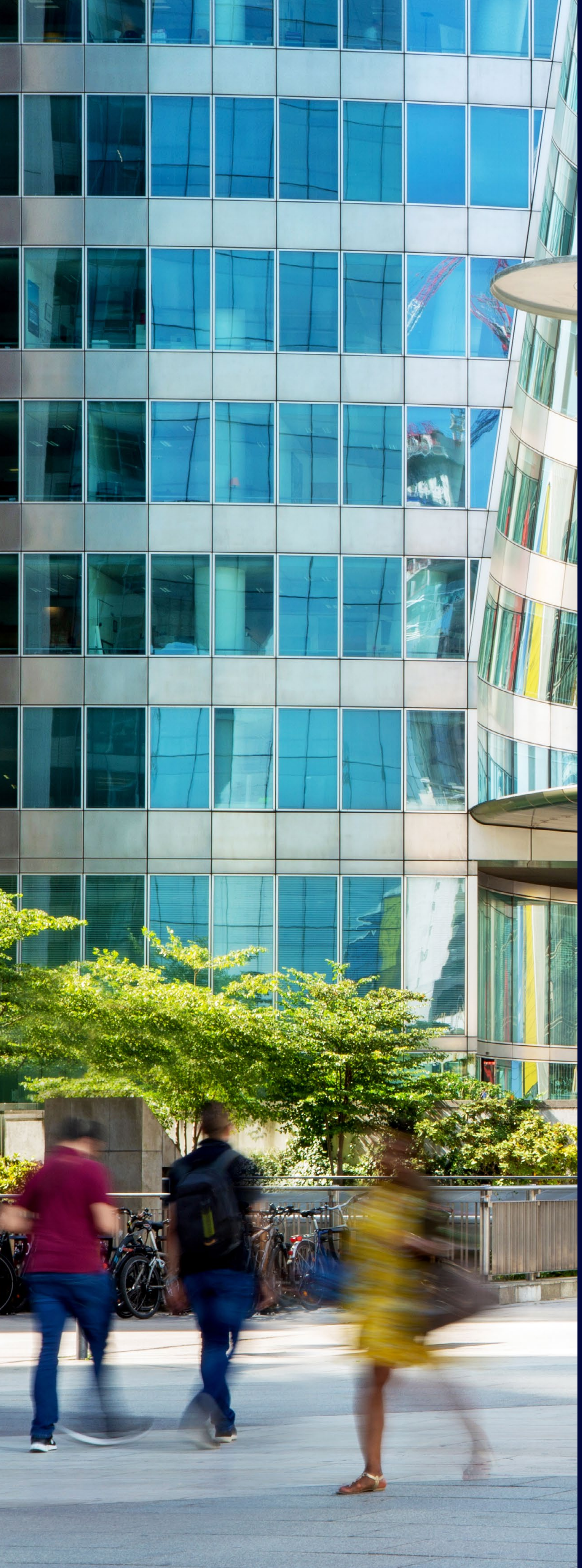
Treating customers fairly in collections

Helping companies to grow brand loyalty and revenue responsibly

Capita

Contents



Foreword

By StepChange

More than 600,000 people contact us here at StepChange each year because they're worried about their finances. And this number – which equates to someone picking up the phone every 48 seconds – was before the financial devastation of the coronavirus crisis took hold.

Now we're expecting to see an enormous surge in demand for our already-stretched service as people's precarious financial situations reach breaking point.

For that reason alone, this report is a timely and welcome reminder of the responsibility we all have to treat customers fairly and with respect.

For many of the people who contact us, how they're treated by their creditors when they're in difficulty is a key concern. For better or worse, clients are vocal about the respect – or lack thereof – that they feel they have been given and the understanding and sympathy they have received.

And as millions more get into financial difficulty, it will be vital to ensure that people are treated with fairness and empathy, based on their personal circumstances, to make sure they get the help they need at the right time.

At StepChange we know from our own research that household finances have been badly hit by the pandemic. Back in June, only two months into lockdown, we found that 4.6 million people had accumulated £6.1bn of arrears – a figure we're certain has risen significantly since then.

And in those first two months of the crisis, even with the support available, 2.8 million people fell behind with payments such as council tax, rent and utility bills.

What is clear is that, as payment holidays and the furlough scheme finish – and unemployment rates rise – even more households will find themselves unable to make ends meet and will need help.

During these times, it's vital that support is easily available. Payment holidays were popular because the offer of help was unambiguous and, at the same time, credit records had some protection. This welcome report, and our own research, highlights clearly that worries about credit status may deter people from seeking help, forcing them to turn instead to more harmful coping strategies such as high-cost credit, unsustainable spending cuts or worse. We hope, therefore, that the industry can move forward on greater credit reporting flexibility.

We recognise that there has been real progress in debt recovery practices over the last decade and that is to be commended. But we know that the link between poor debt recovery practice and worsening debt-related harm remains unbroken. People facing unaffordable payment demands may feel forced into juggling bills or borrowing more to cope. This can be especially true for those on low and insecure incomes, who this report finds are more likely to be hounded by collections activity. And while COVID-19 can affect anyone's finances, it has disproportionately affected this group – the most financially vulnerable – so far.

With that in mind, we welcome this timely discussion on fairness in debt collection practices. We would also urge that this discussion is not just for credit and collection companies that are regulated by the Financial Conduct Authority (FCA) – it's for others too. Fair debt recovery based on affordability, harm reduction, and aiding recovery needs to spread widely, particularly into areas like public sector debt recovery and unregulated bailiffs.

We hope to see as much progress across all sectors in the next decade as we have in the previous one.

"We also strongly support this report's message that clear, supportive communication is essential to engagement. People need to know that they will be treated fairly and that their difficulties will be lessened, not compounded, by asking for help."

