Consultation Response

Money Advice Service

Financial Capability Strategy for the UK

Comments from StepChange Debt Charity

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Introduction

StepChange Debt Charity is the largest specialist provider of free, independent debt advice operating across the UK. In 2013 over 500,000 people contacted our free helpline or online debt remedy tool for advice, support and solutions to serious debt problems.

StepChange Debt Charity is also the UK's largest not-for-profit provider of free-to-client debt management plans (DMP); having introduced the debt management plan concept to the UK in 1992. Our DMPs are currently helping over 140,000 people to make affordable repayments to their creditors.

We have the following general comments on the *Financial Capability Strategy*:

- This *Strategy* is about financial capability. It should therefore focus on encouraging financially capable behaviours, and on creating an environment which encourages and enables more people to behave in a financially capable way.
- The *Strategy* could be clearer about what the key financially capable behaviours are that is seeking to encourage in the area of "financial difficulties" and problem debt. We believe these are: budgeting, precautionary saving, prudent borrowing, seeking free debt advice early in the event of difficulties, following through a debt solution, and using the right information in decisions, eg about credit scores. It should also analyse the reasons why people might take an informed choice <u>not</u> to act in an objectively "capable" way, for instance because of their means and circumstances.
- We believe the *Strategy* places too great an emphasis on attitudinal factors compared with someone's economic context (both national and personal).
- Preventing over-indebtedness and rehabilitating the over-indebted need more prominence at the heart of the *Strategy*. We also believe the *Strategy* needs more detailed proposals about how the provision of appropriate financial solutions (including debt solutions) will be ensured.
- In particular, the *Strategy* must be revised to prioritise the need for <u>free</u> debt advice over expensive for-profit advice. It must also stress that reaching <u>early</u> advice is crucial for minimising financial difficulties.
- We would like the *Strategy* to contain more about ensuring the financial capability of households containing dependent children and more about how the *Strategy* will cope with approaching changes in pension provisions (especially given the low take-up of debt advice by older generations).
- More clarity is needed in the *Strategy*, both on the lens through which financial difficulty will be viewed, and how the *Strategy's* recommendations will help rehabilitate those in financial difficulty.
- MAS needs to specify that it will work more closely with financial services providers in developing and rolling-out the *Strategy,* particularly in areas related to the accessibility and appropriateness of financial products.

- In terms of the evaluation of the *Strategy* we would like more information on the relationship between the proposed evaluation framework and the systems already used by consumer bodies, and more information about how the framework will evaluate progress in relation to evolving financial products and solutions.

1. What time period should the Financial Capability Strategy cover?

Financial capability is clearly a long term project. This strategy has to balance the need to reflect this with the need to create momentum. We think the period covered by the strategy is less important than the inclusion – as has been attempted – of clear milestones for the short-medium term, and a framework for reporting.

One important risk to the strategy is that it doesn't cement a clear framework for what it is trying to achieve, with which stakeholders agree. It is a cliché to say that transforming financial capability "will take a generation". People have been saying that for about a generation. One reason is that each strategy and initiative peters out unfinished and is eventually superseded by a new one, with a re-framed purpose and slightly different objectives. The current exercise doesn't build directly on the FSA's 2006 or 2008 work, so long term progress is impossible to judge. We need to avoid that happening again.

2. What is your view of the Financial Capability Framework?

We are concerned that the Financial Capability Framework, a) places too great an emphasis on attitudinal factors, and b) fails to take sufficient account of contextual factors that contribute to people getting into financial difficulties.

We recommend that MAS does more to understand how these negative influences can result in poor financial capability. We also believe more research is needed to fully understand the relationship between 'ease', 'accessibility', and an individual's financial welfare. On this latter point, we believe that the behaviour of lenders and creditors can result in over-indebtedness, and the framework of ease and accessibility doesn't readily lend itself to, for instance,

- incorporating the role of high cost short term credit in creating or exacerbating financial difficulties, or
- understanding the decision to use such products in the context of financial capability.

The following is a short survey of evidence relevant to attitudes, behaviours and means in the context of financial difficulties.

There are two key factors which contribute to a higher propensity to over-indebtedness to which MAS have not paid sufficient attention.

Individual

These are variables unique to the individual. They may be related to national economic factors (for example, a recession) but are not common to everybody.

