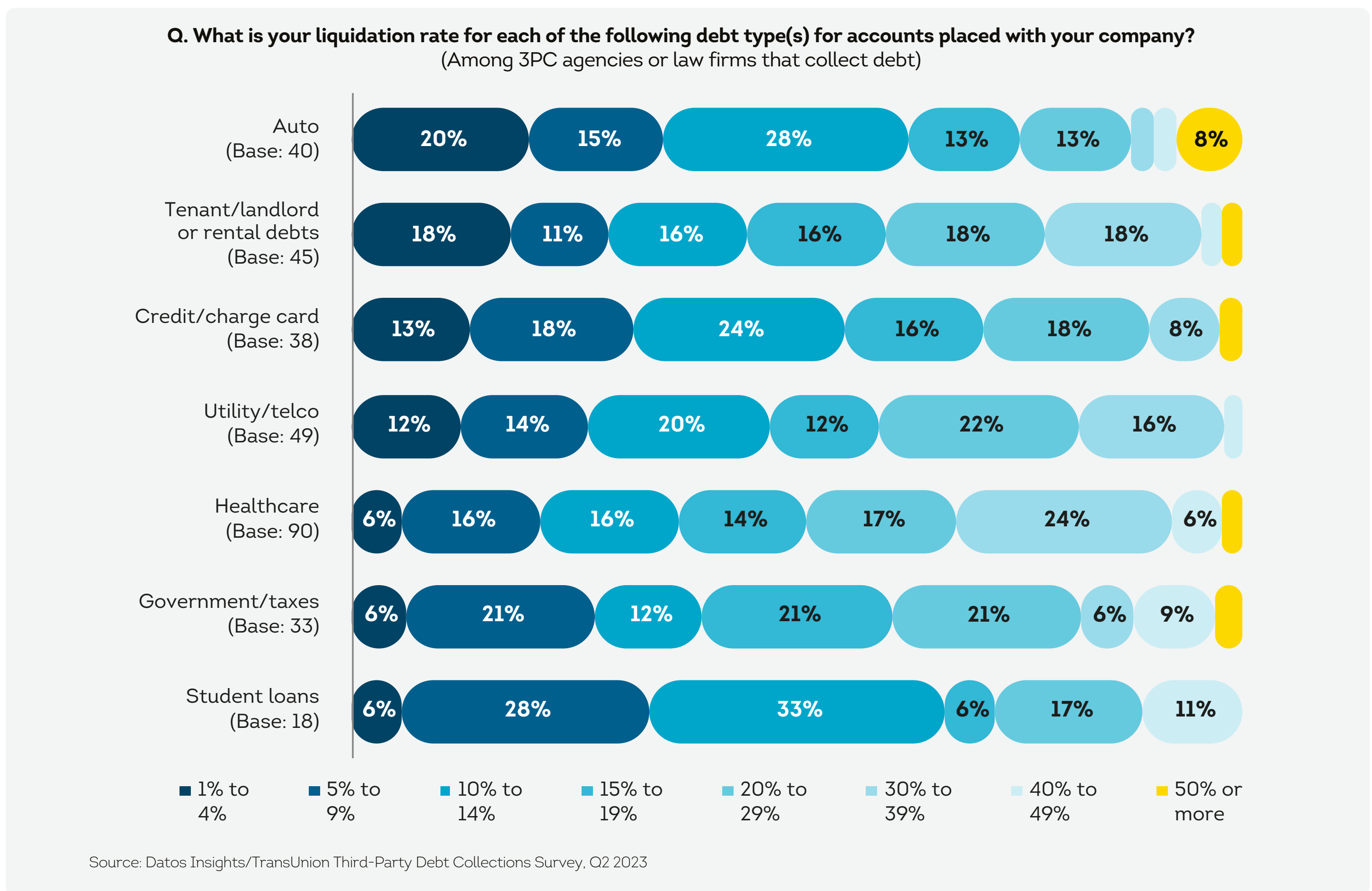
Liquidation Rates

Liquidation rates are one of the primary measures of a collection firm's competence. The rates are calculated by dividing the total amount collected by the total debt placed with that firm. The outcome is driven by a company's competence in collecting debt, the type of debt being collected, the age of the debt, and other factors.

Healthcare is one of the most popular debts companies collect; it also has the highest liquidation rates. Thirty-two percent of companies collecting healthcare debt had liquidation rates of 30% or higher. Student loans have the lowest liquidation rates: 67% percent of companies collecting this debt had liquidation rates less than 15% (**Figure 50**).

FIGURE 50: Liquidation Rates by Debt Type



There was a significant difference in liquidation rates for healthcare debt by company size. Significantly more companies with 19 or fewer FTEs had higher liquidation rates than companies with more than 20 FTEs. Forty-five percent of companies with 19 or fewer FTEs had liquidation rates higher than 30% versus only 18% of larger companies (**Figure 51**).

