The Economic Impact of Debt Advice

the Money Advice Service

Europe Economics

Contents

Acknowledgements

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Foreword

Limited growth in real wages, record levels of unsecured debt, abundant credit supply and increasing use of credit to finance day to day spending; all these have helped increase the focus on the macroeconomic impact of household debt and the advice needs of over-indebted people.

Problem debt is complex – it can be a cause and consequence of many different life events and its resolution is rarely straightforward. Common consequences are a reduction in household wellbeing and an increase in vulnerability. The cost to the economy can be seen across many different fronts, such as reduced consumption and productivity, as well as increased demand for social and health services.

This research has not been created in a vacuum and has been informed by earlier work exploring the social return on investment from debt advice. We recognise too that the impact of debt advice can be measured in different ways and this research seeks to identify which sectors benefit from its provision by monetising the impact of debt advice against its absence.

At the same time, we are using the results to inform our debt advice commissioning strategy. The research shows that the best approach is holistic in nature. It makes sense for other sectors that benefit from debt advice provision to work together, including through the provision of pooled resources, to achieve the best outcomes for clients.

It became apparent during the research that the broad spectrum of people with problem debt increases the complexity of estimating impacts. The task of isolating the effects while still enabling an effective control group comparison was not straightforward. Given this complexity, we decided to only quantify impacts where robust findings are backed by compelling data. While this conservative approach reduces the number of impacts monetised, it does not imply that debt advice has no impact on the areas not quantified. Instead, the research shows areas where monetary impact is plausible and, we hope, encourages readers to expand our knowledge with further research.

Addressing difficult life situations in isolation, including debt problems, is likely to be ineffective and it is essential to promote collaboration between a variety of different services to solve complex problems. The research shows that economic benefits go far beyond creditors and financial services and, as such, suggests there is a need to challenge more traditional mindsets on funding debt advice. It also suggests there is a compelling case for integrating debt advice provision as part of broader systems designed to prevent people with complex needs falling into downward spirals.

Dr. Jair Munoz Bugarin
Debt Advice Innovation Manager

Key findings

Debt advice has a positive impact on resolving an individual's financial difficulties and on many other aspects of that person's life. The research undertaken by Europe Economics for the Money Advice Service has focused on the economic value of these impacts.

Debt advice has a direct, beneficial impact on mental health. This is achieved through improving the quality of life of people with a variety of health conditions and by reducing the healthcare system's expenditure on treatment. Debt advice has an identifiable effect on psychiatric disorders such as anxiety and major depressive episodes. The improvement in quality of life is estimated to be worth £24-52 million annually. The associated annual cost reduction is between £50 and £93 million, i.e. the total benefit is about £74-145 million annually.[1]

Financial distress is a significant cause of lowered productivity in the UK through both absenteeism and presenteeism.[2] By helping to resolve such distress, debt advice is making an indirect contribution to enhanced productivity. The mental well-being improvement is taken as a proxy for relief of the financial 'stress' that would be sufficient to cause employment-related issues, and this was used to estimate the productivity gain from receiving debt advice. The benefit that debt advice has on reducing workplace stress - and thus increasing productivity – is estimated at £67-137 million annually.

Borrowers can become trapped in debt. An additional identifiable benefit of debt advice is to reduce the risk of borrowers entering further debt cycle. The value of deferring consumers' entry into a further debt cycle is estimated to be £25-48 million annually. In addition, some consumers will avoid a further debt cycle entirely.

Debt advice also has a beneficial impact on creditors through improving the recovery rate on problem debt and also by lowering the costs to creditors of pursuing debtors. Improved recovery is essentially a transfer between borrowers and creditors. Decreased recovery costs still amount to a net benefit of over £135-237 million annually.[3]

There are several other economic impacts that previous studies have claimed are derived from taking debt advice, but where the evidence was insufficient to enable full quantification. These are described within this document (and more fully in the report "The Economic Impact of Debt Advice").[4] This inability to quantify robustly likely benefits helps point to priority areas for future research.