Being unemployed is strongly identified with over-indebtedness, as is having a persistent low income[1]. Precisely what constitutes low income is not agreed upon but Kempson uses less than £15,000 per annum, while European Commission research uses the lowest income decile of each European country analysed[2].

Over-indebtedness is negatively correlated with age, with under-30s most likely to face difficulties and older consumers least likely[3].

Other individual factors regularly identified in a range of literature are:

- Having a child[4]
- Relationship breakdown[5]
- Being single[6]
- Being a tenant[7]
- Lack of savings[8]
- Not having a current account[9]
- Ill-health[10]

Economic

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[1] Dominy, N and Kempson, E (2003), Can't pay or won't pay? A review of creditor and debtor approaches to the non-payment of bills, Personal Finance Research Centre, University of Bristol, 2003 -- Fernandez-Corugedo, E and Muellbauer, J (2006), Consumer credit conditions in the United Kingdom, Bank of England working paper no.314

[2] Kempson, E (2002), Over-indebtedness in Britain, Report to the Department of Trade and Industry, 2002 -- European Commission, Directorate-General for Employment, Social Affairs and Equal Opportunities (2008), Towards a common European definition of over-indebtedness, 2008

[3] McKay, S, Kempson, E, Atkinson, A and Crame, M (2008), Debt and Older People: How age affects attitudes to borrowing, Report for Help the Aged, 2008

[4] Kempson E, McKay, S and Willitts, M (2004), Characteristics of families in debt and the nature of indebtedness, Report to the Department of Work and Pensions, 2004

[5] Kempson, E (2002), Over-indebtedness in Britain, Report to the Department of Trade and Industry, 2002

[6] van de Ven, J., Weale, M., (2008), Unsecured Indebtedness in the United Kingdom — implications from a rational agent model, National Institute for Economic and Social Research discussion paper 309, 2008

[7] Fernandez-Corugedo, E and Muellbauer, J (2006), *Consumer credit conditions in the United Kingdom*, Bank of England working paper no.314

[8] Livingstone, S and Lunt, K (1992), Predicting personal debt and debt repayment: Psychological, social and economic determinants, Journal of Economic Psychology, Volume 13, Issue 1, March 1992

[9] European Commission, Directorate-General for Employment, Social Affairs and Equal Opportunities (2008), Towards a common European definition of over-indebtedness, 2008

[10] Dominy, N and Kempson, E (2003), Can't pay or won't pay? A review of creditor and debtor approaches to the non-payment of bills, Personal Finance Research Centre, University of Bristol, 2003

In research which identifies economic factors as playing a role in financial difficulties, high levels of unemployment, rising levels of tenancy, increasing housing costs and a general lack of saving across the population are seen as key[11].

However, other economic variables have been identified as potentially placing more people at risk of over-indebtedness. These are: high interest rates, high levels of credit availability and rising economic growth[12]. Research identifying increased credit availability as a contributing factor makes the point it is not just levels of outstanding debt that is important but how aggressive contemporary lending practices are[13].

One theory, explored in the United States but less understood in a UK context, suggests rising income inequality is a driver of personal indebtedness[14]. Their theory argues that lower-income consumers will use unaffordable credit in an attempt to maintain comparable living standards with others in society. The small amount of work done on the subject in the UK suggests that this theory may hold true in Britain[15].

3. How far do you agree with the objectives of the Financial Capability Strategy?

Personal over-indebtedness can result in stress, anxiety, poor physical and mental health and relationship breakdown[16]. The economic health of the UK is also affected by personal over-indebtedness. Pleasance et al argue personal over-indebtedness can reduce an individual's economic output by up-to £1,000[17]. Wells et al have estimated that solving debt problems could benefit the UK financial services industry by up-to £1 billion a year[18].

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[11] Dominy, N and Kempson, E (2003), Can't pay or won't pay? A review of creditor and debtor approaches to the non-payment of bills, Personal Finance Research Centre, University of Bristol, 2003 -- Fernandez-Corugedo, E and Muellbauer, J (2006), Consumer credit conditions in the United Kingdom, Bank of England working paper no.314 -- McKay, S, Kempson, E, Atkinson, A and Crame, M (2008), Debt and Older People: How age affects attitudes to borrowing, Report for Help the Aged, 2008

