Working collaboratively with debt advice agencies

A strategic toolkit for creditors

July 2017

Contents

Acknowledgements

The Money Advice Service would like to acknowledge and thank all organisations and individuals that have contributed to the development of this toolkit. This resource was written by Kevin Shaw, Sector Engagement Manager, with the support of Craig Simmons, Sector Coordination Manager, Gill Sermon, Design Executive, creditors, debt advice agencies, trade bodies and others represented in our Debt Advice Operational Group (DAOG).

Particular thanks go to those organisations that provided case studies which has helped bring this resource to life.

Executive Summary

On a human level, good creditor practice can relieve stress and anxiety for people in arrears, whilst also having clear and tangible benefits for the creditor. Done poorly, however, it can disrupt further the customer's financial circumstances, lead to disengagement and damage the creditor's reputation. There can be no doubt of the impact of creditor practices on the experiences of those with problem debt and crucially on the steps they take to resolve the issue.

Debt advice agencies have told us that there is a vast spectrum of creditor behaviours and this is having a detrimental impact on the advice they provide and the clients they serve. Some creditors have also told us that the impact of inconsistent practices is to undermine the strategies they have in place. To facilitate progress in this area, we collaborated intensively with debt advice agencies, creditors of many types and trade associations to share insights and expertise around good practice.

This toolkit is flexible enough to fit different types of creditors and it recognises throughout the varied commercial considerations organisations will have. Whilst many say standards are highest in the financial services sector, due to regulation and long standing relations with debt advice agencies, we believe the toolkit will have value for all creditors, including local and central government and new and emerging lenders. As an example, we believe creditors such as challenger banks and digital lenders, that may be in the early stages of developing their debt collection policies and strategies, will find it particularly useful. We hope many will consider committing publicly to following this good practice.

Specifically, in this toolkit, we present best practice processes and case studies from creditors that have effective partnerships in place with the debt advice sector. These make it clear that good practice can, and does, also deliver good business outcomes. Creditors working in partnership with debt advice agencies tend to achieve fairer customer outcomes, better customer engagement and sustainable repayments.
The conclusion from our joint working suggests seven steps to improved collaboration with debt advice agencies and better support of customers in financial difficulty.

The seven steps are:

1. **Debt advice interventions –** creditors should track the benefits debt advice brings to customers as well as but also their ability to collect arrears payments.
2. **Customer affordability –** creditors should apply the Standard Financial Statement (SFS) spending guidelines or equivalent industry guidance when agreeing affordable repayments.
3. **Debt advice referral strategies –** Use this toolkit to review all customer channels and help appropriate customers to easily access independent debt advice.
4. **Creditor oversight of referral partners –** Creditors want to have oversight of what happens to customers post debt advice referral. Use this toolkit to agree an approach with debt advice referral partners.
5. **Engagement & partnerships –** Creditors have day-to-day contact with debt advice agencies. We provide guidance on getting the most from the relationship.
6. **Target specific customer cohorts for debt advice intervention –** We share some examples and case studies of innovative partnership working with debt advice agencies.
7. **Align to the Money Advice Service 'supportive creditor standards' –** We have summarised the difference between 'Minimum standards', 'Good practice support' and 'Going above and beyond'.

More broadly, it is our goal that this will be the first step of many to encourage more consistent and progressive creditor practice, both in processes and at a cultural level. Indeed, our Debt Advice Steering Group, made up of senior level representatives from debt advice and creditors, has stated more consistent and progressive creditor practice as one of its key priorities, ensuring the topic will be high profile for many linked to the sector.

The toolkit will be updated periodically as practices and technology improve. Moving forward the Money Advice Service will also use this publication as a template to produce other 'toolkits' for specific creditor types.

Last but certainly not least, let me put on record our thanks to the many organisations who have contributed to this work. It simply couldn't have been achieved without their valuable input.

A number have shared openly their strategies and the tangible impact these have on their operations, which genuinely bring this toolkit to life. Please do get in touch with me or my colleagues if you would like to discuss further any of the topics touched on in the toolkit.

Sheila Wheeler
UK Debt Advice Director
Money Advice Service

Introduction

Our stakeholders have told us that many creditors have effective strategies in place to support customers who are experiencing financial difficulty, which include long-established partnerships with independent debt advice agencies.

However, some creditors are 'out of step' with this supportive approach. They have limited regard to what customers can afford to pay and have poor or non-existent relationships with independent debt advice agencies.

Our independent Debt Advice Steering Group (DASG) has given the Money Advice Service an objective to lead a cross sector action group to influence more consistent creditor support for the over-indebted. The objective was also to build on the excellent work of the Future of Debt Management (FODM) working group which was led by Nationwide Building Society. The principles of good debt management from the FODM group can be found in Appendix B.

This resource articulates examples of 'broad good practice when creditors have touchpoints with debt advice agencies' when customers declare financial hardship or an affordability problem when they fall into arrears.

This resource also informs progressive or emerging creditors that want to implement supportive debt collections strategies whilst recognising their need to collect debt and monies owed.

The case studies in this resource provide evidence that creditors that work collaboratively with the debt advice sector create positive and tangible outcomes, both for customers and for creditors themselves.

There is something in this resource for everyone. Customers and debt advisers want to see fair debt collection practices from all types of creditors. But we have also articulated for creditors that debt advice partnerships are not only the right thing to do – but those partnerships can also produce organisational benefits and improve debt collection performance – for example through more sustainable repayment arrangements. This resource captures those cross-sector conversations, and our case studies show how a partnership approach creates better outcomes for both creditors and consumers.

Principles of consistent creditor support

Customers in financial difficulty

Recognition of the need to be treated fairly by all types of creditors during periods of financial difficulty.

Debt advice agencies

Confidence that all creditors are 'operating by the same rules.'

Creditors

Recognition of commercial drivers and the need to collect debt or monies owed.

The ability to measure whether they are:

- Working to minimum standards
- Delivering good practice support
- Going beyond good practice support, with targeted approach.

Background

For many years, independent debt advice agencies have campaigned for more consistent creditor practices when people fall into financial difficulty. Those campaigns have been based on the feedback and experiences of clients they have supported and helped with problem debts.

The Citizens Advice 2015 paper *The State of Debt Collection – the case for fairness in government debt collection practice* reports the following:[1]

- *"The public sector is mostly out of step with financial services and utility companies in that it does not have an open or consistent approach to assessing affordability."*
- *"Partnership working between (advice) agencies and local authorities is widespread but not universal."*
- *"Public bodies have an inflexible attitude to people who need time to take advice or make payments."*

For context, the Citizens Advice report draws on client and adviser experiences of debts owed to all types of creditors – and focuses on the debt problems that are most raised by their advisers as more difficult to deal with – which includes Council Tax arrears, tax credits overpayments and benefit overpayments.

StepChange Debt Charity also report that some creditors and debt collectors use practices that cause further harm to those in problem debt.[2] They include recommendations such as:

- *"Local and central government should commit to binding good practice standards that prioritise supporting households to financial recovery."*
- *"There should be a new focus on ensuring that debt recovery practices and policies have affordable and sustainable repayments at their heart."*
- *"People who seek advice for debt problems should be given a period of six months to a year of 'Breathing Space', in which interest and charges are frozen and enforcement action is halted. This would allow time to recover finances and commit to affordable repayments."*

The charity state that 42% of their surveyed clients experienced creditors asking for payments that they could not afford. StepChange Debt Charity also asked their client base how fairly they felt they had been treated, with bailiffs and local authorities coming out worst.

Finally, the Money Advice Trust (the charity which runs National Debtline and Business Debtline) has called for local authorities to reduce their use of bailiffs – now known as enforcement agents. The charity claims that more than half of councils are using bailiffs 'even more than before' to collect unpaid debts.[3]

1. Citizens Advice (2015) – *The State of Debt Collection – the case for fairness in government debt collection* citizensadvice.org.uk/about-us/policy/policy-research-topics/debt-and-money-policy-research/the-state-of-debt-collection/
2. StepChange Debt Charity (2016) – *What's making debt problems worse* stepchange.org/policy-and-research/creditor-and-debt-collector-conduct.aspx
3. Money Advice Trust (2015) – *Stop the knock* stoptheknock.org/

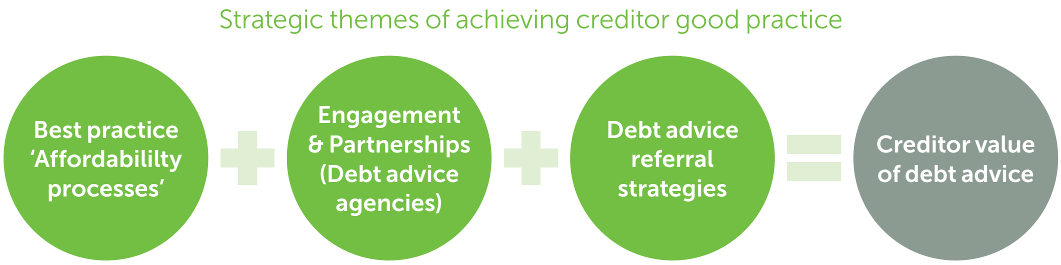
It is not the purpose of this resource to campaign for creditors to reduce their use of bailiffs or otherwise tell them how to collect debts. In some cases, enforcement activity can work for creditors and customers – for example a bailiff home visit may be the first opportunity the creditor has to identify customer vulnerability. That said, we hope to support creditors with this suite of options which may inform a more supportive internal collections strategy, therefore reducing the need for any enforcement activity, including bailiffs.

This resource will also inform the collections strategies of creditor suppliers such as enforcement agents and help resolve the situation at contact centre stage, therefore reducing the need for home visits.

We have identified three strategic themes from debt advice agency campaigns, where creditors could work more collaboratively with the debt advice sector to support their customers. We recognise that many creditors do have supportive strategies in place – therefore we have brought the debt advice sector and various creditor types together to debate and capture best practice. The three strategic themes are as follows:

- **Creditor assessment of affordability during times of financial hardship**
- **Creditor engagement and partnerships with the debt advice sector**
- **Creditor referral strategies to sources of independent debt advice**

Figure 1 – summarising the three strategic themes:



Our stakeholders have also told us of the importance of articulating the value to creditors of debt advice interventions. Throughout this resource we have captured creditor case studies which demonstrate the value of a more supportive approach.

We also quickly recognised that having 'best practice' debates will inevitably throw up grey areas or opportunities to further improve the relationship between the two sectors. Consequently, this guide also includes several recommendations further to improve the relationship between creditors and the debt advice sector.

The Debt Advice Landscape

Creditors and customers find the debt advice sector difficult to navigate. Perhaps this is due to nuances between debt advice agencies services, resources and available customer access channels.

In this section, we have summarised the complex nature of the debt advice process and some of the of the potential client outcomes or debt solutions.

What is Debt Advice?

The Debt Advice Handbook (Child Poverty Action Group 2010)[4] describes debt advice as a series of tools and strategies used to help clients by:

- enabling them to maximise their income;
- explaining the implications of non-payment of each debt and on this basis deciding which are priorities;
- assisting them to plan their budgets;
- helping them choose a strategy (usually to reduce or stop payments) that will minimise the effects debt has on their financial, social or medical wellbeing by giving them impartial, independent and confidential advice that enables them to make an informed choice about the options available to them;
- preserving their home and fuel supplies;
- providing advice or representation with the implementation of whatever strategy is chosen.
- In addition, some advice services also facilitate the administration of debt repayment by receiving payments from their clients and then distributing those to creditors; referred to as debt management plans (DMPs).

In addition, debt advice agencies facilitate a referral to partner organisations that provide other, statutory debt solutions. Examples of these are:

England, Wales and Northern Ireland

- Bankruptcy
- Individual Voluntary Agreement (IVA)
- Debt Relief Order (DRO)

Scotland

- Sequestration
- Trust Deed
- Debt Arrangement Scheme (DAS)
- Minimal Asset Process (MAP) Bankruptcy

4. shop.cpag.org.uk/

The UK Debt Advice Sector

The independent debt advice sector contains many different types of not-for-profit and commercial debt advice agencies.

Not-for-profit agencies

These organisations provide the public with advice on debt and money as well as a range of subjects including housing, health, work, benefits, and immigration.