The total social benefits across the UK that can be robustly quantified are estimated at £300-570 million annually. This can be seen as a conservative estimate, in that there are many impacts of debt advice which this study considers well-proven but that are still insufficiently evidenced to allow the monetary impact to be quantified robustly.

The social benefits from debt advice are estimated to be

£300-570 million

annually across the UK

The total benefits from debt advice are estimated to be

£445-960 million

annually across the UK

1. The primary research indicated that some physical and mental illnesses could be similarly affected — however the sample of affected individuals was too small to draw robust conclusions.
2. Presenteeism is when someone is physically present (i.e. unlike absenteeism) but not mentally present at work.
3. This estimate is based on the use by over-indebted individuals of Debt Management Plans, IVAs and Trust Deeds, i.e. the most popular informal and formal debt solutions. There are other types of arrangement not covered by the estimate (due to a lack of solid data), and so this under-estimates the true gain. The debt recycling benefit also draws on this data point, and is consequently also an underestimate.
4. Europe Economics (2017) "The Economic Impact of Debt Advice". This is available from moneyadviceservice.org.uk/EconomicImpactDebtAdvice.

Methodology

The study identified secondary research, such as past peer-reviewed articles and past studies into debt advice and over-indebtedness

1

A critical assessment of these past papers was made to identify evidence gaps and to develop hypotheses that we could explore through the fieldwork

2

In collaboration with YouGov and MAS, Europe Economics designed questions to explore various potential economic impacts of debt advice. YouGov then surveyed 3,800 over-indebted individuals (based on MAS definitions), approximately split 50:50 between those who had received debt advice and those who had not

3

The data from the primary research was analysed, controlling for differences between the advised and non-advised groups. Robust signs of impacts were searched for in these data

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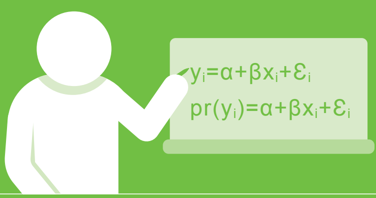


Europe Economics created models drawing upon the impacts estimated from the secondary research (where these were well-evidenced) and from the results of the statistical analysis

5

In order to generate UK-wide estimates of the annual economic impacts of debt advice, these impacts were then combined with the overall numbers of over-indebted individuals and advice-seekers, drawing on the Money Advice Service research conducted by YouGov and CACI, and data from other sources such as the Insolvency Service

6

Economic impact on health

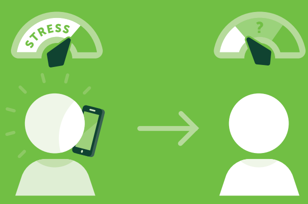
While there is a well-established link between debt problems and health issues, the link between health and debt advice is less obvious. This research found that debt advice has a beneficial impact on health worth £74-145 million annually across the UK.

Debt advice and health

This study contributes empirically to understanding the effect of debt advice on multiple mental and physical conditions, including depression and anxiety.