[12] Disney, R, Bridges, S and Gathergood, J (2008), Drivers of Over-indebtedness, Report to the Department for Business, Enterprise and Regulatory Reform, 2008 -- Gathergood, J (2009), Demand, Capacity and Need for Debt Advice in the UK, Report for the Money Advice Trust, 2009 -- Fernandez-Corugedo, E and Muellbauer, J (2006), Consumer credit conditions in the United Kingdom, Bank of England working paper no.314

[13] Ausubel, M (1991), 'The failure of competition in the credit card market', The American Economic Review, 81, March 1991

[14] Morgan, R and Christen, M (2003), 'Keeping up with the Joneses: The effects of income inequality of demands for consumer credit', INSEAD working paper

[15] McKay, S (2005), 'Debt: Envy, penury or necessity?' in Stewart, I and Vaitilingam, R (eds.) Seven Deadly Sins: A new look at society through an old lens, ESRC working paper, 2005

[16] Kempson, E (2002), Over-indebtedness in Britain, Report to the Department of Trade and Industry, 2002

[17] Pleasance P, Buck A, Balmer N J and Williams K (2007), A helping hand: the impact of debt advice on people's lives, Legal Services Research Centre, 2007

[18] Well, J, Leston, J and Gostelow, G (2010), The Impact of Independent Debt Advice Services on the UK Credit Industry, Friends Provident Foundation, 2010

Research by StepChange Debt Charity has shown that a failure to solve the problem of over-indebtedness in the UK costs the economy at least £8.3bn[19].

Therefore we believe that over-indebtedness must be referenced more explicitly in the *Financial Capability Strategy*. In particular, the *Strategy* must concentrate on:

1. Stopping individuals becoming over-indebted via prudent borrowing, precautionary saving, sound budgeting and using information (eg about credit scores) appropriately in their decisions.
2. Helping those who are currently over-indebted seek free advice quickly
3. Ensuring that those seeking advice can find the right solution to their financial problem.

We would suggest incorporating these aims into the 'individual' section of the objectives.

4. What is your view of the financially capable behaviour domains?

Although we are pleased that MAS has incorporated tacking problem debt as a behaviour domain, we are concerned that:

1. The 'tackle problem debt' domain does not specify seeking free debt advice as the most financially capable behaviour.
2. The 'tackle problem debt' domain does not mention that it is important for people to seek advice as early as possible.
3. The 'tackle problem debt' domain is not specific enough that individuals should be able to access appropriate solutions to enable them to move beyond debt.

We would recommend the following changes:

1. The first goal within the 'tackle problem debt' domain should be: 'Seeking <u>free</u> debt advice <u>at the earliest possible opportunity</u>'
2. An additional goal should be added reading: 'taking up the debt solution appropriate to their circumstances'

Free debt advice

We are concerned that not specifying free advice may result in individuals paying for a service that they could receive for free. This would not be classified as financially sensible behaviour.

The FCA has identified clear problems in the commercial debt advice/debt management sector, including profit-driven advice and high/non-transparent fees. It says hundreds of thousands of distressed borrowers are paying annual fees of between £390 and £620 for a debt repayment solution – a DMP – available for free

[19] StepChange Debt Charity (2014), Cutting the cost of problem debt, *Briefing Paper*

from non-profit organisations like StepChange Debt Charity[20]. This at best slows down the repayment process and at worst can exacerbate an already precarious situation.

The cost associated with fee-charging debt management does not result in an improved service. In fact, the FCA's latest research into the commercial debt management sector found wide enough problems for it to initiate a thematic review into the suitability and quality of the advice that firms provide. This is expected to report in Q2 2015.

Early advice

Since 2011 StepChange Debt Charity has tracked the average length of time between individuals realising they were in financial difficulty and contacting any debt advice provider. In 2011 the proportion who waited 'more than year' to do so was 45 percent, and although this fell to 40 percent in 2012, by 2013 it was 50 percent[21].

Similarly, the Money Advice Service's report *Indebted Lives* found only 17 percent of people in financial difficulty (on a very broad definition) are currently seeking debt advice.

This is a crucial problem as not seeking debt advice early can lead to significant additional problems as interest and charges are added to existing debts, and as collections activity causes stress and distorts decisions. Each creditor has an incentive to "shout loudest" and individuals feel pressure to "rob Peter to pay Paul". We welcome MAS's work with creditors on early intervention but believe that the *Strategy* needs to avoid imposing extra non-essential steps between consumers and free debt advice. To minimise the risks of people dropping out of the debt advice system, MAS and the free debt advice sector need to work together to ensure that any referral mechanism is as "frictionless" as possible. In order to avoid the need for the client to interact with more than one agency, which is in itself inefficient and more likely to lead to the client disengaging, the assessment of the client's needs should be done by the free debt advice provider, not MAS, i.e. MAS should refer people on as promptly and smoothly as possible.