Richard Lane

Director of External Affairs, StepChange Debt Charity

Introduction

We are living in an age of extreme change and uncertainty. The COVID-19 pandemic is causing huge devastation and disruption across the globe, affecting the daily lives of millions. It's not just the physical impact of the virus that is ruining lives, it is also the toll it is taking on people's mental health.

A major factor in this is the effect COVID-19 has had on people's finances. Swathes of job losses, business closures and loss of earnings have worsened the situation for many, especially those who were already struggling to pay their bills before the pandemic.

Every day, more than half of the UK's population is in touch with Capita through the provision of vital services. Talking to more than 100 million people every year, Capita is well positioned to see the impact of COVID-19 first-hand. As the largest FCA-regulated collections business in the UK, collecting £5bn per year for clients, it is seeing the devastating effect COVID-19 is having on people who are struggling to pay their bills.

Capita has commissioned Savanta, an independent market research company, to look at "Fairness in collections" to better understand the issues facing those who currently have or expect to have unmanageable debt. Savanta surveyed 556 UK consumers and interviewed nine heads of collections at a broad spectrum of organisations ranging from utility companies to banks to mobile phone operators, including Thames Water, The Co-operative Bank and TalkTalk.

Respondents have told us not only about their financial situation and how this is affecting their mental health but also how they would like their creditors to deal with their current situation. Organisations can look at the findings to identify where they can improve their collections processes in order to treat people fairly.

The survey examined the impact of the pandemic on debt levels, the effect on people who had not previously struggled to service their debt and the growing importance of approaching collections fairly. It highlighted potential roadblocks that both business and consumers might be experiencing as part of the current collections process.

It also looked at the reality of the situation that people were facing and where the industry must raise the bar in order to treat customers fairly.

"This research will help businesses to understand the needs of their customers at a time when they are vulnerable. It highlights where companies can make improvements in their collections process and how this can lead to loyalty. In the long term this will result in better outcomes for both clients and customers."

Ian Elam

Director, Customer Management, Capita

Financial challenges continue to rise

COVID-19 is having a significant effect on people's financial circumstances and their ability to pay bills and debts.

Latest statistics from the Office for Budget Responsibility predict that household debt of all types will grow from £2.068trn in 2019 / 20 to £2.425trn in 2023 / 24.

Lockdown sent economic shockwaves throughout the global economy. In the UK alone, the Money Charity reported that every day, between May and July 2020, 1,696 people were made redundant.

Unfortunately, the situation is not over. Government assistance through various furlough schemes will eventually end, plunging more people into difficult economic circumstances.

According to the Citizens Advice Bureau, 6 million people have fallen behind with their households bills since March 2020. Further regional lockdowns could push even more people into debt.

Citizens Advice estimate that **6 million UK adults** have fallen behind on at least one household bill during the pandemic, including:

2.8 million on their **energy bills**

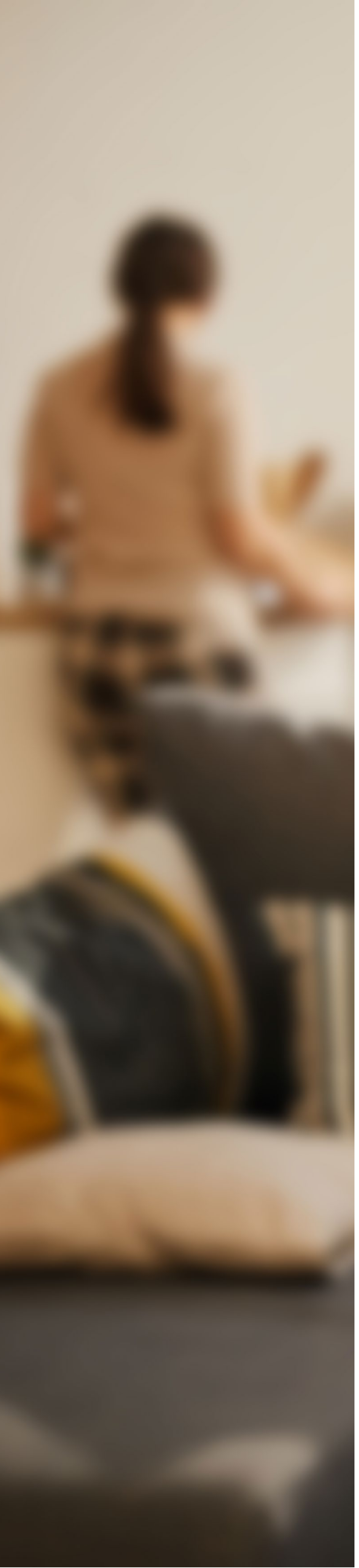
3.4 million on their **mobile phone or broadband bills**

3.0 million on their **water bills**

1.2 million on their **rent**

2.8 million on their **council tax**

3.9 million people have also fallen behind on either their **credit card or overdraft repayments**

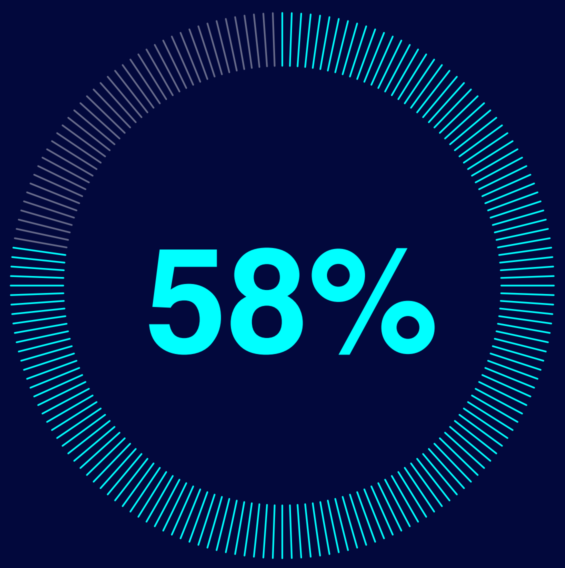


Some consumers have had very little or no experience of dealing with collection agents. Their interactions with the company that they now owe money to, if they had any, have probably been of a customer service nature.

