



# Understanding financial difficulty:

Exploring the opportunities for early intervention



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## Foreword



Should a lender be engaging borrowers who appear to be on the verge of financial difficulty? This is a question which intuitively divides. Some people think this skates too close to a ‘Big Brother’ or ‘nanny state’ type activity. Others think that lenders have a responsibility to support their customers at risk of financial difficulty and that contacting customers in this way does help. This research seeks to address the question, suggesting some sensitive ways forward, where little evidence has been gathered before.

The research has found that whilst some customers hold reservations about being contacted by their bank in this way, many more welcome the experience and benefit from it.

Of course the discussion around this issue cannot just be about whether or not contacting people who show signs of financial difficulties is a good idea. It must also consider what form this contact should take, and what options are available to support these customers. Clearly, signposting to independent sources of advice – especially where debts are with more than one creditor - will help individuals deal more holistically with their financial situation, rather than just with one debt to one creditor.

The overwhelming conclusion of this report is that if lenders can effectively identify those customers who appear to be struggling with their commitments and apply a sensitive strategy for contacting and helping these customers, there is potential to significantly widen the range of options available to them. An added benefit is that this increases the number of people receiving early advice on financial difficulties, which can have a positive impact on the financial health of households across the UK.

The foresight of Barclays in identifying this as a topic for investigation should be applauded and we welcome their commitment to further improve the help they give to struggling customers. Additionally the research excellence at Bristol University has played a crucial role in developing the strong results we are able to present.

So, should a lender be proactive in contacting borrowers who appear to be on the edge of financial difficulty? Our conclusion is an unequivocal ‘yes’, and we very much look forward to working together with Barclays and with other lenders to help get their customers back to financial health.

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Chief Executive, Money Advice Trust

This research was carried out by the Personal Finance Research Centre at the University of Bristol, in partnership with the Institute for Employment Research at the University of Warwick. It was funded by Barclays with the independent support of the Money Advice Trust.

### **The Personal Finance Research Centre**

Established in 1998, the Personal Finance Research Centre is an independent research centre based at the University of Bristol. Our interdisciplinary team of professional researchers specialises in policy-focused social research across all areas of personal finance, mainly from the consumer's perspective. This report was authored by Sharon Collard, Senior Research Fellow and Director of the Personal Finance Research Centre.

The research was carried out in partnership with Michael Orton, Senior Research Fellow at the Institute of Employment Research at the University of Warwick. Michael's current research focuses on three substantive themes: personal debt; worklessness and labour market activation policy; and economic inequality.

### **Money Advice Trust**

Money Advice Trust (MAT) is a charity formed in 1991 to increase the quality and availability of money advice in the UK. We work with government, the private sector and the UK's leading money advice agencies to:

- increase the availability of money advice;
- improve its quality; and
- improve the efficiency and effectiveness of its delivery.

MAT's key activities are:

- Support to the debt advice sector through:-
  - training
  - second tier support
  - quality assurance developments, e.g. accreditation
  - policy, research and evaluation
  - fundraising, facilitation and strategy development
  - direct service provision (National Debtline and Business Debtline).

## Introduction

Barclays offer a range of support to customers who have concerns about their finances. This research considers one element of this support, namely a pre-arrears service which is available to customers who have a personal unsecured loan or overdraft and who are showing signs of financial difficulty, even though they may not yet have missed a repayment or be over their overdraft limit.

A dedicated pre-arrears team gives assistance to customers who call in of their own volition as well as proactively contacting customers where Barclays' systems indicate that the customer may be showing early warning signs of financial difficulty. Over 50,000 customers have been assisted by this service since late 2007 which aims to prevent the escalation of debt problems and provide assistance at an early stage.

Barclays commissioned this independent research, authored by researchers at the University of Bristol, to gain insight into the needs and motivations of consumers who have been assisted by this team and to understand the impact that pre-arrears support can have.

As there is very little publicly available research on pre-arrears assistance to consumers, this research also provides valuable new insights that will be of interest to the wider credit industry, the advice sector and government.

The most common cause of financial difficulty among customers interviewed was loss of earned income.



### Research methods

The aim of this research was to explore the views and experiences of customers who had been in contact with Barclays at an early stage of financial difficulty (either contacting the bank themselves, or being contacted by Barclays), using quantitative and qualitative research methods. The research was conducted and written by the University of Bristol in partnership with the University of Warwick.

We conducted quantitative data analysis of Barclays anonymised management information, which comprised over 28,000 customers who were recorded as having contact with the pre-arrears service at Barclays between September 2008 and the end of January 2011. This analysis allowed us to explore differences in the characteristics of customers who had got in contact with Barclays themselves, compared with customers who were proactively contacted. We also explored differences between customers who did and did not decide to engage with the bank when they were proactively contacted.

The qualitative research comprised one-to-one depth interviews and focus groups with Barclays customers. We conducted a total of 36 face-to-face depth interviews, 23 with customers who had contacted Barclays themselves and 13 with customers who were proactively contacted by Barclays. We also held four focus groups with customers, which each comprised a mix of customers who had contacted Barclays as well as those who had been proactively contacted.