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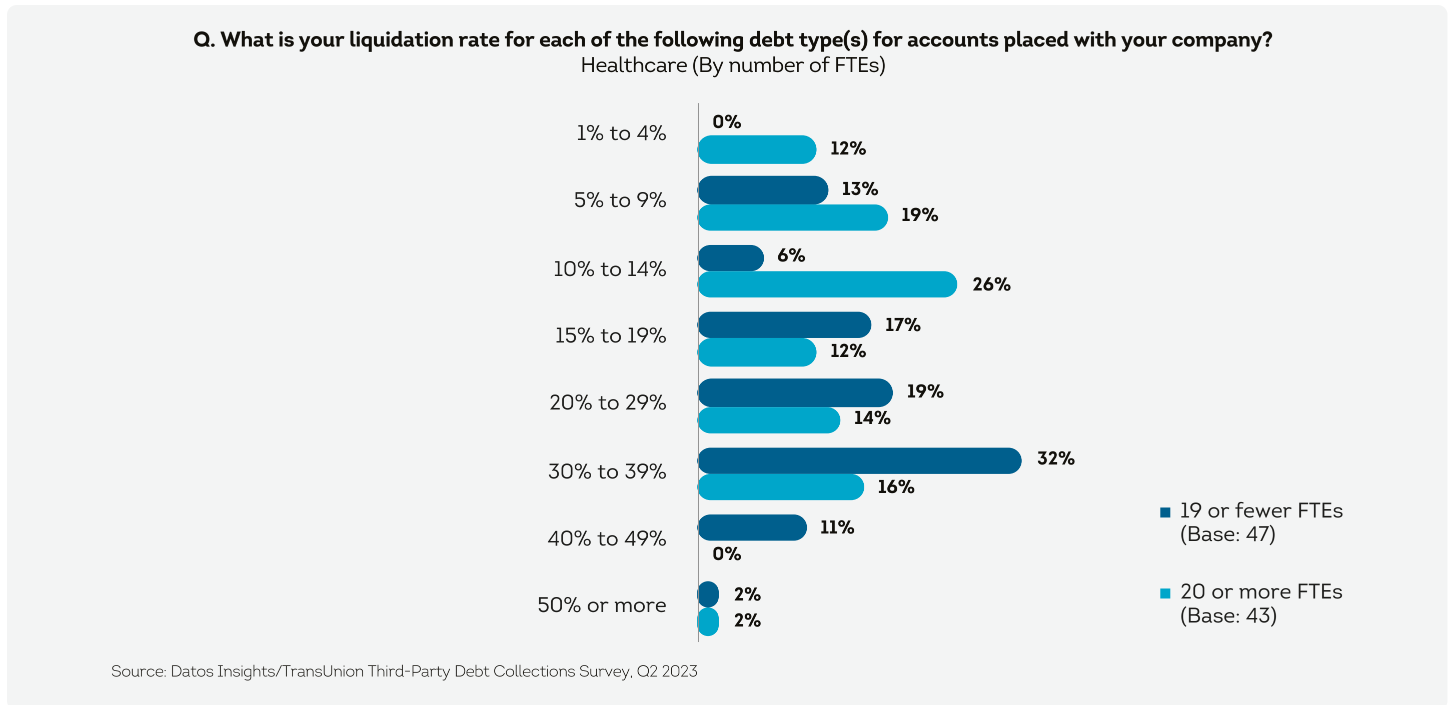
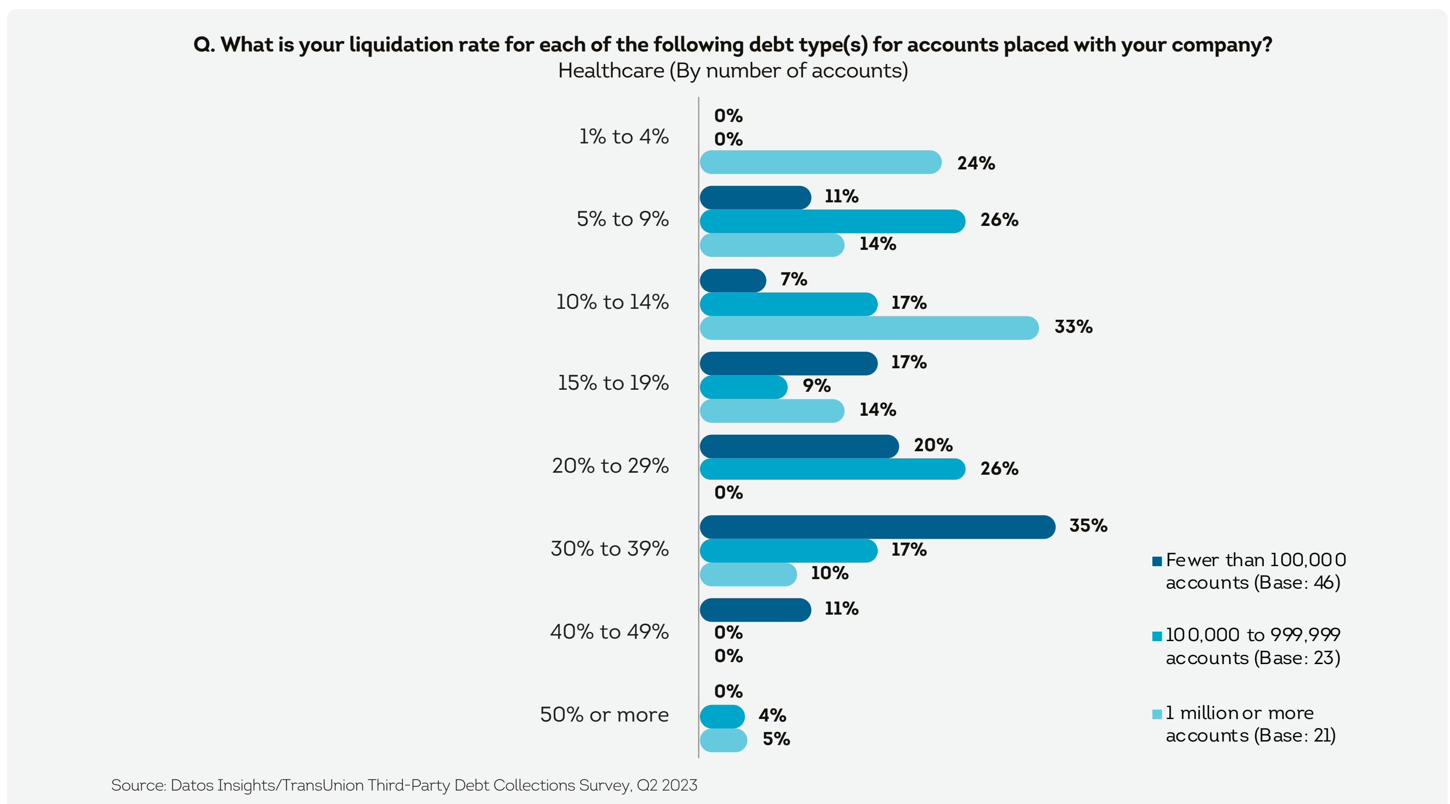
FIGURE 51: Healthcare Liquidation Rates by FTEs



The contrast was greater for companies defined by accounts. Only 15% of companies with 1 million or more accounts had healthcare debt liquidation rates higher than 30% versus 46% of companies with fewer than 100,000 accounts (**Figure 52**).

