

Modernizing Debt Collection through AI and Emotional Intelligence

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Intelligent Collections Services Executed with Empathy

The rise of global household debt has forced companies to rethink traditional debt collection strategies. With financial hardships growing and consumer expectations evolving, businesses are turning to a dual approach that integrates artificial intelligence (AI) with emotional intelligence (EI) to create more empathetic and effective debt recovery practices.

Combining AI and live experts with emotional intelligence not only helps to increase debt collection rates, but also nurtures their customer relationships. By treating borrowers as individuals rather than accounts, companies can strike the perfect balance between operational efficiency and compassionate outcomes.

At TP, we believe in implementing the right blend of intelligent, AI-powered tools like advanced analytics to determine propensity-to-pay and preferred channels, and human empathy to ensure a compassionate, efficient, and effective debt recovery process.

We harness the power of AI to predict customer behavior, segmenting your customers for personalized workflows, which results in higher recovery rates and strengthened customer relations. Our modernized approach transforms

debt collection from a confrontational process into a trust-building advisory role.

Our goal is not just to collect repayments, but to understand each borrower's unique situation and provide personalized solutions based on their financial circumstances. This empathetic approach not only increases compliance and repayments but also significantly increases customer satisfaction.

With TP, you're not just investing in advanced debt collection services; you're investing in proactive solutions that facilitate long-lasting loyalty. Our AI-driven insights empower our experts to provide tailored payment plans and personalized guidance, addressing financial difficulties before they escalate.

In a world where brand reputation is crucial and can be directly influenced by debt collection practices, TP's intelligent services deliver the most advanced and empathetic borrower support collections solutions in the industry. This holistic approach doesn't just recover debt; it nurtures and preserves long-term customer relationships, converting today's borrowers into tomorrow's brand advocates.



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Household debt per capita has swelled in the past decade in the United Kingdom, the United States, Japan, Australia, France, Germany, Brazil, Chile, Colombia, and elsewhere around the world, according to the International Monetary Fund. In the United States alone, credit card debt has soared to \$1.17 trillion in 2024. The rate of debt entering “serious” delinquency—meaning payments are late by at least 90 days—increased to 1.59% in the third quarter of 2024.

THIS RISING LEVEL of delinquency poses such a challenge for creditors seeking repayment that they are increasingly taking a new tack that avoids hardball tactics of the past. Instead, they are using emotional intelligence and technological advances such as artificial intelligence (AI) to treat borrowers with more empathy.

Companies are finding this new approach can not only improve collections but also boost customer loyalty. “Companies need to take care of the entire customer journey, not only the collection part,” says Sebastian Menutti, an industry director with Frost & Sullivan, a market research and consulting firm headquartered in Santa Clara, Calif. “Brands need to keep in mind that they are managing

the customer relationship. They want to keep that customer happy and they want to keep them as a customer—and that is not that easy to do when you are collecting debt.”

Technological advances are assisting in these efforts in many ways. A December 2023 report from Chicago-based credit reporting agency TransUnion found that 60% of third-party collection companies are on the pathway to using AI. These early adopters are using or investigating AI-driven analytics tools to mostly predict borrowers’ willingness or ability to pay (58%) and also to segment and profile customers for various workflows (56%). **FIGURE 1**

But connecting collections to the customer journey involves more than AI. Coupling technological efficiency

HIGHLIGHTS

A surge in delinquencies is **changing the landscape of debt collection**, pushing companies to innovate while staying keenly sensitive to their customer relationships.

