Financial Services Consumer Panel
AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

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Cabinet Office
1 Horse Guards Road
London SW1A 2HQ

16 September 2020

Response submitted online

Dear Sir / Madam,

Financial Services Consumer Panel response to: Fairness in government debt management: a call for evidence

The Financial Services Consumer Panel (FSCP) is an independent statutory body. We represent the interests of individual and small business consumers in the development of policy and regulation of financial services in the UK.

The FSCP welcomes the Cabinet Office seeking evidence on how debt management practices can be improved and most effectively manage debts stemming from fraudulent activity. There are several areas where changes can be made to improve outcomes for consumers throughout the consumer journey, making the process more straightforward and less stressful, as well as ensuring individuals circumstances are accounted for.

We have responded to all the questions in the call for evidence, apart from Q14.

Summary

- **Assessing affordability:** The assessment of affordability is inconsistent across government departments and other sectors. Government departments and local authorities should adopt the Standard Financial Statement, data entry should be minimised through pre-population of consumer data where possible and figures should be validated to minimise the number of mistakes.
- **Interaction with consumers:** Government departments should employ a helpful or supportive tone of voice when seeking to recover debts. The often harsh, and possibly aggressive language used may cause or aggravate mental health issues. Further, where there are disputes, they must be handled swiftly.
- **Considering the circumstances of individuals:** Where it is possible, data should be used to identify individual's circumstances, whether they are vulnerable and if they are likely to become indebted in future. Many local authorities do a very good job of engaging with consumers and debt advice agencies, as they understand and consider the needs of their residents.
- **Effective metrics to measure a fair policy:** The government often focusses on metrics associated with cost and operational delivery. This can lead to poor consumer outcomes. Metrics that can be applied to monitor and promote fair

outcomes could include: recurrence of problem debt (recidivism), vulnerability identification accuracy and change in debt to income ratios.

Q1: Please provide details of any debts owed to central and local government organisations you believe should not be considered as part of this call for evidence.

- All debt types should be in scope with the exceptions of debt arising from criminal activity, fraud and other similar debt types.

Q2: Do you have any concerns about the way affordability is assessed by central and local government organisations agreeing debt repayments?

- The assessment of affordability is inconsistent amongst government departments and when compared to other sectors such as consumer credit and energy. This misalignment occurs as a result of differing legislation between government departments, as well as varied duties and incentives. This inconsistency creates difficulty in achieving fair outcomes for consumers as well as confusion and additional stress.

Q3: In your opinion, what is the best way to assess affordability of debt repayments? Please provide examples for any response you provide. This could include evidence on the role of technology.

- Government departments and local authorities should adopt the Standard Financial Statement and guideline (trigger) figures as provided by the Money and Pensions Service (MaPS).
- Collection and verification of income and expenditure data should be available via a variety of channels that enable the consumer to provide the information in the easiest and most accessible way possible.
- Options can include data entry via an online form, providing information over the phone, or making use of existing data sources such as Credit Reference Agency (CRA) data and Open Banking.
- Where possible, CRA and Open Banking data should be used to minimise the amount of data entry required. Consumers will find it easier to alter pre-populated data versus being required to input all income and expenditure information.
- Additional data sources can be utilised where a consumer does not know specific figures e.g. outgoings related to energy. Existing infrastructure provided by the energy sector can help consumers to estimate their outgoings using combinations of their postcode and tariff details as is used in energy switching.
- Online income and expenditure methods should prompt consumers when the figures they have entered are not representative of people in similar circumstances. This validation allows consumers to better consider their entries and prompts them to confirm details.

Q4: How might issues of sustainability of debt repayments be addressed outside of an affordability assessment? For example, through the ongoing

relationship between those in debt and the organisation that holds that debt, or through debt write-off.

- As is customary in the consumer credit market, consumers may make payment arrangements without providing income and expenditure data to determine affordability. In this case, the consumer can be placed on a temporary repayment arrangement with the onus placed on the debt holder to check in with the consumer regularly to determine on-going affordability. Repayments should not be used as a proxy for affordability as consumers may prioritise repayments based on perceived consequences of non-payment rather than affordability, actual priority or legal requirements.

Q5: Do you have any evidence of how issues with central and local government organisation communication can aggravate mental and physical impacts on people in problem debt?

