Consultation Response

Consultation on the Money Advice Service's 2016/2017 Business Plan

Comments from StepChange Debt Charity

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Introduction

StepChange Debt Charity is the UK's largest specialist not-for-profit, independent debt advice and solutions provider.

Since 2013, we have been helping around 500,000 people a year with problem debt over the phone or through our online Debt Remedy tool. The advice and support we provide is free, independent and impartial.

Context

We acknowledge the extensive efforts that the Money Advice Service has been making to match the blueprint set out by the Farnish Review. We recognise, however, that these efforts might be overtaken by the conclusions of the Government's Review of Public Financial Guidance, which may give rise to more change for MAS.

We welcome the opportunity to respond to the Consultation on the Money Advice Service's 2016/17 Business Plan and we are broadly supportive of much of its content relating to our areas of expertise - although we would welcome a stronger sense of the priority of each piece of work.

Our responses to the questions from the draft 2016/17 Business Plan are based on evidence, research, analysis and insights gained across 23 years of providing free debt advice.

In this response, we:

- Share relevant research findings which show the key groups who are in acute financial difficulty, and are vulnerable to difficulty. We describe their incomes, work lives, family structures, use of credit products, and other characteristics that might help MAS prioritise and target their work.
- Suggest that this insight points to how MAS can use their considerable resources strategically to improve reach and effectiveness in the free debt advice sector.
- Make the case for MAS to do more research to support frontline debt advice organisations. MAS has the resources and central position in the landscape to do work that no other organisation can.
- Suggest that MAS's financial capability work is tied even more closely to the prevention of problem debt, following the recommendations of the Farnish Review.
- Suggest that MAS play a more forthright role in public policy. We believe that promoting behaviour and attitude change will not always be sufficient, and that changes to society's rules and defaults will sometimes be necessary. Equally we believe policy change is necessary to reduce problem debt, which will help close the gap between the need for debt advice and the available supply.

The customer segmentation model outlined in the business plan broadly captures some of the patterns we see amongst those who come to us for help with problem debt. To help MAS understand how it can ensure all the priority groups are targeted, we outline in more detail below the latest changes we are seeing amongst our clients. One striking shift is the lower numbers we are seeing from what is described as the ‘cushioned’ segment. Overall, the amount people owe on an individual basis is lower than three years ago but these groups are finding it much harder to recover from financial distress.

In the description of the ‘struggling’ segment, it is stated that “a significant number of people in this group are skilled at household budgeting” with expenditure almost matching income. Our evidence shows that most problem debt is caused by unavoidable income shocks such as illness, job loss or reduced hours, relationship breakdown and bereavement and that budgeting skills alone would not have been enough to prevent problem debt.

Awareness raising drives that are at risk of implying that frivolous or excessive spending is the main cause of problem debt could appear as judgemental and put people off from seeking help around problem debt. More than seven in 10 people in problem debt experienced an income shock in the past year. When people use credit to keep up after an income shock, they are 20 times more likely to end up in severe problem debt than those who don’t use credit.

We commissioned analysis of the Wealth and Assets Survey to explore the behavioral barriers to saving. Our analysis found that, not surprisingly, the key driver for families not saving was a low income, with a minority (between 8% and 13%) displaying financial behaviors that do not prioritise the long term financial advantages associated with saving.

We would welcome greater take up of some of the recommendations expressed the Farnish Review. For example, we would like to see a focus on how increasing financial capability could address the prevention of problem debt and increase the likelihood and ability to save, especially amongst lower income groups. We would like to see a focus on how activity could address what we call the three key pillars of tackling problem debt:

(i) How to reduce the risk of debt;
(ii) How to make debt less stressful to live with;
(iii) How to enable recovery to happen more quickly and durably.

The three-year Corporate Strategy for the Money Advice Service

Q1: Do you have any comments on the types of customers we propose to target our efforts towards, as set out in our three-year Corporate Strategy?