Appropriate debt solutions

The nature of personal debt has changed significantly over recent years. The availability of most forms of credit has become more restricted; however the number of people using high-cost credit products such as payday loans has increased dramatically. The proportion of StepChange Debt Charity clients with a payday loan has risen from two percent in 2009 to over 20 percent by 2014.

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[20] FCA reported at http://www.bbc.co.uk/news/business-26692111
[21] StepChange Debt Charity, *Statistics Yearbook 2013*

In addition, among our clients, debt problems are now increasingly concentrated on areas of priority expenditure, indicating how much harder they are to deal with. Between 2009 and 2013, the proportion of clients reporting Council Tax arrears increased from 10 percent to over 25 percent. Over the same period, the proportion of clients with arrears on gas and electricity bills doubled.

This means it is crucial that the *Strategy* addresses the issue of debt solutions and seek to ensure that the right solutions are available to everybody. We are pleased that the Money Advice Service has indicated support for a ‘breathing space’ scheme and we hope that it can use the *Strategy* to help ensure such a scheme is widely available. A ‘breathing space’ period would last for up to two years, with periodic reviews, and would restrict creditors from applying charges and interest, and pursuing enforcement activity. If financial circumstances have not recovered sufficiently after two years then another debt solution is likely to more appropriate. Where people can make debt repayments that would clear debts in a reasonable period the statutory protection should continue. This could last more than two years.

Another example is Debt Relief Orders (DROs), the great majority of which are provided by the free advice sector (StepChange Debt Charity alone provides more than one in five). DROs cost around £200 each to administer, and the Insolvency Service pays us £10 per case. The long term future of this excellent low cost alternative to bankruptcy will come into question unless the financials are sorted out.

5. How important is it to track financial wellbeing to help measure the impact of the Financial Capability Strategy?

Financial wellbeing is an outcome measure. It is slightly problematic as it carries connotations of “wealth”. “Resilience” might be a preferable term. In any case, a mixture of outcome and output measures is likely to be needed to gauge the impact of the Financial Capability Strategy. Output measures might include numbers of people exhibiting particular financially capable behaviours.

We also think there is a place for an overarching measure, against which the strategy can be judged. This might be reducing (or even eliminating) the overall economic cost of poor financial capability. Calculating that cost according to a recognised method would reveal the components of the total, and suggest the right suite of more specific measures against which to judge progress.

6. What are your views on the priorities for action that have been identified as a focus for the Strategy? Should any additional areas be added?

We broadly agree with MAS’s priorities for action, However, a) we would like to understand better how ‘financial difficulties’ are defined, and b) we would like the *Strategy* to have a more explicit focus on helping households containing dependent children – both making sure they are financially capable but also that they have the right knowledge and support for their circumstances.

Defining financial difficulties

In order to address financial difficulties, MAS must first establish an appropriate definition. This will help focus future research, identify the individuals it needs to target, and also identify the groups that will it should seek to include as part of the *Strategy's* roll-out.

We have carried out a literature review of the previous research on over-indebtedness that may help MAS in this context. Previous work shows that there are two definitions of over-indebtedness, indicating there are two distinctive over-indebted groups or 'types'. Using a single definition as an overall indicator is likely to exclude a large number of over-indebted individuals, as previous research has indicated a lack of overlap between indicators[22].

The presence of credit commitments alone does not indicate over-indebtedness[23]. According to Modigliani's 'life-cycle' theory, at some point all households will hold debt as they borrow early in life, when incomes are lower, knowing their income will rise later in life to compensate[24].

Over-indebtedness is seen instead in the academic literature as the relationship between financial commitments and financial resources. It has both an economic dimension (being over-burdened with commitments) and a temporal dimension (long-term structural problems). It is therefore not easily measurable using only one indicator (European Commission 2008).

The first definition (or 'type' of debtor) focuses on arrears on secured or unsecured credit commitments, or household bills; the second focuses on structurally unsustainable finances due to persistently low wages or high and irreducible expenditure (CS-J-DEBT 2007).

