People in Financial Difficulties

Financial Capability
Strategy for the UK

People in Financial Difficulties

Work to support people in financial difficulties can be considered from three perspectives:

- early intervention to prevent emerging issues from becoming more serious;
- crisis support to help resolve a debt problem that requires urgent attention; and
- building resilience so that, after crisis support, future debt problems become less likely.

Co-ordinating work to support people in financial difficulties is the responsibility of the Debt Advice Steering Group (DASG), chaired by the Money Advice Service and drawing its membership from the senior staff of the major advice sector and creditor organisations from across the UK.

The DASG has established increased engagement with and greater awareness of debt advice as its current priorities in light of the extremely low proportion of over-indebted people that seek such support.

Priorities for the Strategy are to:

- develop and implement effective early arrears and pre-arrears interventions with multiple partners including housing associations, local authorities and financial services firms;
- identify the most effective ways to increase engagement through a series of experiments targeting clearly identified groups using evidence-based behavioural science techniques;
- maximise opportunities in the debt advice process to build a savings habit amongst clients and provide access to a wider suite of services, including psychological therapies; and
- deepen understanding of the impact of debt advice in the long-term and clearly assess the social and economic benefits of advice to creditors, health professionals and UK Plc.

Introduction

Financial difficulties can be experienced at all life stages and may be an ongoing feature of a person's life or only a passing phase. People in financial difficulties are more likely than average to be women, living on lower incomes and have experience of mental health issues.[147]

Financial difficulties have direct and indirect effects. Evidence suggests that adults that have experienced financial difficulties are more likely to become financially excluded, and children growing up in over-indebted households are more likely to be bullied at school.[148] Over-indebted people also report negative impacts on their relationships and physical health as a result of their debt problems.[149]

The Money Advice Service has a central role to play in the delivery of this aspect of the Strategy given its statutory responsibility to co-ordinate the debt advice sector – or more precisely to work with partners to improve the availability, quality and consistency of debt advice. Accessing debt advice is an important mechanism through which people can resolve financial difficulties and the key strategic aim the Money Advice Service and its partners on the Debt Advice Steering Group have identified is to increase engagement with high-quality debt advice across all channels of delivery.

[147] Indebted Lives (Money Advice Service, 2013)
[148] The Debt Trap (StepChange Debt Charity and the Children's Society, May 2014)
[149] Statistical Yearbook 2014 (StepChange 2015)

The most recent estimate is that 16% of the adult population are over-indebted.[150] In 2013, the Money Advice Service estimated that around 83% of over-indebted people were not seeking advice, and of those that did seek advice 50% wait over a year to do so. The Debt Advice Steering Group aims to double the proportion of over-indebted people seeking advice by 2020 and then to double it again by 2025.

This significant increase in levels of engagement will increase demand for advice services across all channels. Shared efforts to use evidence to diversify the funding base, improve funding co-ordination and increase funding levels will be essential to ensure that demand is met. The Debt Advice Steering Group will have an important role to play in overseeing this process.

Work on financial difficulties is broader than the delivery of debt advice when someone is in a crisis and as such the Strategy considers financial difficulties from three perspectives: early intervention; crisis support; and long-term resilience.

Evidence and key issues

Early intervention

Financial difficulties are not inevitable. By planning for potential difficulties in the future, interventions can be put in place to mitigate the impact of a negative change in circumstances, reduce its likelihood or remove the possibility altogether. This is as true when it comes to financial difficulties as in any of the other areas in which early intervention approaches are flourishing.[151]

When it comes to financial difficulties in particular we know that early intervention can make a significant difference. Many financial services firms, for example, have been using analysis of the data they hold on customers to trigger interventions, but it is not always clear how effective these interventions are.[152] This remains an under-researched area and one where the Strategy will seek to fill evidence gaps.

Early intervention is important when people may be heading towards financial difficulties because:

- most people take more than a year to seek support themselves – often due to a belief that their situation is normal for 'people like them';[153] and
- the earlier someone takes action to address a situation the more options they will have, including the potential of avoiding financial difficulties completely.