Examples are:

- the public sector (e.g. local authority internal money advice teams)
- housing associations (internal money advice teams)
- the larger charitable organisations, such as Citizens Advice, Citizens Advice Scotland, Citizens Advice Northern Ireland and Shelter
- Money Advice Trust (the charity that runs national debt advice agencies National Debtline and Business Debtline)
- smaller independent organisations (usually charities) many of which are represented by the Advice UK membership body

Creditor 'Fair Share' funded

These specialist debt advice agencies offer free debt counselling and a range of informal and statutory debt solutions.

They also provide free, managed Debt Management Plans (DMPs) and cover some, or all of their costs via optional 'Fair Share' donations from creditor organisations to whom they disburse repayments.

- StepChange Debt Charity (a charity), funded almost entirely from creditor donations
- Christians Against Poverty (a charity), who are partially funded by 'Fair Share' but mainly from donations from individuals and churches
- Payplan – (a commercial organisation) which covers its costs of facilitating free Debt Management Plans (DMPs) from creditor 'Fair Share' funding

Commercial debt advice agencies

These companies provide debt counselling and act on behalf of clients to help them clear their debts. They do this by negotiating with creditors to facilitate repayment of debts. In return for their services they are paid a fee by their clients. Examples are:

- Firms that are members of the Debt Management Standards Association (DEMSA)
- Firms that are members of the Debt Resolution Forum (DRF)
- Other, larger commercial debt advice agencies such as Gregory Pennington (part of Think Money Group) or Harrington Brooks (part of One Advice Group)
- Insolvency Practitioners that provide debt solutions such as IVAs

Debt Advice Interventions – the value to creditors

Those creditors that take a collaborative approach with debt advice agencies have told us that they recognise their obligations to have supportive debt collection processes which includes signposting appropriate customers to sources of independent debt advice.

They have told us that closer engagement with debt advice agencies has led to many tangible benefits to the creditor itself, closely linked to positive debt advice outcomes for their customers.

The following case study describes the customer and creditor benefits that British Gas found from their relationship with StepChange Debt Charity.

CASE STUDY

British Gas, StepChange Debt Charity and Experian

Measuring the impact of free debt advice in the utility sector

The following research was commissioned to measure the effectiveness of the British Gas and StepChange Debt Charity relationship, and the value of offering free debt advice as part of the collection process.

Background

In 2016, British Gas commissioned Experian to conduct analysis of the British Gas and StepChange Debt Charity databases with the following brief:

To provide insight into whether or not consumers are aided to better manage their arrears because of an existing relationship with StepChange Debt Charity, regardless of whether or not a British Gas debt was within StepChange Debt Charities remit.

- The purpose of the research was to measure the effectiveness of the British Gas and StepChange Debt Charity relationship, and the value of offering free debt advice as part of the collection process.

Methodology

Experian analysed the impact on payment performance of British Gas customers who were also StepChange Debt Charity clients versus British Gas customers with a similar risk profile over a six-month period.

This was achieved through British Gas contributing to the Experian payment performance data sharing scheme, which enabled Experian to have a holistic overview of how the different customer profiles paid for their energy alongside their wider financial commitments.

This allowed Experian to analyse and compare how both customer profiles managed their energy arrears and current consumption.

Key findings

The research showed that StepChange Debt Charity helps British Gas customers to better manage their British Gas arrears. The key findings were:

- The debt recover rate improved by **22%** for those clients advised by StepChange Debt Charity.
- **97%** of StepChange clients remained up to date after seeking advice.
- StepChange Debt Charity clients are **less likely** to go into arrears on their British Gas account and, when they do, will owe less.
- British Gas customers are **more likely** to recover after entering arrears and catch up with their payments if they have a current relationship with StepChange Debt Charity.
- Of those that do fall into arrears, **fewer** will severely deteriorate if they are supported by StepChange Debt Charity.
- StepChange Debt Charity is more successful in helping those customers who are struggling financially.

The research findings validated the importance of British Gas relationship with StepChange Debt Charity and can be used by British Gas in targeting the most appropriate people to refer to StepChange Debt Charity going forwards.

Debt prioritisation

Customers that seek independent debt advice will receive impartial advice on the correct order to repay their debts. Debt advice agencies always advise clients to repay priority debts first because there are serious consequences of non-payment. Examples of priority debts are:

- Mortgage repayments and loans secured on a home
- Rent
- Council Tax owed to local authority
- Taxes owed to central government
- Benefit overpayments owed to central government
- Gas and electricity debts
- Certain payments ordered by the courts
- Child support and maintenance

A debt adviser will always advise that repayments to priority creditors, including additional payments to repay the arrears, should come before repayments to non-priority debts. This is because failure to pay non-priority debts is usually less serious than failing to pay a priority debt. Examples of non-priority debts are:

- Credit card debts
- Some hire purchase agreements (HP)
- Unsecured loans or and payday loans (loans that are not secured against a property)
- Catalogue bills
- Loans from friends or family

The benefits of debt prioritisation to priority creditors

Priority creditors that refer appropriate customers to a debt advice agency can be reassured that payments to their loans or monies owed will be prioritised ahead of commitments to non-priority creditors. Debt advice agencies tell us it is acceptable to agree a reasonable repayment arrangement towards priority arrears before referring the customer to debt advice. A debt adviser will endeavor to include a 'priority arrears arrangement' in the customer's budget, if the income is available for repayment.

Where customers have multiple priority debts

Creditors should also refer customers with multiple priority debts to impartial debt advice agencies. Generally, priority debts cannot be included in a Debt Management Plan(DMP) so a skilled debt adviser can support their client to decide which debts should be dealt with first and find strategies for repayment. The debt adviser will also discuss the range of options available and the possible consequences of non-payment.

Benefits of debt advice to non-priority creditors

Many 'non-priority' creditors have also recognised that collaborating with debt advice agencies should be an essential element of their debt collection strategies. They acknowledge that referring customers to debt advice agencies will result in regulated debt counselling, which means priority creditors should be repaid first. But they also know that what payments they do receive, will be more sustainable and that customers seeking debt advice will rehabilitate their finances much quicker.

Arrow Global, the debt purchaser and manager, has kindly shared their approach:

CASE STUDY Arrow Global

The creditor value of debt advice

Recognising that every customer's situation is different, Arrow Global supports customers in financial difficulty by referring them to a wide range of free debt advice providers. These referrals include signposting and funding to StepChange Debt Charity, PayPlan, Citizens Advice and Christians Against Poverty.

Arrow Global takes a multichannel approach, so that customers can be made aware of their debt advice choices at every stage: via our letters, emails and SMS messages, during calls with our people, and via our customer website and portal.

The results are clear: customers taking advice are more likely to have multiple debts and larger overall balances, but they are still able to start rehabilitating their finances more quickly than those not taking advice:

- Over the first six months of 2016, customers who had taken debt advice were on average able to make payments **20% higher** than those in similar circumstances who had not sought advice.
- Arrangements to pay were less likely to be broken, with only 8% of first monthly payments failing, and only **4%** of payments missed in months 2-6. This provides good evidence of the sustainability of debt advice solutions.
- Due to multiple debts, the length of payment plans are often longer for those who have taken debt advice, in fact it can take more than two years longer to settle on average, but **the payments are more sustainable**

As Arrow, have discovered, creditors that trust debt advice agency support have found that customer disposable income available for creditors is assessed holistically, objectively and impartially. This means that customer repayments to all creditors are more likely to 'stick'.

Collaborative creditors also report the following tangible benefits which are summarised in Figure 2:

- **Income maximisation** – customers receive advice and support to realise their full welfare and tax credit entitlement potentially meaning more money to repay debts. In addition, some customers can find access to schemes and grants as result of correct benefit entitlement being in place.
- **Reduced debt collection costs** – Reduced collections telephone calls, letters, text messages or home visits chasing broken repayment arrangements.
- **Reduced enforcement costs** – More sustainable payment arrangements mean fewer broken repayment arrangements, which saves litigation or enforcement costs that are often passed on to the customer.

- **Resource savings** – Less debt collection activity requires a lower volume of collections staff, who can be redeployed in other areas of the business.
- **Reputational gains** – Creditors who collaborate with the debt advice industry, and support affordable repayments to arrears, achieve a reputation as a responsible creditor and one that customers are more likely to engage with.
- **Customer engagement** – Increased customer engagement is the key to every successful business. It is particularly important during times of financial difficulty, but also vital to future growth and potential product sales.
- **Customer loyalty** – Customers who are well treated are more likely to make payments, be repeat buyers and contribute to sales of additional products and services.

*Figure 2 – Summarising the creditor value of debt prioritisation**

*These benefits are not exhaustive.

To support this model, Wessex Water have shared their partnership approach with debt advice agencies and the positive impact advice interventions have had on arrears repayments and customer engagement.

CASE STUDY

Wessex Water

How debt advice interventions have generated sustainable repayments and customer engagement

Wessex Water are supporting around 27,000 customers on low incomes through their tailored assistance programme '**tap**'. This programme offers customers a wide range of schemes and low-rate tariffs to help them afford their ongoing water charges and repay their debt along with practical help to reduce water and energy bills.

Water companies differ from financial services providers as they do not have contracts with their customers and they are unable to disconnect the water supply for non-payment. Wessex Water also find that customers in water arrears are very likely to have multiple debts with multiple creditors.

Therefore, Wessex Water have developed partnerships with debt advice agencies to assess affordability during times of customer financial hardship. Customers in financial difficulty are warm transferred or sign-posted to independent debt advice agencies. The debt advice agencies will provide customers with impartial and independent advice, income maximisation, produce a financial budget and refer to Wessex Water with a sustainable offer of payment.

Wessex Water provides debt advice agencies with a dedicated number for their financial hardship team.

Wessex Water introduced its debt repayment scheme, '**Restart**', in 2004. The scheme helps the customer back on track, into a regular payment habit going forward, and can be combined with a low-rate tariff for ongoing charges.

Wessex Water are currently supporting 12,000 customers in water debt through its '**Restart**' scheme but has helped many more over the past 13 years.

- If the customer makes regular payments in Year 1, Wessex Water match the amount in a debt write-off.
- In Year 2, if the customer maintains payment, Wessex Water will write off the remainder of the debt.
- Customers are then water-debt-free and continue to pay their ongoing charges.

Wessex have found that 90% of customers that complete the '**Restart**' scheme have gone on to maintain up-to-date payments of their regular water usage.

Measuring the creditor benefits of debt advice interventions

As mentioned previously, we recognise that creditors have obligations to collect monies or arrears owed. This could be to shareholders, members or perhaps tax payers. To satisfy stakeholders there are a several straight-forward ways to measure creditor benefits of debt advice interventions. Some recognised measures include:

- Tracking the sustainability of arrears repayment arrangements post debt advice referral
- Tracking the sustainability of arrears repayment arrangements post implementation of a debt solution, such as a Debt Management Plan (DMP)
- Measuring the volumes of payments (in Pounds) that are disbursed to creditors via Debt Management Plans (DMP)
- Talk to debt advice referral partners about producing creditor specific customer case studies
- Roll rates – The percentage of customers that 'positively roll' following a debt advice referral. e.g. they roll from 60 days' arrears to 30 days' arrears after seeking debt advice
- Customer surveys of customers that have experienced the advice process – (this may also derive feedback on the creditor itself)
- Volumes of 'non-paying customers' that become 'regular payers' post debt advice referral.

Customer Affordability

Customers in financial hardship are frequently referred by creditors to sources of independent debt advice. Some customers contact debt advice agencies directly themselves. In simple terms the debt advice agency will then support their 'client' to identify what debts are outstanding and perform an affordability assessment to determine what the customer can afford to repay. This is done by preparing a detailed financial statement setting out the customer's income and expenditure (I&E).

The financial statement may then go on to propose a debt solution such as a Debt Management Plan (DMP) or an Individual Voluntary Arrangement (IVA) (Scotland has its own debt solutions – examples are the Trust Deed or the Debt Arrangement Scheme (DAS)).

The Standard Financial Statement (SFS) – a consistent approach to assessing household affordability

When debt advice agencies assess income and expenditure, there are multiple versions of affordability assessments in place, although the Common Financial Statement (CFS) and StepChange Debt Charity guidelines are generally considered to be industry best practice.

This is changing in 2017-2018 with the launch of the new Standard Financial Statement (SFS) which is delivering, for the first time, a universal financial statement together with a single set of spending guidelines.

This initiative – led by the Money Advice Service, but developed in partnership with advice providers, creditors, trade associations and others – will bring greater consistency to the debt advice process, and a smoother transition through the experience for consumers, advisers and creditors (Figure 3 summarises the SFS at a glance).