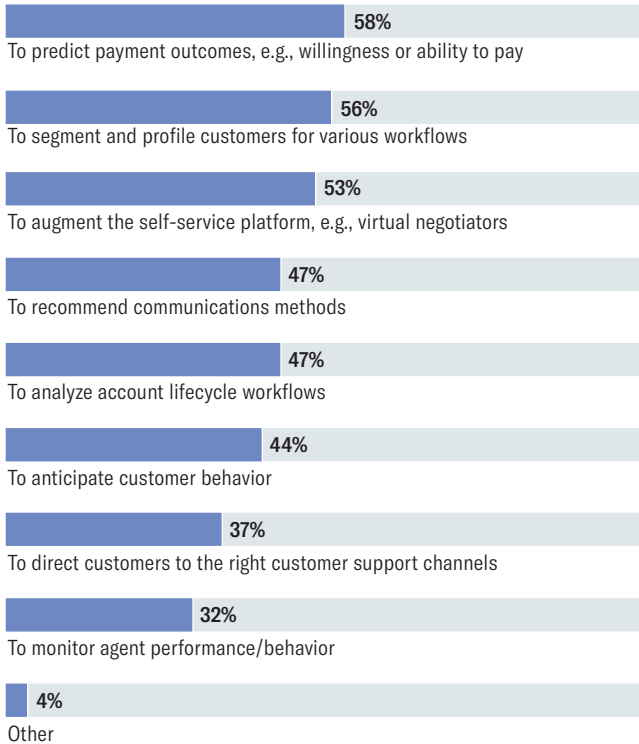
Artificial intelligence, automation, and other new technology can **bring cost efficiency, eliminate human errors, and allow consumers to be dealt with in a more empathetic and proactive way.**

Worldwide **financial hardship, increasing regulatory scrutiny, and the growing emphasis on customer experience** globally have caused the debt collection industry to rethink its traditional tactics.

FIGURE 1

AI Brings Greater Understanding about Borrowers
Predicting consumer behavior and willingness to pay tops the current use of AI

How do you currently use or plan to use artificial intelligence/machine learning-based technology?



Source: TransUnion survey, Second Quarter 2023

with a human-centric approach that treats the consumer with dignity and empathy is gaining traction because conversations can be better focused on solutions and actions, leading borrowers to become less stressed and more cooperative. This reduced pressure leads to higher repayment rates and better compliance with repayment plans. In addition, borrowers lodge fewer complaints and customer loyalty improves, maintaining today’s borrower as tomorrow’s customer.

Bancolombia SA, a full-service financial institution based in Medellín, Colombia, deployed a less-pressurized strategy in 2020. It transformed its debt collection process by using AI for such tasks as predicting customer behavior and determining the least stressful and most convenient way to contact them. The bank has more than 1 million customers in various stages of collection, but by focusing on the long-term sustainability of customer loyalty, Bancolombia partnered with a third-party service provider that emphasizes personalized repayment solutions—such as consolidating multiple debts into a single loan or adjusting the payment schedule—that balance human empathy and compassion with its debt recovery goals.

“We’re transforming what’s typically seen as a bad situation into an advisory process,” says Álvaro Arbeláez Jaramillo, director of origination and collections for Bancolombia. “Instead of just focusing on collecting debt, our main objective is helping clients get out of difficult situations and building relationships of trust with our clients.”

Bancolombia has experienced the benefits of this fresher mindset, achieving a 4.7 out of 5.0 customer satisfaction rating from customers involved in debt collection. That score is significantly above the industry average and better than the 4.0 customer satisfaction rating the bank had in debt collection before implementing the changes.

One of the most noteworthy changes in modern debt collection is the growing awareness of brand reputation. In an era of instant social media feedback, companies can no longer afford to separate their collection practices from their overall brand experience. “No one wants to be called out as a

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Sebastian Menutti, an industry director with Frost & Sullivan

really bad brand to deal with,” says David Rickard, a partner with Everest Group, an international research firm headquartered in Dallas. “Twenty years ago, it would take some-one weeks of writing letters to the press to give a brand a bad name. Now, it takes 15 seconds with just a tweet.”

This report will examine how the debt collection industry is being reimagined through the use of AI and other new technologies as well as a heightened focus on ensuring that live interactions are more empathetic and loyalty building. The report will also examine how organizations can improve their debt collection processes while also boosting customer loyalty by working with collection partners that not only embrace this new dynamic but also use innovative methods to understand what customers want today.

A Growing Debt Crisis

A surge in delinquencies is changing the landscape of debt collection, pushing companies to innovate while staying keenly sensitive to their customer relationships. “In the U.K. alone, nearly 100,000 homeowners are now in arrears of more than 2.5% on their outstanding balance, which is a 7% increase from the previous quarter,” Rickard says.