It's also likely that those who have lost their job, and are finding themselves in a short-term period of financial hardship, will find employment once the economy improves next year (UK GDP is forecast to grow at 5.5% in 2021[1]), so many of these debt issues could and should be temporary. With retentions increasingly becoming a vital part of any organisation's revenue, it's now more important than ever to provide customers with seamless and valuable assistance in their time of need. Organisations are also facing unprecedented revenue declines driven by a downturn in business or customers taking 'payment holidays' or falling behind with repayments.

The FCA has published guidance to ensure that firms provide tailored support for users of certain consumer credit and overdraft products who are facing payment difficulties due to COVID-19. It says that companies should not put consumers into a 'one-size-fits-all' approach to get them back on track. Debt solutions must be tailored to each person's unique circumstance. Industry regulators will continue to take steps to ensure that vulnerable customers are protected.

[1] Euromonitor



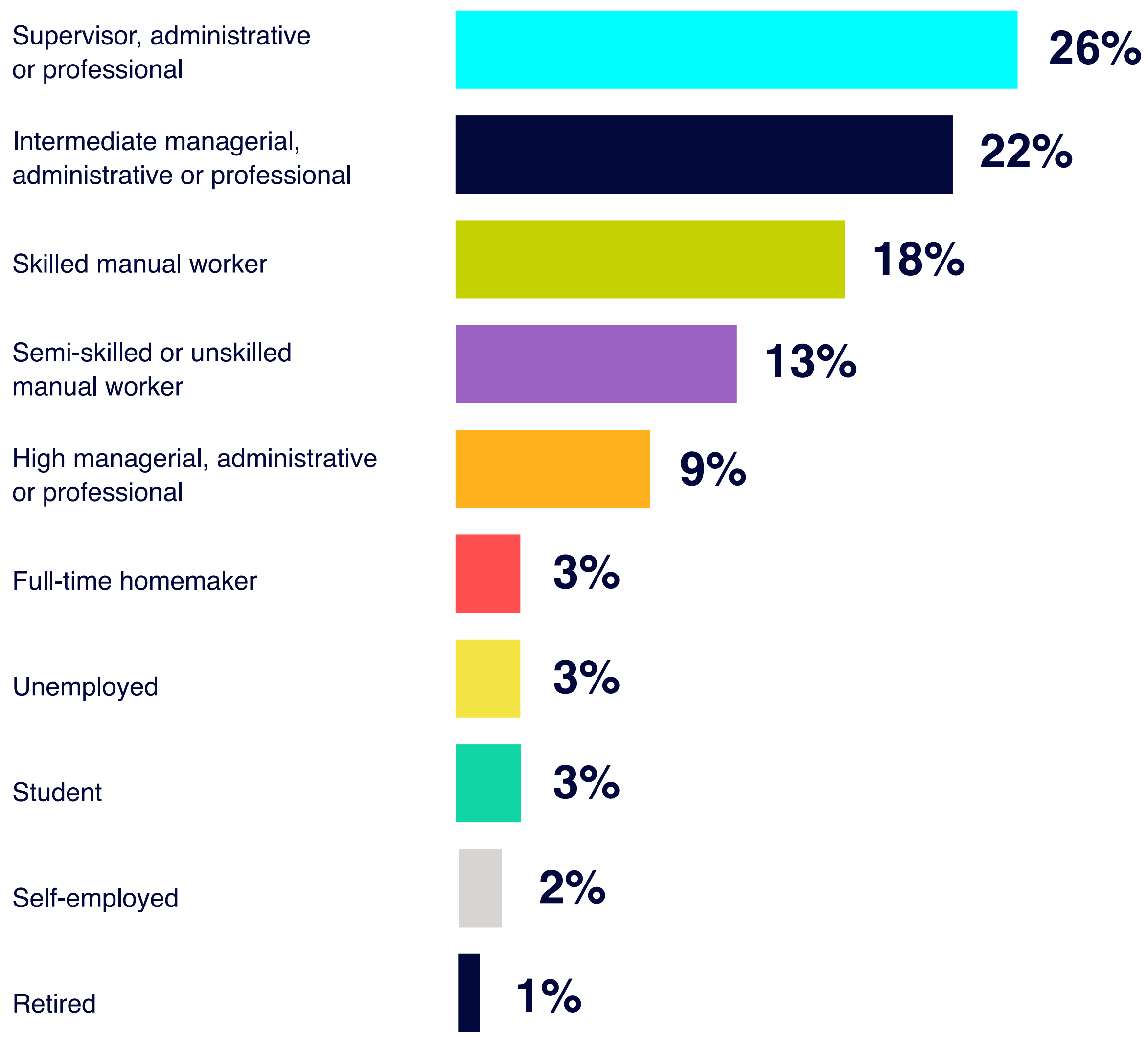
reported that this was **the first time** that debt repayments had been an issue for them

Facing first-time debt challenges

More than half (58%) of our survey participants are finding themselves in this challenging situation for the first time. Despite 64% of our participants being in full-time employment, COVID-19 has affected their financial situation significantly. 57% told us that they have seen a decrease in their monthly income as a result of the pandemic.