Customers vividly described the stress and anxiety that resulted from their financial difficulties, which could put additional strain on personal relationships and lead to tension and arguments between couples.

### The characteristics of customers assisted with pre-arrears support

Quantitative analysis of Barclays anonymised data from customer accounts provides us with a unique and detailed picture of the customers assisted by this part of the bank. They comprised fairly similar proportions of men (48 per cent) and women (52 per cent) and the majority were under 50 years of age. Four in ten (41 per cent) had at least one dependent relative (such as a child under 16), the remainder did not have any dependents. Most customers were employed or self-employed at the time they came into contact with the service and three-quarters of them (75 per cent) had personal incomes between £500 and £1,999 per month.<sup>1</sup> In terms of housing tenure, four in ten customers (44 per cent) rented their home, a further three in ten (29 per cent) were homeowners, and three in ten (27 per cent) had some other form of living arrangement, such as living with their parents.

Quantitative analysis of the management information showed that employment status and gender were statistically significant predictors of whether customers contacted Barclays themselves.<sup>2</sup> So, customers who contacted Barclays themselves were one-and-a-half times more likely to be unemployed than to be in full-time employment, all other things being equal. In addition, men were less likely to have contacted Barclays than women. This supports other research which found that men were less likely than women to seek professional help for debt problems.

### The causes and impacts of financial difficulties

The most common cause of financial difficulty among the customers interviewed was loss of earned income due to redundancy, being unable to work for a prolonged period of time due to ill-health, relationship breakdown, or non-voluntary

cuts in working hours. Fluctuating (and often low) earnings from irregular work was another important cause of financial difficulties, for example agency workers (such as supply teachers and HGV drivers) and self-employed people who experienced fallow periods with little or no income.

By the time they came into contact with Barclays, customers were generally struggling to keep up with their household bills and credit commitments at least some of the time. Some had already fallen behind with bills or other payments owed to creditors other than Barclays. Customers vividly described the stress and anxiety that resulted from their financial difficulties, which could put additional strain on personal relationships and lead to tension and arguments between couples. Understanding the psychological and emotional state that customers may be in as a result of financial difficulties is therefore an important factor for creditors to take into account when thinking about effective pre-arrears services.

### Getting in contact: Customers who contacted Barclays

Customers who got in contact with Barclays themselves either realised that they would not be able to continue to meet their financial commitments (typically personal loan repayments) to Barclays for much longer or wanted to discuss the overdraft charges they had incurred. Some felt reasonably happy getting in touch because they had a good relationship with bank branch staff or they were a long-standing customer of Barclays and were familiar dealing with the bank on the telephone or face-to-face. Others felt nervous or unsure about getting in touch because of poor previous experiences with their creditors; because they were embarrassed about their situation; or because they were not sure whether Barclays would be willing or able to help them.

1. Personal income is the income of the customer at the month end before they were referred to the Customer Review Team.

2. Tests of statistical significance are used to identify which differences are unlikely to have occurred by chance. In line with general statistical convention, we have only reported differences that have a one in 20 chance or less of being solely due to chance.

## Age, employment status and income were statistically significant influences on customer engagement.

### Customers who were proactively contacted by the bank

The research shows that the majority of customers welcomed proactive contact from Barclays. Our quantitative analysis of Barclays management information found that 80 per cent of customers who were proactively contacted went on to work with the bank to address their financial issues. The minority of customers (20 per cent) who decided not to engage with the bank did not consider themselves at risk of financial difficulty at the time they were contacted.

The qualitative interviews with customers found that some were pleased (if surprised) to be contacted by their bank with an offer of help. Other customers described feeling annoyed or frustrated at being contacted. This was generally because they had previously contacted the bank themselves and felt that they did not get the help they wanted then, or (in the case of overdraft charges) because they felt the bank should have contacted them sooner. Despite their ambivalence, all of these customers went on to discuss their financial situation with Barclays.

Analysis of Barclays management information indicated that age, employment status and income were statistically significant influences on customer engagement. Customers in their 40s were more likely to react positively to contact than those in their 20s, all other things being equal. Customers who were unemployed and those who were retired from work were also more likely to welcome contact than those in full-time employment. Personal income was another significant factor: customers with personal incomes of less than £100 per month were much more likely to react positively than those who were better off. Other factors such as gender and housing tenure were not important predictors of customer engagement.

### What help did customers receive?

Barclays offers a range of options to support customers at risk of financial difficulty, including reduced repayment plans and freezing interest and charges. Where appropriate, Barclays recommends that customers seek free, independent debt advice and allows time for them to obtain that advice in line with the recommended 'breathing space' timescales set out in the Lending Standards Board's Lending Code.

The most common pre-arrears help received from Barclays by the customers we interviewed was to reschedule personal loans to reduce the repayment amount or to agree a payment plan for customers to repay unauthorised overdrafts. Other forms of help included sorting out administrative errors on accounts that had resulted in customers incurring charges. A few of the customers we interviewed were referred to an independent advice service.

