

Working Together:

Understanding motivations and barriers to engagement in the consumer debt marketplace

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Foreword

To what extent do the actions of creditors impact the engagement or disengagement of their customers? This research gathered evidence on customers' financial, physical and psychological barriers to engagement with creditors, and investigated how they interrelate with creditors' actions.

The findings of the research strongly suggest that creditors who work with customers to manage their debt and to understand their wider circumstances achieve greater customer engagement. Improved customer/creditor communication helps individuals feel that they are making progress towards improving their financial situation. We believe that creditors have a significant role to play in fostering customer engagement and motivation.

A key learning we have taken from this piece of research is that if creditors invest in processes, policies and practices to deliver improved engagement, they will help their customers become more motivated to improve their own circumstances. A virtuous cycle of engagement is created.

Our own research shows that our customers have on average 8 debts each and they are likely to benefit most when they are not contacted by every one of the associated creditors. Arrow Global uses its proprietary data approach and leverages its relationships with existing third party advisors and debt collection agencies to help reduce the number of parties involved in managing customers' debt. This makes the process more efficient and improves customer experience.

We maintain an active dialogue with customers about their circumstances and also carry out data analysis to better understand the root causes of their debt problems. Understanding the underlying causes of financial difficulty helps to enhance our engagement with customers. We believe that improving the experience for our customers is key to establishing a successful long-term customer/creditor relationship. We want our customers to feel optimistic about the future and therefore we are developing and implementing a programme of work which demonstrates our commitment to customers, involving initiatives such as:

- being more sensitive in our approach to customers
- leveraging our information and data sources to personalise each customer's experience according to their circumstances;
- employing proactive, two-way communication to better understand our customers' individual circumstances;
- signposting customers to free and independent money advisors for financial support; and
- not charging fees or interest.

However, there is a lot more we can, and want, to do. We aspire to being the kind of creditor that puts the customer at the centre of its business, that works with each individual to develop a path away from financial difficulty based on their own circumstances. This is not only the "right thing to do", it is commercial common sense - our customers benefit and we benefit when engagement is better.

To that end, we are testing new initiatives around customer engagement and creditor communication following the outcomes of this report. Our intention is to undertake these tests as part of Phase 2 of this study. Relevant business as usual activities are also being reviewed with a view to further enhancing our customer offering.

So how significant is a creditor's role in the engagement or disengagement of their customers? Our conclusion is that the creditor's role is very significant, and that a creditor which joins its customers on the journey to better financial circumstances has a much more meaningful customer relationship.

Tom Drury
CEO, Arrow Global

Executive summary

Aims

Arrow Global commissioned this study to (1) provide insight into its customer segments; (2) to better understand debtors' motivations for engagement and non-engagement with creditors; and (3) to better understand the actual or psychological barriers to engagement with creditors that debtors may experience. A particular focus of the study was people with mental health problems. Based on the study findings, Arrow Global plans to pilot and evaluate a range of interventions to better engage and motivate its customers.

Methods

The study comprised (1) customer segmentation analysis, carried out by Arrow Global; (2) a review of existing evidence, mainly from the field of psychology; (3) re-analysis of 27 qualitative interviews from four earlier studies of people in or at risk of financial difficulty; (4) re-analysis of data from open-ended questions asked by MIND in its 2008 and 2011 'Into the Red' surveys; (5) qualitative depth interviews with 10 people who had received debt advice from Plymouth Focus Advice Centre.

Insight from the customer segments

The customer segments show that problem debt can have complex causes that mean it is not straightforward to resolve. The root causes of problem debt are often loss of income or a low and variable income. It may also be linked to poor physical or mental health; relationship breakdown; poor money management; 'playing the system'; disputes with creditors; and drug, alcohol or gambling addictions.

If they are unable to pay all their creditors, people use strategies such as paying the most demanding creditors and ignoring the others; paying credit debts with lower repayments (such as minimum credit card repayments) and not paying those with higher repayments (such as a personal loan); prioritising creditors that levy penalty charges; always paying 'priority' creditors; and paying to retain valued services such as telephone or television packages. There were instances in the study where people prioritised payments to lenders to retain access to credit; a few people had 'walked away' from their debts in the past.

Very often, people only seek professional advice at a late stage, after a significant period of trying to manage their debts, for example by borrowing to repay borrowing. Low levels of knowledge about the advice services that exist and the different services they offer mean that people in debt usually select an advice provider arbitrarily. The qualities that people value in professional advisers include a non-judgemental attitude; listening, understanding and empathising; a professional approach; and being knowledgeable and helpful.

Barriers to customer engagement

From the customers' perspective, how creditors communicate with them and creditors' approach to debt repayment shape their relations. If creditors get these things right, the chances of recovering the money owed to them increase. If they get them wrong, the customer may disengage from further dialogue.

Aggressive, unsympathetic communication from creditors and an inflexible approach to debt repayment undermine the basic human need for personal control that is a crucial aspect of customer motivation. If creditors do not listen or understand the customer's situation and turn down their repayment offers, customers feel powerless to improve their situation or achieve a satisfactory outcome. If creditors make customers feel worse about themselves or their situation, customers doubt their own ability to sort out their debt problems. Customers may lose the motivation to continue engaging with creditors if they make little or no progress, because of the time and emotional resources involved. In this context, repeated threats of legal action become counter-productive, because they increase the stress, anxiety and social isolation that customers experience (particularly customers with mental health problems) without offering any reasonable plan of action to resolve the situation.