The SFS launched on 1 March 2017. Many debt advice agencies have already switched to SFS, with all debt advice agencies expected to be using the tool by April 2018. This will mean the decommissioning of CFS and StepChange Debt Charity guidelines leaving one set of industry guidelines – The Standard Financial Statement (SFS).

As the SFS becomes 'operationalised'

The SFS will be used by debt advice providers and will also be embedded into creditor debt collection processes, policy and procedures. We encourage creditors to switch all types of income and expenditure forms (I&Es) used within debt collection processes to the categories used by the SFS – and to apply the appropriate spending guidelines when assessing customer affordability. Many creditors typically use I&Es:

- In collections contact centres to negotiate payment arrangements with arrears customers.
- On creditor websites. Customers can 'self-serve' by completing an I&E and making a payment offer towards their arrears.
- As attachments to debt collection letters. Customers can complete an I&E and return to the creditor making a payment offer.

The SFS will be used and recognised by all types of creditors including FCA- regulated consumer credit lenders, but also central and local government creditors, utilities, and creditor suppliers such as enforcement agents.

We will release a set of SFS spending guidelines annually, which cover flexible household spending categories.

Creditors can register to use the SFS via sfs.moneyadviceservice.org.uk

Figure 3 – The Standard Financial Statement (SFS) at a glance

A single format financial statement for use by advice agencies and creditors which is replacing the other existing formats in use

A single set of common fixed and flexible expenditure categories

One set of spending guidelines (or trigger figures)

A savings category to build financial resilience

Developed in collaboration with debt advice agencies, creditors, trade bodies and other

What does the SFS mean for creditors?

Creditors have already started receiving SFS payment proposals from 1 March 2017 when many debt advice agencies began using the tool. Others are following over the course of 2017-2018 and lenders will see a transitional period where they will receive payment proposals assessed via SFS, CFS and StepChange Debt Charity guidelines.

We estimate that CFS and StepChange Debt Charity guidelines will be decommissioned from April 2018. Until then creditors should continue to provide full support for financial statements using CFS/StepChange Debt Charity guidelines.

There are two phases of change for creditors in relation to SFS. First, we encourage all creditors to support the principle of SFS and recognise that SFS financial statements have been prepared by a skilled debt adviser from a debt advice agency generally regulated by the Financial Conduct Authority (FCA).

Also, for creditors to acknowledge that the SFS statement may show the client to be in financial hardship and to show the appropriate level of forbearance.

Secondly, we know that many creditors and their suppliers use their own version of an income and expenditure statement in contact centres as part of the debt collection process. By suppliers, we mean any third party that supports the creditor debt collection process – some examples are:

- Debt collection agencies (DCAs)
- Enforcement agents
- Legal service providers (LSPs)
- Field agents

The Money Advice Service is calling for all creditors and their suppliers to commit to amending internal case management software to include use of the SFS. This will reduce the risk of discrepancy between a customer's affordability assessment with their creditor and a financial statement prepared by a debt advice agency.

The SFS spending guidelines are derived from the Office of National Statistics (ONS) and provides guidance on what is reasonable household expenditure for individuals or families experiencing financial difficulty. Crucially, this should avoid situations where a creditor (or a collections contact centre agent) makes decisions on what is reasonable or unreasonable spending.

All creditor case management software should be updated with the SFS spending categories and trigger figures. We have also produced an optional SFS Microsoft Excel tool which is available on sfs.moneyadviceservice.org.uk

Use of the Standard Financial Statement (SFS) is not limited to the financial services sector. Several local authorities have committed to switching all forms of income and expenditure forms to that of the SFS. Blackpool Council are a good example of a progressive local authority that have experienced high numbers of broken payment arrangements for Council Tax arrears and see SFS as the answer to more sustainable repayments. Its approach is described in the case study below:

CASE STUDY

Blackpool Council

Case study on the implementation of the Standard Financial Statement (SFS)

Blackpool Council, a unitary local authority in North West England, have a long-term approach to 'fair debt collection' including partnerships with internal and external sources of debt advice.

Like many seaside towns Blackpool has some areas of significant deprivation where some residents manage on seasonal or low pay and welfare support. In 2013, Council Tax benefit was abolished and replaced by The Council Tax reduction scheme meaning approximately 10,000 of Blackpool's low income residents were asked to pay 27.11% of Council Tax for the first time. In addition, Blackpool also has a higher than national average of residents claiming Employment Support Allowance (ESA) meaning they are not well enough to work. Seasonal pay does not lend itself to direct debit, so only approximately 52% of residents pay Council Tax this way.

Resident affordability

Where residents find themselves in financial difficulty, Blackpool Council Tax Recovery Section negotiate payment arrangements to repay Council Tax arrears – yet they found that a high volume of all payment arrangements failed due to affordability reasons, generating further collections or enforcement activity. The Council Tax Recovery Section does discuss income & expenditure with residents, but felt ill-equipped to make decisions on what was reasonable household expenditure.

Use of Standard Financial Statement (SFS)

So, Blackpool have now implemented the new Standard Financial Statement (SFS) not only within their in-house advice team but also their Council Tax Recovery Section. The SFS is the new industry standard financial statement for assessing household affordability during times of financial difficulty.

- Telephone: Residents making low payment offers, or who indicate that they are experiencing financial difficulties, will be asked to complete an SFS financial statement with Council Tax Recovery. Blackpool will agree to payment arrangements that run beyond the current Council Tax year if they are likely to be more sustainable
- Online: Residents can complete an SFS financial statement on the council's website and then make a payment offer. There is a paper version of the SFS which may be posted to customers who are not on-line.
- In-house advice; Blackpool council have an internal money advice team which also use the SFS financial statement for debt counselling. The SFS is transferable and is sent electronically to the Council Tax Recovery Section for consistency.

Blackpool has implemented SFS on the Council Tax and Business Rate Recovery Section and the in-house Advice Team. Later in 2017, the aim is to roll out SFS to other services within the Council. The Council is currently tracking the impact that SFS has on recovery rates and sustainable payment arrangements.

The SFS savings category

The SFS includes a savings category, recognising the benefits of building additional financial resilience for debt advice clients. The savings allowance is designed to encourage savings behaviour and to increase the chances of sustainable repayments during debt solutions and creditor payment arrangements.

Many debt advice clients will not have the necessary disposable income to save. The savings category is optional and reliant on the recommendation of the debt adviser. Savings are limited to 10% of monthly disposable income, capped at £20 per calendar month.

We do not expect creditors to provide customers with advice on savings provision when assessing affordability as part of debt collections processes. However, creditors should give the customer the option to use the savings category if disposable income allows.

Further information on SFS

Lenders requiring support with process changes should contact the Money Advice Service via sfs.support@moneyadviceservice.org.uk

SFS website

The standalone SFS website with secure login offers information, including:

- the SFS format;
- an Excel tool;
- spending guidelines;
- guidance for advisers; and
- general info and FAQs.

Creditor handling of financial statements - good practice

Creditors should:

- **Automatically accept financial statements from debt advice agencies that have authorisation from the Financial Conduct Authority (FCA).** By 'automatically accept' we mean that creditors should acknowledge that a qualified debt adviser from a regulated debt advice agency has assessed what the customer can afford to repay. At this point the creditor should NOT attempt to negotiate an increased payment from their customer, but accept this as an accurate representation of the client's situation. Where a payment is proposed, this should be accepted.
- **Consider freezing litigation or enforcement action –** By accepting an affordable repayment arrangement creditors are acknowledging what the customer can reasonably afford to repay and should not make further, excessive demands.
- **It is not necessary to review every financial statement in full from debt advice agencies with FCA authorisation.** The internal resource costs may be considerably greater than the payment uplifts achieved. As above we suggest auto-accepting and sample checking for training issues. By sample check we mean ensuring that financial statements fit the spending guidelines of CFS, StepChange Debt Charity or SFS. We suggest a sample check of 5% by a creditors person or team responsible for Quality Assurance.
- **Consider reviewing financial statements from debt advice agencies that do not have full authorisation from the FCA.** The creditor should check to ensure that the financial statement fits the household spending guidelines of CFS, StepChange Debt Charity guidelines or the Standard Financial Statement (SFS). Creditors can check if a debt advice agency has full FCA authorisation via register.fca.org.uk/

- **Review financial statements if the income and expenditure detail provides opportunity to provide internal forbearance support**. Examples of this could be lower tariffs (utilities) or interest forgiveness on a loan (financial services).
- **Some creditor oversight of financial statements is useful to identify and feedback recurring customer or training issues.** Recurring issues or trends should be escalated via the creditor's 'Debt Advice Liaison Manager' or the operational person that manages the broader external relationship with debt advice agencies.
- **Consider holding call calibration workshops with debt advice referral partners.** This can be useful to better understand how debt advice agencies apply spending guidelines in debt counselling appointments. This engagement opportunity can involve front-line Collection Agents, Managers, Quality Assurance, the Debt Advice Liaison Manager and others.
- **Accept payment proposals inclosing a financial statement from customers who 'self-help'.** It is increasingly common for customers to use a debt advice agency's online budgeting tools which will incorporate validation of reasonable household expenditure. It is appropriate to review 100% of 'self-help' cases to ensure they meet CFS/StepChange Debt Charity/SFS guidelines. Customers who provide a 'do-it-yourself budget' that exceeds CFS/StepChange Debt Charity/SFS guidelines may be referred to sources of debt advice via the Money Advice Service debt advice locator: moneyadviceservice.org.uk/debt-advice-locator.
- **Support SFS financial statements that include a monthly savings or contingency amount.** Acknowledge that in doing so the customer is being encouraged to take steps towards being more financially resilient. Also, that a contingency fund could support more sustainable arrears payment arrangements for the creditor.
- **Register to become a Standard Financial Statement (SFS) user.** This is can be done via sfs.moneyadviceservice.org.uk. Any organisation wishing to adopt the SFS can complete an online application which will also include agreeing to a Code of Conduct outlining best practice usage of the SFS. Once registered, creditors can access approved formats, user guidance, spending guidelines, an Excel tool, links to eLearning material and FAQs
- **Ensure that a clear internal policy is in place articulating how financial statements from debt advice agencies should be handled** and when it is appropriate to query with the debt advice agency.

Where a Debt Management Plan(DMP) is proposed - good practice

When debt advice agencies send a financial statement they may also propose a Debt Management Plan (DMP) which is an informal 'managed' debt solution. A DMP involves the agency aggregating the balances of the customer's unsecured debts and proposing a reduced payment to each creditor involved. The agency will then disburse the proposed payment to each creditor on behalf of the client – usually monthly. Debt advice agencies use an affordability assessment to determine what the customer can afford to pay towards their debts.

In this section, we have articulated good practice creditor standards in the handling and administration of DMP payment proposals. In doing so we have used some aspects of the creditor standards that were proposed in the Debt Management Plan Protocol (DMP Protocol) which was endorsed by the Money Advice Service in 2013.

Creditors should:

- **Extend an initial breathing space of 30 days, upon receipt of evidence that a client is engaged in a Debt Management Plan with an FCA-regulated debt advice agency**[5] – creditors should consider an extension of a further 30 days, where demonstrable progress is being made in the implementation of the DMP. 'Breathing space' means the suspension of all collections activity relating to debts included in the DMP.
- **Provide all requested information relating to relevant debts to the debt advice agency within 10 working days of receipt of request** – with the customer's informed consent.
- **Provide account balance information to the debt advice agency within 10 days of receipt of the request**.
- **Accept DMP proposals from debt advice agencies that are fully regulated by the Financial Conduct Authority (FCA), and confirm this in writing to the debt advice agency within 10 days of receipt of the proposal**.
- **Freeze interest and charges on the affected customer debts and consider the cessation of ongoing enforcement or litigation**.

Creditor efficiencies by using debt advice agencies web portals

Many of the larger debt advice agencies have online creditor web portals which are used to exchange information with creditors without the need for postal delays and associated costs.

Communication benefits

Creditor web portals can be useful to electronically exchange communications such as

- Debt Management Plan proposals (DMPs) enclosing copies of the customer financial statement
- Customer changes of circumstances during the duration of the DMP
- The annual review of a DMP, advising of any changes to repayment amounts
- Miscellaneous information requests from the debt advice agency such as checking current arrears balances or contractual payments required.
- Visibility of essential documentation such as 'signed letters of customer consent'.

Opportunities for creditor efficiencies.

Access to creditor online portals is usually free, with minimal set-up costs and may derive the following benefits:

- Ability to view status of 'tasks' relating to DMPs
- Reporting opportunities
- Ability to message debt advice agency 'out of hours'
- Performance management – as may report on staff usage

Creditors should speak to the larger debt advice agencies about receiving access to their creditor web portal.