In addition, some customers remembered general advice that they received from Barclays, such as setting up a budget; switching to a bank account that did not have an overdraft facility; and the use of internet banking as a way of keeping track of their finances. A few described how they had gone through and reviewed their regular standing order and direct debit payments with a member of the pre-arrears team, to check if any were superfluous and could be cancelled.



A sizeable number reported making changes to the way they managed their money including making and sticking to a budget, keeping a closer eye on finances or cutting back on spending.



### The impacts of early creditor engagement

Almost all the customers we interviewed had been able to resolve their financial issues as a result of their initial discussions with the bank. At the time of the research interview, they were in the process of repaying (or had repaid) what they owed or had sorted out the errors or discrepancies on their accounts. In a few cases, things took longer to resolve because plans were altered over the course of time due to circumstances, for example a further drop in income that made a repayment plan unsustainable.

Customers generally reported a positive financial impact of addressing their financial difficulties with Barclays. In the case of personal loans, this resulted from an often quite significant reduction in the repayment amount, which eased household budgets considerably. Customers who had stopped incurring over-limit overdraft charges also found it easier to manage now that they no longer had to meet these costs.

Customers described other positive effects of early engagement as well, most notably a feeling of relief because they had sorted out their financial concerns with Barclays. A few customers were prompted to contact other creditors on the strength of their experience with Barclays. A sizeable number reported making changes to the way they managed their money as a direct or indirect result of their experiences with Barclays. This included making and sticking to a budget; keeping a closer eye on finances, for example by monitoring accounts online; cutting back on spending; and dealing mostly in cash. Several customers said they were now more cautious about using credit, for example only using credit cards in an emergency, or not dipping into overdrafts as they had done before. Just as many customers, however, considered themselves to have always been competent money managers.

It was encouraging that customers generally reported improvements in their overall financial situations following their contact with the pre-arrears team. The financial impact of resolving their difficulties played a part, as did better money management for some. An increase in income was often another significant contributory factor, for example in cases where customers had moved back into work following the redundancy or period of ill health that had caused their financial difficulties. Although they had satisfactorily resolved their financial issues with Barclays, a few customers continued to experience difficulties because they were still out of work or had seen their earnings continue to fall.

On the whole, customers expressed high levels of satisfaction about the help they received and welcomed the idea of proactive help from creditors for customers like them who were at risk of financial difficulty.

### Pre-arrears services: What do customers want?

On the whole, customers expressed high levels of satisfaction about the help they received from Barclays and welcomed the idea of proactive help from creditors for customers like them who were at risk of financial difficulty. Analysis of the depth interviews and focus groups highlighted three key elements in any pre-arrears service: getting in contact; customer relations; and help and support.

#### Getting in contact

Customers felt strongly that creditors should get in contact with them at an earlier stage, when they first identified that they were at risk of financial difficulty. In the case of overdrafts in particular, this meant that creditors would get in contact before charges had mounted up (or even been applied). Customers also felt creditors could do better in terms of facilitating customer access to pre-arrears services. Customers who had got in contact with Barclays themselves reported frustration at being transferred from one department to another before they were put through to the right team. In their view, it would be a great improvement if all customer service staff knew about these specialist services and were able to transfer customers straightaway.

#### Customer relations

Worried and anxious about their financial difficulties, customers attached great importance to the fact that they were treated as an individual by pre-arrears services. They liked the fact that the staff were friendly, helpful, and most of all understanding. Being able to deal with the same member of staff over a period of time was also something that customers greatly appreciated.

#### Help and support

The third crucial element was the help and support that was provided to customers. Key factors here included being able to deal with knowledgeable staff who could sanction a particular course of action. A collaborative approach to agree a workable and affordable solution was another positive aspect of service provision from the customer's perspective. Being able to sort out financial difficulties quickly and straightforwardly was also important, given the considerable stress that customers experienced even at the pre-arrears stage. Once a plan of action had been agreed, customers were in favour of the pre-arrears team monitoring how they were managing, for example by means of a telephone call every month or so.

Some customers considered that banks (and other creditors) should routinely provide details of independent advice services to customers at risk of financial difficulty. Others expressed a strong preference for dealing directly with their bank to resolve financial issues.

Drawing these findings together provides a clear picture about what an ideal pre-arrears service would look like from the customer's perspective:

### An ideal pre-arrears service from the customer's perspective

- The pre-arrears service is operated as a separate department to help people at risk of financial difficulty.

#### **Getting in contact**

- The pre-arrears service gets in touch at an early stage, when it first identifies that the customer might be at risk of financial difficulty.
- Customers can also get in touch and keep in touch with the pre-arrears service easily and without incurring large telephone bills.

#### **Customer relations**

- The staff are understanding, polite and friendly to customers who are likely to be worried about their situation.
- Customers are able to deal with the same member of pre-arrears staff to sort out their financial difficulties.

#### **Help and support**

- Pre-arrears staff should be suitably trained, knowledgeable and have the authority to make decisions.
- Pre-arrears staff should take the time to explain and discuss options with customers, and take a collaborative approach to agree a course of action.
- Once a plan of action is in place, pre-arrears staff should keep in touch with customers to check how they are managing.