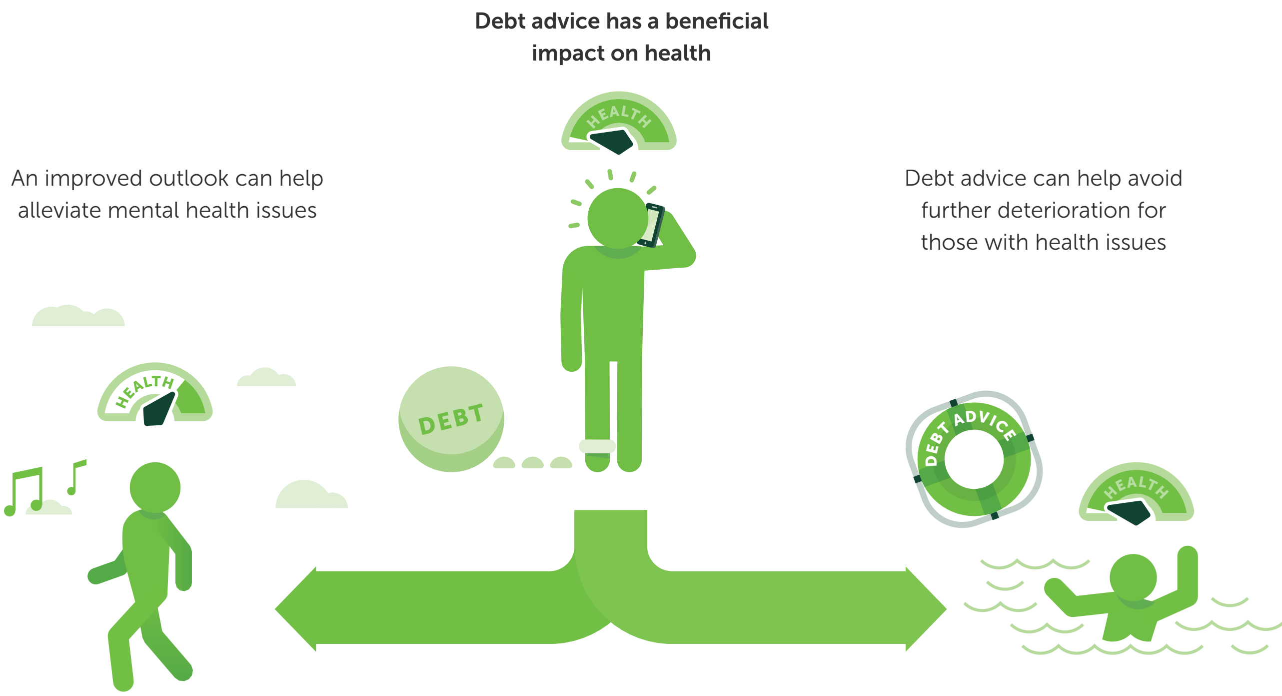
There were also other potential conditions, such as obsessive-compulsive disorder (OCD) and heart disease, where there were insufficient robust indications of a beneficial impact, and where further research is necessary.

The link between debt problems and the frequency of health issues is well-established



Clear and reliable empirical evidence on the impact of debt advice has been lacking...

The economic impact of debt advice



Direct impact

Debt advice has a direct, beneficial impact on improving the mental health states of those suffering from conditions such as depression, anxiety and panic attacks.

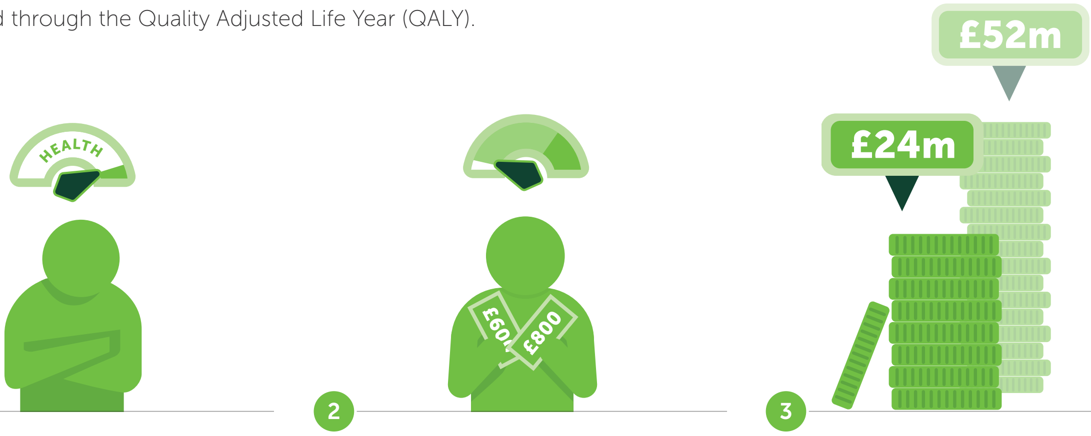
The associated benefit due to reduced health service costs is

£50-93 million

annually across the UK

Impacts on quality of life

Debt advice can also have impacts on quality of life, which is approximated through the Quality Adjusted Life Year (QALY).