55% of all respondents said that their amount of unmanageable debt had increased in the last six months; however the results do vary between different professions. 62% of those in high managerial, administrative or professional roles agreed with this debt situation. Factors that are likely to have negatively affected them could include being placed into Government-led furlough schemes and having their salary reduced by 20% (or even more if their regular earnings were higher than the capped rate) or their business being forced to shut down, resulting in a decline in revenue.

Occupation of respondents



How are companies **supporting customers** who find themselves in financial difficulty?

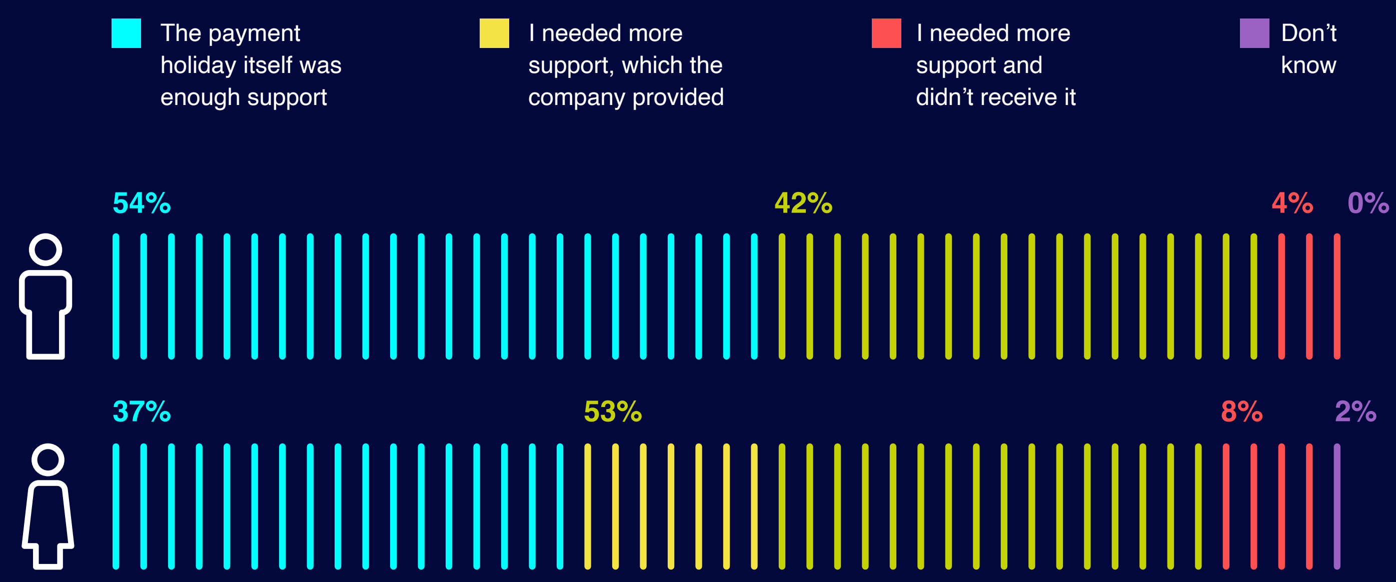
Creating flexible options to address multiple needs

All the companies that we interviewed said that more of their customers need assistance and support. However, consumers were having more debt problems even before the pandemic. At the start of 2020, UK households held around £230bn of unsecured or consumer debt – including loans, credit card debt, hire purchase agreements and overdrafts - an average of £8,000 per household[2]. In July 12.8 million UK households had either nothing or less than £1,500 in savings[3].

Some of this has been driven by the changing nature of how people work. For example, 4.7 million people in the UK were working in the gig economy before COVID-19, with more than half of them being aged between 18 and 34[4]. In the last 10 years there has also been a rapid rise in the number of employees working on zero-hour contracts (up from 168,000 in 2010 to 1.05 million in 2020[5]). Their wages can fluctuate significantly from week to week, making it difficult to plan their finances.

Businesses are having to adapt their collections process to accommodate these changes. For example, one of the companies we interviewed said that the traditional fixed payment date, where customers pay their bill on the same day every month, is changing to a more flexible model to accommodate those who have a flexible income. Is this something that other companies could adopt to allow for the ever-changing nature of employment contracts? Consumers may also feel that they're being treated responsibly by a supplier that understands their employment situation.

You said you recently took a payment holiday. Was that enough support to help you with your debt?