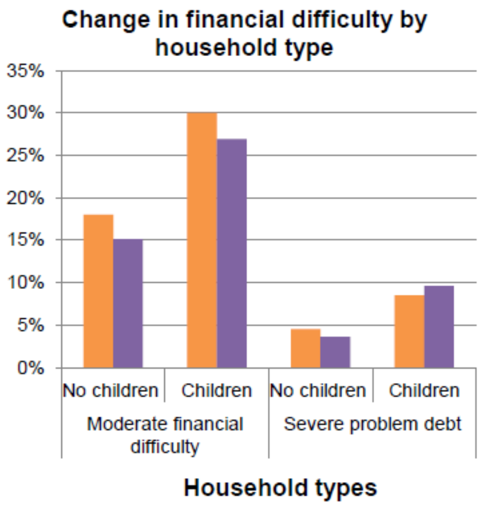
We welcome the focus on helping people who are already in severe financial difficulty as the paramount aim of MAS’s debt advice work and the aim to reduce the impact of severe financial problems on adults, children and young people.

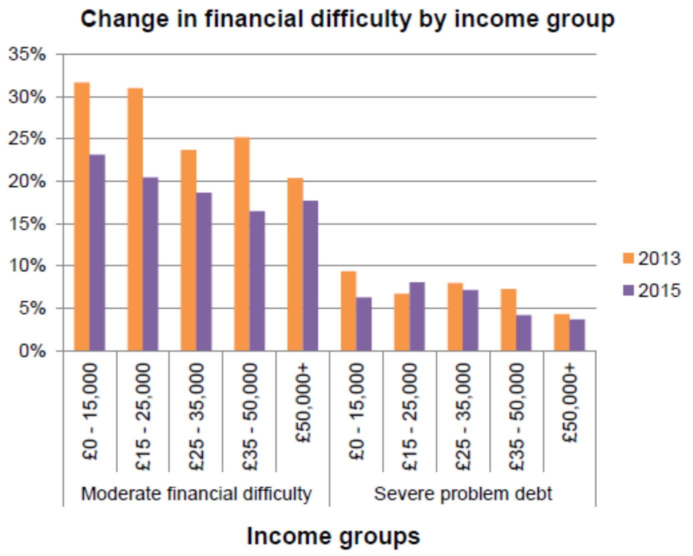
As our recent research *Navigating the New Normal*[1] outlines, the groups currently most likely to be at risk of severe debt problems and who should therefore be the top priority in MAS's debt advice focus.

The number of people in severe problem debt stands at 2.6 million in 2015, with 8.8 million in moderate financial difficulty. Yet only 1.7 million people seek out free debt advice. As stated elsewhere, addressing this significant gap needs to be a top priority.

Despite a steady economic recovery and low headline unemployment, 2.6 million people are in severe problem debt and 8.8 million people are in moderate financial difficulty. Income shocks are tipping millions of people into problem debt because they don't have safety nets they can rely on.

The charts below (taken from the same report) show that families with children are significantly more likely to be in moderate financial difficulty or severe problem debt than those without. Almost one in 10 families with children are now in severe problem debt – more than twice the proportion of those without children. There has been a worrying 16% increase in the number of families with children in severe problem debt since 2013. Low and middle income families in work are disproportionately likely to be in severe problem debt. People on middle incomes are now second most likely to be in severe problem debt, followed by those on the lowest incomes.