5. This section relates to Debt Management Plans but creditors should apply breathing space of 30 days from collections activity as soon as they are made aware that a client is engaged with a debt advice agency.

Creditor use of income and expenditure forms (I&Es)

Many creditors also use income and expenditure forms internally, at various touchpoints with customers in financial difficulty. This could be in collections contact centres, websites or they may enclose an I&E with collections letters for completion.

An income and expenditure form or financial statement is often completed with the customer by a collections contact centre agent. This process is particularly prevalent in the financial services sector. A financial statement is generally completed with the customer to determine the disposable income available to repay the arrears owed to the creditor. This is not a regulated advice conversation, but rather an information-gathering exercise for negotiating the terms of an arrears payment arrangement.

The I&E completed is usually embedded into the creditor's arrears case management software and may be based on CFS, StepChange Debt Charity spending guidelines or a creditor's own version. As mentioned previously, from 1 March 2017, creditors have started to align with debt advice agencies by switching all forms of I&Es to the Standard Financial Statement (SFS).

The Money Advice Service is not necessarily saying that all creditors should begin using I&Es internally, as some creditors quite effectively trust debt advice agencies with this process. That said, the use of I&Es, (done correctly using industry guidelines on spending) can have measurable benefits in negotiating sustainable payment arrangements with customers.

Computershare Loan Services, a mortgage service provider, have taken this approach with one of their clients, UK Asset Resolution (UKAR) – the company set up by government to manage the nationalised mortgage books of NRAM,Bradford & Bingley and Mortgage Express.

Computershare use an internal affordability assessment based on StepChange Debt Charity and CFS spending guidelines to negotiate payment arrangements with arrears customers. The following case study describes their approach, and how it complements a very effective referral strategy into debt advice agencies.

CASE STUDY

Computershare Loan Services (CLS)

A consistent approach to affordability

Computershare Loan Services (CLS), a solutions and services provider, use a multi-channel approach to engaging customers with advice on behalf of their creditor clients; using telephone, letter and digital referrals.

Customer-facing staff are trained to identify when and how to signpost customers to free and impartial debt advice providers and there is a robust quality assurance process in place to ensure the correct processes and procedures are being followed. With the customer's consent, staff can warm transfer them across to an independent third-party debt advice partner. CLS know this increases the likelihood of cases going through to a full affordability assessment, with tailored debt solutions. Some providers can share information with them which illustrates the outcome of the referrals at account level. This is important so that CLS can measure results and feedback to staff so they can understand the impact their referral has had.

In addition to their approach to engaging customers with debt advice, CLS use internal affordability assessments to understand customer circumstances and help achieve the most appropriate outcomes, on behalf of their clients. Their affordability assessment incorporates the household expenditure guidelines of the Common Financial Statement (CFS) and StepChange Debt Charity. CLS have found that investing additional time in customer affordability assessments has led to more sustainable payment arrangements and reduced repeat calls.

This complementary approach ensures decisions around forbearance options are better informed.

The results achieved by one of their clients, UKAR (the holding company for NRAM, Bradford & Bingley and Mortgage Express) evidence how this strategy has been successful.

Since UKAR's formation in 2010, the number of customers three or more months in arrears (including possessions) has reduced by **86%**. More than **23,000** customers have been referred to free and impartial Debt Advice and approximately **48,000** successful arrangements have been completed, with the number of those being maintained increasing from **50%** to **80%** (figures at 30 September 2016).

Customer Income and Expenditure fatigue

However, the completion of income and expenditure forms / financial statements by creditors does have its disadvantages. On average, people in financial hardship are likely to have debts owing to six different creditors. This could mean that customers are expected to complete an income and expenditure form multiple times. Naturally, every creditor that uses this process does so, to determine what can be repaid to its own arrears. The problem with this process is that some creditors are more demanding than others which can put unnecessary pressure on the customer to pay more than they can afford. Therefore, completing income and expenditure forms haphazardly may jeopardise existing payment arrangements with other creditors, and is unlikely to be sustainable.

Some customers will become tired of completing multiple I&Es. So, a situation can be created where the customer becomes aware of spending guidelines and what they 'can spend', rather than 'what they do spend'. Again, this means that the I&E is unlikely to reflect the customer's true spending habits and result in conflicting and unstainable payment arrangements with multiple creditors.

Some major creditors have taken an alternative approach in 'multiple creditor, multiple arrears situations' and have chosen to trust in the expertise of the debt advice sector. The bank HSBC identifies customers in a multiple arrears, multiple creditor situation and immediately offers a warm transfer to a trusted debt advice partner. The bank takes the view that its debt advice partner is better placed to provide holistic debt counselling on the customer's whole situation and trusts that a sustainable repayment plan will be proposed towards its arrears.

Creditor use of income and expenditure forms – good practice

Creditors should:

- **Convert all existing income and expenditure forms used in collections contact centres to the Standard Financial Statement (SFS).** This will align creditor budget sheets used by creditors to those used by the debt advice sector and provide consistency when assessing what disposable income the customer has available to repay his / her debts.
- **Ensure that income and expenditure forms attached to collections letters, websites, and any 'in house' digital tools for financial difficulties customers, are aligned to the Standard Financial Statement (SFS)**.
- **Creditors should contractually insist that all suppliers relating to debt collection convert any forms of income and expenditure to that of the Standard Financial Statement (SFS)**. Examples of suppliers are legal service providers (LSPs), field agents, debt collection agencies (DCAs) and enforcement agents. We think that enforcement agents can convert I&Es used in their contact centres to SFS, but recognise that completing a full budget in a customer's home may not be practical.
- **Provide the customer with a printed or portable copy of the completed financial statement**. This can be used for consistent discussions with other creditors and the debt advice sector. This will also give the customer the opportunity to reflect on a paper version of the 'agreed budget' before acting.
- **Allow customers the opportunity to allocate a monthly savings contribution or contingency fund for emergencies**. Collections agents can give the customer the option and can avoid straying into a regulated advice conversation. Use of the Standard Financial Statement (SFS) will make this process consistent.
- **(Where there are two or more creditors with arrears) Offer a referral to a debt advice referral partner, ideally by way of a warm transfer**. This should happen immediately after completion of the I&E and negotiation of payment towards the arrears. This will give the customer the opportunity to receive independent advice on their whole debt situation and opportunities to maximise their income.
- **Give serious consideration as to whether an I&E should be completed in the collections contact centres**. An alternative process is to immediately refer all customers with two or more debts in arrears to a debt advice partner to complete a financial statement. A mechanism can be agreed to route the customer back to the creditor with a payment offer towards the arrears. We think this will create a better customer experience, reduce customer I&E fatigue and create efficiency savings for the creditor.

HSBC is a good example of a creditor that takes this approach. Its organisational benefits are described in the following case study:

CASE STUDY

HSBC Bank

Our approach when customers have multiple debts

HSBC have invested in establishing and growing debt advice relationships over many years. They believe that creditors and advice providers working together can achieve more.

They try to share as much information they can about their own organisation and encourage partner organisations to do the same. This allows them to deliver a joined up, efficient and consistent approach where customers fully understand the journey and are fully engaged in both the process and the outcome.

HSBC transfer customers who are struggling with priority debts and/or have multiple creditors directly through to debt advice via a speed dial service, for the advice organisation to complete a full assessment of affordability and recommend an appropriate solution. Customer accounts are placed on hold for a period to allow this review to take place and the advice organisation will notify HSBC when a solution has been agreed. HSBC recognised that not all customers were willing to be transferred immediately and were disengaged in the process so they ran some sessions with the partner advice organisation to focus on improving this. Allowing the debt advice partner the opportunity to listen to creditor calls gave them further insight into how HSBC explained the benefits of the advice service and the suggestions they made to help improve this increased the number of customers who engaged in the process earlier. This is a good example of how working together drives improvement to the customer experience.

Because HSBC have built trusted relationships they can accept offers of repayment without checking and reviewing every case, helping to maintain efficiency and speed in the process. A random sample is reviewed periodically to maintain a level of oversight and confidence in the process. Working together and sharing insight also allows them to identify trends and respond appropriately to customer needs.

Nearly all customers who engage in the advice process reach a solution, with around 35% of them contributing towards their arrears by entering an affordable repayment solution, and maintaining this over a sustained period. For those that are unable to contribute towards their arrears the advice and support helps them to reach an appropriate solution, meeting their needs and avoiding any unnecessary contact and administration.

HSBC are committed to growing relationships and partnerships with the advice sector to drive improved experiences for customers who face the challenge of dealing with financial difficulty.

Debt Advice Referral Strategies

Customers present their financial difficulties to creditors in different ways. This could be in telephone conversions, face-to-face, or online via webchat or email.

Creditors also proactively seek engagement when payments are missed and they do this commonly via outbound calling, collections letters (enclosing leaflets), text messages and home visits.

In addition, creditors also publicly display information about how to seek support for financial difficulties and they do this via their websites, and mobile technology such as apps.

Most creditors recognise an obligation to refer appropriate customers to sources of regulated debt advice, but many have told us of the problems they experience in doing so. Some creditors advise us that:

- Their customers find it difficult to navigate the landscape of the debt advice industry.
- They would like guidance on the appropriate customer cohorts to support with debt advice referrals.
- Many creditors are aware of nuances between the largest debt advice agencies and would like guidance/ confirmation on when it is appropriate to segment customer referrals to different debt advice agencies.
- They have problems with customer inertia and advising customers.

In this section we have captured the best of accepted good practice in referral strategies but recognise that work can be done to improve referral mechanisms from creditors to debt advice agencies.

Debt advice referral partners

Many creditors have established ongoing partnerships with specific debt advice agencies to prioritise referring appropriate customers for independent debt advice. This is known as a debt advice referral partner. Referral partners can be national, telephone debt advice agencies, or local 'face-to-face' charities. A debt advice partner may also be an 'in house' money advice team.

Debt advice referral mechanisms

In this chapter there are frequent references to the following referral mechanisms. Our definitions are as follows:

- 'Warm transfer' (or hotkey transfer), This where a creditor offers to immediately transfer a customer to an independent debt advice referral partner. Customer engagement is high as the debt advice agency will be available to accept the call immediately.
- 'Signposting' Where a creditor provides the contact details for trusted debt advice partners via collections telephone agents, websites or within letters or brochures.
- moneyadviceservice.org.uk. The Money Advice Service debt locator moneyadviceservice.org.uk/debt-advice-locator helps people find a debt advice agency in England, Wales, Scotland and Northern Ireland whether the channel preference is telephone, face-to-face or on-line.
- The Money Advice Service helpline (0800 138 7777) will help callers find a debt advice agency based on four principles; emergency, previous advice, client capability and appropriate channel.

Telephone referrals to debt advice agencies

Creditors should:

- **Quickly identify if the customer has multiple arrears with more than one creditor**. Ask the customer a couple of high level key questions that will quickly provide a view on debt levels, number of creditors and if priority arrears are in place. Work with a referral partner on the wording used to engage a customer in a referral, clearly highlighting the benefit, not overpromising, and ensuring the customer understands fully what will happen.
- **(Where a customer has arrears with two or more creditors) Offer a referral to a trusted debt advice partner, ideally by way of a warm telephone transfer**. This will give the customer the opportunity to receive independent advice on their whole debt situation and opportunities to maximise their income.
- **Consider signposting appropriate customers with vulnerabilities or communication problems to a face-to-face debt advice partner.** Examples of face-to-face debt advice agencies are the local Citizens Advice, Christians Against Poverty or a chosen member of the Advice UK network.
- **Signpost the self-employed to debt advice agencies that provide business debt advice**. This group of customers require specialist advice on separate business and personal financial statements and access to debt solutions for the self-employed. Examples of debt advice agencies that support the self-employed are Business Debtline and PayPlan (we have included a case study from Business Debtline, describing their creditor partnership offering).
- **A warm handover (or 'hot key') to a debt advice provider is the most effective way to engage customers with the advice that they need**. This assumes that many customers will drop out of the process if they accept a list of telephone numbers to call themselves. Figure 4 illustrates what we believe to be a best practice telephone referral process:
- **If a warm handover is not appropriate for the customer or the debt advice agency – signpost to a debt advice referral partner AND Money Advice Service Debt Advice locator** via moneyadviceservice.org.uk/debt-advice-locator. The debt locator will give options of telephone, face-to-face and online debt advice and assist the customer in navigating the debt advice sector.
- **Creditors and the referral partner (debt advice agency), should consider a way of creating a referral reporting mechanism**. This should provide the creditor with feedback on the outcome of their referrals – subject to individual consent. We recognise that creditors see an obligation to oversee what happens to their customers and agree that a reasonable reporting mechanism should be part of the process and supports good quality referrals.