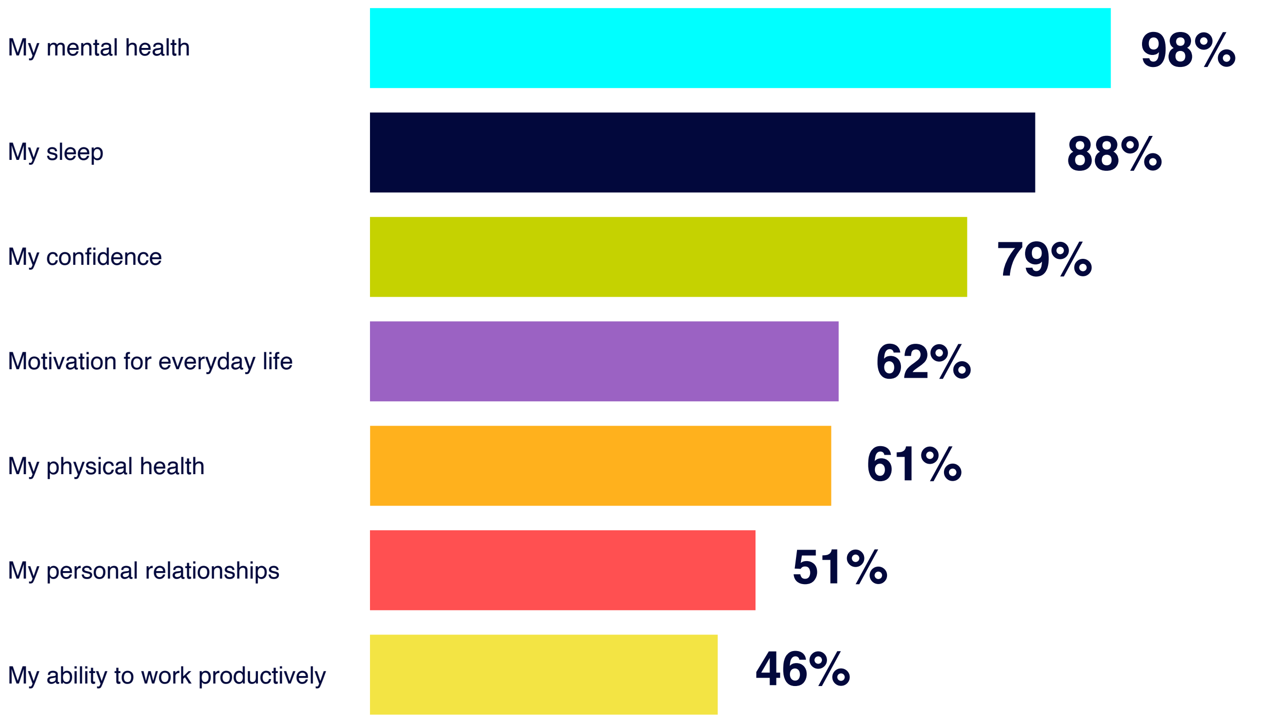
Although payment holidays have helped consumers with their debt in the short term, they don't offer any long-term solutions to those facing financial problems. 53% of respondents told us that the payment holidays they took were not enough support to help them with their debt. The companies that we spoke to said automated processes were quickly put into place to allow customers to apply for payment holidays but was this responsible lending?

Should those customers who were at risk of unmanageable debt have been able to delay repayments or should they have spoken to an agent to stop them getting into debt any further? If payment holidays are not enough to support customers through these difficult times, businesses need to do more to identify those who are vulnerable earlier to help them.

[2] Institute for Fiscal Studies
[3] The Money Charity
[4] Department for Business, Energy & Industry Strategy
[5] Statista

How debt affects customers' mental health

Which of the following were negatively affected by your experience of communicating with the company you owe money to?



Financial distress, heightened by COVID-19, is affecting people's mental health and is making them feel embarrassed or scared to talk to creditors

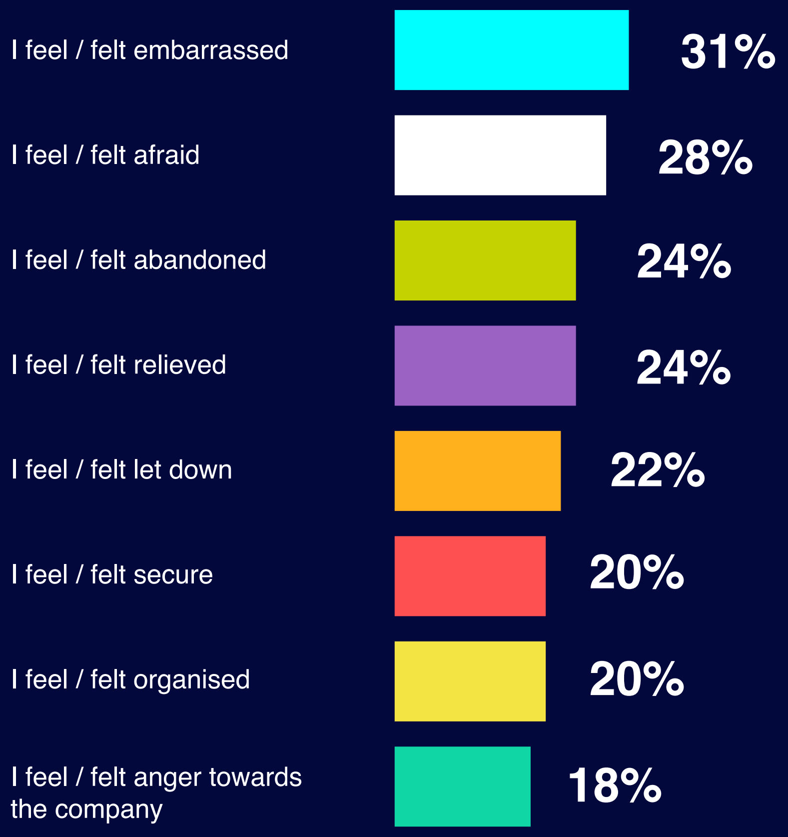
Financial difficulties contribute to poor mental health. We asked our respondents if their debt was causing them stress. In total, 71% of them admitted that they were under stress rising to 77% of those respondents who were experiencing difficulties for the first time.

It's estimated that half a million more people in the UK may experience mental ill health as a result of the pandemic[6].

Respondents felt a variety of emotions about their current financial state. The most common feeling was embarrassment (28% of all respondents), but fear and abandonment were felt by 24% of those surveyed. This figure varies hugely by age group – 60% of over-55s felt embarrassed, compared to only 19% of those aged 18 to 24 years. This may be driven by the traditional perception that older people are living within their means and are very reluctant to use credit.

[6] Centre of Mental Health

Which of the following emotions best describes the way you are feeling in regard to the debt you have and contact with the company you owe money to?



“We wouldn’t put our customers down any automated process. We’ve got bespoke teams that manage the customer through case management. We’ve always got time to speak to a customer.”