Overcoming barriers to customer engagement

So how can creditors like Arrow Global engage more effectively with their customers? Customers want creditors to demonstrate empathy and understanding; to provide practical help; and to work something out together that benefits both the creditor and the customer. This approach encourages customer engagement because it helps engender trust; it makes customers feel less isolated; it gives them the opportunity to regain financial control; it makes them feel competent to sort out their debt problems; and it helps redress the power imbalance that customers may feel when they deal with creditors.

Helping customers to achieve positive outcomes that they personally value (rather than simply avoiding negative consequences) may also encourage engagement. Examples from the study included respondents who wanted to be debt-free by a certain stage in their life or to emulate a role model, or because they wanted to rebuild their credit rating.

For people with mental health problems, it is important that creditors (and advice services) have some understanding about the effect that mental health problems can have on an individual's ability to deal with their finances. People with mental health problems may also value practical help to manage their personal finances (not necessarily provided by creditors), linked to a strong desire to understand and manage the impact of their mental health problems on their spending patterns.

The study explored the potential for other organisations (such as health professionals) to act as 'touch points' to provide information about dealing with debt or to refer people to debt advice services. This seems difficult to achieve on a large scale because it depends on the willingness and capacity of individuals or organisations to discuss financial matters when this is not a core part of their job; and on the receptiveness of the person in financial difficulty to offers of help, which may be dulled by ill health or other priorities.

About this study

This study was commissioned and sponsored by Zach Lewy, Founder and Executive Director, Arrow Global. Lexi Rosenwax (Senior Manager, Strategic Projects, Arrow Global) managed the project and with Prasad Mohandas (Senior Analyst, Arrow Global) undertook the customer segmentation.

The study was undertaken by the Personal Finance Research Centre, University of Bristol. The work was led by Sharon Collard (Director and Senior Research Fellow). The depth interviews were conducted by Philippa Morgan (PFRC Research Associate). Colin Trend (Money Advisor) organised the recruitment of Plymouth Focus Advice Centre clients for the depth interview and along with Chris Fitch (Royal College of Psychiatrists) provided expert advice to the study.

We would like to thank Plymouth Focus Advice Centre for their help and support with the study.

1 Introduction

The overall aims of the study were:

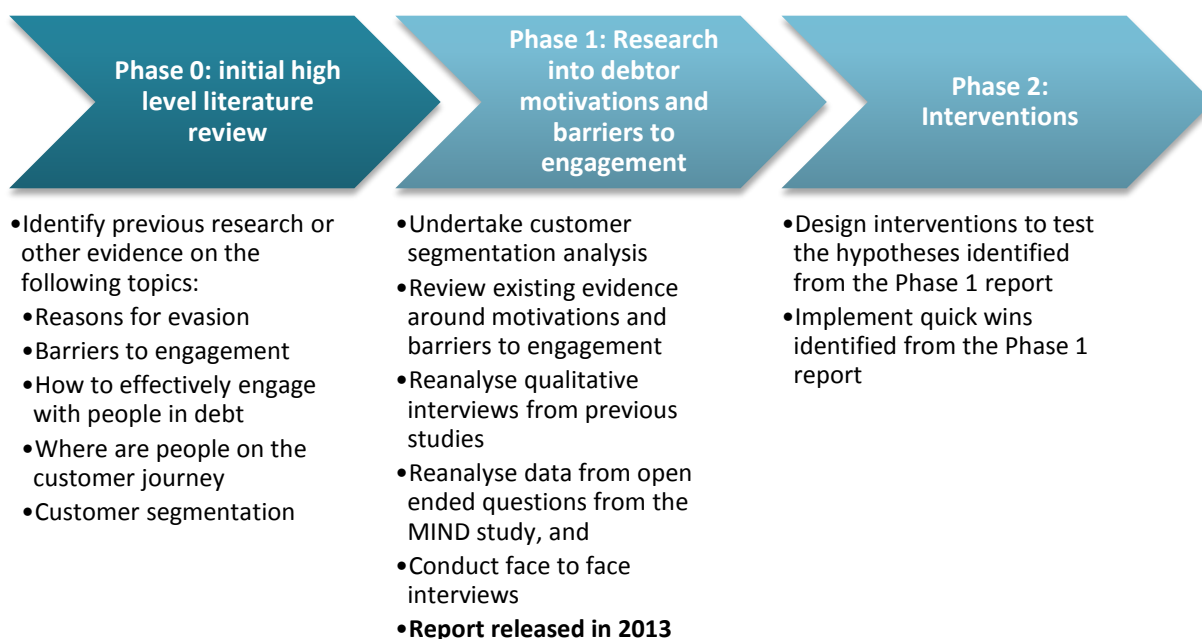
1. To provide insight into Arrow Global's customer segments
2. To better understand debtors' motivations for engagement and non-engagement with creditors, and
3. To better understand the actual or psychological barriers to engagement with creditors that debtors may experience.

A particular focus of the study was people with mental health problems and how to improve health outcomes for people with debt and mental health problems.