CASE STUDY

Business Debtline

Business Debtline, part of the Money Advice Trust, help self-employed people across the UK to tackle their debts and manage their money with confidence. Last year Business Debtline helped over **25,000** people by phone and webchat to tackle their debts and manage their money.

Business Debtline has a proven track record and report that over **50%** of the businesses they speak to continue to trade after receiving advice.

Business Debtline also work closely with the creditor community. Some large creditors have approached them to ask for support with significant proportions of customers that are self-employed or have Buy-to-let portfolio's – de facto small businesses. Business Debtline's creditor partners are keen to ensure that its customers get to the right advice, suitable for people who are self-employed, first time.

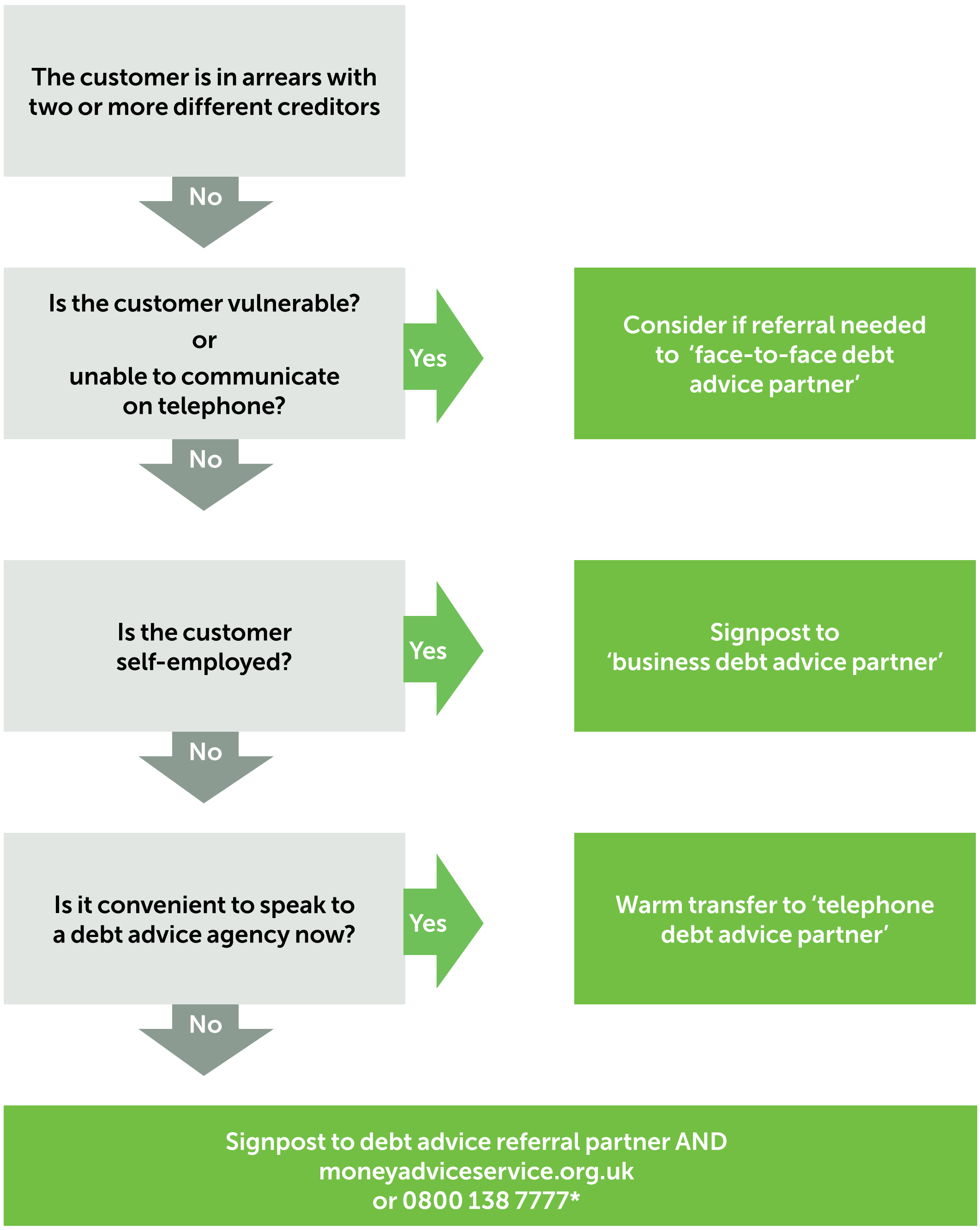
To support the embedding of referral strategies, Business Debtline advisers have:

- Visited creditor contact centres, listened to calls and supported call guidelines including the appropriate referral triggers
- Provided awareness training to front line collections agents
- Arranged for Business Debtline desk-drop materials for Collections contact centre agents

Using this segmented referral approach ensures that creditor customers are referred to the relevant advice first time. In some case's Business Debtline have become the primary referral partner for large creditor departments that specifically support self-employed or Buy-to-Let customers.

businessdebtline.org/

Figure 4 – Creditor debt advice referral strategy (telephone)



The Money Advice Service helpline will help signpost/warm transfer the customer to an appropriate debt advice agency at the customer's convenience

The 2014 Financial Conduct Authority '*Thematic review – Mortgage lenders arrears management and forbearance*'[6] refers to a best practice example of how mortgage lenders have worked in partnership with debt advice agencies to support secured arrears repayments. Debt advice agencies such as PayPlan and StepChange Debt Charity has these types of partnership in place which also provides the benefit of creditor referral reporting – subject to customer consent.

The following case study describes the Payplan offering to creditors.

CASE STUDY PayPlan

How debt advice supports creditor arrears repayments

Many priority and non-priority creditors are using PayPlan's debt advice referral process.

The PayPlan referral process is different as referring creditors are asked to provide a small amount of customer data – subject to verbal customer consent.

The information requested is:

- Collections agent's name
- Customer's name
- Details of any repayment arrangement towards priority arrears

PayPlan recognise that creditors have an obligation to oversee the journey of customers that are referred to debt advice. Therefore, the data is used to provide creditors with feedback on debt advice appointment outcomes and to provide updates throughout a customer's debt advice journey.

PayPlan provide several referral options to support customers including:

1. Warm transfer by telephone
2. Online web form – creditor collections agents can request a PayPlan call back on behalf of customer
3. Signposting customers to PayPlan's website where a customer can self-request a call back themselves
4. PayPlan provide referral training to creditors free of charge.

Creditor benefits

Priority-debt payment arrangements are accurately included in a client's financial statement.

PayPlan provide reporting on the outcome of referrals. Information provided can include

- Volumes of referrals
- Referring collections agent
- Mortgage details
- Progress of case
- Debt advice appointment outcome
- Client attributes and demographics

FCA View

A mortgage lender's referral process was highlighted as good practice by the Financial Conduct Authority(FCA) in their 2014 thematic review into Mortgage lenders arrears management and forbearance.

Firms that made it easy for customers to obtain early money advice saw better outcomes.

One lender had piloted a 'hot key' system which allowed agents to transfer borrowers directly to a third-party debt advice agency. The advice was independent and free of charge to the borrower. Because of these referrals, some borrowers prioritised their essential outgoings against non-essential expenditure. **The lender experienced up to a 50% increase in payments received, resulting in reduced levels of arrears and improved outcomes for both borrowers and the firm**.

6. FCA – Thematic review into mortgage lenders fca.org.uk/publications/thematic-reviews/tr14-3-thematic-review-mortgage-lenders%E2%80%99-arrears-management-and

- **(If the customer accepts a warm transfer to a debt advice agency) Put debt collection activity on hold for a minimum of 30 days.** This will allow the customer time to receive the advice that they require. This period is commonly known as 'breathing space'.
- **Follow up on the debt advice referral**. For example, by engaging with the customer at 14, 30, 60 & 90 days to understand if the customer is engaged with the debt advice provider.
- **Debt collection quality assurance should include a measure of checking if appropriate customers were offered a referral to impartial debt advice.** A warm transfer should be offered first, followed by signposting to the debt advice referral partner and the Money Advice Service debt advice locator.
- **Creditors should give collections agents the flexibility around debt advice conversations rather than a scripted process.** Many debt advice agencies are happy to provide training on the identification of appropriate customers for referral to independent advice.

Creditor letters and signposting to debt advice

- **Signpost early to sources of debt advice** – consider referencing in response to events other than missed payments. For example, unauthorised overdraft use, credit limit increases or communications supporting life events such as bereavement, divorce and separation or redundancy.
- **Contact centre staff should be familiar with all collections letters and be familiar with debt advice agencies that are referenced. This ensures that telephone and letter messages are consistent.**
- **Creditor marketing and collections functions should work closely together**. This is to ensure that customer messages such as collections letters, text messages and emails complement each other with consistent messages about where to seek external debt advice if appropriate.
- **Consider a partnership communications approach with an external debt advice provider**. Take a joint approach – debt advice agencies are good at promoting their supportive services and may be able to help with appropriate language. Some creditors have achieved success by targeting groups of customers that are difficult to engage with. The customer 'call to action' could vary depending on the objective of the campaign. The customer may be given the option of contacting the creditor or perhaps the debt advice agency if they are more comfortable.
- **The body of collections letters should not endorse signposting to more than two appropriate debt advice providers**. Too much choice may create anxiety and risk, disengaging the customer from the advice they may need. Instead signpost to debt advice referral partner AND the Money Advice Service debt locator via moneyadviceservice.org.uk/debt-advice-locator. The debt locator will give options of telephone, face-to-face and online debt advice and assist the customer in navigating the debt advice sector.
- **Ensure collections letters signpost to a debt advice agency in the correct nation**. It is bad practice to signpost to debt advice providers that are inappropriate for individual customers: for example, signposting Scottish or Northern Irish customers to debt advice agencies in England and Wales, when there are distinct differences in debt collection litigation and statutory debt solutions. Another example is knowingly signposting a self-employed customer to a debt advice agency that does not provide business debt advice. Creditors that are unable to segment collections letters in this way can get around this issue by signposting customers to moneyadviceservice.org.uk/debt-advice-locator or the Money Advice Service helpline on 0800 138 7777. The MAS helpline will direct the customer to a suitable debt advice agency.

Customers visiting creditor offices and referring to independent debt advice

- **Train sales or retail staff to spot the signs of problem debts.** StepChange Debt Charity's six indicators of financial difficulty are a useful tool as shown below in Figure 5. We recognise that creditors have two options in this this scenario.

  1. Sales staff can signpost customers to moneyadviceservice.org.uk/debt-advice-locator or the Money Advice Service helpline on 0800 138 7777. The MAS helpline will direct the customer to a suitable debt advice agency. It is a good idea to produce an internal leaflet with this information.
  2. Some creditors may prefer to train sales or retail staff to firstly refer customers to the creditors 'in house' specialist financial difficulties team who would be expected to show the appropriate forbearance, apply 'breathing space' and direct the customer via the creditors debt advice referral partners.

Figure 5 – The six indicators of financial difficulty[7]

The six indicators of financial difficulty	
1	Making minimum repayments on credit commitments for three months or more
2	Falling behind on essential bills
3	Using credit to pay essential bills
4	Using credit to keep up with credit commitments
5	Using credit to get through to payday
6	Getting hit with overdraft or late payment charges on a regular basis

Life on the Edge (2013) and *The new normal* (2015) – both by StepChange Debt Charity
StepChange Debt Charity define people reporting three or more of these indicators as being in severe financial difficulty.
Those reporting one or two are considered to be in moderate financial difficulty.

- **Offer a warm transfer to a debt advice referral partner – offer a private room on site.** Some customers may visit a creditors office and report problems making payment. Some creditors (such as local authorities or housing associations) may first refer to internal sources of debt advice. However, some customers may prefer to engage with external sources of debt advice. Where this occurs, it is good practice to offer a warm referral to a trusted debt advice partner. A private room should be allocated in the creditor offices where the creditor can introduce the customer to a debt advice provider. The Hyde Group, the housing association, describes such a process in the case study below.