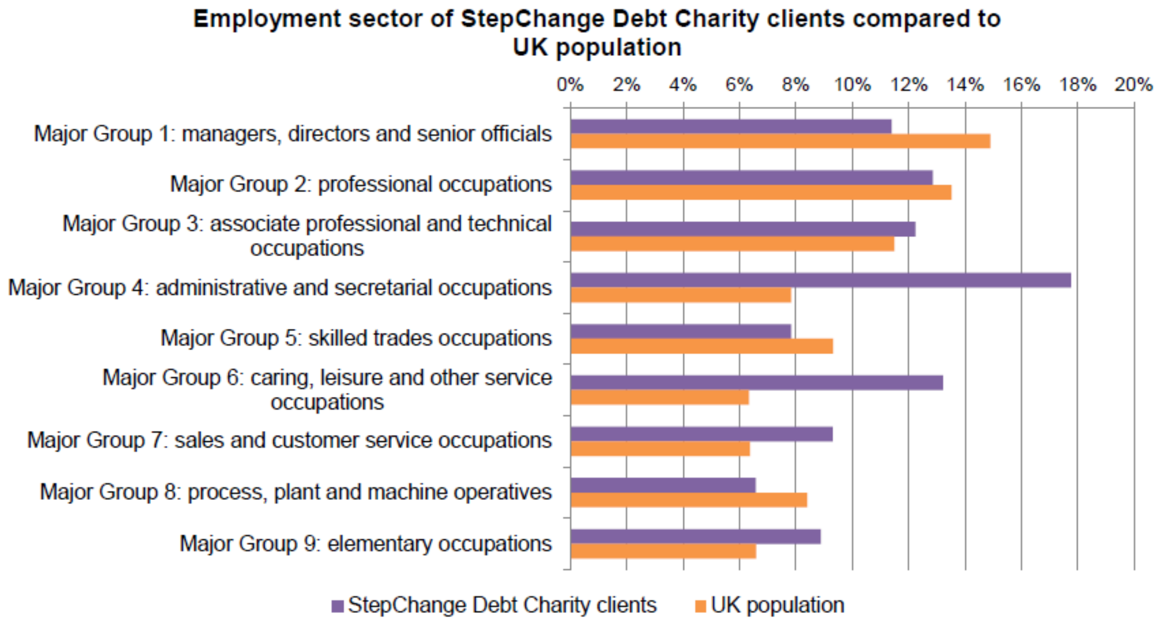


Problem debt is a working-age issue. People in their late 20s and 30s are almost twice as likely to be in severe problem debt as under -25s. Nevertheless, under -25s have seen the least improvement in their circumstances. 40–59 year olds are the second most likely age group to be in severe problem debt.

[1] StepChange Debt Charity, 2015 *Navigating the New Normal: Why working families fall into problem debt and how we need to respond*

Problem debt is an in-work issue as well as an out of work issue. People who are unemployed are most likely to be in severe problem debt. But there have been increases in the proportion of people in full and part time work who are in severe problem debt. 1.7 million people in full or part time work are now in severe problem debt.

Analysis of StepChange Debt Charity clients' jobs suggests they are also more likely to work in sectors noted for persistently low pay, poor pay progression, and a higher proportion of workers in insecure roles.



People are more likely to fall into moderate financial difficulty after using credit to keep up with reductions or variations in their income, but this increases their vulnerability to problem debt after another income shock.

Using high cost credit (payday loans, guarantor loans, pawn shops and home-collected credit) as part of a coping strategy tips the greatest proportion of people into financial difficulty, but a high proportion of all those who relied on overdrafts and credit cards as part of their coping strategy also fell into financial difficulty.

In addition, evidence from our client base shows that the following people are contacting us in greater numbers and are disproportionately likely to seek advice:

- Single parents: now represent close to one in five (18.3%) of those advised by the charity compared to 16% in 2013
- Those living in rented accommodation: almost three-quarters (71.4%) of our clients in 2014 lived in rented accommodation, compared to 61% in 2013

Recent joint work with Experian revealed that big cities were most likely to feature on the list of places with the most debt problems.

People in insecure work were twice as likely to experience an income shock. Almost 750,000 people work a zero hour contract as their main job, and there are 1.26 million people in part time jobs and 565,000 people in temporary jobs who would have preferred a full time or permanent job. These numbers are not significantly down on their mid-recession levels.

Meanwhile, years of below inflation wage rises have left people with little spare income to cope with shocks and changes or to put aside savings for a rainy day.

Where people used credit to try to keep up after an income shock, they were 20 times more likely to end up in severe problem debt than those who don't use credit. In the last 12 months, 14 million people in Britain experienced at least one income shock; 4.5 million people experienced two or more.[2]

People who fall into severe problem debt after an income shock are likely to see a long term drop in their income and security, making it harder to pay back their debts, and leaving them at greater risk of further shocks to their income. People who experienced multiple income shocks in a year were three times more likely to fall into severe problem debt than those who experienced a single income shock.