The Co-operative Bank, Financial Services

61% of those with unmanageable debt and previous experience with providers said that the process of dealing with a company they owed money to was more stressful than it had been on previous occasions. And only 45% of them said these companies were more empathetic than during the previous experience. This drops to 25% for those aged 18 to 24. This implies that the treatment received by the majority of our respondents, who have been in a similar situation previously, was worse this time around than it has been in the past.

However, all the heads of collection that we spoke to said that, if a customer wanted to discuss payment difficulties, they would do their utmost to help them to resolve the issue. The overwhelming majority of the organisations that we spoke to want to help customers and they all agree that conversation is essential.

But they should be driving these conversations. Companies often only begin contact once the point of debt has been reached. More needs to be done to reassure customers that their creditors want to help them. 36% of respondents with unmanageable debt had not yet discussed or reviewed their debt with their provider. Many consumers are also hesitant to initiate contact: 62% admitted they avoided communication and waited for the company to contact them first. Feelings of shame are driving this – 28% of all respondents admitted that they felt embarrassed about their debt problem. 24% were worried about their situation and this could indicate that their previous experiences with companies that they owe money to has been challenging. There is scope for more proactive engagement and outreach by companies, using data to understand customers better and predict debt management issues before they occur.

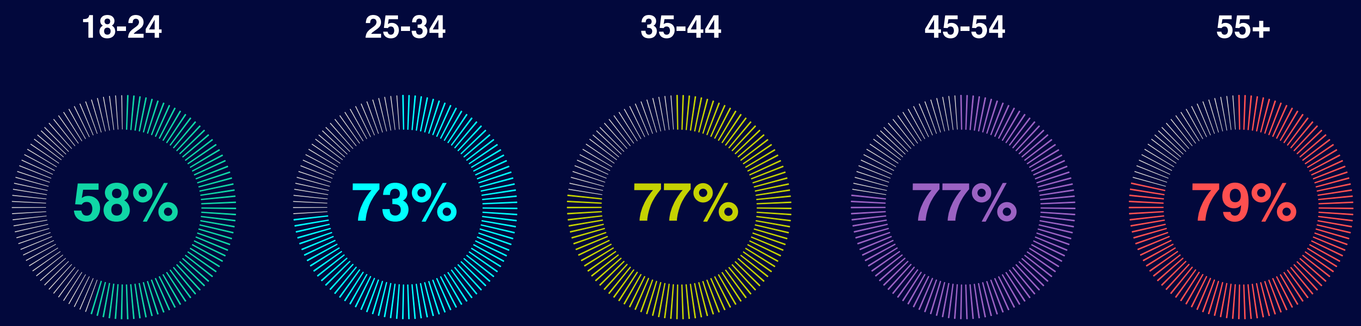
By extending the collections journey to include pre-emptive involvement and increasing end-to-end monitoring and automation, companies can engage with customers as soon as they’re deemed to be at risk of getting into debt to discuss the best way to tackle the situation.

How treating customers fairly can drive loyalty in future years

73% of respondents over the age of 25 told us that, if they felt they were treated fairly during these uncertain times, they would remain loyal to that brand in the future. This number was much lower for those aged 18 to 24, of whom only 54% agreed with this statement. Many students fall within this age category. Of the students we surveyed, 50% said that, if they were treated well while in debt, they would remain loyal to the company in the future.

This presents a great opportunity for organisations to build loyalty. Many students, once they graduate, will go on to professional roles and could prove to be valuable customers once they're working full time. According to the Department of Education, working-age graduates earn £10,000 more than non-graduates and have higher employment rates. By treating this younger age group in a way, they consider to be fair, they may reward a brand with many years of loyal custom.

To what extent do you agree that, if you are treated well when in debt, you will be loyal to that company in the future?



The use of technology has soared throughout the pandemic. According to a global survey by Twilio, COVID-19 has sped up digital transformation by 5.3 years.

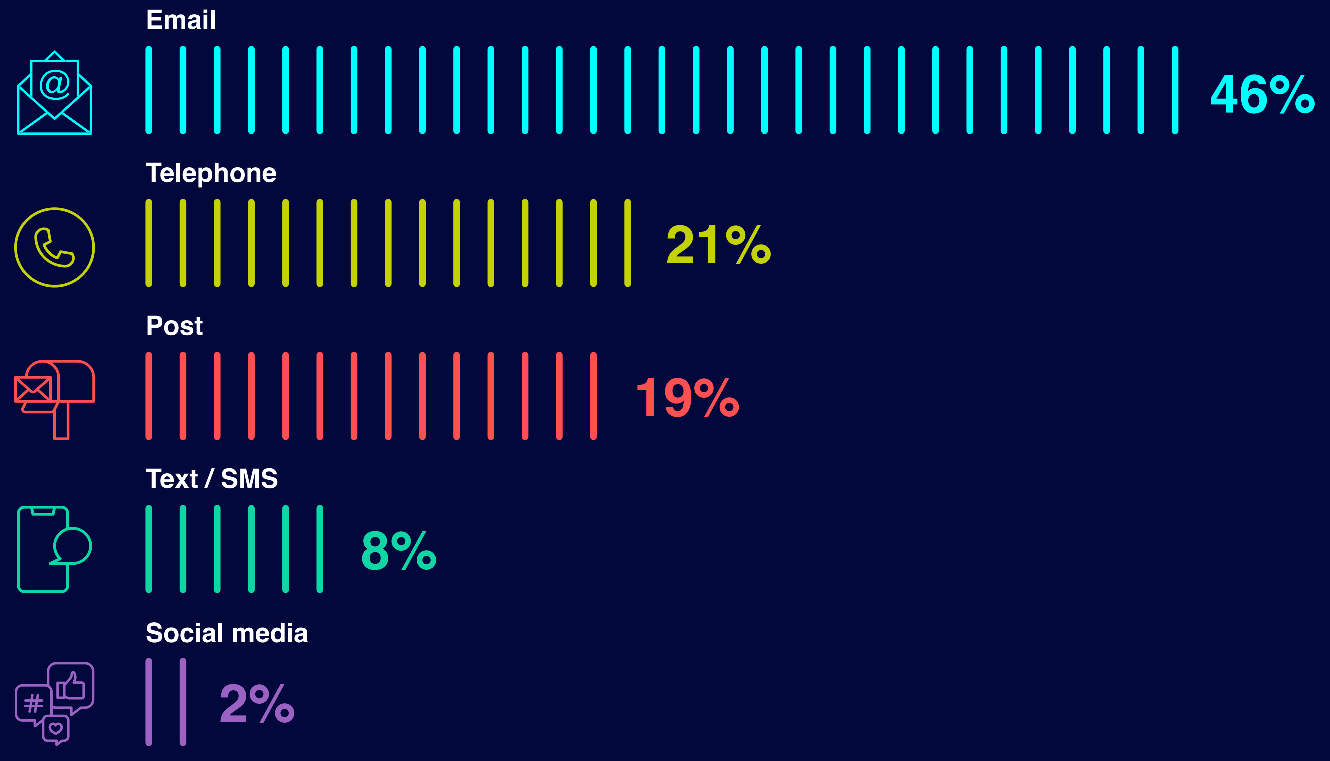
Increasing digital channels improves customer experience