1 The research explored impacts of major psychiatric disorder episodes (such as chronic depression, social phobias or a generalised anxiety disorder)

2 Avoiding an episode of various adverse mental health states has an estimated value of **£600-800 per person, dependent on the condition.**

3 The health benefit for these conditions is worth **£24-52 million** annually across the UK

Indirect impacts on employment and productivity

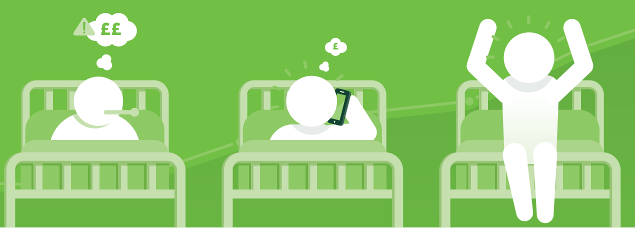
Debt advice can also enhance productivity and employment prospects. Its impact is discussed and monetised in more detail in the next chapter and in the separate paper "The economic impact of debt advice on employment and productivity".

Total impact

Debt advice has a total beneficial impact on health of

£74-145 million

annually across the UK



Economic impact on

employment and productivity

Productivity is impacted by financial distress and debt advice is one way to reduce that distress. The research explored this and it is estimated that debt advice could be generating productivity gains of £67-137 million annually across the UK.

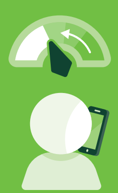
Financial distress and productivity

There is robust evidence to demonstrate a causal link between being indebted and reduced productivity:

- Debt can be a significant barrier to those finding or maintaining employment in the long term.
- Debt can prevent people maintaining newly found work if repayments are too high.
- High debt levels can make an individual too stressed to work at normal levels.

Financial distress can cause some people to miss work

Others do turn up, but cannot focus. Both decrease productivity



Debt advice helps resolve financial distress

Does that lead to a recovery in productivity?

The relationship between debt and productivity is supported by past research showing that stress has an impact both on productivity and financial difficulties. This research reviewed the links between financial difficulties and employment problems.

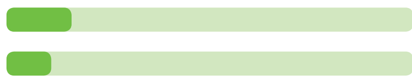
Indebtedness can result in health problems sufficiently serious to interfere with work. Those seeking advice in the YouGov sample tended to have higher levels of debt than those who did not seek advice.

Financial distress and employment problems

The UK-wide employment rate currently stands at 75%, while the employment rate among over-indebted people is considerably lower.

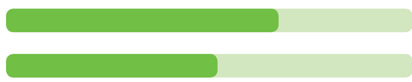
63% of respondents who sought advice were in full- or part-time employment compared to **59%** of those that did not seek advice.

Advice seekers left work because of poor health more often than those that did not seek advice.



16% of debt advice seekers had to stop work because of poor health compared to **11%** of those that did not seek advice.