We hope that MAS will be able to use the insights above on who is in severe financial difficulty to inform how to shape their activity. We hope our insights on who is in difficulty and vulnerable to difficulty will, alongside MAS's own work on the propensities of different groups to take advice and their channel preferences, help MAS to:

- Carefully design and target services that they fund;
- Design interventions to engage the right groups with the benefits of free debt advice;
- Prioritise their research programme.

We look forward to seeing interventions that successfully engage people, using trusted intermediaries such as employers, along with other established routes such as creditors.

The draft business plan acknowledges the imperfect and fragmentary nature of existing financial and wider safety nets that can help some people deal with income shocks. Some of our clients relied on the welfare safety net or their own savings, rather than resorting to credit to keep up with essential costs. But many clients – particularly those who only claimed out of work benefits – found that welfare wasn't sufficient to meet their costs after a large drop in their income. Only one in 10 people believe that the welfare payments they would be eligible for would be sufficient to cover their essential bills.[3]

[2] StepChange Debt Charity, 2015 *Navigating the New Normal: Why working families fall into problem debt and how we need to respond*

[3] Taken from a YouGov online survey commissioned by StepChange Debt Charity

It will be vital to ensure that the above mentioned groups we have described in our recent research adequately feature in the targeting of any debt advice drive that MAS delivers as it executes its plans.

Q2: Do our six aims cover the right areas for the three-year Corporate Strategy period, and do they set the right level of ambition for the Money Advice Service?

There is much that we would like to support in the stated aims, though it would be helpful to have a better sense of the priority of each piece of work and ones which, realistically, will be achieved.

Aim 1: Succeeding through partnerships

We agree about the vital importance of effective partnerships to help drive through these ambitious aims. We would welcome any approach that has clear and realistic priorities and that rationalises initiatives, committees and working groups to ensure they are time and cost-effective and not demanding too many resources to take part in. A truly collaborative, open approach that recognises the expertise, knowledge and the potential to contribute of each partner will help create a common understanding of the problems and how they could be most effectively addressed.

One idea for consideration would be to explore how stakeholders could be kept closely up to date with work streams relevant to them but in which they do not have time to participate. Perhaps an option to see papers with the opportunity to comment could be introduced, or online work stream forums created.

Agreeing how to measure the success of such partnership work will be an important part of executing the plan.

While we acknowledge the three ‘behavioral domains’ identified in the UK strategy are important areas on which to focus, it is vital to note the limits of this approach and that an exclusively behavioral approach will not work. MAS needs to consider how their extensive behavioral work could address what we have outlined above as the three key pillars of tackling problem debt. Could encouraging a more precautionary response around savings help reduce the numbers of those falling into problem debt? We know from historic examples how much resource and effort it can take to try and alter attitudes. To make a big difference, the environment, rules or defaults need to be changed. For example, after years of initiatives to encourage pension savings, auto-enrolment is finally making a difference. It is not aiming to change behavior. It achieves the desired outcome through statutory obligations placed on the employer to automatically enroll eligible workers into a pension scheme.

As our evidence demonstrates, most problem debt is triggered by life events that are beyond control such as job loss, reduced working hours, ill health, relationship breakdown or bereavement. It needs to be understood that behavior is driven by circumstance and the more constrained or stressful the circumstance, the less rational people can become. Orthodox behavioral theory needs to be adapted to take account of the constraints that people in financial difficulty face. The context changes priorities and leads to different choices (e.g. the preference for an expensive payday loan over free debt advice or door step borrowing over seeking welfare support). Such insights need to be applied to the MAS work programme in a very disciplined and consistent way to help increase the likelihood of securing improvement in this area.