The purpose of this report is to share the study findings with stakeholders in the financial services industry, advice sector and regulatory community in an effort to improve how the credit and debt collection industries deal with people in debt, and to improve the outcomes for debtors. Arrow Global also plans to use the findings to inform the design and testing of interventions to better engage its customers.

1.1 Phases

The research has been separated into three phases:



This report constitutes the Phase 1 research report.

As part of Phase 2 we will develop a programme of work to implement quick wins and longer term interventions to test hypotheses identified in this report.

1.2 Research methods

The study comprised five elements:

1. Customer segmentation analysis, carried out by Arrow Global analysts. The analysis provides insight into the profile of different groups of customers, based on their engagement and/or repayment behaviours. Each segment gives rise to potential questions that the study has aimed to address (Section 2).
2. A review of existing evidence to inform our thinking around the motivations and barriers to creditor engagement by people in financial difficulty. We reviewed 21 pieces of work, which were a combination of academic journal articles (mainly from the discipline of psychology) and social research reports that looked at aspects of credit, problem debt and debt advice.
3. Re-analysis of 27 qualitative interviews that PFRC conducted for four earlier studies of people in or at risk of financial difficulty.¹ The interviews were selected on the basis that they provided information about debt and mental health problems and/or the strategies that debtors use to deal with creditors (e.g. paying some but not others), and/or barriers to engagement with creditors.
4. Re-analysis of data from open-ended questions asked by MIND in its 2008 and 2011 'Into the Red' surveys of people with debt and mental health problems.²
5. Qualitative depth interviews with 10 people who had received debt advice from Plymouth Focus Advice Centre (PFAC). These were selected to include some clients with mental health problems (but where a Debt and Mental Health Evidence Form had not been used) and others with no mental health problems. The clients we interviewed ranged in age from people in their 40s to people in their 60s and 70s. Most of them had first contacted PFAC in the last two to three years. They had received a high level of practical and emotional support from PFAC in order to resolve their financial difficulties.

1.3 This report

The next section examines in detail Arrow Global's six customer segments, with reference to the questions posed by its analysts.

¹ A 2012 study of working households' experiences of debt, commissioned by StepChange Debt Charity; a 2011 study of customers who had contact with a pre-arrears service offered by their bank, commissioned by Barclays and carried out in partnership with Money Advice Trust; a 2011 study of people at risk or experiencing financial difficulties (we have agreed not to disclose details of the funder); a 2002 study of debtor approaches to bill payment, commissioned by the Lord Chancellor's Department.

² From the 2008 survey, we analysed responses to the open-ended question '*If you'd like to tell us what happened to because you were behind with your bills, then please use the box below*'. From the 2011 survey, we analysed responses to two open-ended questions: (1) '*Of the advice and help you received, which was the most useful? Why?*' and (2) '*What other help do you feel you might have benefitted from?*'

Section 3 looks at what motivates customers to engage with creditors or debt collection agencies when they face financial difficulties and the extent to which the threat of legal action motivates customers to engage with their creditors.

In Section 4, we describe the barriers that deter people in financial difficulty from engaging with creditors and debt collection agencies. We focus on two key barriers: how creditors communicate with customers when they are in financial difficulty; and creditors' approach to debt repayment. We also look at the effect of barriers to engagement on customer motivations.

Section 5 examines ways of overcoming the barriers to engagement and the potential 'touch points' where customers could receive help or be signposted to a 3PDM. It also describes other types of support that people in debt say they would value (although not necessarily provided by creditors). Section 6 summarises the key themes from the research.

2 Insights into customer segments

Arrow Global analysts identified six customer segments from the quantitative data available to them (Table 1). These customer segments represent a snapshot of a customer's situation at a particular point in time.

In this section, we mainly draw on our re-analysis of 27 qualitative interviews that PFRC conducted for earlier studies to offer further insight into these customer segments. We have broadly categorised the qualitative interviews according to Arrow Global's customer segments. We have included the same respondents in different segments where the interview data provides insights into different questions. We are able to do this because the qualitative interviews examined in detail the respondent's views and experiences of financial difficulty over time.

Table 1: Overview of Arrow Global customer segments

| Customer segment | No. interviews |
|---|----------------|
| Segment 1: Unsustainable circumstances but not with a Third Party Debt Manager ³ , IVA or bankruptcy | 10 |
| Segment 2: Third Party Debt Manager (3PDM)/hardship | 13 |
| Segment 3: Avoiders/disengaged | 4 |
| Segment 4: Erratic/ sporadic payment | 7 |
| Segment 5: Paying some creditors, not others | 9 |
| Segment 6: Improved circumstances | 7 |

We examine each of the customer segments in turn, in relation to the questions derived by Arrow Global analysts.

2.1 Customer segment 1: Unsustainable circumstances but not currently with a 3PDM, on an IVA or in the process of bankruptcy

Customers in this segment are in an unsustainable position because they have no disposable income to repay what they owe. Arrow Global's analysis shows that this customer segment tends to comprise younger people (61 per cent are aged 40 or under), who we know are less financially

³ A Third Party Debt Manager (3PDM) refers to a third party designated by a debtor to assist him or her to repay his or her debt. In the UK, a 3PDM can be a CAB or other not-for-profit free-to-client advice service; a free-to-client debt management provider such as StepChange Debt Charity, Christians Against Poverty or PayPlan; or a commercial fee-charging debt management firm.

capable than their older counterparts, and so are at greater risk of financial difficulty (Atkinson et al, 2006).