The average American now carries \$104,215 in debt, which encompasses mortgages, student loans, credit cards, and medical bills, says Experian, a consumer credit reporting company headquartered in Dublin. With health care spending projected to surpass \$5 trillion in 2024, many Americans find themselves turning to credit cards or loans to cover medical expenses, according to KFF, a San Francisco nonprofit formerly known as the Kaiser Family Foundation that conducts health care research and polling. A borrower’s financial challenges can spin out of control before they even realize it.

“Medical debt is a huge issue for the debt collection industry,” notes Ariana-Michele Moore, an advisor at Datos Insights, a market research firm based in Boston. “All it takes is one bad diagnosis or accident to throw a family into trouble. They are looking for help—a way to dig themselves out.”

Taken together, all this financial hardship, increasing regulatory scrutiny, and the growing emphasis on customer experience globally have caused the debt collection industry to rethink its traditional tactics. As a result, amid these dynamic financial and societal conditions, digital transformation has emerged at a pivotal time for the industry. AI, automation, and other new technologies can bring cost efficiency, increase consistency and quality, and elevate empathetic outcomes by connecting with borrowers in the channels, time, and manner they prefer.

“A few years ago, we would not have been able to see the same level of empathy and compassion in customer interactions as we can today,” Frost & Sullivan’s Menutti says. “The technology allows debt collectors to simultaneously be more efficient and more personalized in dealing with customers.”

Artificial Intelligence Elevates Empathetic Outcomes

Just as AI is reshaping virtually every industry, the technology is fundamentally influencing every element of the debt collection process. From the first moment a live collection expert reaches out to a borrower to the final resolution of the situation, data and analytics can play an important role. Data and analytics can assist live collection agents by allowing them to focus on the empathy needed to calm more emotionally charged interactions so that, in the end, the right balance is struck between the use of AI and the application of human understanding and compassion.

When live collections experts are dealing with borrowers, AI can make the interactions less confrontational and more productive. AI also allows collection experts to engage the customer with human understanding and the emotional intelligence needed to reach a positive outcome.

As debt collectors have developed greater insights and closer relationships with borrowers through the use of data and analytics, they have developed a new mindset on how to handle these situations. More and more, borrowers are seen

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Álvaro Arbeláez Jaramillo, director of origination and collections, Bancolombia

not just as accounts to be collected but also relationships to be nurtured.

Starting in 2020, Bancolombia turned to a third-party service that leveraged its predictive models to identify customers likely to face financial difficulties and then reach out to them before their financial situations became precarious and they defaulted. This proactive approach led to a significant transformation in how the bank handles collections. “We needed to be ... more one-on-one with our clients,” Bancolombia’s Arbeláez says.

AI can help recommend the best solution for someone’s debt issues. Systems can augment the collections expert, allowing them to connect with the borrower and personalize the repayment play based on each borrower’s unique circumstances. “AI gives our [teams] the information to understand the customer’s situation at a level they never could before,” says Arbeláez. “Because of the insight AI provides, the [collections experts] can have deeper conversations and offer numerous alternatives, such as different repayment plans, that the [collections experts] wouldn’t have known were particularly suited to that particular consumer.”

Rather than leading with threats or demands, Bancolombia debt collectors today begin their interactions with customers with a sense of understanding. “In the past, we would just collect the delinquent debt, warning people they might lose their homes,” Arbeláez says. “Now, we start by saying, ‘Please let us explain what is happening to you. We know this house is your dream.’ This dramatic change in approach leads to clients opening up genuinely about their problems.”

The impact of this empathetic approach has surpassed expectations. “Sometimes clients ask us not to change their [collections expert] because they feel truly heard and understood,” Arbeláez explains. “They develop a genuine relationship because we’re actually listening to their problems and offering multiple solutions tailored to their situation.”

Just as technological advances are improving empathetic outcomes, they are improving operational efficiency. Until recently, financial institutions using outdated systems struggled to make even simple predictions for their debt recovery.