Aim 2: Earlier and wider access to debt advice

The UK faces a major debt advice gap. An estimated 8.6m people are in financial difficulty, with 2.6m in severe problem debt according to our recent research[4]. Yet, in spite of the availability and proven effectiveness of debt advice, only 1.7m people are currently seeking it out. We also note that most of our clients have waited at least a year before contacting us. So we welcome the acknowledged need to increase capacity for earlier and wider access to debt advice to address the major mismatch between need, availability and timeliness. The MAS commitment to funding for an additional 55,000 people to receive debt advice from partners is a step in the right direction. However, with such a significant shortfall between the need and availability of debt advice, we question the 2016/17 plan for a level budget in this area. The funding base and central position of MAS in the debt advice landscape place it in a uniquely powerful position to identify what works best. With its responsibility for the coordination of publically funded free to client debt advice, we would expect MAS to be making the powerful, cost-effective case for an increase in Government funding of free debt advice. The Government's current review of how the public provision of free to client, impartial financial guidance, including consumer debt advice services, should be structured represents a prime opportunity to make the case and to present the compelling evidence.

Beyond efforts to reduce the human anguish that problem debt can cause, investing in capacity for earlier and wider access to debt advice would also decrease costs to the UK economy elsewhere. The cost of lost jobs and productivity, relationships breaking down, people losing their home and relying more on support services amounts to a UK bill of **£8.3 billion**[5].

We welcome the take up of recommendation A7 of the Farnish Review to combine offline money guidance and debt advice, both by improving early intervention and by building people's financial capability during and after the receipt of debt advice and we look forward to hearing more about how this will be done in order to ensure its effectiveness.

We believe that central and local government should do more to support free debt advice, reflecting their role as a creditor in giving rise to problem debt, and the benefits which accrue to them from helping people via debt advice. In addition, the Government could adopt policies which would reduce the incidence and impact of

[4] StepChange Debt Charity, 2015 *Navigating the New Normal: Why working families fall into problem debt and how we need to respond*
[5] StepChange Debt Charity, 2014. *Cutting the cost of problem debt*

problem debt, and so reduce the need for advice. We would particularly like to express appreciation for support from MAS for our ‘breathing space’ policy proposal following its response to the Farnish Review.

We would like to see MAS consider how else their plan might progress such work beyond helping to directly fund debt advice for 55,000 extra people through partners.

As previously stated elsewhere, we believe a statutory body must focus on addressing the “advice gap” in debt advice, complementing and supporting the provision of appropriately regulated debt advice and ensuring the most effective and efficient use of any levy funding it controls.

Aim 3: More people budgeting and saving

Helping people most at risk from income shocks to improve how they might manage their money is a welcome goal. However, it needs to be understood that income shocks can often make a descent into problem debt completely inevitable, regardless of skill level. As the MAS segmentation work indicates, a significant number of people in the ‘struggling’ group are skilled at household budgeting. It might be that bigger returns could be made from encouraging saving directly than from encouraging budgeting per se.

Research from StepChange Debt Charity shows that savings of just £1,000 could protect 500,000 households from falling into problem debt. Around 13 million Britons do not have the savings to keep up with their essential bills for a month if their income dropped by a quarter.

The pensions auto-enrolment framework helped address the retirement savings crisis by making it easier and more appealing to save. We are proposing that the Government should use this system to help low-income households build up precautionary savings that could help insulate them from problem debt. We would like to see a clear commitment to this policy proposal form part of the policy influencing work that MAS alludes to in its draft plan. Trying to change behaviour by encouraging “rational” choices is unlikely to work with people whose choices and priorities are dictated by financial difficulties. Indeed, there is a risk that such messages could be perceived as irrelevant or patronising, which might turn these groups off other messages from MAS. It would be useful to see any evaluation of the impact of MAS’s consumer PR work. Does it cause people to seek MAS’s advice? Which segments respond? Do the messages change behaviour?

Aim 4: Improving access to guidance and advice

Making general money guidance and advice accessible and available is vital to enable people to acquire the skills and confidence to move towards long term financial resilience. Money guidance supports resilience and helps people avoid problem debt when it focuses on:

- Appropriate budgeting;
- Saving;

- Prudent borrowing;
- Seeking advice quickly when things start to go wrong; and
- Acting on advice to resolve a debt situation.

For example, our research shows that an average family with £1,000 in accessible cash savings is 44% less likely to fall into problem debt than a family without savings.