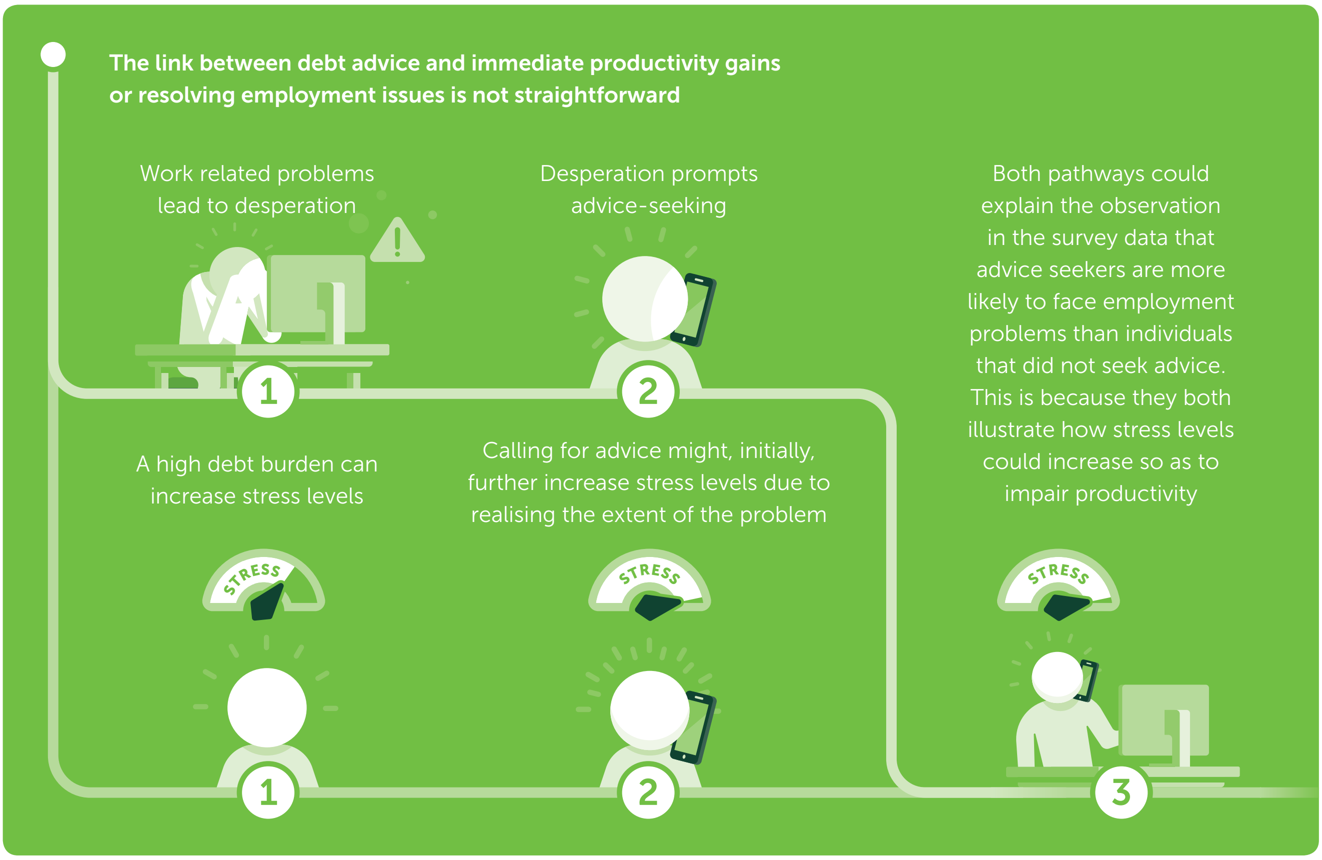
It is common for advice seekers to believe that their employment problems were caused by their financial difficulties.



67% of advice seekers with employment problems due to ill health believe that their financial difficulties were a cause of their poor health compared to **52%** of those that did not seek advice.

The differences between debt advice seekers and those who did not seek advice illustrate the complexity of robustly identifying the economic impacts arising from debt advice.

The economic impact of seeking advice



Productivity gains

With the passage of time, the debt advice process becomes less stressful and starts to produce beneficial results.

These benefits can include improved mental wellbeing, which in turn relieves stress.

Less stress leads to fewer employment-related issues.

Part of the impact of debt advice on stress is quantified in the impact on health.

The annual productivity gain associated with receiving debt advice is estimated to be

£67-137 million

annually across the UK

Economic impact on creditor recovery

Financial distress can often prevent individuals from fulfilling their obligations to their creditors. Debt advice can help lower debt levels and can therefore improve creditor recovery rates. This research estimates that taking debt advice reduces costs by at least £135-237 million and additional creditor recovery of £133-360 million annually across the UK.

How creditors benefit from debt advice

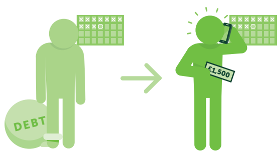
Creditors benefit from an improved recovery rate on problem debts. This lightening of the debt burden comes as a transfer from the borrowers.

A further gain from debt advice is achieved through lower costs of recovering debts, as the process of pursuing debtors becomes less expensive, such as by avoiding the courts.