- A consumer's mental and physical wellbeing is often impacted based on the sheer volume of communication. A person experiencing debt problems can often receive multiple letters, emails, text messages and calls in a single day. This can be the case where multiple government departments are seeking repayment and/or where the consumer has government and non-government debts.
- Communications received by consumers from government departments often do not employ a helpful or supportive tone of voice when seeking to recover debts. The often harsh, and possibly aggressive language used by government and contracted third parties, may cause or aggravate mental health issues. Specifically, letters are often sent on headed paper that opens with 'Debt Management' as the responsible department. This heading without the context that follows in the letter can cause consumers to disengage with the recovery process or suffer unnecessary stress and anxiety.
- Citizens Advice research has highlighted how full liability for council tax after one missed payment can negatively impact mental health.
- Debt recovery strategies for government debt are often overly reliant on written communication. This over-reliance can lead to detriment for individuals with certain disabilities or other vulnerabilities such as language issues or dyslexia.

Q6: How can central and local government organisations most effectively communicate with people who owe them money, including people who may be vulnerable? Please include any thoughts on the role of technology in communications or how best to reach people without access to technology.

- Government debt recovery must attempt to engage consumers in a variety of ways. Where a consumer has indicated a preference, the preferred channel should be used, where possible. Where a channel cannot be used, e.g. email, the reason why this channel cannot be used should be clearly explained to the consumer.
- Research from the Behavioural Insights Team (BIT) has shown how making use of behavioural insights can improve creditor correspondence resulting in better contact rates and no negative impact on payment rates.

- The government possesses significant amounts of data to help determine vulnerability. This data should be used where possible to identify potentially vulnerable consumers. It is important, however, the approach taken be one of potential vulnerability, as actual vulnerability is extremely fluid and an assumption of vulnerability that leads to exclusion or different treatment may cause consumers to disengage.
- Reducing the need for consumers to share their reasons for financial difficulty with departments and organisations through data sharing can also improve the consumer journey. Research done by the Personal Finance Research Centre (PFRC) has looked at this and it is something that the energy sector is actively working on.

Q7: Do you have any evidence on existing effective relationships between organisations collecting debt and debt advice providers? This could include comments about referrals and treatment of repayment offers.

- Many local authorities do a very good job of engaging with consumers and debt advice agencies. Local authorities who understand the needs of their residents will signpost, refer or even fund debt advice for specific groups of consumers. This approach has proven successful and enables the consumer to deal with their debt in a less pressurised and holistic way.
- Where local authorities and other government departments do not consider the individual needs of consumers, they often provide generic signposting information. This can lead to consumers reaching out for help and being turned away or finding out that the debt adviser can only support specific types of debt or specific consumer groups or geographies. The incorrect referral can lead to consumers disengaging with the recovery process and lead to further detriment for both the consumer and the debt holder.
- A wide range of sources have cited that personalised and proactive support, delivered through effective multi-agency partnerships, works better than generic, 'one-size-fits-all' approach
- Government has a number of choices when choosing third parties to support debt collection and recovery efforts. The government can support consumers better by selecting partners that have established, often seamless, processes for handing off consumers to the free money advice sector and other support services. Partner organisations with ethical collection practices should be prioritised when selecting partners.

Q8: How can central and local government organisations most effectively prevent recurring debt? Please include any thoughts on the role of partnership working in this challenge.

- Government organisations have access to a significant amount of data which can be used to build early warning tools to identify consumers who are at risk of going into debt. Where a consumer has a previous history of debt issues or shows signs of financial difficulty and stress, government organisations can engage much earlier to agree payment terms which do not force consumers into problem debt. Government organisations can also provide resources and signposting to free money advice and other organisations such as income maximisation services to proactively support these consumers.

Q9: In your opinion, what impact could poor debt management activity have on potential vulnerability?

- Poor debt management can have significant impacts on consumer's mental and physical health. Evidence has shown that consumers can suffer extreme stress and anxiety related to debt management actions which can worsen into depression and other mental health issues. There are also plenty of reports of individuals taking their own lives as a result of poor debt management practices in the UK and abroad.
- In addition to health issues, the pressure of poor debt management practices can lead consumers to increase their debt levels by taking on unaffordable and inappropriate financial products such as payday loans and other higher cost products. This pressure can also lead consumers to borrow money from illegal money lenders which makes them vulnerable to violence and other criminal behaviour.