<u>Arrears debt</u>

Definitions of over-indebtedness based on arrears use missed payments on secured or unsecured credit or household bills, or a perception that the cost of payments constitutes a 'heavy burden' (European Commission 2008, Betti et al 2001). This definition is more common in the academic literature (Gathergood 2009, OXERA 2004) and is used by several European states (Austria, Belgium, Luxemburg and Ireland) as the official indicator for over-indebtedness (European Commission 2008). Research using this definition has usually settled on one missed payment as sufficient evidence of arrears debt (Disney et al 2008).

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[22] Disney, R, Bridges, S and Gathergood, J (2008), Drivers of Over-indebtedness, Report to the Department for Business, Enterprise and Regulatory Reform, 2008

[23] Betti G, Dourmashkin N, Rossi M, Verma V and Yin Y (2001), Study of the Problem of Consumer Indebtedness: Statistical Aspects Final Report, Contract no.: B5–1000/00/000197: ORC Macro, London

[24] Modigliani, F (1970), "The life-cycle hypothesis and inter country differences in the saving ratio," in W. A. Eltis, M. FG. Scott, and J. N. Wolfe, eds., Induction, growth, and trade essays in honour of Sir Roy Harrod, Oxford. Oxford University Press

Structural debt

Although a definition based on arrears is more common in the literature, another widely accepted definition is based on the overall financial wellbeing of the individual, whether their lifestyle is sustainable. In this definition the significant indicators of over-indebtedness are below-average living standards, lack of liquidity and adverse social impacts (OXERA 2004).

A definition of over-indebtedness based on illiquidity is included in the European Commission's common definition of over-indebtedness, as is spending that pushes a household below the poverty threshold (European Commission 2008). A complementary definition used in countries such as Finland defines over-indebtedness as the need to use an official financial advice service.

Van de Ven and Weale (2008) argue structural financial problems count as over-indebtedness because they harm individuals in three respects. They constrain consumption, reduce potential for financial investment and therefore return on resource, and leave individuals more vulnerable to financial shocks. Disney et al (2008) similarly argue that structurally unsustainable finances can be seen as a form of over-indebtedness because they are a strong indicator of a household's vulnerability to adverse financial shocks.

Households containing dependent children

Although one priority for action within the *Strategy* is Children and young people up to the age of 24 this does not cover parents whose financial position may be strained as a result of having dependent children.

StepChange Debt Charity's and the Children's Society's joint report *The Debt Trap* identified parents as a potentially extremely vulnerable group, and we would like MAS to make this explicit in the strategy.

Almost 1.4 million UK families with dependent children are currently in problem debt. In total, families with children are behind with payments of £4.8bn to service providers and creditors (including national and local government). Around 2.4 million dependent children live in these households. An additional 2.9 million families with dependent children have struggled to pay their bills and credit commitments over the previous 12 months, putting them on the edge of falling into problem debt.

Families trapped in problem debt are more than twice as likely to argue about money problems, leading to stress on family relationships, and causing emotional distress for children. Evidence suggests that problem debt can lead to children facing difficulty in school. Around a quarter of children in problem debt were unhappy with their life at school – making them nearly twice as likely as other children to be unhappy in this area of their life. We believe there is a danger this may have a long-term, detrimental impact on their prospects.

8. What is your view of the recommendations for action relating to children and young people? How could they be improved?

We would like the MAS *Strategy* relating to children and young people to refer more specifically to external context. As we mentioned in response to Q2, wider context is crucial when trying to tackle financial detriment, and in particular over-indebtedness.

Data we have previous provided to MAS demonstrates that over 40 percent of StepChange clients aged 18-24 are unemployed and around 18 percent are employed part-time. This may have contributed to high levels of priority arrears in this age group. Almost one in three clients aged 18-24 have arrears on their Council Tax bill (a situation that may be exacerbated by changes to Council Tax benefit), and almost one in four have arrears on their rent or mortgage. Rather than purely being an indication of their financial awareness, this is as much to do with a financial system that is not adequately suited to their needs.

We would want the Money Advice Service to do more to work with providers to ensure their products are suitable for young people, for example, by ensuring moves from free to charging overdrafts are adequately explained, and young people are given time to adjust.

In this light we are concerned by the recent MAS report, *It's time to talk: young people and money regrets*, which we believe places too much emphasis on the role of personal attitude in debt problems among younger consumers – a finding not sufficiently backed-up by research. Research of this type perpetuates a dangerous perception that debt problems among young people are entirely due to poor choices, when plenty of previous analysis shows this is not the case. We would be very concerned if this perception informed the roll-out of the research.