FIGURE 52: Healthcare Liquidation Rates by Number of Accounts



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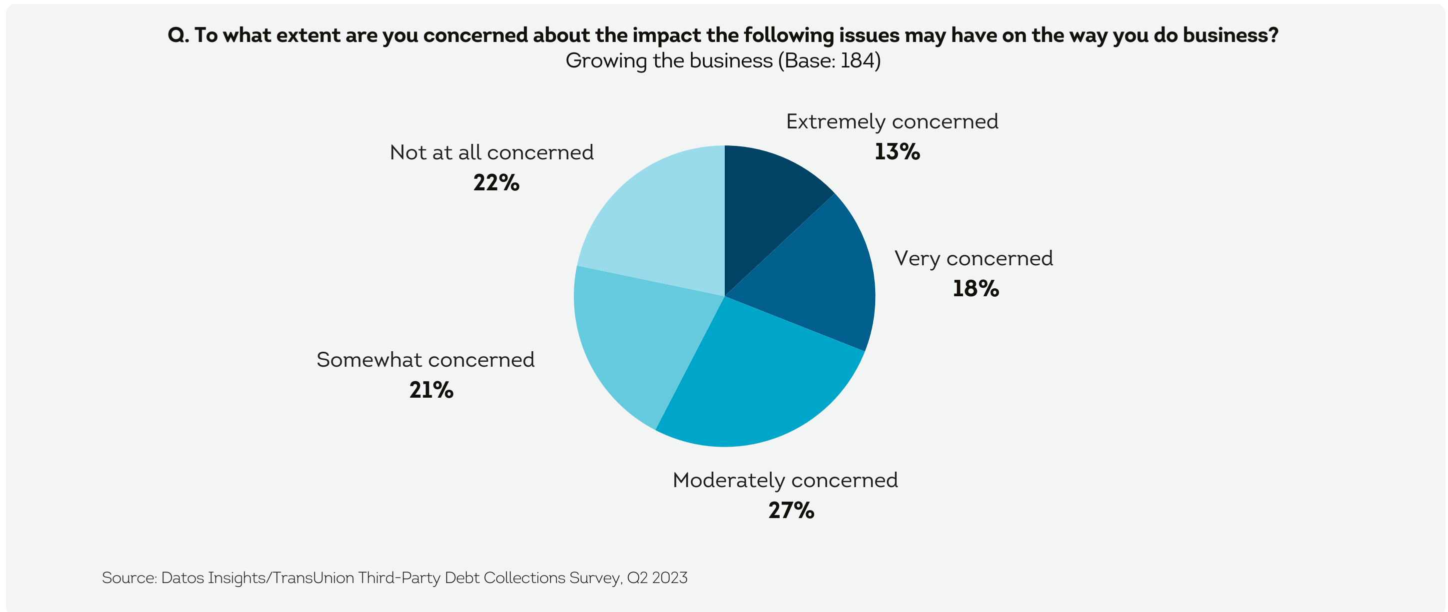
Diversification and the Need for Change

Diversification and the Need for Change

Growth in the 3PC industry space entails taking on more accounts and expanding into other areas of business or diversifying. Both tasks bring challenges and risks to the way a company does business. This impact was at least a moderate concern for 58% of companies (**Figure 53**).

FIGURE 53: The Percentage of Companies Worried About Growing Their Business

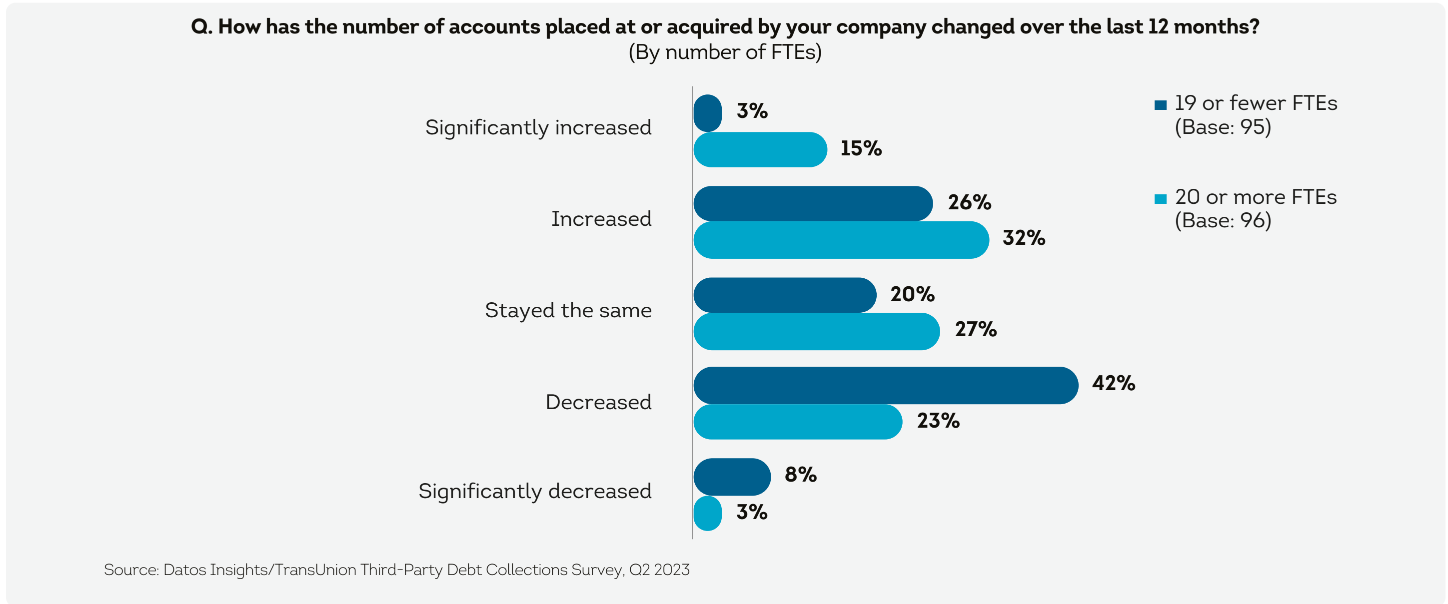


This sentiment was consistent across companies of different sizes. The only notable difference was 24% of companies with between 100,000 and 1 million accounts were not concerned versus 9% of companies servicing a million or more accounts.