Linked to their age profile, customers in this segment tend to have lower incomes than the average Arrow Global customer. For those still living with their parents, this may be offset by financial support or help-in-kind (e.g. rent-free accommodation).

Arrow Global is interested to address three key questions in relation to this customer segment:

- How did the customer move into unsustainable circumstances?
- To what extent do customers realise they are in unsustainable circumstances?
- Where do customers end up after their circumstances 'push them over the edge' e.g. IVA, bankruptcy, disengaged?

2.1.1 How did the customer move into unsustainable circumstances?

The main causes of financial difficulties are well-documented and include macro-economic factors such as job loss and cost of living; unsecured credit use; life events such as relationship breakdown or poor health; and people's approaches to money management and financial decisions (European Commission, 2008; Civic Consulting, 2013).

The same research finds income and age to be strong predictors of over-indebtedness, so that people on lower incomes and younger people face the greatest risk of financial difficulty. Other (qualitative) research shows that lack of self-control and the temptation to use credit to finance spending are real concerns for some young adults, while at the same time they have only a basic understanding of key concepts related to credit use and a limited knowledge of credit products (PFRC, 2012).

Livingstone and Lunt (1992) note that '*... getting into debt, and particularly getting out of debt, are rarely singular and brief events in a person's life*' (page 118). The value of our re-analysis of qualitative interviews is that it highlights the different factors that come into play as people move into unsustainable circumstances.

Our re-analysis showed that respondents had generally moved into unsustainable circumstances by two main routes. In the first route, loss of earnings due to redundancy or cuts in hours was the catalyst that caused the deterioration into unsustainable circumstances. The other key factor linked to this deterioration was pressure on household budgets due to high cost of living, high outgoings (such as rent or childcare), or in some cases providing financial support to adult children. Repaying consumer credit sometimes added to budgetary pressures, as did poor money management.

Greg is a divorced man of 41, whose two children live with his ex-wife.⁴ Two years ago, he lost his well-paid job following an injury which meant he could not work for several months. Although he moved back into work when he recovered, he had been unemployed since his most recent job finished a few months ago. He was in rent arrears because of delays with his Housing Benefit, owed money to the water company and was struggling to keep up with repayments on his personal loan.

⁴ Names and some personal details have been changed.

Greg partly blamed himself for his situation, as by his own admission he was not great with money. As a result, money worries had been a fairly constant part of his adult life – *‘it’s been continual... I’ve tried to keep control of it all my life and sometimes it gets out of hand and I need to phone mum and dad to see if they’ve got any money or any advice on what to do basically.*

But Greg also blamed his bank for his current situation because he was sold a personal loan in order to pay off his overdraft, something that in hindsight he felt *‘they pushed it, forced me to have it.’*
(Source: Re-analysis of interview data)

In the second route, respondents had been on low and variable income for some time, for example because they were self-employed or worked for employment agencies. In this situation, it was common for respondents to have used consumer credit to make up the shortfall between their income and outgoings, which in turn could lead to penalty charges when they exceeded overdraft limits or missed minimum credit card repayments.

Cheryl (23) and her partner Rob have low and erratic earnings: he is a self-employed builder and she has had a series of low-paid jobs, including working as a housekeeper and a cleaner. Both have had spells out of work. This was the main reason they often struggled to manage to pay their bills on time.

‘... all of my work’s been varied... I knew never what wage I was gonna get... I think if I’d had maybe like a 40 hour week job in a shop, standard, y’know, I think we’d be fine.’

They used their overdraft to make up the frequent shortfall between their income and outgoings, particularly to pay the rent. They incurred bank charges when they went over their overdraft limit. The charges mounted up which made it more difficult to clear them, as Cheryl explained: *‘I needed a big lump of money then to be able to put me back to zero and start again.’*

Things took a turn for the worse financially when flooding destroyed their (uninsured) rented flat. Since then, they had been living with friends and family while they saved up the deposit for a new flat (they had lost the deposit on their previous home because of the flood).

(Source: Re-analysis of interview data)

In both these routes, other factors that were largely outside the respondent’s control could also make their circumstances unsustainable, such as not receiving the maintenance or child support that they were supposed to, or having to deal with debts incurred by their partner without their knowledge.

However they moved into unsustainable circumstances on the most recent occasion, it was often the case that respondents had experienced financial difficulties (albeit not always as serious) at other times in their life as well, for example following divorce or relationship breakdown or earlier loss of earnings.

The role of mental health problems in moving into unsustainable circumstances

Financial difficulties can be both a consequence and a catalyst of mental health problems (MIND, 2011). People with mental health problems are at higher risk of moving into financial difficulties because they often live on low incomes; state benefits are the main source of income for a high proportion (Office for National Statistics, 2002).

The ability to manage money and make credit decisions are other factors that may help explain why people with mental health problems move into unsustainable circumstances. In the 2011 MIND survey, 62 per cent of respondents with mental health problems reported often feeling confused about their finances. Many did not know how much money they had available each month, did not have a budget, and did not save money. When asked about their mental health at the point when they took out loans in the last 12 months, three in 10 respondents said they were not able to make a reasonable decision about whether or not to take out the loan. Notably, the most common way that survey respondents had taken out credit was online (48 per cent). The findings suggested that *'mental capacity affected individuals' self-reported ability to make an informed decision about borrowing'* (MIND, 2011: page 8).