Q10: How can central and local government organisations recovering debt best identify potentially vulnerable people? Please provide evidence of existing effective approaches. This could include evidence on the role of technology.

- Many government departments such as DWP and local authorities have the benefit of receiving information about consumer's specific vulnerabilities as a result of benefit claims, housing support, asylum/refugee status, and many other aspects of a consumer's life. In addition, these agencies also have the advantage of interacting with consumers in person and having visibility of the situation 'on the ground.' This information is invaluable in terms of identifying and defining vulnerability and should be used wherever possible to inform the debt management process.
- As highlighted in Q6 research done by PFRC provides an example of work in the energy sector.

Q11: How can central and local government organisations recovering debt best support potentially vulnerable people? Please provide evidence of existing effective approaches. This could include evidence on the role of technology.

- The panel recognises that there is no shortage of freely-available protocols and guidance, including guidance from PFRC and recent FCA guidance for the financial services industry. The significant issue is the ability to value the guidance and implement it effectively which is linked to organisational culture and is an area of concern.
- Government organisations can support vulnerable people by ensuring front line staff have appropriate training on working with vulnerable people. Staff must be skilled in identifying vulnerability, building rapport, showing empathy, and sensitive questioning. Utilising existing models such as TEXAS and other practices currency utilised within the consumer credit sector can help build the required skills.
- Technology can play a role in identifying vulnerability through allowing consumers to provide information on their vulnerabilities or asking sensitive questions which may identify vulnerabilities. Organisations must however

also know that many vulnerable customers may not be comfortable with technology and should implement mechanisms to identify those that fall out of digital journeys and review these interactions for possible vulnerabilities.

Q12: In your opinion, what are the benefits of an effective disputes process in debt management?

- An effective disputes process is paramount in enabling consumers to feel heard and providing an opportunity to have responsibility for repayment of debt proven. Achieving acceptance of the debt is key in encouraging any voluntary resolution to the debt and avoiding legal and more severe action.
- Dispute processes are also key in identifying and tackling fraud. This is especially important when recovering benefit overpayments, emergency loans, and other similar debt types which are prone to fraud and where the government has made a point of wanting to tackle fraud.

Q13: In your opinion, what is the most effective way to ensure a fair outcome to a disputes process in debt management? Please provide evidence of creditor sectors or organisations with effective disputes policies.

- Consumer credit organisations have long been required to have effective dispute processes within debt management. Where a consumer does not feel that they have had their dispute adequately handled, this often results in a reluctance or refusal to engage with the debt recovery process. This leads to poor outcomes for the consumer, possible increases in debt and/or vulnerability, and makes the role of debt recovery by government or third-party operatives extremely difficult.
- When a consumer raises a dispute the case should immediately be referred to a caseworker or individual responsible for investigating the dispute. The investigation should be governed by extremely aggressive service levels to deliver a response as soon as possible enabling the debt management process to continue or suspending debt recovery as appropriate.

Q14: Can you provide any evidence of where disputes policies interact, positively or negatively, with central and or local government organisations' debt management procedures?

- No comment.

Q15: In your opinion, what advantages and challenges are there in central and local government organisations collecting and reporting data on debt management activities?

- Collecting and reporting outcome data on debt management activities provides necessary transparency for consumers and other stakeholders enabling the government to be held accountable. The reporting of data also provides an opportunity to build confidence that the government is not at an unfair advantage over consumer credit and mortgage debt holders and that all parties are committed to finding the best solution for consumers.

- Challenges exist within government due to the lack of commercial imperatives related to debt management. The majority of lenders would prefer a voluntary solution to debt repayment by consumers as they have a commercial need to reduce credit losses and avoid costs related to repossessions, sale of collateral and other legal remedies. This often creates a debt recovery function and process that is focused on outcomes. The recovery of government debt is an operational cost at all stages. This often leads to input-based metrics such as number of phone calls, call handle times, cases worked, etc. Contracts in place for the management of government debt are usually based on a 'bums on seats' model where with the exception of some level of quality assurance, the provider and the government have a financial incentive to cut corners and deliver poor consumer outcomes as a way to reduce expenditure or avoid additional costs. Outcome expectations by the FCA and other regulatory and industry bodies have led to improved outcome reporting and third-party contracts that deliver better outcomes for consumers. The government would be well advised to take learning from these arrangements within consumer credit and mortgages and apply it to government debt management.