7. StepChange Debt Charity. *Life on the edge* and *The new normal*
stepchange.org/policy-and-research/life-on-the-edge.aspx
stepchange.org/policy-and-research/the-new-normal.aspx

CASE STUDY

The Hyde Group

How residents that visit in person are supported with debt advice

The Hyde Group have created an internal team of specialists providing advice on debt, employment and tenancies. This holistic service uses behavioural economics and nudge principles to achieve positive long-term sustainment of rent payments.

From July 2016 to March 2017 they supported 862 clients and achieved outcomes for residents of **£610,523** and gains to the business of **£1,069,370** through reducing rent arrears, Housing Benefit payments and securing sustainable arrears repayment agreements.

On average an eviction costs Hyde between £10–12k and in the above period they have prevented **70** evictions, allowing residents to remain in their homes. This has a wider impact on public services and homeless units.

Advisers are highly trained and certified by the Institute of Money Advisers and offer a full range of solutions in line with recommended practice and have a limited authorisation with the Financial Conduct Authority.

Sometimes residents prefer advice from someone that is not their housing provider which is why they also work in partnership with other debt advice agencies such as PayPlan.

Hyde have a referral process in place with PayPlan to support residents that visit their offices experiencing debt problem's and showing signs of vulnerability.

Hyde have found that a warm hand over works very well. This would be supported by either a three-way call or an adviser being present with the client at the initial call with PayPlan. They will offer the resident a private room to have the conversation with PayPlan. The process has been a success and **70%** of referred residents choose to engage with PayPlan for debt advice.

They also like the web referral form that PayPlan provide. This allows them to complete contact details and PayPlan will call the resident back at their convenience.

A high percentage of clients also use this route where a Debt Relief Order is a possible solution.

Hyde also receive regular feedback from PayPlan about residents that disengage following debt counselling – this allows them to respond and contact the resident directly to offer further support.

Doorstep collection and home visits.

- **The customer should be provided with a leaflet signposting to the Money Advice Service debt locator and helpline.** moneyadviceservice.org.uk/debt-advice-locator or the Money Advice Service helpline on 0800 138 7777. The MAS helpline will direct the customer to a suitable debt advice agency.

Creditor websites and signposting to debt advice

- **Financial difficulties support information should be easy to find.** It should be prominent and navigable from the website 'home page' and not lost in 'product sales information'.
- **Consider timed 'pop up' messages referring to websites of debt advice agencies.** These can be timed to appear if customers hesitate on financial difficulties information.
- **Track the volumes of customers that exit creditor websites via links to websites of debt advice agencies.** Discuss volumes and trends with your debt advice partner and look for opportunities to improve on the wording and language used.

- **Signpost customers to free online debt advice services.** 'Debt Remedy' by StepChange Debt Charity[8] and 'MyMoneySteps'[9] by National Debtline are good examples of websites that allow customers to 'self-help' by guiding customers through Income Maximisation, spending and debts. The websites have tools that provide step-by-step information on how to deal with debts and practical advice on budgeting and boosting income. The self-help tools are supported by access to telephone, webchat or e-mail support if required.
- **Provide opportunities for customers to access the webchat service of debt advice referral partners.** Take the time to observe the webchat support of debt advice agencies – many customers expect to communicate with their product and services providers by webchat and this can often be a way of engaging with difficult to reach customers.

In the following case study, UK Asset Resolution (UKAR), describe what we consider to be a good practice approach to helping customers to access external sources of debt advice via a creditors website:

CASE STUDY

UK Asset Resolution (UKAR)

UKAR (the holding company for NRAM, Bradford & Bingley and Mortgage Express) recognised that many customers, particularly those experiencing financial difficulty, would be more likely to seek support online instead of using channels such as telephone.

As a result, they have made significant improvements to their websites to provide additional help and support to their customers.

This included the development of the 'Personal Support' sections of their customer websites which were designed to help customers find useful information on topics including:

- Financial difficulties - including links to sources of free and impartial debt advice
- Where to turn when affected by mental or physical illness
- Help and support for coping with life events such as bereavement, divorce, separation and unemployment

The Personal Support webpages also offer a web chat facility provided by National Debtline (NDL)

When customers visit the financial difficulty sections of the NRAM and Bradford & Bingley websites, they are presented with a 'pop up' which gives them the option to webchat with a free and independent NDL advisor.

UKAR have found that debt advice web chat supports:

- Customers who prefer engaging with their service providers on-line
- Customers who feel unable or uncomfortable making contact via telephone
- Customers who wish to anonymously 'check-in' with impartial advice before they contact their lender

Over the last year, more than **22,000** people have visited the Personal Support pages on NRAM and B&B websites.

The personal support pages can be found here: n-ram.co.uk/personal-support or bbg.co.uk/personal-support

8. mymoneysteps.org/
9. stepchange.org/Debtremedy.aspx

Recommendations for improvements (debt advice referral strategies)

- Signposting could be replaced by a creditor collections agent sending a text message with the link to moneyadviceservice.org.uk/debt-advice-locator which will recommend a debt advice agency for support and the appropriate channel.
- There should be independent research into the effectiveness of creditor debt collection letters including the effect prescribed wording has on customer engagement for example: "Your home is at risk if you do not keep up with repayments."
- In general, creditors only know if the customer enters a Debt Management Plan (DMP) when they receive a payment offer. The creditor is often wholly reliant on the debt advice agency to advise them of missed payments or changes in circumstances. Larger agencies may provide creditor updates via web portals but mostly this happens via the postal system. This process could be tidied up if there was a national DMP register showing where the customer resides in the DMP process.
- The Money Advice Service has already begun a review into the 'Customer Journey from Creditor to Debt Adviser' and how the referral process can be further improved. A cross-sector working group has been created. One of the considerations is whether a new business-to-business (B2B) hub, could provide creditors with greater visibility of what stage the customer is in the advice journey – one benefit being to avoid multiple creditor referrals for the same customer.
- Creditors would like to receive referral outcomes from all debt advice agencies to enable them to move the customer into an appropriate internal strategy reflective of the recommended solution. This would also enable creditors to have a more informed conversation with their customers. Again, a national DMP register or a form of creditor to debt advice agency (B2B) hub may support a more efficient customer journey.

'Creditor Oversight' of referral partners – what is reasonable

Creditors have an obligation to ensure that appropriate customers are provided with access to high-quality debt advice, but they also have an obligation to ensure the customer reaches the right outcomes, particularly when a warm transferred is endorsed to a specific debt advice agency.

To support creditor obligations, most debt advice agencies tend to operate an 'open door' policy with creditor visits to share the support that they provide to customers. However, debt advice agencies have told us that volumes of creditor visits are becoming problematic, jeopardise the impartiality of the agency and are basically 'pseudo audits'. debt advice agencies are usually charity organisations and are also resistant to the cost implications of being treated as a creditor supplier.

We asked creditors, debt advice agencies and others to debate how creditors can reasonably oversee their customer's referrals to debt advice partners. The following is thought to be good practice but we have also listed several recommendations for improvements.

- **Appoint a dedicated person to directly manage the relationship with debt advice agencies**. The nominated person should hold regular review meetings with the debt advice agency's 'Creditor Relationship Manager'. Use this meeting to discuss referral volumes, outcomes and opportunities to work in partnership to support specific cohorts of customers in financial difficulty. The debt advice agency can also provide the creditor with feedback on what difficulties customers are experiencing in dealing with the creditor.
- **Negotiate regular reporting on the outcome of debt advice referrals**. Debt advice agencies have no obligation to provide reporting, but may be willing to do so if the creditor can demonstrate that the information will be used to support the customer. For example, the creditor could use outcome reports to apply 'breathing space' from collections activity or identify internal forbearance solutions for the customer.
- **Visit the debt advice agency reasonably regularly**. Hold your regular review meeting, but also take the opportunity to listen to debt counselling calls or observe face-to-face appointments. Use this as a learning opportunity to understand customer behaviour during times of financial difficulty.
- **Do not treat your debt advice referral partner like a supplier**. Partnership visits are not audits. But do use visits to gain assurance about use of the CFS/StepChange Debt Charity/SFS household spending guidelines, compliance with data protection legislation, identification and treatment of customer vulnerability, and the identification and treatment of other extraordinary customer circumstances.
- **Hold 'call calibration' sessions**. Do this with main referral partners to review a full end-to-end customer journey. The agency and creditor should listen to calls together and discuss learnings.
- **Consider doing sample audits of payment proposals received from referral partners**. Assess whether payment proposals are in line with the spending guidelines of the Standard Financial Statement (SFS), Common Financial Statement (CFS) or StepChange Debt Charity guidelines.

- **Agree a Memorandum of Understanding (MOU) with your debt advice referral partners**. It is worth the effort of drafting an MOU to outline what creditor and debt advice agency expect from the relationship. Example of contents of an MOU include referral processes, conduct during third-party visits, and escalation points.

Recommendations for improvements – creditor oversight of debt advice referral partners

An independent body should work with creditors, advice providers and others to agree a solution to the growing number of creditor audits and the demand it places on the debt advice agencies. The scope of the work may include:

- A standardised 'single audit framework' for the debt advice agencies. Each agency would accept an independent audit, and the results could be shared with creditor referral partners.
- A standardised feedback format for creditor referrals.
- Broader agreement on how referral reporting should be used by creditors
- Opportunities for creditors to satisfy oversight requirements remotely, reducing the burden of online site visits to debt advice agencies.
- Ways to avoid duplication when creditors and their suppliers (DCAs) often have a direct relationship with the debt advice agency.
- Other ways that creditors and debt advice agencies can share data for the benefit of mutual customers.

Engagement and Partnerships

Most creditors have a day-to-day relationship with debt agencies. Much of the relationship is administrative and may involve payment proposals, payment disbursements, web portals, and debt sales.

There can also be escalations from either party regarding customer treatment.

Creditors may have a dedicated team, or person responsible for managing engagement with the debt advice sector. We recognise that smaller creditors may incorporate liaising with the debt advice sector into part of an operational manager's day-to-day duties.

Many creditors are more pro-active, take a more targeted approach and work in partnership with debt advice agencies to develop innovations to support cohorts of customers with specific advice needs.

Some creditors are more visible externally than others and get involved in debt advice industry events, or cross-sector working groups seeking to resolve issues affecting the experience of their customers.

What is good collaboration with the debt advice sector?

We facilitated a cross-sector workshop on how creditors can effectively engage with the debt advice sector. Many participants said those creditors that are visible at debt advice industry events are usually those that have senior support within their organisation. This usually means that the creditor recognises two things:

1. The creditor has an obligation to work with external debt advice agencies to provide impartial advice to customers in financial hardship.
2. There is also value to the creditor in debt advice support – particularly around sustainable arrears repayments and increased customer engagement.

Debt advice industry events

There are several key debt advice industry events which creditors can attend which may create positive engagement with debt advice agencies – and network with other creditors that have established partnership strategies in place.

As well as attending the conferences, some creditors host an exhibition stand. Exhibiting provides an opportunity for creditors to promote internal work that may better support their customers. Creditors tell us these are useful events to gather feedback directly from debt advisers that may have helped their customers.

We suggest creditors start by considering the following events:

- **The Institute of Money Advisers (IMA)**[10] **Annual Conference** –The IMA is a professional body that acts for money advisers in England, Wales and Northern Ireland
- **Money Advice Scotland**[11] **Annual Conference** – Money Advice Scotland is an umbrella organisation which promotes the benefit of money advice and financial inclusion in Scotland
- **Advice UK**[12] **Annual Conference** – Advice UK is the UK's largest support network for independent advice services

10. i-m-a.org.uk/
11. moneyadvicescotland.org.uk
12. adviceuk.org.uk

The Money Advice Liaison Group (MALG)

The Money Advice Liaison Group, known as MALG, is a not-for-profit UK membership organisation whose purpose is to galvanise organisations to work together to improve the lives of people in problem debt.

Through its national and regional member meetings and conferences, it aims to challenge members to do things differently, bringing new perspectives from different sectors. MALG membership includes representatives from a diverse range of public, private and third sector organisations, all with an interest in matters relating to personal debt.

Creditors can find their closest regional meeting and details of MALG annual conference via malg.org.uk/

The role of the Debt Advice Liaison Manager (or team)

Many creditors still fail to recognise that debt advice collaboration is not just a regulatory obligation – it is a fundamental piece of a modern debt collection strategy.

Debt advice agencies have told us that a clear and obvious point of contact at each creditor is important. This works best when the point of contact is a dedicated role which manages relationships with the debt advice sector, but also can influence client-affecting issues within the organisation. This can be at strategic level but also with front-line collections agents – they can benefit from communication on causes of financial difficulty and sources of external support.