A central hypothesis of the Strategy is that by improving financial capability it will make it less likely that someone will end up in financial difficulties. Building the evidence around this is an important part of the Strategy's work. If this is shown to be the case then work to improve financial capability will have a key role to play in helping people avoid financial difficulties. This could be in multiple ways and would include:

- building tangible assets such as a savings buffer or an appropriate set of insurance products like home contents insurance or life cover;
- building intangible assets such as a support network of peers to talk to about financial matters; and
- developing an understanding of when and where to seek out support from expert agencies when facing a major financial decision.

[150] Forthcoming (Money Advice Service/CACI, 2015)
[151] See the work of the Early Intervention Foundation in the UK or the Cure Violence initiative in the USA
[152] For example, see Understanding financial difficulty: exploring the opportunities for early intervention (Barclays/PFRC/Money Advice Trust, 2011)
[153] Indebted Lives (Money Advice Service, 2013); An Action Plan on Problem Debt (StepChange, 2015).

Crisis support – Debt Advice

There is compelling evidence that support in a crisis is effective. When people access debt advice – over the phone, face to face or online – they are, in the main, able to resolve their problems. When people access advice they resolve their problems more quickly and more sustainably than if they had taken action to address their difficulties alone.[154]

Debt advice can deliver good value for money,[155] although its impact in the widest possible sense – including impact on health, family relationships and long-term financial well-being – is not yet fully understood.

An example from the Courts in England is that when someone facing possession action received advice immediately prior to their hearing, the chances of that person subsequently being repossessed reduced to almost nil, whereas if no advice was given the likelihood of that person losing their home became significant.

While the causal relationship between mental ill health and problem debt is not fully understood, it is most likely to be causal in both directions but for different groups of people. There is evidence from independent evaluation of projects funded by the Money Advice Service that significant improvements in mental health are noted by clients after they have received debt advice.[156] This is supported by similar research carried out on behalf of other advice providers across the UK.[157]

A final example is drawn from qualitative research looking at a set of debt advice projects focused on people from particularly marginalised groups. This found that for clients who were experiencing domestic abuse, receiving debt advice and wider support around money management made it possible for them confidently to leave abusive relationships, leading to significant benefits both for them and their children.[158]

The central challenge around crisis support is that not enough people in serious financial difficulties seek out and access support. Research conducted the Money Advice Service found that only around 17% of over-indebted people actively seek out advice.[159] It is the strong evidence for its effectiveness combined with the low levels of people seeking advice that have informed the aim for this section of the Strategy.

The Money Advice Service will take forward its work delivering this aim and developing a broader strategy for debt advice with support from the recently convened Debt Advice Steering Group. This group includes senior representatives from the key organisations that work with over-indebted people and has been put in place following a recommendation in the recent independent review of the Money Advice Service.[160]

The Steering Group builds on an existing advisory group the Money Advice Service had in place and will be complemented by action groups to take forward work in clearly defined areas. Membership of these action groups will be drawn from the wider Debt Advice Operational Group that will report to the Debt Advice Steering Group.

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154 The effectiveness of Debt Advice (YouGov for Money Advice Service, 2012); Debt Advice Channel Strategy Research (Money Advice Trust, 2012)
155 Helping consumers to manage their money (National Audit Office, 2013); The Social Cost of Problem Debt in the UK (StepChange, 2014)
156 Debt Advice Review (Money Advice Service, 2014)
157 http://www.rcpsych.ac.uk/pdf/Debt%20and%20mental%20health%20(lit%20review%20-%2009_10_18).pdf
158 Forthcoming, Evaluation of Making Advice Work Stream 3 (TNS-BMRB for the Money Advice Service, 2015).
159 Indebted Lives: the complexities of life in debt (Money Advice Service, 2013)
160 Money Advice Service: Independent Review (HM Treasury, 2015)

Building resilience

Financial difficulties also need to be considered in the longer term. Once a problem has been addressed, either by an individual themselves or with support from an external party, it is important to reduce the likelihood of that problem or a similar one recurring.