Aim 5: Working with financial services

We welcome the MAS commitment to make data and insights into consumer behavior more readily available to partnering organisations. While we welcome in principle the MAS intention "to work in partnership with the financial services industry, regulators and policymakers to generate more 'win-win' situations", we remain somewhat concerned about some aspects of this work.

For example, we remain concerned about duplication with the FCA in terms of the debt advice sector and urge MAS to work with partners to allay these concerns.

MAS and the FCA need to put forward a strategy for how all the quality standards, accreditation systems and initiatives fit together, ensuring there is no overlap.

Aim 6: Widening and improving financial education

It is possible to appreciate the long-term benefits of the final aim and it will be important to incorporate into this work (along with all other activity) an awareness of the impact of language, approach and tone used. While trying to influence behavioral patterns is important, in itself, such activity cannot prevent all types of problem debt. Most problem debt is triggered by an income shock such as job loss, reduced hours, illness, relationship breakdown or bereavement. Financial education is valuable work and it remains important to ensure messaging is adequately refined to reduce the risk of judgemental attitudes towards those who may find themselves in problem debt. This is also likely to enable and encourage wider engagement. Using the opportunity to help children and young people understand the importance of de-stigmatising problem debt could also help future generations to seek out help earlier.

Q3: Given the intent and scope of our aims, what are your comments on the activities and priorities we have set out in each chapter covering our programme of work against each aim for April 2016–March 2017?

There is much in the draft plan that we would support and welcome. We are particularly pleased to see the work on:

- The social return on debt advice which will update our research from 2014;
- The impact of macroeconomic factors on levels of over-indebtedness; and
- The effect of debt advice over time on over-indebted individuals.

Measuring our impact

Q4: Do you agree that the performance indicators we have identified effectively capture the intended impact of the Service's work?

As indicated above, the ultimate measure of success as "the financial behavior of millions of people" does not take into account the fact that most problem debt is caused by income shocks beyond the control of affected individuals. Work needs to be targeted at specific changes, and encompass campaigns to alter society's rules and defaults through policy, regulation and legislation where such changes are the most effective way to bring about lasting impact.

Q5: Are there any other ways we could measure our effectiveness?

An additional performance indicator might be shaped around the ability to exert influence on policymakers, regulators and others to adopt measures that reduce the likelihood or adverse impacts of problem debt, as well as to help people to recover.

Furthermore, we would welcome some resource being put into encouraging better understanding of the facts and a move towards the destigmatising of problem debt with shifts in public understanding and attitudes annually measured. Reducing stigma around problem debt could remove one of the barriers towards people seeking out help early on before their financial problems worsen and risk becoming intractable. An extra way of measuring effectiveness would be to capture levels of awareness amongst the public about the availability of free debt advice.

Our service in the devolved countries

Q6: Do our plans understand and reflect the distinctive financial capability needs in the devolved countries of the United Kingdom?

We welcome the effective partnership work taking place in Scotland. It will be vital to acknowledge and address the changing impact of the significant cuts to local government-funded debt advice in Scotland, which has been the primary source of free debt advice for many years. We are already seeing a significant increase in the number of clients in Scotland seeking our services.

Questions about the plan overall

Q7: Do you think the Business Plan sets the right direction for the Service over the period 2016–2019 and specifically 2016/17?

We do not have any comment in response to this question at this time.

Q8: Is there anything missing from the Business Plan? Are there any specific solutions, partners or techniques that you would expect us to make use of, in relation to the financial capability challenges we aim to tackle?

One additional consideration could be to explore the idea of dedicating some resource for an annual “index on debt” measure to fully capture and highlight the latest trends and enable the development of ways to address issues as they emerge.

Another piece of work that might help to underpin other activity would be to explore the effectiveness and impact of some of the MAS PR drives and to capture the effect on people in extreme financial difficulty.

Q9: What are the key risks and issues you would expect us to address as we deliver the plan?

We would expect to see clearly addressed the risk of aiming to do too much with limited resources or lack of clarity around levels of priority for each piece of work.

Q10: Is the plan clear and easy to understand? If not, please indicate sections that you think should be made clearer.

We do not have any comment in response to this question at this time.