Changes in Accounts and Business Strategies

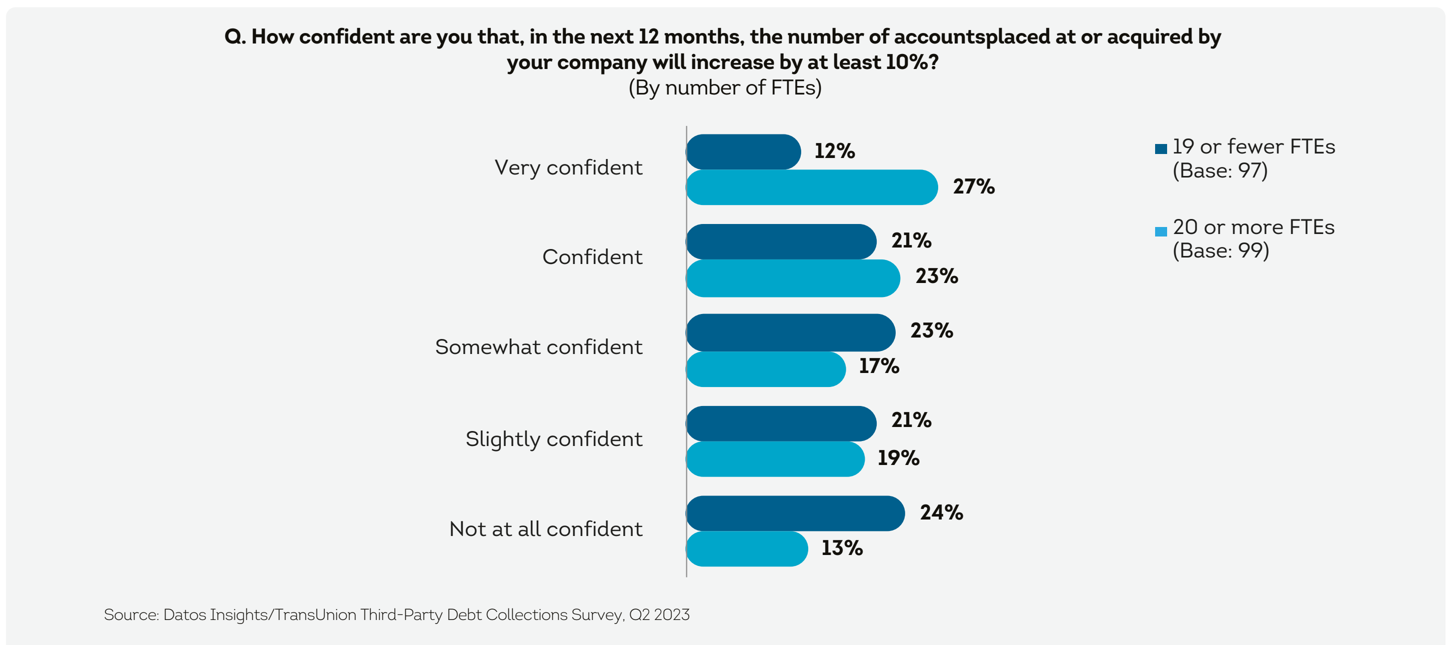
Over the past year, 47% of larger firms (20 or more FTEs) saw their number of accounts increase versus 29% of smaller firms. Half of small companies saw their number of accounts decrease, whereas 26% of larger firms experienced a decrease (**Figure 54**).

FIGURE 54: Account Change Over the Past Year



At least a third of smaller firms (19 or fewer FTEs), however, were confident they'd take on significantly more accounts during the next 12 months. At least half of companies with 20 or more FTEs were confident their accounts would significantly increase (**Figure 55**).

FIGURE 55: Projected Account Change Over the Next 12 Months



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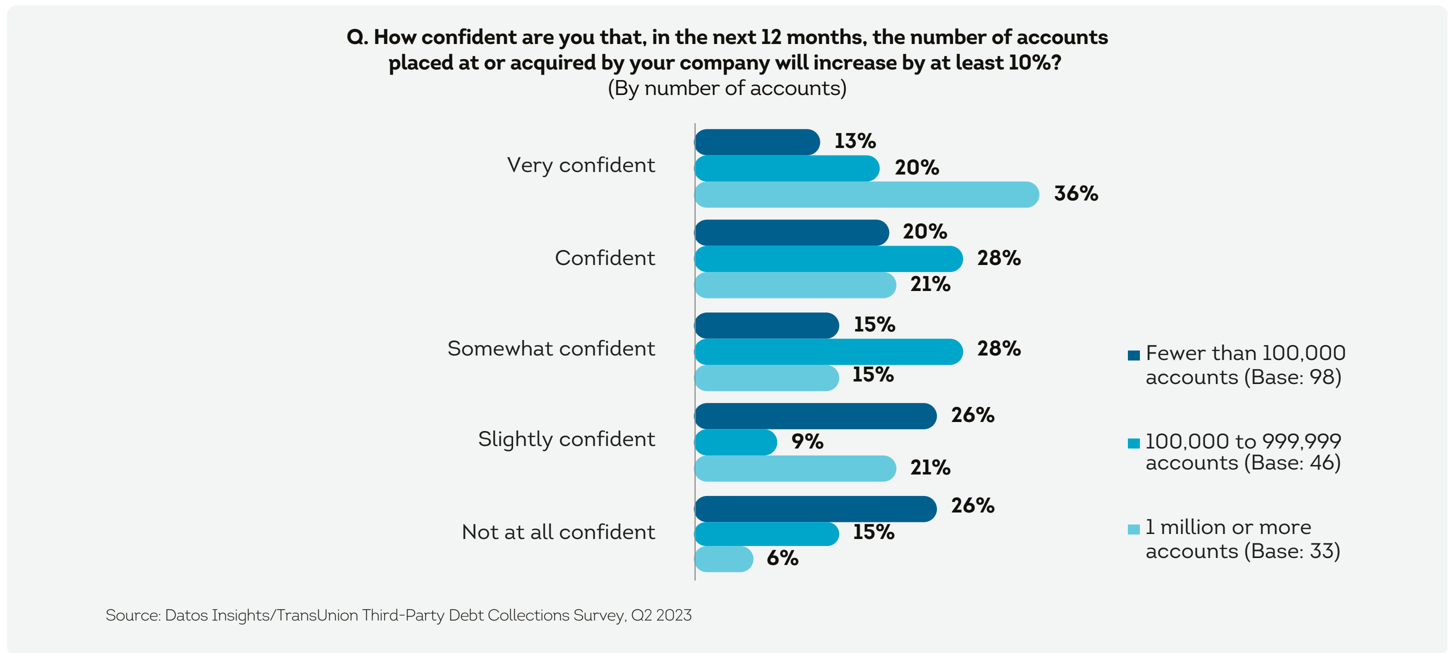
The difference was a bit more pronounced by account size: Firms with a million or more accounts were significantly more likely to expect an increase over firms with less than 100,000 accounts (**Figure 56**).

FIGURE 56: Confidence Rates for Account Increases Vary by Company Size



Larger companies (20 or more FTEs) that saw an increase in the last 12 months were significantly more likely to say they're confident they'll see an increase over the next 12 months. Interestingly, smaller companies (19 or fewer FTEs) were less swayed by the past 12 months in that they were equally optimistic about the future.

Approximately half of those confident their accounts will increase in the next 12 months saw a decrease in the prior 12 months. This difference was also apparent between companies with 1 million or more accounts and those with fewer. However, most companies, regardless of size, that are not confident their accounts will increase experienced a decrease during the last 12 months.

Considering Other Business Areas

Expanding revenue opportunities by diversifying the business model is increasingly seen as a necessity across firms. Some believe companies face the following stark choice: fold, sell or diversify. Sixty-four percent of companies agreed third-party debt collection firms must diversify their businesses (e.g., collect different types of debt, expand into other geographic regions) if they're to succeed, thrive or survive in the long term (**Figure 57**). Companies with 20 or more FTEs were more likely to strongly agree than smaller companies. Still, the consensus was the same across companies, regardless of how you measure size: Companies must diversify their businesses.