Our re-analysis of open-ended responses to the 2008 MIND survey provides further insight into the links between mental health problems and moving into unsustainable circumstances. Respondents talked about times when they had made poor spending choices or (over) spent on credit as a direct result of their mental health.

'...this [spending] can be one of the ways I can sabotage myself. Sometimes I am great and get out of debt and then slide into it again if other areas of my life aren't going well.'

Respondents' mental health also hindered their ability to manage money and keep on top of their finances day-to-day.

'There are times when I loose [sic] track of days and I end up missing payments. It's not done intentional.'

Finally, mental health problems resulted in respondents leaving or losing their job.

'I was forced to give up my job a few months ago due to my mental health problems. I have had to move to a smaller property as a result of this. I am now doing some work at home but this doesn't cover the bills and I don't feel emotionally strong enough to return to work.'

2.1.2 To what extent do customers realise they are in unsustainable circumstances?

Very often, people in financial difficulty do not fully register the seriousness of their situation until they reach a crisis point, for example when they can no longer pay all their creditors, or they have exhausted all the credit lines they had been using to try and keep afloat (Collard, Finney and Davies, 2012).

In our re-analysis of interview data, at least to some extent respondents recognised that their financial situation was not healthy or that the *'books don't add up'*. The signals included job loss; mounting bank charges; falling behind with bills; paying bills with a credit card; and not paying child support.

2.1.3 Where do customers end up after their circumstances 'push them over the edge' e.g. IVA, bankruptcy, disengaged?

In our re-analysis of interview data, respondents who displayed signs of unsustainable circumstances generally still had some capacity to pay their creditors, even if they could not pay the full contractual amount. They tried to pay what they could afford to creditors, which could mean being constantly overdrawn. Cutting back on everyday spending was another way of keeping up payments to creditors.

'Our lifestyle, with the kids, you know, the whole pattern has just changed dramatically. Everything we've just cut down to basics.' (Source: Re-analysis of interview data)

Some respondents had talked to particular creditors and agreed lower repayments or to only pay the interest on a mortgage. This could be the result of speaking to an advice service. Reasons why others had not contacted an advice service included poor past experiences and a feeling that the CAB was *'too public'*.

There was some evidence of disengagement from creditors and the processes by which this occurred. One respondent had contacted her bank to sort out her mounting overdraft charges. She was frustrated at the lack of help she received (from branch staff in particular) and increasingly resented the charges. At the time of the interview, she was frustrated and disillusioned with the bank and other events in her life meant she now viewed her financial situation differently.

'I'm not too fussed about it anymore to be honest, we've gone through some mad stuff in the past... we've been from pillar to post and back again, so now it's just like, it's numbers on a bit of paper, y'know, what does it matter as long as we got a roof over our head and food in our stomachs and we're keeping our heads above water?' (Source: Re-analysis of interview data)

2.2 Customer segment 2: 3PDM /hardship

For Arrow Global, this segment relates to customers who have signed a Letter of Authority to allow an independent adviser to act on their behalf. For the purpose of our analysis, we have used a broader definition, to also include people who sought help from a 3PDM but had not signed a Letter of Authority (for example because they received advice and materials to negotiate with their creditors themselves).

Arrow Global's customers in this segment are in their 40s or older. They tend to be homeowners and the majority are in full-time employment (so have higher disposable income to make a repayment plan viable).

Our analysis addresses the following questions about this customer segment that Arrow Global is interested in:

- What prompted the customer to seek help from a 3PDM?
- Is the customer with a fee-charging or free-to-client 3PDM? Why did they make this choice?
- What does the customer think of their advisor? Are they satisfied/happy?
- What happens to the customer after they leave the advisor? Was the end of the 3PDM relationship a result of customer choice or plan breakage?

Arrow Global is also interested to understand how customers get to the point of financial hardship; this is covered in Section 2.1.1 on unsustainable circumstances.

2.2.1 What prompted the customer to seek help from a 3PDM?

Very often, advice is only sought at a late stage, after a significant period when people have tried to manage their debts, for example by borrowing to repay borrowing. Regardless of their circumstances, there are a number of common (and sometimes concurrent) reasons why customers are prompted to seek help from a 3PDM or other debt advice service (Collard, Finney and Davies, 2012; Collard, 2009; Day, Collard and Hay, 2008).

First, customers may seek help because they have experienced or anticipate a drop in income that means they will no longer be able to meet their contractual obligations. In some cases, income loss simply brings to a head pre-existing financial difficulties.

Second, customers eventually realise that they have over-reached their capacity to afford credit. For example, they reach the point where they can no longer afford minimum credit card repayments; they regularly incur overdraft charges; or they have been threatened with creditor action because they have fallen behind with payments.

Third, customers reach an emotional breaking point because of their financial situation. In our re-analysis of interview data, respondents talked about feeling hopeless; out of control; or ill because of the stress of their money worries. (On the flip side, a few described being so stressed that they felt unable to act).

