Speech by Mike O'Connor, chief executive, StepChange Debt Charity to NEA conference, September 17th 2014

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1. StepChange Debt Charity is the UK's largest specialist debt advice and debt solutions charity with 1,200 staff responding to over a thousand requests for help every day on our phone and online services.

2. The nature of the debt problems has changed out of all recognition since the recession of 2008.

- The good news, is that people owe less money – unsecured debts are falling.
- The bad news is the make-up of that debt. More and more clients are in debt not because of some large purchases, but because they falling behind on essential living costs – the proportion of clients with arrears in their council tax has increased from 10 percent in 2009 to 25 percent in 2013. The proportion of clients with arrears on gas and electricity has doubled from 6 percent to 12 percent while the average amount owed has increased by 31 percent to £1005 over the same period.

So the nut is smaller but it is harder to crack

And we believe the people we see only represent the tip of the iceberg. Our research report *Life on the Edge* shows that a substantial proportion of households are just keeping their heads above water, struggling to make ends meet and without sufficient resilience to deal with financial shocks and stresses that happen to all of us. Whilst we all hope to benefit from the fruits of economic growth, it will not take much of a financial shock, and interest rate rises are on their way, to tip more people over the edge.

3. Our survey of British family finances at the end of last year showed that some 15 million people are already showing signs of financial difficulty, 13 million wouldn't have enough savings to keep up with their essentials bills for a month if their income

dropped by a quarter, and 16 million would consider using unsecured credit to keep up with essentials.

Some groups are closer to the edge than others: families with children, 25 – 39 year olds and private renters are more likely than average to be struggling.

4. There is no mystery about why households are struggling. A combination of stagnating wages and rising living costs has seriously undermined household finances. These trends are well documented: e.g. according to the Resolution Foundation low and middle incomes have not moved in real terms in 10 years while the National Audit Office finds that energy bills have increased by 44 percent in real terms between 2002 and 2011, private rents are now higher than mortgage costs and have risen faster too. Valuation Office Agency statistics show that rents rose by an average of £300 in 2012.

5. Our research, as well as the everyday experiences of our clients shows that there is a clear correlation between the rising cost of essentials such as energy, housing and childcare costs and signs of financial difficulty, particularly falling behind on essential bills or using credit to pay those bills. Hardly surprising then, that as people struggle to make ends meet, they are tempted to turn to the sources of credit that remain open to them: including payday lenders. When people take out 'distress' credit like payday loans, it is often at high cost, damaging and likely to tip people into problem debt.

6. But unsustainable payday loans are a symptom of the problem people are facing, although they can make the situation worse. Many people turn to them because they think that they have no choice, or it looks like the easier choice, particularly when hit by the unexpected.

Some people think that people in debt have themselves to blame – too many people living beyond their means. Of course there are some people who do foolish things and face the consequences, but our experience is that income shocks or major life events are the main causes of debt.

Losing your job, having your hours reduced, illness, separation/divorce can hit any of us. If you are financially vulnerable, if you have no savings, you are horribly exposed.

7. At the moment, too many of our fellow citizens do not have the flexibility in their household budgets to cope with a drop in their income. According to our research, only one in three people believe they could cut back sufficiently to meet the cost of essential bills if they faced a 25 percent drop in their income for whatever reason. Their incomes are already stretched to the maximum.

8. Nor is it likely that will have savings or insurance to fall back on: some seven million people (15 percent) do not have the savings or insurance to last a week if their income were to drop by a quarter; twenty million people (41 percent) do not have the savings to cover a three month drop in their income – the rule of thumb used in the financial planning industry.

9. Given that many of these people are likely to comprise families, low to middle income households, and those in insecure work, might they be eligible for welfare support? Overall belief that the welfare state would bail them out at times of financial necessity is low, with only one in 10 people confident they would be eligible for enough benefits to cover their essential costs if their income dropped by a quarter.

10. This belief appears to be largely justified: for example a household with two children earning £26,000 (the national average) whose income dropped by a quarter, £125 per week gross, would only see their state support increase by £55 a week through increased tax credits. If you are living on the edge, you may struggle.

Moreover, any changes in support may take some time to process – a claim for Job Seeker's Allowance would be paid after 38 days, including a seven day period for which benefits are not available at all. Crucially, this pushes receipt of benefits beyond the next payday. More than a quarter of people do not have enough savings to keep up with their essential costs for that length of time. In the meantime, you are contacted by a payday lender able to offer a way out. And this does happen- a recent survey among our own clients showed that about a third of them are being bombarded with unsolicited marketing calls offering payday loans. And 15 percent of them went on to take out a loan averaging £1,000.