In contrast, AI can analyze vast amounts of data, including lagging indicators, such as account details and past payment history, and forward indicators, such as credit score and employment. This information can predict which customers are most likely to pay, allowing a more efficient allocation of collection resources. “Debt collection is a low-margin business and an increasingly hard business in which to operate,” Datos Insights’ Moore says. “You have to make smart decisions and pinch it everywhere possible.”

Greater efficiency can also lead to greater empathy. As AI tools and channels free collections experts from responding to simple or repetitive requests, they have more time to handle more-complicated situations with higher-quality interactions. The AI tools can suggest responses the live experts can use to address different borrower concerns and needs, as well as recommend resources they can use to assist the borrower. Additional information and resources ensure greater consistency and quality across the operation while making borrowers feel the live experts are listening to them and better trying to understand their situation. AI is behind the expanded capabilities and time that enable live experts to achieve such personalization.

AI can also enable the interactions with borrowers to be streamlined and made more effective by determining the best times and communication channels for contacting each customer. As a result, AI may significantly improve contact rates and facilitate relating to customers in the manner they prefer. “If a person indicates their preferred communication channel is online, it doesn’t make sense to keep calling them on the phone,” Moore says. “That will just irritate them and waste labor costs.”

In 2023, 55% of companies with 20 or more full-time employees were using text messaging as a communication channel, a shift that reflects changing consumer preferences and the need for more flexible communication options for debt collection efforts. “I know of one firm that saw payment rates dramatically increase as they embraced text messaging,” Moore says. “It’s lovely to have a solution available via text where people can just work out payment solutions

and communications in an environment in which they are comfortable.”

However, texting technology requires thoughtful handling, given the number of regulatory safeguards that have been put in place about contacting borrowers. “The moment the consumer types ‘stop,’ that channel is dead, and it’s really hard to resurrect it,” Moore says. “So there has to be a great deal of care in reaching out to consumers using the texting channel.”

In addition to using AI and communication channels, debt collectors are fortifying themselves with other tools. For example, robotic process automation (RPA) technology that uses software robots to perform repetitive, mundane tasks can boost operational efficiency, blend workflows, and allow organizations to scale their collection efforts as needed. Critically, it also frees live collections experts from those repetitive and mundane tasks so they can better focus on using emotional intelligence and empathy to resolve more-complex or emotionally charged issues.

Meanwhile, digital payment solutions—online platforms and self-service portals that allow borrowers to use credit cards, bank transfers, and digital wallets—provide greater convenience for borrowers, allowing them to make secure payments. Compliance management, mostly having to do with protecting consumer privacy, is being integrated into all collection processes, such as adhering to regulations governing when and how collectors can contact borrowers. Predictive analytics can also help identify potential compliance risks before they occur.

Compliance is a major factor when it comes to the debt collection process. Nearly half (47%) of companies surveyed by TransUnion say their technology investments for debt collection are driven by regulatory compliance—the top answer—compared to 30% that are using those investments to become a market leader. **FIGURE 2**

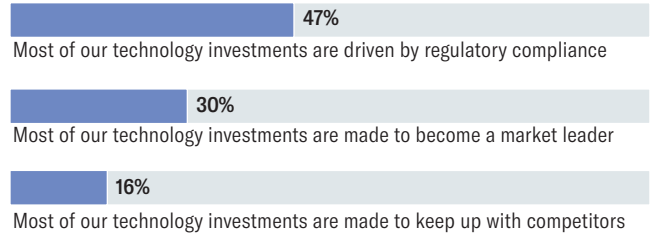
Generative AI can help with compliance issues by monitoring regulatory changes, making sure debt collectors are up to date with the latest government rules and are documenting interactions and identifying potential violations,

FIGURE 2

Compliance Drives Tech Investments

Becoming a market leader and competitiveness both take a back seat to dealing with regulations

Which of these statements most resonates with you and your company?



Source: TransUnion survey, Second Quarter 2023

such as whether a debt collector is using misleading language. These steps allow collection agencies to train collection teams with real-time feedback, recommend responses and resources, and ensure their operations remain in compliance with privacy laws and other regulations. “Generative AI can check [that] the right compliance steps were taken, the right words were used, the right level of empathy was shown, and all the legal requirements were met,” Everest Group’s Rickard says. “That used to be a time-consuming, manual process.”