9. How far do you support the Strategy's aim in respect of preparing for later life?

We believe that the *Strategy's* aim in respect of preparing for later life should explicitly include a provision that those who are in danger of reaching later life in a financially precarious position are able to access free debt advice in a timely manner, to prevent their retirement being blighted by problem debt.

10. What is your view of the recommendations for action relating to preparing for later life? How could they be improved?

We would like the *Strategy* to be more specific about how people approaching and transitioning into retirement will be supported through the impending pension changes. We have identified three areas of specific risk to people who find themselves with an accessible pension asset, but who also have debt problems. Some of these risks exist now, but will be exacerbated by the proposed reforms and we believe that MAS needs to incorporate an understanding of these risks in the *Strategy's* initial phase, both in terms of aim and what organisations it prioritises:

1. Pension funds may arrive into a bank account over which creditors have right of set off. MAS should consider how pension assets might be protected from right of set-off.

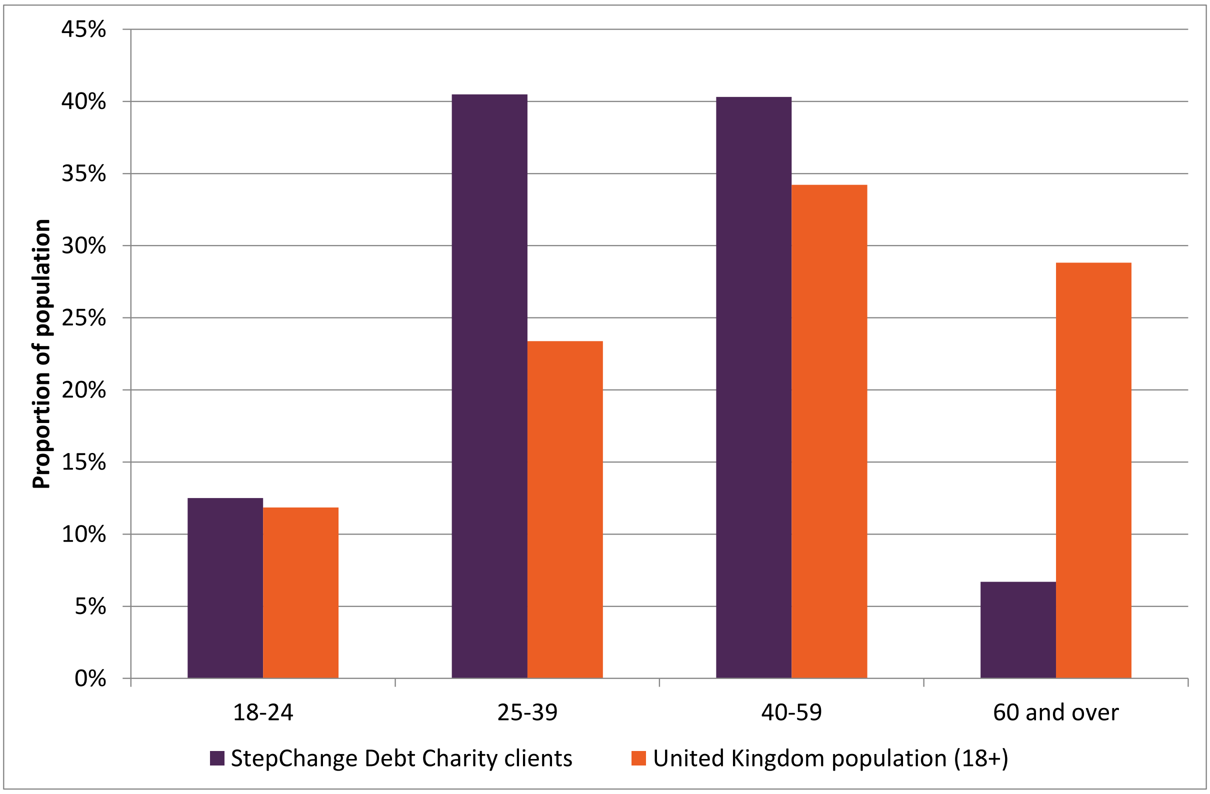
2. The duties of the Official Receiver (Trustee in Scotland) in cases of bankruptcy could force people to pay all their pension wealth over to creditors. Currently, if someone will become eligible to access their pot within 3 years (4 years under new legislation in Scotland) the OR/Trustee requires them to pay the maximum accessible portion (the 25 percent tax free cash) to creditors. MAS should examine the legislation to see whether under the new rules, this will automatically rise to 100 percent of the pot.