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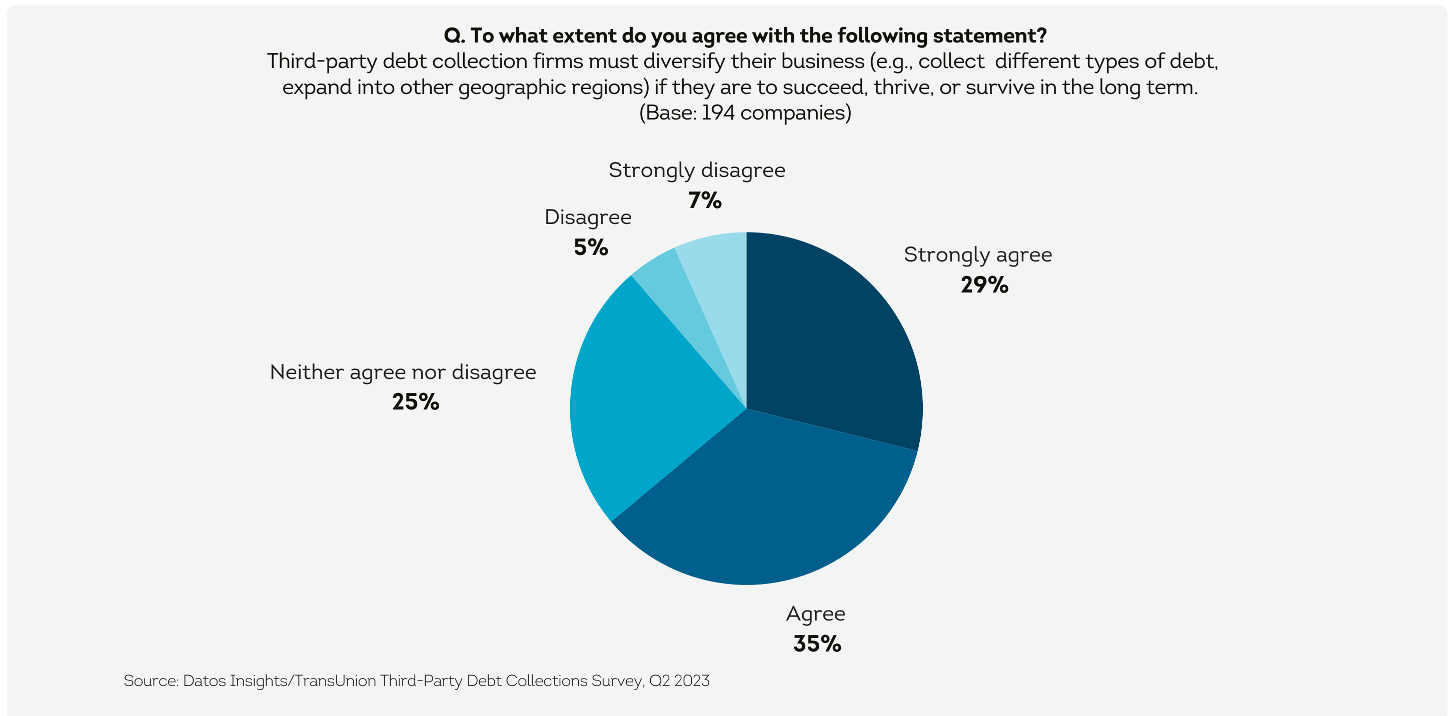
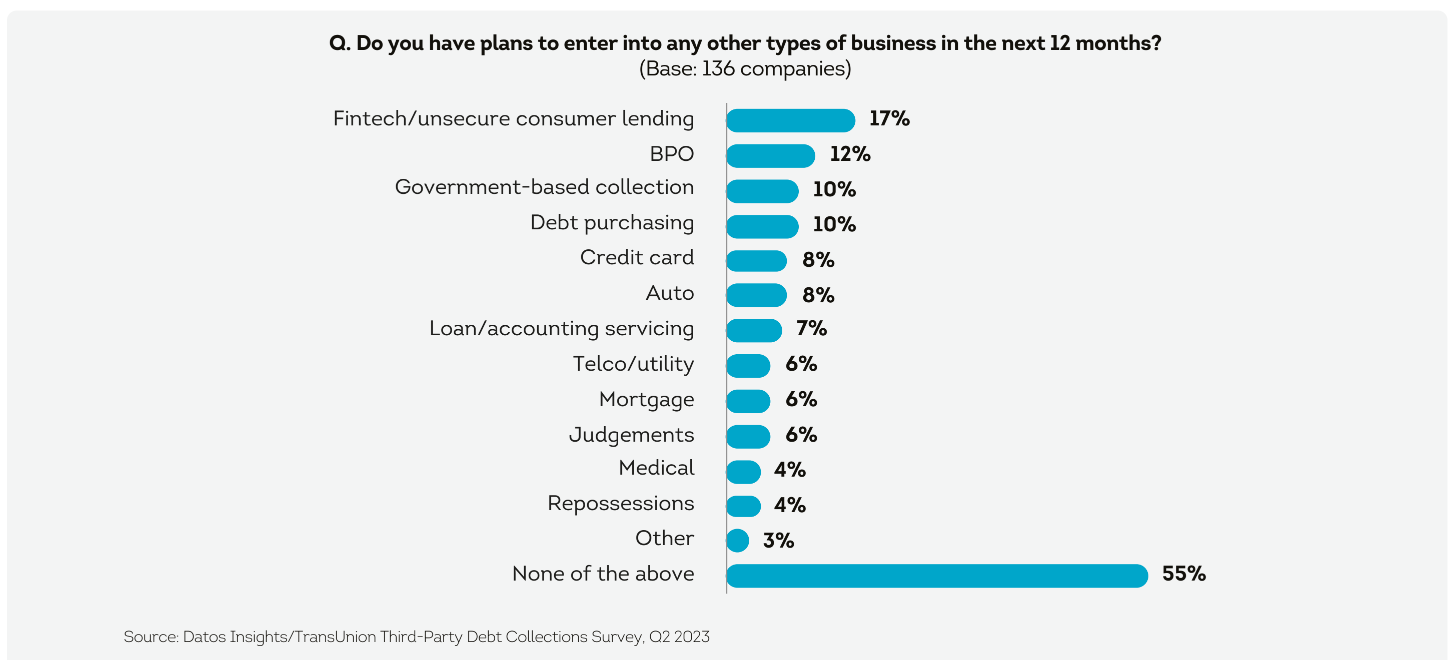
FIGURE 57: Majority of Companies Believe Diversification is Necessary



To diversify, some firms are taking on different types of accounts, while others are looking for different ways to service customers within a vertical. For example, a third-party debt collector might assist a hospital with its business processes, such as claims which are similar in procedure to debt collection. Forty-five percent of companies had plans to enter into other types of businesses in the next 12 months. The largest category garnering attention was fintech/unsecured consumer lending (**Figure 58**).