Benefits of taking debt advice

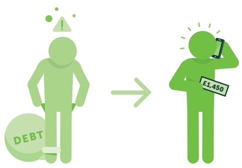
The benefit per Debt Management Plan is estimated at £2,000-3,650

There are an estimated 460,000 Debt Management Plans currently active.



The benefit per IVA/ Trust Deed is estimated at £1,750-2,600

There are an estimated 270-280,000 IVAs and Trust Deeds currently active in the UK.



Economic impact

The likely increase in debt recovery were modelled and the reduced costs of recovering that debt using data on debtors obtained from primary research conducted by YouGov and other data on the frequency of DMPs and IVAs/Trust Deeds.

Combining this information provides an approximate calculation of how important debt advice can be to both creditors and debtors. Owing to a lack of robust data, these calculations includes the three most popular debt solutions but omit others, such as where clients self-negotiate with creditors. As such, it follows that the total benefits are larger still.

£268-596 million
in total benefits annually across the UK

The combined gain adds together both the benefit of decreased recovery costs and increased creditor recovery. These two benefits are, however, qualitatively different. Decreased recovery costs are a social gain, which benefit can be shared by both creditors and debtors.

£133-360 million
in increased creditor recovery annually across the UK

On the other hand, increased creditor recovery means that payments from debtors to creditors go up, i.e. these are transfers. This does not represent social benefits in the same sense as the reduced recovery costs.

£135-237 million

in social benefits annually across the UK

This is the reduced cost of recovery only. And since the benefit was calculated for only three of the available solutions the total impact of debt advice will be even larger.

Economic impact on debt-recycling

Does taking debt advice reduce the risk of over-indebted borrowers entering further debt cycles? The research investigated this question and found that debt advice has a positive effect on deferring debt cycles. Its economic benefits are of at least £25-48 million annually across the UK.

Background

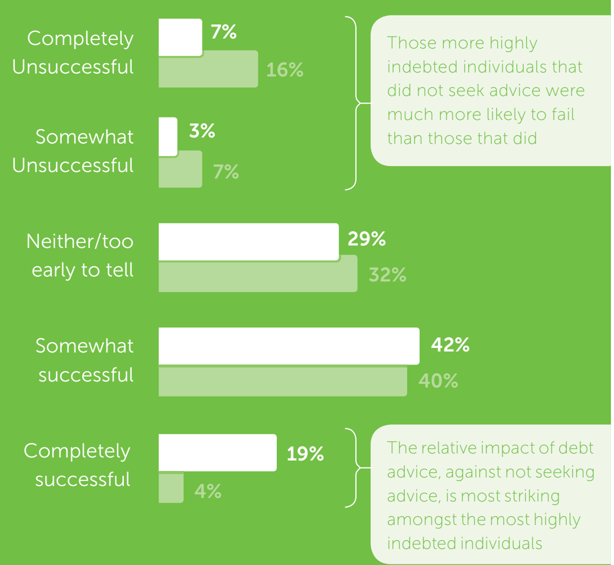
Borrowers can become trapped and experience multiple episodes of being over-indebted. Debt recycling is where individuals who have already been through one debt cycle, enter an additional debt cycle. Overall this research indicates that taking advice reduces the likelihood of debts becoming unmanageable again by about 10 per cent.

83% of people who sought debt advice managed to keep their debts manageable

72% of people who did not seek debt advice managed this

Debt advice increases success rate of actions against debt

Success rate of actions for most highly over-indebted individuals i.e. debt to income ratios above one



How can debt advice help?

Debt advice clients can learn to seek advice earlier in the following debt cycle. This can ameliorate the adverse effects of debt

Debt advice clients can learn useful skills and capabilities which can help them make their debts more manageable

But debt advice might only be delaying the entry into a new cycle of being over-indebted — rather than outright preventing such entry

Economic impact

The deferral of a new debt cycle was modelled, combining the data and calculations from the other impacts of debt advice that could be monetised, such as those on creditor recovery, mental and physical health and work productivity. Thus, this is an underestimate of the total benefit.