11. In summary, many households are using credit, not to spread the cost of purchases, but to bridge the gap between income and essential living costs. The use of credit as a safety net has become the norm for too many. As a result over-

indebtedness and all its attendant miseries for a substantial number of households is inevitable. Bad debt carries high societal as well as financial costs: it is a brake on people's capacity to work or to return to work, a brake on aspiration and a brake on potential. It leads to mental health problems and family and relationship breakdowns.

Earlier this week, Bank of England said that the high household debt levels could be one of the main reasons the 2008 financial crash became the longest and deepest recession since the 19th century.

Society cannot afford to ignore this problem.

12. Now is the time to ensure that all households are in a position to benefit from the economic recovery by ensuring the policies are in place to help households onto a more sustainable footing and to break the reliance on credit as a safety net. Building financial resilience in households will take time. We offer a range of suggestions in *Life in the Edge*, such as ways of improving savings, cutting living costs particularly for less well-off families, boosting take home pay and better ways to borrow.

13. This cannot be the work of one government department, or one regulator, or one type of lender or one piece of welfare reform: rather it needs to be a concerted effort over time between public and private sectors with a senior member of the government responsible for co-ordinating the response across a wide range of different sectors – financial services, landlords, local authorities, utilities to name a few.

14. There are many important areas to be addressed but if I had to pick one which I believe to be the most pressing, it is the need to put in place a better safety net than we have at present and to break the reliance on credit to get through to the end of the month or deal with an immediate crisis. Before we can do anything to start building financial resilience in our households, we need a means of offering struggling households time to recover, a breathing space if you like, although I am not completely happy with that term as it has been used in the past to encourage lenders not to bother customers in default for 30 days or something similar. What I am talking about is something on an altogether different scale: **a safety net promise.**

15. When a person in financial difficulties takes personal responsibility for their debt problem, engages with creditors, seeks debt advice and makes the debt repayments they can afford, creditors should provide a period of breathing space, where interest and charges stop accruing and collection and enforcement action stop. There should be a reward for people who are trying to help themselves. The "helpers" should include providers of essential services such as utilities as well as financial lenders.

The key components of a breathing space period would be:

- Suspension of collection and enforcement activity by creditors
- Freezing of further interest and charges
- Free to client advice

16. The challenge for the wider safety net is to simplify the support that's available across all essential services to a coherent guarantee of help. There is currently significant variation across sectors and organisations. Representatives of energy companies are here today and I applaud the efforts some are making but more could be done. As I am sure you are all aware, energy companies are required to help people with their arrears and to agree affordable repayment plans. But there are no specific obligations to offer breathing space, token payments or longer term payment schemes. Indeed, in a recent survey, one third of clients said that when they asked their utility companies for help, they were not given any – six out of ten of these took out more credit because they did not get any help.

17. Across the board, a better, wider safety net needs to bridge the gap between policy and practice: most creditors and essential service providers have policies to help people in difficulty, yet 62 percent of our clients reported that half or fewer of their creditors treated them well before they sought debt advice.

Even if people were minded to seek support, insights from behavioural economics tell us that the lack of a simple, cross-service offer of support makes it hard for the concept of help from essential service providers to catch on.

- Some organisations offer a complex range of support options that would simply be overwhelming for people in financial distress.

- Some organisations offer welcome flexibility on payments, but only to certain groups of customers, and sometimes for too limited a period.

18. Other parts of the debt advice sector are highly supportive of this initiative. I hope that the people in this room will be equally interested and supportive. Certainly your support is fundamental to its success.

19. It is my belief that if we can get a good safety net in place, it will be a huge step forward in encouraging more people to come forward earlier to seek the help they need. As I said at the start of my speech, seeking debt advice is often an act of desperation: if we can catch people before they become too embroiled it is better for them and it is better for creditors as they are likely to get back more money in the long run.

20. Raising awareness of the need to seek free debt advice earlier is one of our key priorities as a charity. I would be grateful to all of you here today to spread the news that StepChange Debt Charity is here to help, on the phone on 0800 138 1111 or online at www.stepchange.org. Next week, we are launching a campaign stressing the link between sleeplessness and money worries with the aim of making people more sensitive to the need to seek debt advice – and I know that some of you are partnering with us to raise awareness of the issue among your customers. Last time I heard we had over 300 organisations supporting this campaign.

Our vision is a society free of problem debt. It's a tough ask but it will be easier if we decide that it is something we can do and if we all work together.

Thank you.