3. Third party debt orders[25] could be used by creditors to require pension companies to pay people's savings over to creditors rather than to the client, or to obtain pension assets that people have already accessed. With this new class of asset potentially available, we might see a sharp increase in the use of third party debt orders by creditors[26]

11. How far do you support the Strategy's aims for older people?

Our data indicates that currently older people in problem debt may be reluctant to seek advice or seek advice early enough. By comparing StepChange Debt Charity data with national statistics, we can see that people over 60 are disproportionately less likely to seek debt advice than young people[27].

[25] In England and Wales, a third party debt order is a way of enforcing a County Court Judgement. It can be a creditor's 'next step' if they don't get payment after judgment, or the debtor defaults on instalment payments.
[26] There were 845 such orders in 2012.
[27] StepChange Debt Charity, Statistics Yearbook 2013



Although older people are less likely to experience problem debt that younger people there are still significant issues for this group. In 2012, a report commissioned by StepChange Debt Charity identified a previously overlooked minority of older people with extreme debts – seven percent of those aged over 55 still hold secured debts greater than £150,000 – who are struggling to repay them[28].

We believe this needs to be explicitly recognised in the *Strategy's* aims for older people and MAS should be seeking to encourage more indebted older people to seek advice earlier. We recognise this is included in the recommendations for action, but believe it should be brought into the overall aims to ensure it is a central focus of the *Strategy*.

12. What is your view of the recommendations for action relating to older people? How could they be improved?

We believe the recommendations should specify free debt advice and should prioritise getting older people to advice as early as is possible.

13. How far do you support the Strategy's aims for people with financial difficulties?

We strongly support the *Strategy's* overall aim regarding people with financial difficulties. However, we reiterate the points raised above that MAS should, a) be prioritising free advice, and b) confirm what it defines as financial difficulty.

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[28] StepChange Debt Charity, Financial Inclusion Centre (2012), *Debt and the Generations*

Problem debt costs society £8.3 billion. It costs so much because it can exert such a pervasive grip on individuals' lives. Household debt affects mental and physical health, hurts productivity and employment prospects, strains relationships and threatens families[29].

However, the costs of problem debt are not inevitable. Free debt advice can and does turn lives around. As individuals and families bounce back, wider social and economic costs are reduced.

In one year StepChange Debt Charity's advice saved £241 million in the social costs of problem debt. If all 2.9 million people in problem debt in the UK got effective debt advice, we calculate that £3.1 billion could be saved in social costs[30].

14. What is your view of the recommendations for action relating to people with financial difficulties? How could they be improved?

In our *Life on the Edge* report[31], we identified 15 million people who are falling behind on bills and using credit to pay for essential costs, including almost six million people using credit to make it through until payday, and almost three million using credit to keep up with existing credit commitments.

Although recommendation 11 is aimed at helping these individuals, there is a lack of clarity on how the *Strategy* intends to do this. *Life on the Edge* raised some policy areas that MAS may want to consider to flesh this out.

- Boost people's financial resilience by making saving a realistic option for those on low and middle incomes.
- A Living Costs Challenge to tackle unfair charges on essential services that penalise lower income households and contribute to the 'poverty premium'.
- Ensure that support with high bills is available for a wider range of low and middle income households struggling with living costs.
- A pledge to ensure that affordable credit is available for low income households to avoid the traps of high cost credit.
- A policy programme to boost saving among low to middle income households, based on what works: default and incentive based saving choices in everyday transactions.
- Formalising the role of creditors and essential service providers in the safety net, such as utility companies, mortgage lenders, landlords and local authorities, to improve and simplify the help they offer people when they fall on hard times, including offering 'breathing space' to struggling bill payers.

[29] StepChange Debt Charity (2014), Cutting the cost of problem debt, *Briefing Paper*
[30] StepChange Debt Charity (2014), Cutting the cost of problem debt, *Briefing Paper*
[31] StepChange Debt Charity (2014), *Life on the Edge*

Recommendation 14 discusses 'breathing space', which we have addressed above. We would emphasise here therefore it is crucial that MAS works closely with free debt advice organisations to develop and implement this scheme.