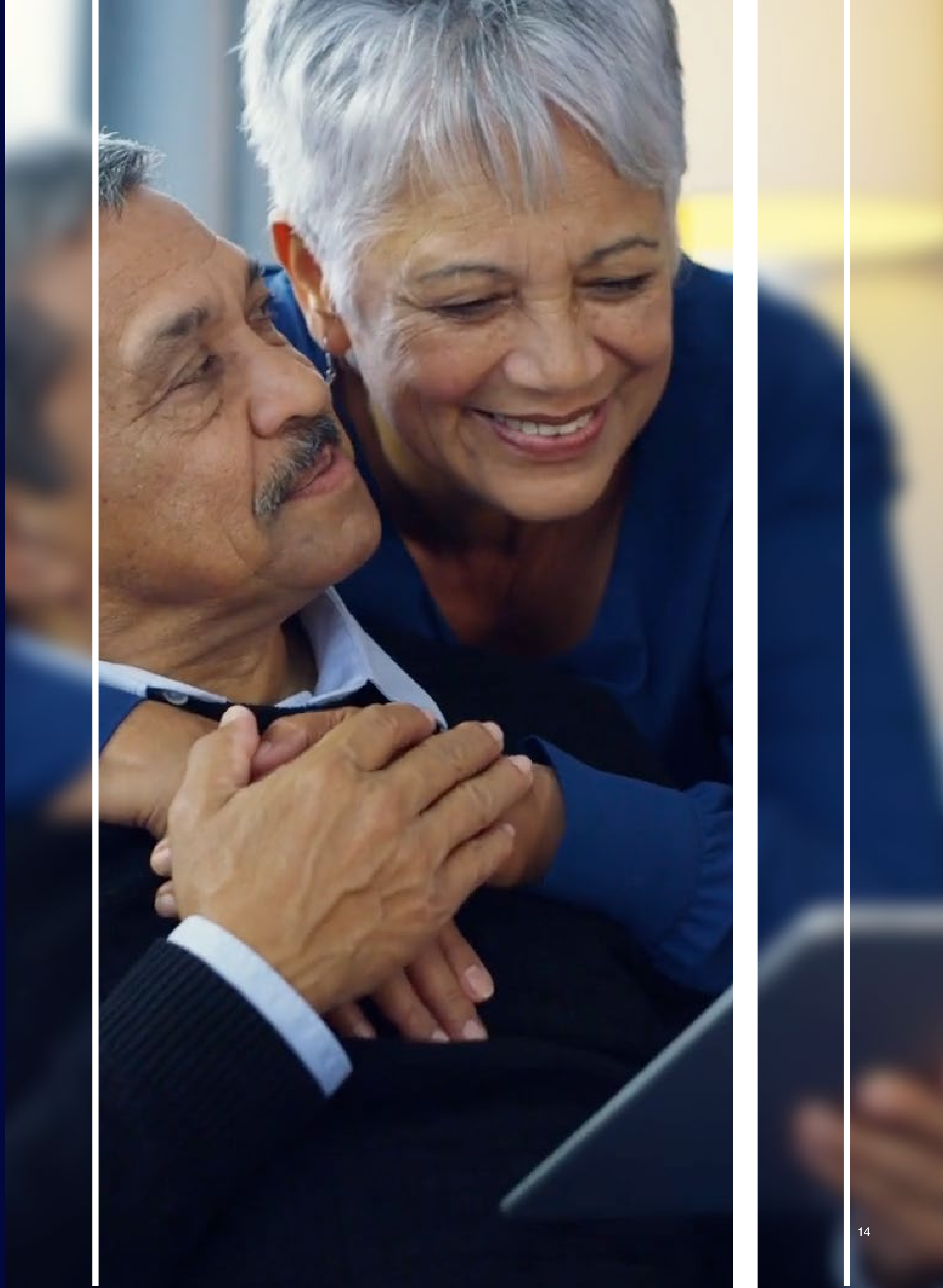
As organisations scramble to move their operations to digital platforms, we asked our respondents whether they would prefer to speak to an agent in person, choose a self-service option on a company's website, or use an online chat facility. Surprisingly, despite many of our respondents admitting that they were embarrassed or afraid to speak to a company that they were in debt to, 67% said they preferred to talk to an agent, compared to only 23% who would prefer to self-serve.