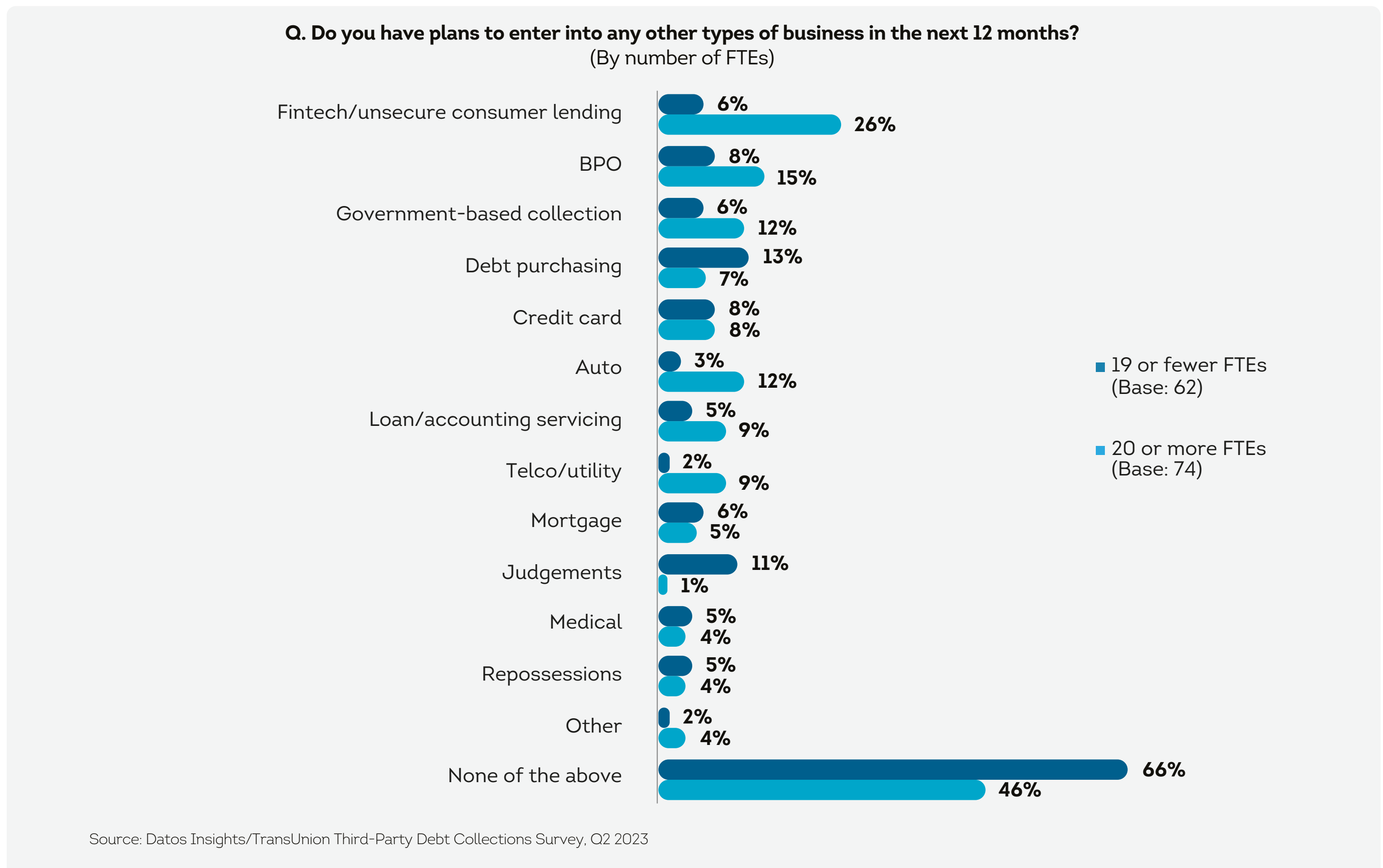
FIGURE 58: Areas in Which Companies Are Planning to Diversify



Diversification can be challenging. Two of the biggest hurdles reported by companies include staffing and compliance. Finding the right employees with the right skill sets and dealing with additional labor costs are problems for many. Breaking into a new vertical in which a company has little experience can also be a conundrum. Clients want companies to have experience in their areas before they even think of hiring a company, but to get that experience, that company must have clients in those areas. Understanding the core challenges of new verticals, gathering the data to understand pricing, and adhering to the regulatory environment are significant hurdles to overcome.