Again, we recognise that smaller creditors may not have a dedicated Debt Advice Liaison Manager and best practice described can be delivered proportionately within the organisation.

Transparency should be two ways: there should be an open-door policy between creditor and debt advice agency and this should involve mutual visits. Creditors should be open to feedback from debt advice agencies and use this to inform fair and ethical debt collection strategies. In the table below we have documented what we believe to be a good debt advice engagement strategy.

Figure 6 – The debt advice engagement strategy – eight steps to good practice

The debt advice engagement strategy – eight steps to good practice	
1	**Debt Advice Liaison Manager / Team should have a senior sponsor (ideally at board level) within the organisation who can influence changes needed to support people in financial difficulty, which may involve partnerships with the debt advice sector.**
2	**Implement a defined external engagement strategy** with the debt advice sector. Build a reputation as a creditor that wants to engage with debt advice agencies when that supports your customers. Do this by meeting regularly with debt advice referral partners and by attending and participating in industry events.
3	**Have an internal engagement strategy** – place importance on updating front-line collections agents on the causes of over-indebtedness, indicators of financial difficulty and sources of external support. Monitor referral volumes with senior operational colleagues to ensure the appropriate arrears customers are given access to impartial debt advice.
4	**Be an escalation point for debt advice agencies** to raise issues and trends affecting their clients/ your customers.
5	**Act as a conduit between the creditor's internal operation and the debt advice sector** – there are many administrative interfaces such as customer feedback, reporting mechanisms, payment disbursements, and funding queries.
6	**Facilitate an open-door policy to the debt advice sector** – encourage debt advice agencies to visit you and understand the challenges creditors face. Welcome feedback and use this to shape processes and policies.
7	**Manage oversight of debt advice referral partners** – on behalf of the creditor organisation, oversee that referred customers receive fair and appropriate outcomes from debt counselling appointments. Visit debt advice agencies to understand the support customers receive post referral. Share outcome Management Information (MI).
8	**Be the creditor's subject matter expert on the debt advice industry** – necessary for responding to industry consultations or identifying legislative or regulatory changes that impact on the creditor. Evaluate partnership opportunities with debt advice agencies – identify ways for a targeted approach with customers that may need specialist advice and present internal propositions which could deliver customer and creditor value.

Taking a targeted approach to partnership working

Once creditors have implemented good practice strategies for affordability, debt advice referrals and engagement strategies, they should consider whether a more segmented approach is appropriate for customers that require specialised support.

Many creditors already take this approach and this chapter discusses only some of the options that may be available for innovative partnership working with debt advice agencies.

Income Maximisation

The charity Turn2us report that £10billion of welfare benefits and tax credits go unclaimed each year.[13] Therefore, debt advice agencies provide advice on welfare entitlement or 'income maximisation' as part of the debt counselling process.

There are also debt advisers and entire organisations that specialise in welfare support and this type of advocacy can often go beyond the support available from debt advice agencies. Some creditors in financial services and utilities have recognised that partnering with specialised income maximisation organisations can help customers to improve their financial resilience and complement their debt advice referral strategies. Therefore, they have taken the opportunity to refer customers that struggle with the complexity of the welfare system.

The cohorts of customer that commonly benefit from this type of support can be vulnerable customers that do not understand the welfare system. Or perhaps the disabled, retired or those experiencing a money life event such as separation or a bereavement.

Income maximisation organisations can offer specialist case ownership support and if appropriate, advocacy with government bodies such as DWP, HM Revenue & Customs or the Pensions Advisory Service.

Creditors benefit from income maximisation support as customers that find uplifts in income can be more resilient in maintaining arrears repayments.

In the following case study, IncomeMAX, a telephone based Community Interest Company (CIC), describe their partnership approach with a range of creditors:

13. turn2us.org.uk/About-Us/News/News-Review

CASE STUDY IncomeMax

Case study on a community interest company approach to income maximisation support for vulnerable & low income households.

IncomeMax are a specialist community interest company (social enterprise) who work in partnership with a range of creditors to provide telephone-based, personal welfare and benefits advice to vulnerable and low income customers.

Established in 2009, IncomeMax help around **10,000 families** each year to establish missing sources of income and financial support.

To manage referral and capacity, IncomeMax have developed a partner network, so that targeted customer referrals can be made into specific projects.

The referral process is simple. The partner creditor identifies appropriate customer's that may benefit from support and IncomeMax will provide a call back – subject to customer consent. Customer engagement is high – **70%** of referred customers accept support.

The income maximisation service is tailored to each family but follows a broadly similar process.

Firstly, IncomeMax agents undertake a full financial assessment with each referred customer, establishing the current financial situation and circumstances in each case.

Secondly, the IncomeMax agent identifies potential sources of new income; these can include new benefits, additional elements within existing payments, tax credits and charitable grants as well as ways to reduce key household bills like energy and water.

Finally, IncomeMax provide support and advocacy to customers to ensure extra income is realised. This can include making phone calls with customers, writing letters or completing forms.

Outcomes for IncomeMax customers include increased income and reduced household bills.

Incomemax customer feedback shows that customers receiving income maximisation advice feel supported, relieved and generally better about their financial situation afterwards, especially if new income sources help with debt repayments.

The structure of the welfare system means that it is possible to segment the types of customers that can benefit from specialist income maximisation support. Appropriate customer cohorts may include disabled people, single parents, pensioners and carers. Life events, such as divorce and separation, having a baby or becoming sick also act as key indicators for referral to specialist income maximisation support

What IncomeMax customers say;

"It was invaluable help for me as I have problems filling out forms. The three-way call with the Jobcentre was so helpful and really took the stress out of trying to understand the benefits system."

Additional income confirmed for IncomeMax customers since 2009

- £1 million for customers of financial services organisations.
- £7 million for customers of energy suppliers.
- £3 million for customers of water companies.

incomemax.co.uk/

Helping customers access charitable funds and grants

Charitable funds are run by organisations that provide grants to people in financial difficulty. These type of Charitable funds only provide grants to people who meet their eligibility criteria, using a sum of money that the organisation has set aside for this purpose.

The funds are provided by organisations (including creditors such as energy and water companies) that have grant giving as part of their aims and objectives.

Each charitable fund eligibility criteria is different, but there are some commonalities such as:

- Specific health conditions or disabilities
- Jobs or industries that an individual works or was previously working
- Older people or families with children or young people
- Nationalities or faiths
- Aimed at specific regions in the UK
- Low incomes

In certain circumstances, charitable grants can be awarded to people with arrears or debt problems. The following case study describes a partnership that the energy company Scottish Power have with the debt advice agency National Debtline (NDL). The partnership supports Scottish Power arrears customers to access independent debt advice and helps eligible customers to access the 'Scottish Power Hardship Fund'.

CASE STUDY Scottish Power

Scottish Power work in partnership with National Debtline to provide support for customers who struggle to pay their electricity or gas bills.

Scottish Power train their staff to recognise signs of financial difficulty, such as the loss of a job or benefits, or increased expenses due to illness or disability. Their collections team will attempt to resolve the issue before the customer's arrears increase beyond their control, but also signpost customers to National Debtline. Scottish Power explain to customers that National Debtline can provide an income and expenditure check, help with budgeting for their on-going energy use and other bills, and advise on their overall debt situation.

National Debtline also have a bespoke process with Scottish Power to specifically support their customers. Following a referral, National Debtline will assess whether the customer is eligible for the Scottish Power Hardship Fund and provide details of how to apply to the independent fund administrator. This helps many customers with little or no surplus income to get the fresh start they need.

Those customers who don't qualify for the hardship fund are referred to the Scottish Power Payment Care Team to set up an affordable payment plan, based on the Income and Expenditure statement completed with National Debtline.

Scottish Power refer an average of **115** customers to National Debtline on a weekly basis. Of those:

- 50% of those engage with National Debtline and seek debt advice
- 30% of those that engage with National Debtline go on to make an application to the hardship fund

The lady I spoke to at National Debtline listened attentively to my problem with Scottish Power. She then gave me advice on how to approach them [ScottishPower] and how to say what I wanted to say. In fact, there was a sample letter in the pack of debt advice she sent me. Due to following her advice, I had a call from Scottish Power saying they were going to forgive the debt.

National Debtline client feedback

Customers with interest-only mortgages

In 2013 the Financial Conduct Authority (FCA) published its findings from its review into interest-only mortgages.[14]

The report states that 90% of all interest-only borrowers have a repayment strategy in place. However, just under half of all interest-only borrowers are modelled as likely to face a shortfall. Typically, many of these customers will have high levels of forecast equity in their properties.

For some creditors, further lending may not be appropriate, so they have looked to engage cohorts of customers with impartial debt advice. The following case study describes the targeted approach that Barclays Bank have taken to support customers reaching the end of their interest-only mortgage – in partnership with StepChange Financial Services (part of StepChange Debt Charity).

CASE STUDY

Barclays Bank

Case study on partnership with StepChange Financial Solutions

Barclays Bank PLC has established partnerships with the debt advice sector going back many years. Customers in financial difficulty are referred to sources of impartial debt advice via telephone, letters and the Barclays website.

They have also taken a targeted approach to providing support for cohorts of customers facing quite specific difficulties.

Interest-only mortgages

Some Barclays customers have interest-only mortgages that reach the end of the term, without having put a repayment vehicle in place. The mortgage term expires and although they can maintain the regular monthly payments, they are unable to find the funds to repay the outstanding capital balance. Quite often, customers had experienced debt problems which compound the situation and have mitigating circumstances, such as ill health, which means downsizing could be difficult.

For this reason, Barclays have developed a working partnership with StepChange Financial Solutions (part of StepChange Debt Charity) to enable direct referral of interest-only customers for free, independent financial advice. Barclays customer-facing staff are trained to identify potentially eligible customers and how to signpost appropriate customers to StepChange Financial Solutions. With the customer's consent, staff can also warm transfer them to StepChange Financial Solutions.

This approach is complemented by joint Barclays and StepChange Financial Solutions mailing campaigns and an online web page where customers can visit for more information.

Eligible customers have released funds which has enabled them to:

- Clear the mortgage
- Pay off unsecured debts
- Carry out overdue home maintenance or improvements
- Reduce their monthly outgoings
- Create a savings buffer for emergencies.

14. fca.org.uk/news/press-releases/fca-publishes-findings-review-interest-only-mortgages-and-reaches-agreement)

Specialist 'housing' debt advice

Some creditors are piloting referring cohorts of mortgage arrears customers to a specialist housing debt advice agency when an eviction seems inevitable. The housing debt advice agency will provide the appropriate money management, budgeting and welfare advice support – but can also provide case ownership support on rehousing if homelessness becomes a risk.

For some mortgage customers, it may be appropriate to exit ownership if the loan becomes unaffordable. Therefore, the creditor has chosen to partner with support services which can provide a more controlled exit from the property. The customer is supported with negotiation and advocacy with local authorities and landlords and helped to access emergency housing when appropriate.

This partnership benefits the creditor as it helps maintain customer engagement during the eviction process and the housing debt advice agency will encourage the customer to maintain the property for an effective sale. It is in the best interests of the customer as a higher sale price post repossession can mean a lower residual mortgage shortfall debt. The debt advice agency also supports by providing debt advice on any post repossession mortgage shortfall debt owed by the customer. In this situation, the creditor wants to achieve a sustainable repayment arrangement towards any shortfall debt.

Partner customer engagement strategies

Several creditors in financial services, utilities and local authorities have tested partnerships with debt advice agencies as a strategy to engage 'difficult to reach' cohorts of customers. Usually, there is an indication that customers may be experiencing problem debt with multiple creditors – the objective being to engage the customer with debt advice support, advise on debt prioritisation and potential debt solutions. Participating creditors tend to benefit from this support, particularly if they are a priority creditor. Some simple examples of this are:

- Creditor writes to customer and advises they have been unable to make contact regarding arrears. Creditor advises that the customer will receive a telephone call from an impartial debt advice agency offering support.
- Creditor is unable to generate contact with customer regarding arrears via usual collections letters. Creditor sends another letter, co-branded with a debt advice agency suggesting the customer may instead want to consider debt advice support. This method works best as part of a complementary suite of messages including text messages and website 'landing pages'.
- Creditor provides funding for specialised debt advisers within its premises, to aid effective referrals from collections contact centre. The Royal Bank of Scotland (RBS)/Natwest have shared their partnership approach with Citizens Advice Southend in the case study below.
- Creditor seconds staff into debt advice agency to work together to engage arrears customers. North Somerset Council have kindly shared their partnership approach with North Somerset Citizens Advice in the case study below.