Still, while early adopters of AI are seeing impressive results, the use of AI for debt collection purposes is hardly universal. Companies and vendors that handle larger numbers of accounts make greater use of cutting-edge technology. The TransUnion report shows that 56% of firms handling less than 100,000 accounts have no plans to use AI compared to just 7% of companies managing over a million accounts.

Room for Even More Empathy

While the debt collection industry is seeing impressive outcomes from the use of emotional intelligence and technological advances, consumers still want it to put even more emphasis on empathy.

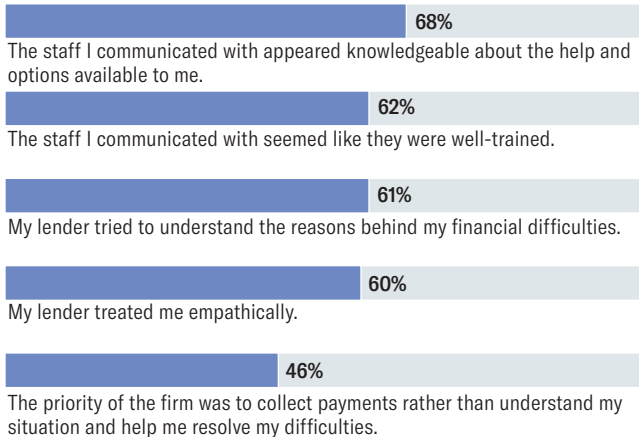
A survey by the Financial Conduct Authority, the financial regulatory body in the U.K., found that while three in five (60%) of the borrowers in financial difficulty who responded felt that they were treated with empathy, close to half (46%) of those same borrowers still thought that the priority of the debt collection organization was to collect payments rather than help them resolve their difficulties. **FIGURE 3**

FIGURE 3

Collections Experts and Better Communication

Borrowers feel they are dealing with more knowledgeable and understanding staff

Thinking about your communication with your lender about difficulties [with repayments], to what extent do you agree or disagree with each of the following statements?



Source: Financial Conduct Authority survey, June 2022

The survey identified a number of key steps that debt collectors can take to bolster those numbers: improve consistency with service delivery across the organization so consumers feel assured they will be treated well no matter who in the organization they deal with; apply the consumer’s individual situation in any solutions offered; provide consumers with easy ways to get in touch; and, critically, ensure all staff deal with consumers with empathy, sympathy, and the proper tone of voice.

This evolution toward an empathetic approach to debt collection is particularly evident in countries where regulators have placed increased emphasis on identifying and appropriately handling vulnerable customers. Since 2020, such policies and regulations have been put in place in the U.S., the European Union, the U.K., Canada, Japan, South Africa, and Australia, among other places. Rickard says that vulnerability can take many forms—from financial hardship to language barriers to disability—and requires a sophisticated approach to detection and response.

For example, Rickard says collections experts must pay attention to customers’ comments that mention they’ve just lost their job, which could put them in a vulnerable group. “You need to educate [collections experts] to be able to understand the trigger,” he says.

To maintain a high level of empathy and support, Bancolumbia uses a third-party service provider that carefully screens collections experts for emotional and social intelligence. “We help the [collections experts] understand that when someone in debt treats them harshly, it’s not personal,” Arbeláez says. “The [collections experts] must be able to transform difficult situations into positive ones while remaining optimistic and empathetic.”