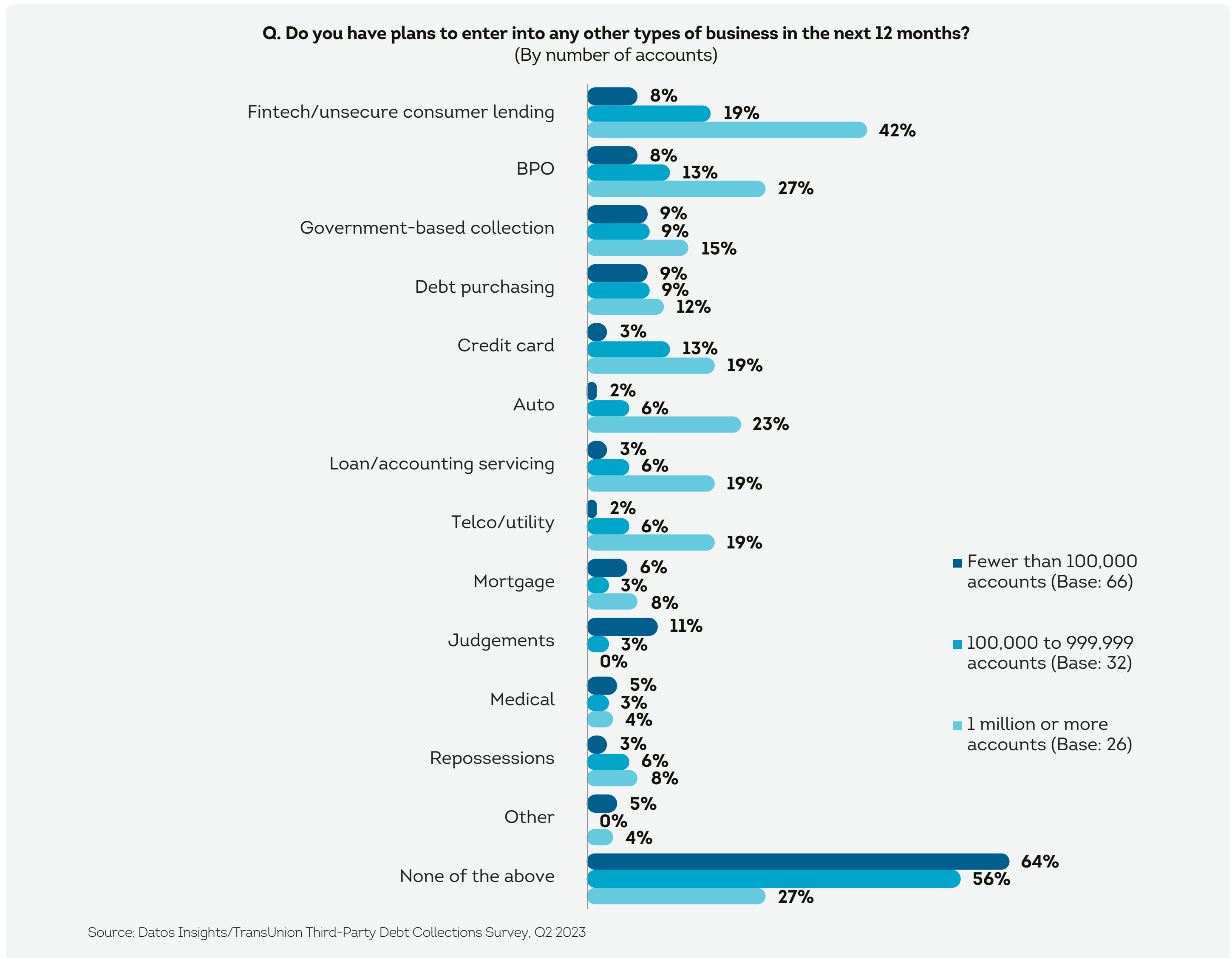
Smaller companies were less likely to have diversification plans. Sixty-six percent of smaller companies (19 or fewer FTEs) did not have plans versus 46% of larger companies. Fintech/unsecured consumer lending was far more popular with larger companies (**Figure 59**).

FIGURE 59: FTE Count Impacts Areas in Which Companies Have Plans to Diversify



The differences were more pronounced when segmented by the number of accounts serviced. Fintech/unsecured consumer lending was a planned business change for 42% of companies collecting a million or more accounts. Seventy-three percent of companies with 1 million or more accounts had plans to enter other types of businesses versus 36% of companies collecting fewer than 100,000 accounts (**Figure 60**).

FIGURE 60: Greater Differentiation in Plans by Account Size



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Conclusion

Conclusion

The economic environment, albeit ambiguous, will likely create a larger debt pool from which collection firms can pull supply, but it remains to be seen how the macroenvironment will impact consumer ability to repay. However, the operating environment remains a challenge for many as evidenced by survey respondents' feedback. Companies must operate efficiently and wisely to survive in this business long term. Leveraging a host of technology solutions, effectively utilizing communication channels, and understanding the needs of consumers are paramount.

Survey results revealed the 3PC industry is progressing down the digital transformation path that will lead to success. An increasing number of companies are making the necessary changes, such as adding more self-service options; increasing communication channels by adding text; and leveraging additional efficiency-driving technologies like AI/ML-based tools. Some companies are much further down this path than others, but the desired outcome is the same: to drive growth and development while maximizing profit.

Appendix: Respondent and Company Profile

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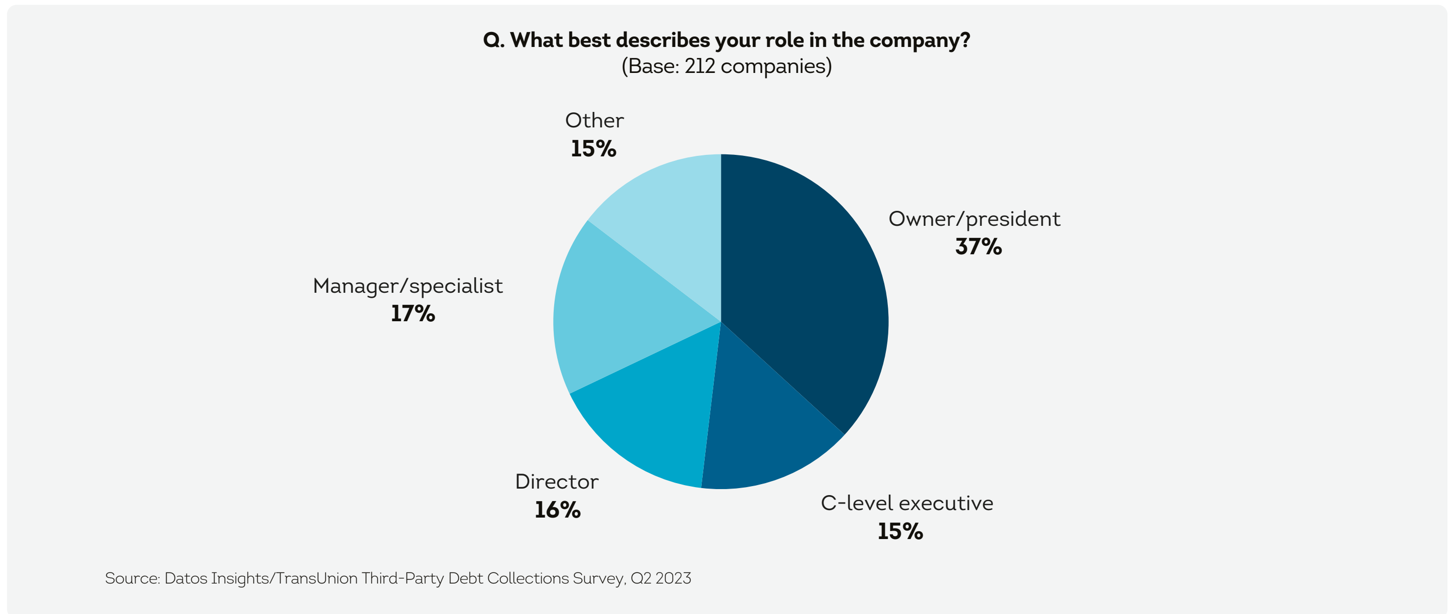
Appendix: Respondent and company profile