Finally, customers can be prompted to seek advice as a result of intervention by someone else. In our re-analysis this included ad hoc referrals to 3PDMs by creditors or other organisations (such as Gamblers Anonymous, CAB), as well as word-of-mouth recommendations from a friend, family member or colleague. One pilot project found that organisations such as Children's Centres, prisons, probation, housing providers, job centres and community centres were often well-placed to act as 'problem noticers' in order to signpost financially excluded people to debt advice services. Considerable time and effort was required to develop and maintain referral partnerships, especially where there was no pre-existing relationship between the advice provider and the referring organisation (Day, Collard and Hay, 2008).

2.2.2 Is the customer with a fee-charging or free-to-client 3PDM? Why did they make this choice?

There is little evidence of 'shopping around' between advice services (whether fee or free). While awareness of some free-to-client services is high (i.e. the CAB brand), people often do not know what type of help these services offer or whether they offer help to people 'like them' with problems 'like theirs'. In addition, people find it hard to distinguish between free-to-client and fee-charging advice providers, particularly when they search for help on the web (Collard, Finney and Davies, 2012). As a result the advice service that someone uses is often selected arbitrarily.

Where customers make a choice to use a fee-charging debt management company over a free-to-client service (typically CAB), the reasons for not using the CAB include:

- Difficulty getting an appointment within a reasonable period of time
- A reluctance to discuss financial problems face-to-face
- Uncertainty whether the CAB deals with debt problems, or what help it might offer
- A concern that CAB does not offer the level of practical help and support the debtor wants (i.e. addressing the problem for them), but only offers advice about what they should do: *'I wouldn't have thought they could have helped too much, they wouldn't have solved the problem. They would only advise to see such and such, whatever... I didn't think they could do anything, that's why I never bothered going there basically.'* (Collard, 2009: page 43)

In our re-analysis of interview data, several respondents who used a free 3PDM service knew about fee-charging firms but avoided using them, mainly because of concerns about the cost.

'...you get charged and some of the charges are hidden quite well... you cannot see the wood for the trees. The contracts are very complicated... we felt particularly unhappy about going into that.' (Source: Re-analysis of interview data)

Research shows that people generally come to use a fee-charging debt management company by responding to a TV or newspaper advert or through internet searches. Fee-charging firms appeal to people in debt because they offer to sort out debt problems for them (not just offer them advice):

'And like they said on the advert, you know, they will give you your life back... they will give you your life back because they reduce the payments as much as they can to a minimum that you are paying, the minimum that actually you can actually live.' (Collard, 2009: page 44)

Some customers of fee-charging firms only find out about free-to-client services (from one or more of their creditors) when they have already committed to a fee-charging firm. The reasons why customers say they stick with a fee-charging company rather than switch to a free-to-client provider are because they do not want to go through the process again with another provider; they are worried about disrupting the payment arrangements that have been set up; they do not want to lose the set-up fees they had already paid; or they are unsure whether a free-to-client provider would offer the same level of service (Collard, 2009).

2.2.3 What does the customer think of their advisor? Are they satisfied/ happy?

Once people in financial difficulty have accessed advice, they generally report high levels of satisfaction with the help they receive, driven primarily by a great sense of relief. This is the case regardless of whether they use a fee-charging service or one that is free-to-client. Levels of satisfaction can change over time, however.

The skills and qualities that people value in advisers are:

- Non-judgemental attitude
- Listening
- Professional approach
- Helpful
- Understanding, empathetic, reassuring

- Knowledgeable about debt and money issues.

Research with financially excluded users of free-to-client face-to-face services showed that also they valued the detailed assessment of their financial situation and the fact that advisers took into account both their financial and personal circumstances (Day, Collard and Hay, 2008).

For customers of fee-charging debt management companies, initial high levels of satisfaction were associated with good customer service but also the service that firms offered: a means of reducing debt repayments into a single and affordable monthly payment; the firm would deal with creditors on behalf of the customer; and the firm would put a stop to letters and phone calls from creditors or debt collection agencies.

After you spoke to them, you felt a little bit of relief because this could be a solution... they weren't like, 'You shouldn't have got yourself into that kind of trouble, you shouldn't have done that', you know what I mean, they were saying, 'We understand, this is what we can do for you'. (Collard, 2009: page 47).

Previous research and our re-analysis of data show various reasons for dissatisfaction with advice services or the outcomes of advice:

- Unhappy about the advice given or disagree with the course of action proposed by the adviser. In our re-analysis of interview data, for example, one client was unhappy that she was advised by CAB to sell her two properties in order to clear her debts. She went on to contact a free-to-client debt management organisation and set up a repayment plan.
- Difficult to manage on the money left over once debts have been paid via a repayment plan.
- Interest and/or charges on debts continue to be applied, so that the outstanding debt increases.
- For customers of fee-charging debt management companies, not being told from the outset that charges applied or the level of charges; some respondents that had been on DMPs for several years questioned the value they received for the amount they paid in charges.
- Also for customers of fee-charging debt management companies, non-payment or late payment of money to creditors by debt management firms which sometimes resulted in further creditor action (Collard, 2009).
- Continued threats of action from creditors or debt collection agencies even once a repayment arrangement is in place.

'I am still receiving letters from my creditors and constant phone calls as if they do not know I have a DMP set up. Feel like I am being harassed.' (MIND survey 2008)

2.2.4 What happens to the customer after they leave the advisor? Was the end of the 3PDM relationship a result of customer choice or plan breakage?