CASE STUDY

Royal Bank of Scotland (RBS)/NatWest and Citizens Advice Southend

RBS/Natwest recognise that customers in vulnerable circumstances sometimes need additional support. Their Debt Management Operation (DMO) manages personal and business banking customers and they have set up dedicated specialist support teams (SST) to provide that extra help for those experiencing financial difficulty.

RBS / Natwest have also identified that partnering with other organisations can make a difference. One of those key partnerships is with Citizens Advice Southend. The bank provides support and funding for two Citizens Advice colleagues to sit within the banks DMO premises alongside RBS/Natwest staff to provide an independent advice service for vulnerable RBS/ Natwest customers.

Providing this service has meant that RBS/Natwest staff can refer the appropriate customers immediately to dedicated Citizens Advice resource. The bank provides staff with training on how to promote the benefits of engaging with independent advice with Citizens Advice – this increases the likelihood of customers taking up the opportunity.

RBS recognise that during those financial 'life moments' (such as bereavement, loss of job, divorce or separation) their first interaction will often be with their creditors and the service provides the perfect opportunity to encourage those customers in financial hardship to interact with an independent adviser who may help avert a real crisis. Citizens Advice colleagues sit alongside bank colleagues at the Southend office but they take RBS referral calls in a private room ensuring that the conversations remain completely impartial.

RBS staff report that the partnership makes a real difference to customers in financial difficulty and helps to engage them earlier with impartial debt advice. Citizens Advice also report that customer feedback is positive and the process also helps people access other advice services such as welfare support, housing advice and other specialist services.

CASE STUDY

North Somerset Council and Citizens Advice

Case study on the 'First Steps' partnership

North Somerset Council have many low income, vulnerable residents who are struggling to pay their Council Tax and debts owed to other creditors.

This why they began a partnership with North Somerset Citizens Advice to engage those in receipt of Council Tax support with impartial debt advice. The scheme is sponsored by a local councillor.

Under this scheme, the council have sponsored two officers who are based at the offices of Citizens Advice to work in the local communities, building trust at Citizens Advice outreach centres. The council also work with Citizens Advice by making home visits to those receiving Council Tax Support and struggling to pay Council Tax. The objective is to support residents with holistic debt advice and prevent additional charges being added from enforcement activity.

Benefits

Engagement with difficult to reach residents has increased by 66% and the confidence customers have in the council has undergone a step change. 20% of these engaged customers are now paying their Council Tax, with 80% also currently going through the assessment and support service. **These customers had previously disengaged from council attempts to contact them regarding non-payment of Council Tax**. By having officers working in the area and engaging with customers face to face the council have been able to adapt to customers' communication needs and preferences.

They still use letters and emails to make contact but they are presented in a clear and straightforward manner avoiding jargon.

Both organisations have input into the scheme. A data sharing agreement is in place to share relevant casework information. Data is collected to study the health and wellbeing of individuals at the start and during the process.

Anonymous resident case study

Allan F had historic Council Tax debts of approximately £4,500. Allan had become a complete social recluse, not answering the door or phone to anyone if he didn't recognise them. A single parent and primary caregiver for two very young children, he admitted to having suffered severe depressive episodes because of this, and had been on the verge of suicide on several occasions.

By actively seeking out engagement and offering support with his situation, the scheme officers could carry out a full assessment of Allan's situation and put a Debt Relief Order (DRO) in place. Allan is now in a stable environment and is stronger mentally. He has now started volunteering with Citizens Advice as he wants to offer the same support that he was given through the scheme.

The MAS Supportive Creditor Standards

To summarise this resource, we have consolidated good practice examples into the below table to illustrate good creditor collaboration with debt advice agencies. In doing so, we use the following definitions:

Minimum standards

"Where the creditor's debt advice collaboration involves basic signposting to various debt advice agencies.

Debt advice agencies that want to engage must contact the general customer service or debt collection helpline. Financial statements or payment proposals from debt advice agencies are ignored or treated no differently to regular customer contact."

Good practice support

"The creditor has a robust strategy in place to effectively route appropriate customers to sources of external debt advice. Warm telephone transfer processes are in place and referrals are segmented by customer need, such as for the self-employed or the particularly vulnerable.

The creditor accepts financial statements from debt advice agencies and has aligned all internal forms of income and expenditure forms to that of the Standard Financial Statement (SFS) or equivalent guidelines.

A clear nominated person or team is in place for liaison and escalations on customer treatment from debt advice agencies. A dedicated creditor line is advertised for debt advice agencies to call.

Going above and beyond

"The creditor demonstrates that collaboration with the debt advice sector is embedded into their debt collection strategies. A close working relationship is in place to target specific groups of customers/clients for engagement or debt advice support. This should include all forms of customer communication such as telephone, letters, website or face-to-face contact.

The creditor's debt advice engagement strategy is aligned to the "MAS eight steps to good practice."

Figure 7 – Collaborating with debt advice agencies – Measuring the standards

Minimum standards	Good practice support	Going above and beyond
	Debt advice referral strategies	
■ Basic telephone signposting to various debt advice agencies ■ Basic letter signposting to various debt advice agencies ■ Website financial difficulty pages have basic signposting to various debt advice agencies	■ Telephone warm transfers to debt advice referral partner ■ Personal support section or version on company website home page. Debt advice support navigable within three 'clicks' and referrals tracked ■ Bespoke telephone referral process in place for self-employed customers ■ Bespoke referral process in place to face-to-face debt advice referral partner where appropriate ■ Arrears letters signpost to debt advice referral partner AND Money Advice Service debt advice locator tool ■ Arrears letters signpost to debt advice agencies in correct nation ■ Telephone signposting to debt advice referral partner AND Money Advice Service debt advice locator tool ■ Minimum of 30 days 'breathing space' from collections activity applied on debt advice referral ■ Quality Assurance process includes guidance on the appropriate customers to refer to debt advice – see 'StepChange 6 indicators of financial difficulty'	■ Website gives direct access to debt advice webchat ■ Joint mailing campaigns with debt advice partner ■ All suppliers have contractual agreements on warm transfer referrals ■ Telephone contact strategies in place follow up debt advice referrals to offer internal forbearance and re-refer where appropriate

Minimum standards	Good practice support	Going above and beyond
	Customer affordability	
■ Financial statements from debt advice agencies are processed but customer expenditure inconsistently challenged ■ Creditor has internal rules on customer affordability	■ Acceptance of financial statements and payment proposals assessed using the Standard Financial Statement (SFS), Common Financial Statement(CFS) and StepChange guidelines ■ Litigation or enforcement action suspended when a 'payment arrangement' is agreed	■ All suppliers are obligated to accept SFS financial statements and align internal I&Es
	Engagement & Partnerships	
■ No clear point of contact for debt advice agencies ■ Debt advice agencies can call main customer service helpline ■ Company literature contains statements such as 'we work with the debt advice industry'	■ Dedicated line in place for debt advice agencies to call ■ Dedicated 'debt advice liaison manager' or named operational person available for debt adviser escalations relating to customer treatment	■ Memorandum of Understanding (MOU) in place with debt advice agencies covering site visits ■ Debt advice engagement strategy in place. Aligned to MAS '7 steps to good practice' ■ The creditor works with debt advice agencies on partnership initiatives to support specific cohorts of customers with specialist advice

About the Money Advice Service

The Money Advice Service helps people manage their money. We do this directly through our own free and impartial information service. We also work in partnership with other organisations to help people make the most of their money. We are an independent service, set up by government.

We are funded by an allocation from the levy collected by the Financial Conduct Authority (FCA) from the financial services firms it regulates.

In an environment where 8 million people have problems with debt, the Money Advice Service plays several critical roles, one of which is the strategic co-ordination of the debt advice sector.

In March 2015, the Treasury (HMT) published the report of the Independent Review (led by Christine Farnish) into the Money Advice Service (MAS). In relation to debt advice, the review recommended that MAS should be bolder in its sector-wide leadership and stated that the Service is uniquely placed to bring together creditors and debt advice providers to achieve greater co-ordination, drive efficiency gains, increase the capacity of the system and help more people. The Review recommended that MAS demonstrates strategic leadership by convening a high-level Debt Advice Steering Group (DASG). A Debt Advice Operational Group (DAOG) has been formed to support the work of the DASG in developing and delivering the required interventions.

This resource has been produced by working in collaboration with the debt advice sector, financial services, government bodies, utilities and others, with expert representatives kindly provided by organisations participating in the Debt Advice Operational Group (DAOG).

Our approach

To produce this resource, we have taken a collaborative approach by considering the views of a broad range of creditors and debt advice agencies:

- We facilitated three expert workshops in October 2016, December 2016 and January 2017 to capture the views of a diverse group of creditors, debt advice agencies, trade bodies and others. A full list of participating organisations is contained in Appendix A.
- We visited several creditors in financial services, utilities, local authorities, and the social housing sector to capture approaches to debt collection and partnership working with debt advice agencies.
- We held follow-up discussions with participating organisations to document case studies of ways of working that we thought were innovative and demonstrated positive outcomes for creditors and customers in financial hardship.
- We held a workshop with the wider Debt Advice Operational Group (DAOG) in March 2017
- We held a final workshop in May 2017 with organisations that took part in the 2016 events. This was an opportunity to provide feedback on draft contents of this resource before final publication.

Appendix A

The following organisations participated in workshops facilitated by MAS, which were designed to debate best practice in how creditors work in collaboration with debt advice agencies:

Barclays Bank
HSBC Bank
Nationwide Building Society
Wessex Water
Arrow Global
Credit Services Association (CSA)
Computershare Loan Services
Lloyds Banking Group
The Hyde Group
Vanquis Bank
Council of Mortgage Lenders (CML)
Atom Bank
StepChange Debt Charity
Money Advice Trust
Citizens Advice (England and Wales)
Citizens Advice NI
Debt Managers Standards Association (DEMSA)
Christians Against Poverty
Payplan
Debt Resolution Forum (DRF)
Money Plus Group
Institute of Money Advisers (IMA)

Appendix B

The principles of good debt management – The Future of Debt Management (FODM) 2014

Overview

Good debt management is the collective responsibility of Government, industry, regulators and the advice sector.

A great deal of work has already been undertaken by stakeholders to help people avoid, manage and overcome the problems associated with unmanageable personal debt.

These principles seek to embed and enhance this work for the benefit of people in or at risk of financial difficulty.

The overarching principles

Good debt management:

1. Reduces the impact of unmanageable debt on people's lives
2. Encourages early and ongoing engagement
3. Gives people the best ways to deal with their financial difficulties
4. Improves people's financial health and helps them to become less vulnerable to problem debt.

The Principles in practice: examples of good outcomes

1. Good debt management reduces the impact of unmanageable debt on people's lives by:
   a. helping people avoid, manage and overcome periods of financial difficulty;
   b. enabling people to cope better with financial shocks by giving them the confidence and skills they need to chose and use financial products and services effectively in the future.
2. Good debt management encourages early and ongoing engagement by:
   a. proactively offering help and support to people who show signs of being in or at risk of financial difficulty;
   b. being open and transparent at all times, so people know what they can expect from their creditors and what they will be expected to do;
   c. developing a consistent approach to debt repayment, breathing space and debt relief for people in different circumstances.
3. Good debt management gives people the best ways to deal with their financial difficulties by:
   a. providing freely and universally accessible debt advice and debt management services via a range of channels;
   b. ensuring that debt advice and debt management services achieve agreed outcomes for all stakeholders;
   c. ensuring that the fee structures for commercial debt management services are clear, equitable and not misleading; and
   d. working with what people are able to pay to ensure arrangements are sustainable and responsive to changing circumstances.
4. Good debt management improves peoples' financial health and helps them to become less vulnerable to problem debt by:
   a. recognising and rewarding engagement;
   b. reviewing arrangements regularly to ensure that they are affordable
   c. allowing people to build up modest savings while they repay debts;
   d. allowing people to access mainstream financial products and services, where it is appropriate to do so;
   e. helping people to manage their money more effectively.

For more information about this resource please contact

Kevin Shaw
Sector Engagement Manager
Kevin.shaw@moneyadviceservice.org.uk

Craig Simmons
Sector Coordination Manager
Craig.simmons@moneyadviceservice.org.uk

Money Advice Service
Holborn Centre
120 Holborn
London EC1N 2TD

July 2017

moneyadviceservice.org.uk