Due to the lack of a time dimension of the primary research data, it was not possible to assess if debt advice entirely prevents debt recycling. Thus, entire prevention was not included in the total impact.

There is an additional benefit to creditor by an increase in transfer payments of **£12—£32 million** annually.

In addition debt advice has social benefits of

£25-48 million

annually across the UK

This is shared **£13-26 million** in consumer benefits and **£12-22 million** in benefits for creditors

Additional findings

There are some impact areas where the economic benefits are less clear or currently less well-evidenced. For example, some dimensions, such as desperation crime, were not sufficiently represented in the primary research for robust conclusions to be drawn. Equally, as with any primary research, there is a limit on how many topics can be raised. These areas are described below.

Improvements in family and child relationships

Parental disengagement can have very serious implications for the future welfare, well-being and success of children. The interrelationship between indebtedness and other drivers is not straightforward. The evidence base linking debt advice, and its ability to resolve such issues, is however limited.

Relationships, once damaged, can be extremely difficult to repair — more so indeed than one's financial situation. However, the benefits on receiving early debt advice could potentially reduce the likelihood of reaching a breakdown point in a relationship.

Impact on reduced risk of homelessness

People with unmanageable debt are more vulnerable to losing their home either directly (such as through repossession) or indirectly (lacking the reserves to respond to changes in situation such as being dismissed from work or reductions in their income). Robust evidence for advice making a difference here is in short supply. It may be that the onset of housing problems could trigger an over-indebted individual to seek advice and that only very intensive engagement by the adviser is likely to make a difference.

Another way in which advice may be beneficial in this area, is where it is takes the form of late stage advice. For example, this might be timed around the date set for a court hearing, and aside from the potential for avoiding housing issues, court time could also be saved.

Impact on desperation crime

Desperation crime could be seen as an alternative coping strategy for some affected individuals. Whilst several studies confirm a link between poverty and petty crime, and correlate indebtedness with poverty, the evidence in the literature establishing a direct link between indebtedness and petty crime is weak. The research did not find a link between debt advice and a reduction in petty crime (or its avoidance). This may be in part because crime is a highly sensitive area to explore, and to identify a link with advice would further require access to highly confidential records.

Recovery in credit access

Consumers' credit ratings have a significant impact on the choice of credit products available to them. The impact of debt advice in this area may not be immediately beneficial to consumers and might even result in a further reduction in credit score compared to not receiving debt advice. This would be the case if triggers a solution that leads to negative information being registered in someone's credit file. Taking such steps could later translate into quicker and/ or more effective post-advice recovery compared to not receiving advice. This ambiguity makes it particularly difficult to model the impact area robustly.

Impact on small business

The self-employed can sometimes intermingle their business and personal affairs, such as using personal borrowing to fund the former. Whilst advice is expected to promote business continuity, a robust scale of such a business continuity effect could not be inferred from the primary research data.

The role of the credit cycle

Debt becoming burdensome or unmanageable for individuals has a complex relationship to overall debt levels in the UK economy.

A growing economy can see over-optimism amongst both consumers and creditors. The onset of a recession, or even a change in market sentiment, can see declining real incomes for borrowers and deleveraging by creditors. The direct evidence for how this credit cycle affects debt advice, and the benefits attributable to it, is very scarce.

Future research

This research has assessed the existing literature around the impact of debt advice and considered the robust findings from bespoke primary research commissioned in parallel to it. This has enabled the development of an analysis of the economic benefits attributable to debt advice and to monetise some of these impacts. Even so, there remain various gaps in the evidence base currently available.

In general, a UK-representative longitudinal study of the impact of direct advice would be valuable. This could allow fuller examination of its immediate and longer-term effects, and exploration of any preventative dimensions of debt advice. The Money Advice Service is currently conducting a scoping study exploring the potential of conducting longitudinal research that could identify the long-term impacts of debt advice. In some impact areas, such as desperation crime, however, other approaches would need to be adopted.