There is limited evidence about what happens to customers when they leave a 3PDM before their financial difficulties have been fully resolved.

Qualitative research with customers of fee-charging debt management firms found that, where customers had cancelled DMPs because creditors had not received payments or received them late, their financial situation was worse than when they had initially contacted the 3PDM. They were also

uncertain about whether or not their creditors had been paid. These customers had subsequently contacted a free-to-client advice service (which was how they were recruited to the research).

Other customers in the same study had terminated their DMP because they could not afford to keep up the repayments, because of relationship breakdown or fluctuating earnings. These clients were either negotiating directly with their creditors or through a free-to-client 3PDM.

Finally, some customers in the study terminated their DMP with a fee-charger when they had repaid most of their debts, and paid off the outstanding balances themselves, in order to avoid paying any more fees. Similarly, others terminated their DMP because they were in a position to offer an acceptable full and final settlement, funded by lump sum payments such as a pension or redundancy payout.

The length of a DMP may also be part of the reason for early breakage, as in the following case:

Sheila was in her 60s, and had retired on medical grounds 10 years ago. She contacted a free-to-client debt manager when she saw the details on a letter from her creditors, and felt she had to act.

'...they were more or less saying on this leaflet, you must act on this, so that was even more pressure than you know, cost you're thinking oh heck, what are they going to do now?'

Sheila was on a DMP for about nine months before she decided to stop making payments. This was because the payments always arrived late to creditors *'so I was in worse mess to a degree'*. But also the DMP seemed to be dragging on for a long time: *'it did drag on, dragged on and on, you couldn't really see an end to any of it'*.

Sheila decided to pay off her debts one at a time instead. She felt very positive about the fact that she had cleared two debts completely but she was still worried about the rest that had been building up in the meantime *'you've got one debt cleared but you've still got the others as well.'*

(Source: Re-analysis of interview data)

In addition, some people contact a 3PDM but decide not to take things any further. In a qualitative study of StepChange Debt Charity clients, a small number of respondents had decided against making any repayment arrangements with their creditors and were instead trying to pay back what they owed according to the original contract terms. One woman had chosen this route so that she could retain her credit cards which she depended on to buy stock for her business. Another man (whose debts were linked to gambling) had not pursued debt management or personal insolvency because his wife was strongly against the idea. He had managed to repay a significant proportion of his debts by not gambling, cutting back on other spending and selling items. Once the 0% interest period on his credit card balance transfer came to end, however, he was concerned that he would not be able to pay what he owed. He was also worried that he might start gambling again.

'If I slip back into gambling then obviously it's going to be an abyss. I mean I won't come back from it.'

2.3 Customer segment 3: Avoiders or disengaged

Arrow Global defines this segment as customers who have not paid any debts (Arrow or non-Arrow) in the last year. These customers are difficult to contact and heavily indebted. They are drawn from across the age range, but tend to be employed and therefore better off.

This is the segment about which we know least. Just as it is difficult for creditors and debt collection agencies to contact these customers, similarly it is difficult to engage them in research.

Our analysis addresses the following questions about this customer segment that Arrow Global is interested in:

- Why is the customer not paying any of their debts? What are their motivations?
- To what extent is disengagement the result of disputes?
- Did the customer hit a stress tipping point?
- What would get the customer to pay?

2.3.1 *Why is the customer not paying any of their debts? What are their motivations?*

Previous research indicates that people may withhold payment on principle because they think it is unjust, for example in the case of poll tax (Berthoud and Kempson, 1992) or income tax (Quadrangle Group, 2010).

Qualitative research with financially excluded people found that debt repayment was sometimes a low priority, which meant they did not pay some or all the money they owed. The circumstances in which debt repayment was a low priority included:

- Serious illness in the family
- The threat of being sent to prison
- Relationship breakdown
- Situations where debts were tied up with other complex issues such as refugee status
- 'Old' debts that had been outstanding for several years
- Where debts felt insurmountable
- Where the debtor had a poor credit history and was not able to access further credit (so the impact of further debts seemed inconsequential in this respect) (Day, Collard and Hay, 2008).

In our re-analysis of interview data, we identified five cases where respondents seemed to have deliberately avoided paying some or all of their debts. Bearing in mind the small number, the cases nonetheless give some further insights into the motivations behind apparently deliberate non-payment (disputed debts are discussed in Section 2.3.2):

- Refusing to pay on principle. For example, one respondent (interviewed in 2002) had goods seized by bailiffs for council tax arrears because she 'despised' paying it: *'I think I didn't want to pay it because I can't see what they're doing for me. I think that's what it was'*.
- Large fluctuations in self-employed earnings, which mean that debts are not paid due to 'cash flow problems'.

- 'Walking away' from debts as a result of eviction and homelessness, compounded by a chaotic lifestyle.
- Partly or wholly blaming creditors for financial difficulties. For example one respondent variously blamed credit card companies and payday lenders for making it so easy to borrow; and felt she had been contractually 'shafted' by other creditors such as her mobile phone provider and her energy supplier.
- Feeling there is nothing to lose, for example where there are no assets that creditors can seize.
- Playing the system, for example one respondent (interviewed in 2002) had run up large credit card debts on several occasions and then made offers in full and final settlement. In the longer-term, this seemed like a counter-productive strategy, given that the respondent relied on his credit cards to run his business.