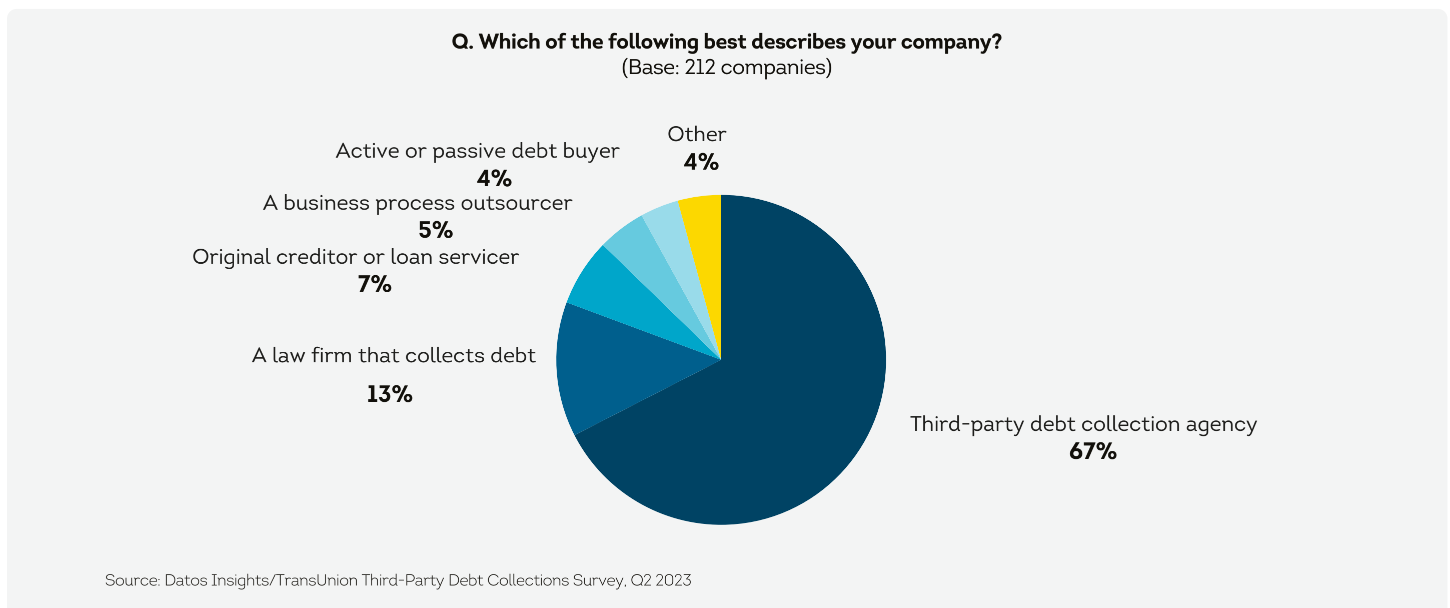
The 212 respondents to the survey largely held senior roles at their companies, with half either the owner or president of the organization or a C-level executive (**Figure 61**).

FIGURE 61: Leadership Role of Respondents



Respondents' companies were largely third-party debt collection agencies (67%), though law firms collecting debt (13%), original creditors or loan servicers (7%), debt buyers and business process outsourcers were also among the companies represented (**Figure 62**).

FIGURE 62: Types of Companies Surveyed



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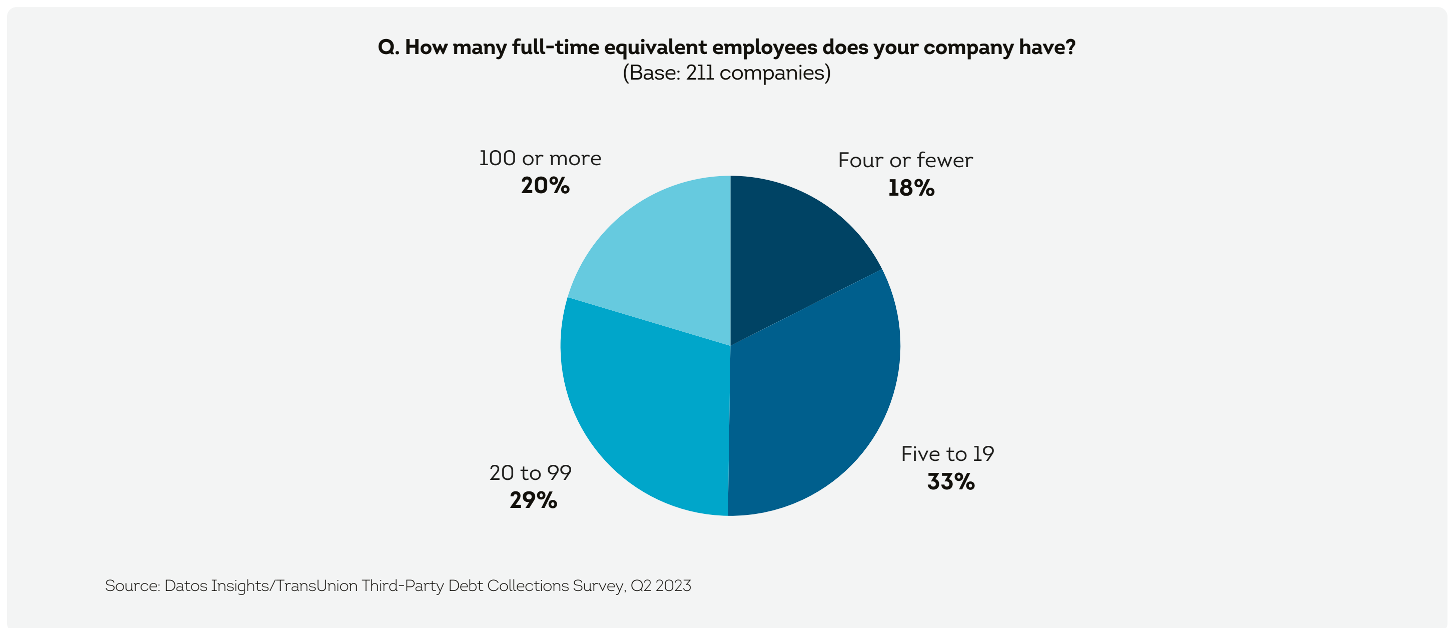
Eighteen percent of companies had 4 or fewer FTEs, 33% had 5 to 19 FTEs, and 49% had 20 or more (**Figure 63**).

FIGURE 63: Leadership Role of Respondents



Fifty-eight percent of respondents had fewer than 100,000 accounts placed at or acquired by their companies during the last 12 months. Forty-three percent of respondents had 100,000 accounts or more (**Figure 64**).

FIGURE 64: Number of Accounts Placed at Company Last 12 Months

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