Q16: Are there any metrics on debt management activity that you believe could be a particularly effective measure of fair policies? Conversely, are there metrics / targets you believe drive poor debt management activity?

- Metrics that can be applied to monitor and promote fair outcomes could include: recurrence of problem debt (recidivism), vulnerability identification accuracy and change in debt to income ratios
- Debt management often focuses on operational and/or input metrics which can lead to poor consumer outcomes. These metrics include call volumes, handle times, number of caseworkers and recovered amounts. While departments may want to monitor these metrics for operational purposes, debt management supplier contracts and outcome reporting should not rely solely on these metrics.

Q17: In your opinion, what is the value in central and local government organisations facilitating access to their debt management policies and processes?

- Publishing clear policies and processes related to debt management will increase transparency as well as support consumers and debt advisers with knowing what to expect throughout the debt management journey. Visibility will also allow consumer bodies, debt advice organisations, and others to challenge practices which may not lead to fair outcomes. Commercial and other organisations who also must engage with consumers to collect debts will also benefit as they will be able to adapt their own processes based on government practices increasing fair outcomes for consumers.

Q18: How can central and local government organisations get better at identifying and tracking debt arising from serious non-compliance or fraud?

- See point on disputes.

- Government can take learning from anti-fraud strategies employed by consumer credit organisations. These would include looking at first payment default strategies, non-starter identification, and irregular payment behaviours.

Q19: How can central and local government organisations prioritise the recovery of debt from those whose debt is the result of serious non-compliant or fraudulent activity?

- Recovery of debt arising out of fraudulent or non-compliant activity should remain a priority for government debt management, however this should not be done without appreciation of affordability.

Q20: What can central and local government organisations' debt management do to discourage people from engaging in serious non-compliant or fraudulent activity?

- Implementation of fair and consistent debt management processes will help consumers not to feel pressured into finding unsuitable ways to cover expenses or debt repayments. High pressure and poorly executed processes can lead consumers to engage in fraudulent and/or non-compliant behaviour when they feel they have no alternative.

Q21: How should central and local government organisations approach debt management when dealing with people who are in debt due to fraudulent activity, but may potentially be vulnerable?

- How a debt arises should have no bearing on debt recovery practices when dealing with vulnerable people. Additional care and attention should be given to understand how that vulnerability has contributed to the fraudulent or non-compliant behaviour. If the vulnerability has created the debt due to failure of government to recognise the vulnerability, then the debt should be written off.

Q22: If you believe there are effective or ineffective debt management practices beyond central and local government organisations, please provide any evidence the government may wish to consider.

- The FCA Thematic Review (March 2019) on the debt management sector highlighted that a significant area for improvement amongst regulated firms was the identification and treatment of vulnerable customers
- In addition, debt advice firms routinely failed to discuss debt solutions to customers individually, who were seeking help together or already on a joint management plan.
- As highlighted in a previous Panel response[1], outside the FCA perimeter, we see firms not behaving in the best interest of consumers. There is intense lead generation activity (online and by phone) on behalf of Individual Voluntary

[1] https://www.fs-cp.org.uk/sites/default/files/fscp_response_to_insolvency_practitioner_regulation_call_for_evidence_20191002.docx_.pdf

Arrangement (IVA) providers. There is a risk of detriment if such lead generation does not lead to, or even signpost to, impartial information and advice covering all the clients' options. IVA providers and non-FCA-regulated lead generators must put the consumer interest first.

- There should be a strong presumption that Government creditors accept repayment offers put forward by regulated debt advisers. Debt advice practices make such offers recognising that Government debts are normally 'priorities' because of the consequences of non-payment. The Government should recognise that necessities, such as keeping someone housed and heated, should be a central priority. A debt adviser would make payment offers recognising these priorities.
- The Government should acknowledge consumer's overall hierarchy of needs and lead the way in supporting properly established debt solutions.

Yours faithfully,

Wanda Goldwag
Chair, Financial Services Consumer Panel