'They will take anything in full and final settlement... if you owe them £5,000 I guarantee you will probably get off with a one-off payment of £3,000... it means they can write it off, the agency get to collect their fees straight away... I have had a great game with that lot.'

2.3.2 Is disengagement the result of disputes?

In our re-analysis of interview data, two of the five cases in this segment involved disputed debts.

One respondent disputed the bank charges that he had incurred because he had not opted out of an overdraft-type facility offered by the bank (he felt he should have been asked to opt in, not opt out). He stopped dealing with the bank because he was unhappy with the way his complaint had been handled and opened an account with another bank. He was also in dispute with the Student Loan Company. He had twice submitted paperwork to defer his loan repayments, but the SLC denied receiving any information.

In the second case, the respondent refused to pay card protection charges levied by his credit card provider. He alleged that these charges had been added to his credit card account without his consent. He had since cancelled his direct debit to the credit card company.

2.3.3 Did the customer hit a stress tipping point?

Most of the five respondents in our re-analysis of interview data seemed to have hit a stress tipping point at some stage, because their disengagement and non-payment was part of a larger picture of financial difficulty. Because she had no money for food and heating, one respondent sent her child to be looked after by a relative. She had also self-harmed as a result of stress. Fears that her child would be taken away from her prevented her seeking advice.

In other cases, respondents seemed to become exasperated or resigned to their situations, which were factors in their disengagement from (and disenchantment with) creditors. Linked to this was a strong sense of powerlessness.

'[the Student Loan Company] can basically do what they like, break any rules, deny they received anything and there's nothing I can do.' (Source: Re-analysis of interview data)

'I just thought, I can't do anything about it, I can't suddenly earn more money... there's only a certain amount of worry you can do.' (Source: Re-analysis of interview data)

The exception was one respondent (interviewed in 2002), who reported not feeling stressed by his debts because *'I know I will always be in a position to sort them out.'*

2.3.4 What would get the customer to pay?

In our re-analysis of interview data, the two respondents who disputed their debts did not intend to pay their creditors because they considered the debts to be illegitimate. One respondent, in dispute with the Student Loan Company, recognised that the case might end up in court.

'I just got to wait until if they ever take me to court and just present all the evidence because I'm sick of it now to be honest.' (Source: Re-analysis of interview data)

Other respondents did pay some of their creditors at least some of the time. One man, for example, prioritised paying his phone and credit card arrears because these were essential for his self-employed business. Other than that, he paid the creditors or debt collectors that were *'most aggressive.'* Another respondent had been prompted to seek help with her rent arrears when she was threatened with eviction (she had been evicted on at least one previous occasion as well). With regards to other creditors, she showed signs of erratic/sporadic payment as we discuss below. It seemed unlikely that she would ever repay debts that she had incurred more than 10 years ago.

'I get letters now and it's like you know what, 13 years later if you think you can find the original credit agreement good luck... if I haven't paid it by now why are you wasting the paper chasing me, because it ain't going to happen unless I win the lottery.' (Source: Re-analysis of interview data)

2.4 Customer segment 4: Erratic/ sporadic payment

Arrow Global defines this segment as customers who frequently make late payments or miss payments but do make some payments. This segment tends to be rather older than the average Arrow customer, but otherwise is similar to its typical customer.

In our re-analysis of interview data, there were six cases where respondents showed any signs of erratic or sporadic payment. There are similarities between this segment and customers who pay some creditors but not others (see Section 2.5).

We address the following questions that Arrow Global is interested in:

- Why does the customer make erratic or sporadic payments (e.g. irregular income, change in circumstances, struggling to manage)?
- Is this pattern of payment temporary or systemic? If temporary, what help (if any) do they need to manage their finances?
- What payment strategies do customers use (if any)? For example, do they pay the creditor that is most demanding?
- Do these customers need or would they benefit from money management advice?

2.4.1 Why does the customer make erratic or sporadic payments?

Possible explanations for erratic payments are that customers have irregular earnings or changing circumstances. The six respondents who showed signs of erratic payments had either experienced a drop in earned income (e.g. reduced working hours, redundancy) or had low and fluctuating incomes (e.g. spells in and out of low-paid work over a period of time). For these reasons, respondents were not always able to pay the full amount they owed to all their creditors.

In some cases, other factors were also at play, notably poor money management or periods of heavy spending, increased costs of living such as energy bills, and providing financial support for family members (e.g. rent-free accommodation).

2.4.2 Is this pattern of payment temporary or systemic? If temporary, what help (if any) do they need to manage their finances?

For the cases in our re-analysis, erratic payments were often associated with fairly long-standing financial difficulties. A change in this pattern of payment tended to come about because respondents sought debt advice. Improvements in people's financial situations, such as a return to work or an inheritance, could also result in a return to full contractual payments.

2.4.3 What payment strategies do customers use (if any)? For example, do they pay the creditor that is most demanding?

There was some evidence of different payment strategies among the six respondents in our re-analysis, including:

- Paying consumer credit debts that had lower repayments (such as credit card minimum payments), and not paying those with higher repayments (such as a personal loan)
- Paying the most demanding creditors (including agreeing unrealistic repayment arrangements because *it wasn't peace and quiet until they'd got it*)
- Prioritising creditors that levied penalty charges⁵
- