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StepChange Debt Charity

Mixed messages

Why creditor communications to people in financial difficulty need to offer a clearer, better route to help

September 2022

Executive Summary

The FCA's Consumer Duty will require firms to consider the effectiveness of their communications in helping people achieve their financial objectives. Our research assesses the extent to which communications to consumers in financial difficulties helped people take action to resolve their debts. This report highlights people's lived experience of financial difficulties. It raises questions about the **purpose** of communications to people in financial difficulty and the **quality** of outcomes they deliver for them. These experiences should inform further steps by government, industry and regulators to improve consumer outcomes.

StepChange worked with Amplified Global to assess the role communications play in helping people resolve their financial difficulties. A survey and three small focus groups[1] provide insight into perceptions of communications from the financial services sector and debt advice providers, including StepChange and how these perceptions affect how quickly people get help and what they do afterwards.

This is part one of a two-part report. Part one focuses on communications and part two focuses on the effectiveness of StepChange's Personal Action Plan, also known as the Confirmation of Advice Letter and its further work with Amplified Global.

With the Financial Conduct Authority's final Consumer Duty rules set to raise expectations on the consumer outcomes delivered by both communications and support offered to people in financial difficulty, and HM Treasury reviewing the remaining Consumer Credit Act provisions, now is a good time to reflect of the experiences of StepChange clients to help improve outcomes in this space.

Communications from the financial services sector should play an important role in alerting consumers to their financial difficulty and helping them to take action and seek help. However, around half of StepChange clients surveyed said they had been in financial difficulty for a year or more before seeking debt advice.

[1] A survey of StepChange clients for this research was carried out in November 2021, with a total of 478 respondents (although individual questions had a lower number of respondents). Three focus groups were held in March 2022, with three StepChange clients attending each focus group.

For most people, the variety of messages and tone of communications triggered some strong negative emotions and pessimistic views on how their creditors would respond to requests for help. This appeared to hinder some people from getting the help they needed earlier. We asked clients, as part of the survey, if they thought they could have been referred to debt advice at an earlier stage; 69% responded that they could have been. Furthermore, these communications pushed some people towards harmful alternatives. People who did not find the communications they received helpful were more likely to borrow to meet payment requests.

However, the research shows that communications from the financial services sector can be effective. When written communications helped people more easily understand the options available to them and reassured them that they would help them solve their problem, people were more likely to access advice earlier. These positive outcomes are important but not widespread, with only 38% of people feeling that the communications they received helped them understand their options; and only 27.5% of people feeling it reassured them that their creditors would help them solve their problems.

Consumer credit firms' communications about financial difficulty are closely regulated. However, the role communications should play in a consumer protection framework is not grounded in a clear set of principles. Only a small proportion of survey respondents were persuaded by the communications they received to get help in a timely manner.

Main findings

Communications from lenders could be improved to encourage more people to take up debt advice earlier

- 27% of StepChange clients responding to our survey said they got debt advice within 6 months of starting to struggle with their finances, with over a half (53%) waiting over a year before seeking help
- People held off getting debt advice because they were embarrassed about seeking help, were not aware of the seriousness of their financial situation or needed more explanation about how debt advice could help them and how they could access it. StepChange clients explained how reassurance helped them overcome their embarrassment
- Communications from the financial services sector made people aware that asking for help could have consequences for their credit scores. One in five respondents said worries about their credit scores had held them back from getting advice
- Over a third of respondents said they held off seeking debt advice because they were not in a “fit state” to help themselves, suggesting high levels of vulnerability

People can be embarrassed about their debts but this can be overcome with reassurance.

People need help earlier to understand the extent of their financial difficulties and the credit data information system does not appear to be currently facilitating this. Some view credit scores as punitive and lacking nuance. People may urgently need help from debt advice when they are not yet behind on payments.

Communications from lenders can trigger strong negative emotions and misperceptions about debt recovery action that may be taken, which can be barriers to help for some consumers

- The great majority of survey respondents said that they did open creditor letters, email and texts and answered calls, at least initially
- However, nearly 90% of survey respondents said communications triggered negative emotions including fear, helplessness and being overwhelmed. People experiencing these feelings were less likely to seek debt advice earlier
- People tended to perceive creditor communications as threatening, believing their creditors would take tougher and more aggressive collection action than they went on to experience
- Only a minority of respondents felt that the communications they had received had helped them understand their options or reassured them that help was at hand. But the respondents who did say this were more likely to contact their creditors and seek debt advice earlier

Too often, people in financial difficulty do not take action on the back of creditor communications.

In some positive cases, where communications do help people to understand their options and offer reassurance that help is at hand, consumers take action earlier to get help. There are simple steps that the financial services sector can take to empower consumers and reduce potential harm which we detail in our recommendations.

Legal and regulatory language can act as barriers to seeking help

- Regulations and firms desire to de-risk increases their inclination to use legalistic language which people find challenging to read and understand
- The legal and regulatory language creditors are required to use in their communications, like default notices, can reinforce the negative feelings and sense of powerlessness that can lead people to disengage
- People respond much better to simple language that recognises the difficulty of their situation and focuses on resolving problems and helping them to feel better
- Changes in language, tone and presentation could put people at ease and increase their sense of power and propensity to take action. Language which is simple, alongside more singular messaging and a clear action plan may be more effective than current communications

The detail of language choice, tone and presentation can affect consumer understanding.

Changing the regulatory requirements is slow and cumbersome. It is time to move to a new legislative framework where communications are co-developed with people who have experienced financial difficulty, focusing on their needs to deliver the right consumer outcomes.

Communications encouraged some engagement but engagement did not always lead to help

- Survey respondents who were encouraged and able to contact all their creditors were much more likely to have sought advice within 6 months than people who ignored creditor communications. This applied to only just over one in eight respondents (13%)
- The prompt to contact creditors was the gateway to help for some, with 26% of respondents who contacted some or all of their creditors saying they had been referred to debt advice by a creditor. 16% of respondents felt they did not get help when contacting creditors
- Almost a quarter of respondents said they had responded to creditor communications by borrowing more money to deal with payment requests. Almost 40% of these were vulnerable consumers who said they had not sought debt advice earlier because they were “not in a fit state” to help themselves
- Approximately a third of respondents indicated they weren’t aware debt advice could offer any help to people like them
- Unsurprisingly people who said they were “not in a fit state” to help themselves were much more likely to say they ignored creditor communications

People who contacted creditors were more likely to report that the communications they received were easy to understand, helped them understand their options and take action to get debt advice.

However, the majority of people told us they did not find credit communications empowering. For some the perceived threatening and punitive tone eventually moved people to contact their creditors. But when they did, they believed there was no guarantee that creditors would respond positively.

People who are particularly vulnerable appear to be more likely to suffer worse outcomes than average. Organisations engaging with people in financial difficulty need to consider how well their communication and vulnerable customer strategies are aligned to address the poor outcomes for people less able to seek help by themselves.

The research found both helpful and unhelpful examples of customer support

- It was encouraging that 72% or respondents said some or all of their creditors had been helpful. However, only 18% said all their creditors had been helpful, which is important given StepChange clients have about 5 creditors on average; and 30% said some or all of their creditors had been unhelpful
- People who felt helped were more likely to have sought debt advice earlier, compared to people who experienced unhelpful practices who were more likely to have waited more than a year before seeking debt advice and were more likely to have borrowed more in response to creditor communications
- There appeared to be a relationship between how helpful the key features of written creditor communications were perceived and how helpful a respondent found their creditors
- Respondents warmly remembered pro-active contact from creditors that focused on their well-being and directed them to help. But some also told us about bad experiences where creditors had not listened to them, not offered help when they asked for it, or not recognised their specific communication or other needs

Creditors can take the following learnings from our research

- Successful engagement requires dialogue. Pro-active contact by the creditor can be a trigger to action for consumers, who may need help before they have started to miss payments
- Communications are more effective when creditors focus on helping people to resolve their situation, rather than on helping the firm resolve its default rate. Empowering people[2] is more likely to trigger consumer action in both the firms' and the consumers' interests
- Communications which recognise the highly emotional impact of problem debt on individuals and are sympathetic to their situation are more effective than those which exacerbate feelings of guilt and anxiety
- Organisations should consistently act on disclosures of vulnerability and tailor their communications to meet the needs of diverse people
- Post advice, automated creditor letters can be confusing and unnecessary leading to contact from consumers which is not required and reduces organisational efficiency

[2] As one respondent put it, feeling 'I was able to take control of situation I am in'.

Recommendations

The following recommendations are aimed at improving customer outcomes for people in financial difficulty.

Better, earlier identification of financial difficulty

This report highlighted examples of people who needed debt advice but had not missed a payment, and examples of people who had asked for help with payment difficulties from their creditors but did not receive the help they needed. We also saw a number of respondents stating they had borrowed more to meet payment demands from creditors and a high proportion of the people who said this were vulnerable customers.

We recommend:

- The FCA review the early identification rules in CONC and firms' implementation of them
- Firms improve their communications for borrowers in financial difficulty and align these more closely to the requirements of the Consumer Duty

Our findings suggests that current rules and practices for early identification of financial difficulties are not working to make consumers aware of their financial situation and start a dialogue about help before debt problems become severe.

Address the barriers to seeking help created by the credit information system

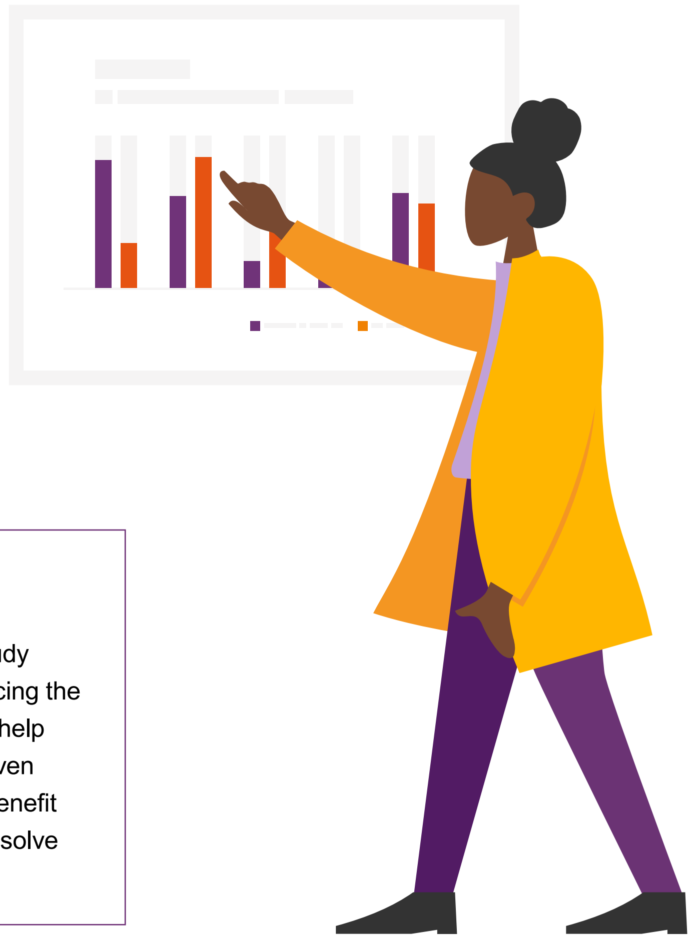
This report found evidence that people are being deterred from seeking help at every stage of financial difficulty by worries about the possible impact on their credit report. The credit information system is not spotting people with underlying financial difficulty using inappropriate coping mechanisms that lead to harm. Nor does it help creditors spot financial difficulties early enough. Its treatment of forbearance is punitive, such that consumers perceive their credit scores to be more important than getting help with their debts, even when their coping strategies to deal with financial difficulty are harmful.

The premise of data sharing is that people benefit from sharing their data. However, in this case, their data sharing does not appear to be leading to better outcomes for a large minority of customers.

The FCA's response to the covid pandemic[3] demonstrates that it is aware that worries about credit scores can stop people seeking help with their debts. This report shows credit scores to be an ongoing barrier that needs a new policy response.

We recommend:

- The FCA credit market information study addresses this barrier to help by reducing the impact on credit records of asking for help with payment difficulties, especially given the principle that consumers should benefit from their data sharing. Dialogue to resolve difficulties should be incentivised



[3] The FCA's coronavirus guidance for firms introduced payment deferrals that included a provision that 'Firms should ensure that there is no negative impact on the customer's credit file because of the payment deferral'. The reasoning was to ensure temporary financial difficulties caused by pandemic conditions should not have longer term consequences for consumers' credit files. This reassurance might partially explain the rapid and large take up of payment deferrals by consumers.

Simplify creditor communications and give people a plan of action

The FCA has been reviewing firms' approaches to borrowers in financial difficulty and is expected to report on this shortly. We expect the FCA will find examples of firms' good practice, as this report does. But the evidence presented in this report shows most firms still have more work to do to ensure people in financially difficulty get the help they need.

The implementation of the Consumer Duty should raise expectations on the way firms communicate with consumers in financial difficulty (the consumer understanding outcome) and on the support they receive as a result (customer support outcome).

We recommend that firms should:

- **Review pre-arrears and early identification policies and practices**
- **Co-design their communications with people who have lived experience of financial difficulty**
- **Simplify and improve the tone and presentation of text so people feel confident creditors can and will help them**
- **Give people a clear plan of action so people understand their options and feel confident and empowered to resolve their debts quickly**
- **Ensure when people contact their creditors, they get the help they need**
- **Personalise communications for people with specific vulnerabilities (e.g. dyslexia)**
- **Develop objective measures to evaluate the readability and effectiveness of communications for people in financial difficulty**

We also think there is value in the FCA considering firms' communications and support to consumers in financial difficulty as a key use case to test the Consumer Duty. **The FCA should work with firms, consumers and their advocates to build a work plan that details the changes the Consumer Duty will make for people in financial difficulties and reports progress against Consumer Duty outcomes.**

Support vulnerable customers through financial difficulties.

Experiencing financial difficulties makes people more vulnerable to harm. The report highlights the third of respondents who said they were not in a fit state to help themselves and the poor outcomes some of them experienced as a result. The report also cited cases where firms had not supported consumers with specific vulnerabilities in addition to the financial difficulties.

We recommend:

Firms review their strategies to communicate with and support people in financial difficulty based on the requirements of the Consumer Duty and Vulnerability Guidance. In particular they should focus on the outcome the customer achieved rather than the firm's simple compliance with the rules.

Review the Consumer Credit Act requirements on creditor communications and ensure language required by rules and legislation does not create barriers to engagement and help.

Previous work by the Money and Mental Health Policy Institute found creditor communications including content prescribed by legislation and rules can overwhelm people and lead them to disengage. This report also found the legalistic language required by legislation and the presentation of this disempowers rather than protects people in financial difficulty. We welcome the government's recent announcement of reforming the Consumer Credit Act[4], which creates the opportunity to address the problems highlighted in this report.

StepChange clients have around 5 debts on average and not all of these are FCA regulated. The issues we found with creditor communications and support to people in financial difficulty will also apply to non FCA regulated debt.

Other sector regulations, firms and public sector bodies with debt recovery functions should take note of this report's findings and consider how similar recommendations might apply in their areas.

We recommend:

- **HM Treasury should move quickly to review the CCA provisions and regulations relating to creditor communications to people in financial difficulty**
- **Regulators, lawyers and industry should undertake further testing of communications using objective measures of readability and consider the likely interpretation of messages in different contexts in their design and delivery**
- **The process of updating the CCA provisions into the FCA rulebook should include a policy review seeking views from people with experience of financial difficulty to better understand how rules on creditor communications can be better framed to meet their needs**

[4] The FCA's coronavirus guidance for firms introduced payment deferrals that included a provision that 'Firms should ensure that there is no negative impact on the customer's credit file because of the payment deferral'. The reasoning was to ensure temporary financial difficulties caused by pandemic conditions should not have longer term consequences for consumers' credit files. This reassurance might partially explain the rapid and large take up of payment deferrals by consumers.

Authors:

Peter Tutton
Head of Policy, Research and Public Affairs at StepChange

Faith Reynolds
Research and Strategy Lead, Amplified Global

For more information, visit the **StepChange Debt Charity website**.

For help and advice with problem debts call (Freephone) 0800 138 1111 Monday to Friday 8am to 8pm and Saturday 8am to 4pm, or use our **online debt advice tool.**

Get in touch:

0800 138 1111 (Freephone)

policy@stepchange.org

www.stepchange.org

@stepchange

amplifiedglobal

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