Mental and physical health

Monitoring over a longer time horizon could help establish a stronger causal link between being indebted, access to debt advice and health, particularly as some symptoms might need more time to emerge or where the primary research only generated few observations (such as heart disease and OCD). Such research might benefit from medical expertise in order to establish stronger causal links to underlie the developed hypotheses.

Housing and homelessness

This analysis also revealed potentially interesting future research avenues in terms of housing impacts. Longitudinal research could also shed light on the evolution of the incidence of homelessness subsequent to advice-seeking, such as is any change in incidence post-advice permanent or only temporary? It would be important to assess the influence of debt-to-income levels (where small sample sizes have limited the conclusions that could be drawn here), as it would be expected that the most indebted are at greatest risk of facing housing issues.

Employment and productivity

In terms of (self-)employment, small business and productivity impacts, UK-wide longitudinal research would again enable clearer before and after advice effects on the over-indebted to be identified. Where business closure was involved, increased understanding of the role of advice and the ways in which mixing personal and company debts could complicate resolution would be valuable. The identification in this study of likely lagging effects related to debt advice suggests any such research would need to be over a long time horizon.

Access to credit

Another area where evidence is currently lacking is recovery of access to credit. This area is hard to explore without access to the credit scores provided by credit reference agencies. An ideally configured empirical research project would examine the relationship between debts (including pricing), credit scores over time and with different courses of action taken by the client (such as seeking advice, not doing so).

Desperation crime

Many areas of future research would be appropriate for a general longitudinal study but a specialised target analysis would be required on the links between indebtedness, desperation crime — and how seeking out debt advice affects the latter.

Interaction with the credit cycle

An impact area where new research data could be of particular value would be in describing any links to the credit cycle. A longer time-series would enable the examination of changes in the debt that individuals accumulate and how this evolves over the credit cycle.

This could then be extended to better understand whether and how the scale and nature of the various impacts of debt advice relate to the cycle.

Creditor recovery

Our analysis of the benefits of debt advice on creditor recovery were limited to just some of the debt advice solutions available, not including DIY solutions for example.

Further research could extend this, and uncover the full extent of the benefit attributable to debt advice in this area.

Relationships

Longitudinal research could contribute to exploring the impact resolving financial difficulties has on improving relationships in families on the verge of breakdown due to financial difficulties. This research could also cover any impact on forming new relationships (such as finding a new partner after a relationship breakdown), including non-familial ones (such as maintaining friendships). The beneficial impact of debt advice on restoring any such damaged relationships could also be covered by such research.

Interaction with financial capability

Research into the interaction between financial capability and debt advice would also be welcome. Capability is not simply financial literacy: it is about the ability to draw meaning from the information available and to take consequential action.

Considerable progress has been achieved on measuring financial capability but still remains some ambiguity. Perhaps partly in consequence, the evidence around the interaction between debt advice and financial capability is less substantive than that linking such capability and becoming over-indebted or entering a period of financial difficulty. For example, research in this area could examine how individuals respond differently to debt advice accordingly to their levels of financial capability. It could also explore how the process of being advised might affect someone's money management skills subsequently, i.e. what do they learn from the experience?

Another interesting line of enquiry would be how the advised and the unadvised differ in terms of attitudes to risk and, more specifically, how these might be associated with both the level of indebtedness and impact debt advice has in resolving financial difficulties. Efforts to assess attitudes to risk might be incorporated into future research.

For more information

This is a summary of the main conclusions from the report "The Economic Impact of Debt Advice".

This is available from moneyadviceservice.org.uk/EconomicImpactDebtAdvice.

The Money Advice Service
debtadviceresearch@moneyadviceservice.org.uk
@yourmoneyadvice | moneyadviceservice.org.uk

Europe Economics
Chancery House, 53-64 Chancery Lane, London WC2A 1QU
Tel: 020 7831 4717 | europe-economics.com

Contact us

The Money Advice Service
jair.munoz-bugarin@moneyadviceservice.org.uk
colin.kinloch@moneyadviceservice.org.uk

Europe Economics
ross.dawkins@europe-economics.com

the Money Advice Service

Europe Economics