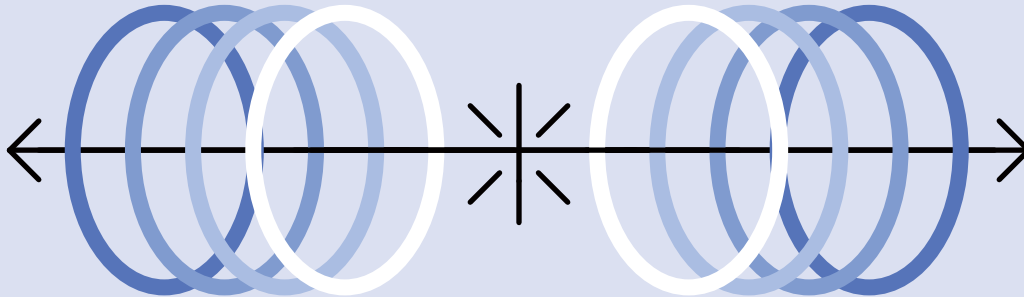
Despite the rush toward automation and customer experiences that involve chatbots, Menutti emphasizes that live collections experts remain crucial in debt collection, particularly for more complex interactions. “A bot is not going to be able to manage all those questions and concerns from the customer and be flexible enough for a negotiation,” he says. “That’s when the human [collections expert] shines, because that person is going to be able to negotiate and show empathy to the customer.”

McKinsey & Co., a consulting firm based in New York, estimates that collections experts who are assisted by AI will provide personalized and empathetic responses with 10% less handling time. These capabilities will enable those experts to have more successful debt or restructuring negotiations, leading to a 6% increase in recoveries.

Still, despite the debt collection industry’s evolution toward more customer-centric approaches, measuring success remains largely focused on traditional metrics. A collection effectiveness index, recovery rates, days past due, and cost per collection still dominate performance evaluations. Rickard sees this reliance on traditional metrics as a potential blind spot because it ignores the customer. “Right now, the metrics are all about the performance of the collection versus the customer experience,” he says. “The industry needs an evolution to more customer-centric metrics.”

Finding the Right Partner

As they shift toward a more empathetic approach to debt collection, companies are increasingly turning to business



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Everest Group

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Ariana-Michele Moore, advisor, Datos Insight

process outsourcing to undertake that task. By contracting all or parts of their collection process to a third-party service, companies can refine their repayment processes and elevate the customer experience.

“I’m a big fan of outsourcing,” Rickard says. “My only caveat would be that if you really focus on empathy and brand loyalty, find partners [that] have a commercial model that balances the drive for performance with the drive to protect the relationship.”

When Bancolombia selects collection partners, the first criterion isn’t technical capability. The bank seeks alignment with the company’s values about creating long-term value rather than just short-term profits. At the same time, they promote education, assist consumers in distress, and avoid aggressive collection tactics.

“The most important thing is to ensure their corporate values align with ours,” Arbeláez says. “We need strong partners [that] are on the same path as us in promoting development and seeking the well-being of the consumers in debt who we are helping.”

Engaging partners could be vital to an organization’s debt collection efforts because they can offer best-in-class technology and a global infrastructure that can scale up and down as needs change. Menutti says this infrastructure often includes omnichannel digital collection technology embedded with data analytics, AI/machine learning, RPA, and chatbot capabilities that are designed to deliver a better, more empathetic way to communicate with consumers.

Conclusion

According to Frost & Sullivan, debt collection is going to be the fastest-growing segment in the customer experience management space, increasing between 4% and 5% a year. The approach has shifted beyond efficiency to a new kind of partnership with borrowers, taking a more compassionate and consultative approach compared to the hardball tactics of the past.

“Even if you know you owe money, you want to be treated with respect,” Rickard says. “Companies don’t want to risk alienating customers, even if they owe money in the short term, because they might still be a valuable client in the longer term.”

This borrower collaboration strategy can happen only with the insights and efficiency that digital transformation provides. “Being efficient is critical, and you can’t be efficient if you are not digital,” says Arbeláez. “If you are not digital in the way you collect, you simply can’t compete with the fin-techs and neobanks that are emerging.”

In Arbeláez’s view, the future of debt collection will be characterized by the sophisticated use of data and AI, empathy combined with continuous experimentation, and alignment with a purpose beyond just collecting money.

Empathy and the need for emotional intelligence have now taken on a business purpose and not just a mission centered on ethics or compliance. “It’s hard to put an exact ROI on empathy, but the business case for it is strong,” Moore says. “Most people do want to pay off their debt; they just need help. And debt collectors who genuinely try to help borrowers, and help them retain their pride, will be the most successful because they are in tune with what society is expecting and demanding.”



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