Recommendation 15 discusses the 'quality, consistency and effectiveness' of debt advice services. Sector reach should also be extended by improving the cost-effectiveness of the supply-side. Data from the main non-profit providers shows that telephone advice is four or five times cheaper than face-to-face provision, with online services cheaper still[32]. The appetite for telephone and online services is there, with hundreds of thousands of people every year using the services provided by StepChange Debt Charity and others. Web-based debt advice is in particular a high growth area, with numbers advised by our online Debt Remedy tool up 115 percent in the last five years. Even among the cohort of face-to-face clients in the wider sector, there are high rates of appeal[33]. MAS needs to both respond to the evidence of consumer choice and also, to expand reach in a cost effective way, to support channel shift.

15. How far do you support the Strategy's aims in relation to the ease and accessibility of products and services?

No comment, aside from the points made under Q2 above.

16. What is your view of the recommendations for action relating to the ease and accessibility of financial services? How could they be improved?

Recommendation 16: why does the *Strategy* only specify that MAS will work with 'consumer organisations' to address problems of access to financial services? We believe it would be both logical and expeditious to include the financial services industry in this aim. Similarly, although Recommendation 17 does include the financial services industry in the *Strategy* it is only at a relatively high level, based on increasing the level of information available to consumers. We would recommend that MAS widen the role that the financial services industry plays in the *Strategy* in terms of product development and referral procedure.

17. How far do you support the Strategy's aims in relation to influencing social norms?

We believe that MAS needs to do more work to elucidate the role of societal norms in the *Strategy*. Research does exist suggesting some social norms may contribute to a propensity to impulsive credit use, including poor control over finances, a relaxed attitude to money management and so-called 'credit myopia' – the focus on short-term gain over long-term good[34]. However, we see little evidence from the

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[32] Helping over-indebted consumers (2010), NAO; Helping consumers to manage their money (2013), NAO.
[33] Research by the Money Advice Trust suggests seven in ten face-to-face clients would be comfortable with debt advice delivered by phone. MAT/Policis Op Cit.
[34] Kempson, E (2002), Over-indebtedness in Britain, Report to the Department of Trade and Industry, 2002 -- Waldron, M and Young, G (2007), Household debt and spending: results from the 2007 NMG

Strategy paper that MAS have done sufficient background work to confirm these relationships. We would therefore want the aim of the *Strategy* in this area expanded to include an additional research objective.

18. What is your view of the recommendations for action relating to influencing social norms? How could they be improved?

See our answer to Q17 (above).

19. How far do you support the Strategy's aims relating to evidence and evaluation?

We support the *Strategy's* aims relating to evidence and evaluation.

20. What is your view of the recommendations for action relating to evidence and evaluation? How could they be improved?

After reading through the associated documentation for this chapter we are concerned that although reference is made to a common evaluation toolkit, no work has been done analysing how different systems may be able to contribute to this framework. MAS may want to consider discussing systems in more detail with consumer organisations before proceeding.

We also note, after reference to the associated report, that little reference is made to evolving financial products and solutions and how they may change the level of capability, or make it more difficult for people to maintain credit payments. A recent example of this is Guarantor Loans, where we have seen significant problems with people misunderstanding their potential liability as a guarantor. It is crucial that MAS is aware of developments in financial products as part of the *Strategy* and this should be reflected in the recommendations for action relating to evidence and evaluation.

Regarding Recommendation 25; although it is positive that providers use evidence to inform delivery decisions, we would like more clarity on how MAS ensures this happens, and that all providers are held to a similar standard.

21. How would your organisation like to be involved in further development of the Strategy?

We would be keen to remain involved in the further development of the strategy.

22. What role do you see your organisation playing in the implementation of the Strategy?

Research survey, Bank of England Quarterly Bulletin, 47(4), 512-21, 2007 -- Betti G, Dourmashkin N, Rossi M, Verma V and Yin Y (2001), Study of the Problem of Consumer Indebtedness: Statistical Aspects Final Report, Contract no.: B5–1000/00/000197: ORC Macro, London -- Hayes-Roth, B and Hayes-Roth, F (1979), 'A cognitive method of planning', Cognitive Science, 3, 1979

We would be happy to help MAS in the implementation of the eventual *Strategy*. However, based on our answers above, we would want some more clarity on aspects of the *Strategy* before it is rolled-out.