The point of advice delivery is a critical one at which to intervene as not only are finances an extremely salient topic at the time but evidence suggests that people receiving advice will almost always follow the guidance of their adviser.[161]

This is the first point at which resilience can be supported, through helping people facing difficulties in the moment to reflect on the possibility of them recurring again and put in place strategies to minimise that likelihood.

It is also important to consider support on an ongoing basis. There will be some people who resolve their financial difficulties through a structured solution such as bankruptcy or a debt management plan and for those people there are numerous further touch points that could be used to support the development of greater resilience.

A useful resource made available by StepChange Debt Charity, for example, is an online cognitive behavioural therapy tool, which for some clients will help to resolve mental health issues that may have pre-dated their debt problem or been exacerbated by it.

Other organisations, such as Christians Against Poverty, will provide ongoing financial planning support to their clients to ensure that effective prioritisation of bills and payments is sustained long after the initial advice process.

Money Advice Service research suggests that around a third of over-indebted people who have accessed advice have done so before.[162] For some of those people returning to advice will be an important strategy to avoid a deepening debt problem and will reflect a greater awareness of the benefits of accessing advice. For others though it may indicate a recurrence of problem debt that could have been avoided if more action had been taken during the advice process or further to it in order to provide greater support, focused on the long term, to the client.

[161] The Money Advice Service 2012 and 2013.
[162] Indebted Lives: the complexities of life in debt (Money Advice Service, 2013)

Priority areas for action

Priority 1: Early intervention

The benefits of early intervention are clear; but the best manner of going about it is not. This is owing to a lack of detailed evaluation of the impact of efforts to intervene with people experiencing financial difficulties as well as the lack of a common language to talk precisely about over-indebtedness and interventions.

The Strategy aims to address these issues through an initial phase of experimental research with different types of creditors making different types of interventions with different client groups. This will be informed by analysis the Money Advice Service has conducted of existing data sets on both an attitudinal and demographic basis.

This will be complemented by work to create a shared understanding of what the key indicators of financial difficulties are at each step in the journey leading to problem debt. This will make it easier to identify consistent intervention points both within and across different creditor types and allow for transferable learning from evaluation work. This work builds on a similar exercise co-ordinated by the Money Advice Service to create an evaluation toolkit to enable consistent evaluation of crisis interventions.

When a shared understanding of key indicators has been reached, pilot activity will be taken forward collectively to test interventions designed to support people at a variety of points on the journey. These will build on the experimental research being co-ordinated by the Money Advice Service.

This work on early intervention as a whole will be supported by an action group set up under the auspices of the Debt Advice Steering Group.

Priority 2: Crisis support – Debt Advice

As noted above, the Debt Advice Steering Group has decided that its principal aim will be to significantly to increase levels of engagement with debt advice by over-indebted people. In parallel with an increase in engagement it is important to ensure that the quality of advice and its accessibility across communities continues to increase.

Making debt advice attractive and as easy to access as possible is critical. Citizens Advice, StepChange and the Money Advice Trust are working together to develop options for a smoother process of initial entry to debt advice and more effective referrals between the three charities.

Reviewing the suitability of existing solutions to problem debt, such as Debt Management Plans or Bankruptcy, is also required to ensure that what is available now is appropriate and, if not, what changes should be made. It is currently not clear that existing solutions are as effective or accessible as they might be and there may be additional solutions required to meet the full set of needs of over-indebted people. The Money Advice Service has begun research on solutions and will work with its partners across the sector to disseminate the findings and support efforts for change as appropriate. The review into Breathing Space announced by HM Treasury and the Insolvency Service[163] will also provide important input to work on creating the most appropriate suite of solutions for the whole of the UK.

Debt advisers are highly effective messengers and so identifying the most appropriate financial capability messages during the crisis support phase is critical for long-term impact. Money Advice Service projects are already beginning to integrate financial capability work into their practice and so understanding what works and subsequently embedding good practice is an important area of focus for the Strategy.

The Money Advice Service has committed to measuring the impact of debt advice in the long term and will undertake that work through a longitudinal study involving clients of its own funded projects and those of its partners.