However, 46% said that, when the creditor makes initial contact, they would prefer to be contacted via email – only 21% said they would prefer to be contacted by telephone.

This could be driven by stress factors, such as feelings of fear and embarrassment, as email communication is less confrontational, takes less time to respond to than a phone call and is also easier to ignore. Businesses can't assume that all consumers want to be contacted in the same way, though – they want to have multiple channels available to them at their convenience.

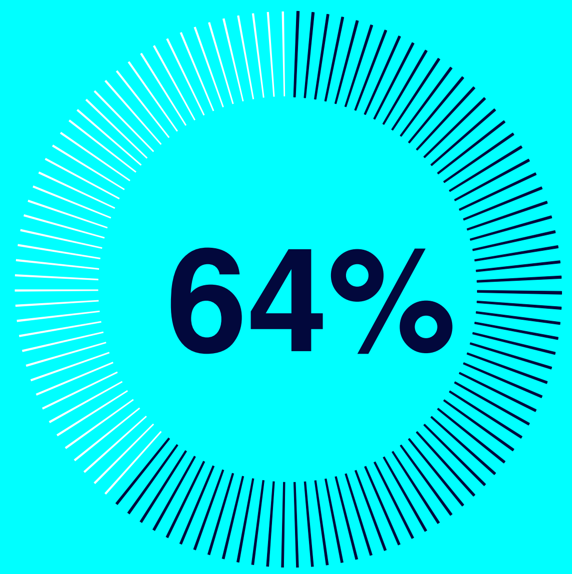
How would you expect the provider to contact you when it first reaches out?





“In terms of our priorities over the short term, we’re looking at enhancing our customer segmentation, so working with external parties and getting third-party data in. That means we can make better decisions.”

Thames Water



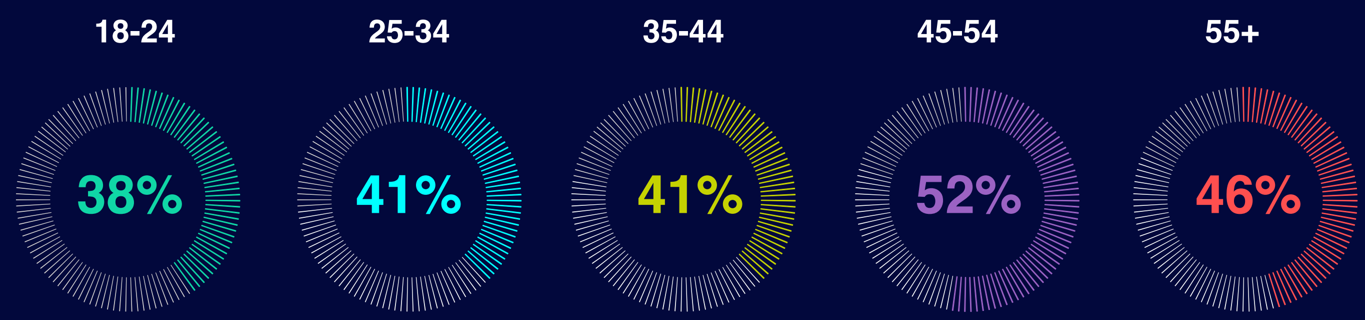
One of the questions we asked respondents was if they think their bank should monitor their accounts and alert them in advance if they were at risk of going into debt.

64% said yes.

Could there be a process created for consumers to give permission for their bank to carry out this service for them?

Examples could include the account holder being alerted when they are spending more than usual or being signposted to sources of debt advice before their situation becomes a problem.

I expect companies to identify if I am likely to go into bad debt before I get there



Nearly all the companies that we spoke to told us that they would like to see more digital innovation on their platforms so that they could serve their customers more efficiently in the long term. When we spoke to the Co-operative Bank, it told us that it is constantly trying to support customers, now more than ever. Thames Water is looking at enhancing its customer segmentation process so that it can make better, more strategic decisions to help customers who are having problems paying their bill. It is also looking at improving its website to enable customers to self-serve, although the nature of collections (versus the revenue side of the business) would make it difficult to assess all customers who are facing difficulties.

It's not just on the customer side in which technology investment will be required, however. Companies are increasing their digital communications, not only to improve the customer experience but also to reduce the pressure on agents:

> **"We're looking at digitising our website to be able to provide more services for the customer to self-serve, such as setting up their own payment plans online, rather than calling into the contact centres and taking up our agents' time."**
>
> TalkTalk, Telecommunications

A blend of human and automated interactions can change the dynamic of collections to centre them around empathy, proactivity and data analysis. By combining empathetic conversations and tailored support with the convenience and efficiency of self-service portals and proactive, data-driven outreach, companies can create a personalised collections journey that can help to identify at-risk moments, prevent debt, improve customer satisfaction and increase long-term loyalty and retention.

Conclusion – A human-centric approach to collections is essential

The research findings demonstrate that improvements are still needed within collections in many organisations today. Feelings of shame and fear are still prevalent among our respondents who have unmanageable debt. Many feel that they are treated like a number and not like a human being. It also highlights that organisations still rely on customers to contact them when they are struggling to pay their bills, whereas customers believe that creditors should contact them before they get to that point. Ultimately, most of our respondents want to be treated fairly, with compassion, in their preferred communication channel at a time that is convenient to them.

Businesses must do more to help those that are vulnerable. Treating customers fairly, at a time when they are most in need, will not only create a better outcome for them but it can also alleviate some of the mental stress caused by their situation.

It could also lock in loyalty, which will help businesses to grow their revenue in the future.

To learn more about how Capita can help you and your business in these extraordinary times, please visit our website or speak to your account director today.

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