Priority 3 Building resilience

Too many people return to debt advice having fallen back into financial difficulties. This area of the Strategy focuses on ensuring that people that have had debt advice are able to emerge in a much stronger position for the long-term than when they entered the advice process.

High-quality post-crisis support should be available for everyone across all channels and that it should be tailored to the individual and the particular solution they have received.

There is great promise in the integration of financial capability support into the insolvency process in Scotland and the Money Advice Service will work with the Accountant in Bankruptcy (AiB) on its assessment of the effectiveness of its new requirements.

The Money Advice Service is committed to working with its partners to gather evidence of what works best, be that the e-e-couch CBT programme[164] offered by StepChange, the annual review process conducted by debt management firms or financial capability buddies that people can work with after they have visited Citizens Advice.

[163] The government's response to the independent review of the Money Advice Service (HM Treasury, 2015)
[164] E-couch is linked to StepChange's Debt Remedy tool.

Action Plan

This section outlines the proposed actions to address the priorities outlined above. The Debt Advice Steering Group will further refine, prioritise and evolve the action plan which will be published and updated on the Financial Capability website.

1 Early intervention

a. The *Debt Advice Steering Group (DASG)* will set up an Early Intervention action group to co-ordinate best practice.

b. The *Money Advice Service* will facilitate 'pre-arrears' pilots with several creditor bodies including *Fife Council and Community Housing Cymru*. These pilots will test and evaluate various methods of proactive and reactive communication with people showing signs of being in financial difficulty. The pilots will be followed by replicability testing and wide dissemination of the findings through the action group.

c. Work collaboratively with creditor organisations to standardise the process and protocols for 'warm transfers' so that they are used more consistently by creditors.

d. The *Money Advice Service* and *OFGEM* will run an engagement pilot to test effectiveness of gender specific messages.

e. The *Money Advice Service* will test insight-based engagement strategies using social media.

f. The *Steering Group* will co-ordinate action across the sector to develop an over-indebtedness taxonomy to help people and organisations spot the early signs of financial difficulties.

2 Crisis support – Debt Advice

a. *Citizens Advice, StepChange Debt Charity* and the *Money Advice Trust* are working together to improve the initial point of entry into debt advice and to have more effective referrals between them.

b. Expand the scope of projects funded by the *Scottish Government* and the *Money Advice Service* that reach people who are particularly marginalised from debt advice. The learning from this work will be shared across the UK by the *DASG*.

c. The *DASG* will engage with the financial abuse work led by the *Addressing Financial Difficulties Group*.

d. The Strategy will continue to build the capacity of the sector to deliver high-quality advice across all channels to meet client demands.

e. The Strategy will co-ordinate longitudinal research to understand the effectiveness of debt advice across all channels over the medium to long term.

f. The *Money Advice Service* will commission research into the effectiveness of the existing debt solutions. This will help identify if there are any types of over-indebted people for whom the current suite of debt solutions does not work. Findings will be shared and if necessary, recommendations made for any new solutions if required.

g. Work with *StepChange Debt Charity* to learn from their research into the social return from investment in debt advice to develop an enhanced evidence base – including a full economic appraisal – to support building capacity in the sector through contributions from a more diverse group off funders.

3 Building Long-Term Resilience

a. Undertake deeper analysis of the data supplied by *Money Advice Service*-funded organisations on their repeat client rate.

b. Maximise the use of learnings from behavioural science within the debt advice process and tools, including integration of the savings element of the Standard Financial Statement into debt advice practice across the sector.

c. Work with debt management plan providers, including *PayPlan* and *StepChange*, to maximise the value of the customer annual review process and ad hoc customer contact in strengthening financial capability.

d. Work with *Grant Thornton* to integrate financial capability support into the Individual Voluntary Arrangement (IVA) journey.

e. Consider the role the County Court system might play in embedding financial education into the process that a debtor is expected to follow post hearing/court action.

f. Measure the benefits and effectiveness of statutory financial capability support as part of the insolvency process in Scotland, and use the insights gained from this to work with other organisation on its wider implementation across the UK.

g. Collaborate with financial services organisations on an approach to rehabilitating those coming out of debt with regard to repairing credit history, opening bank accounts etc.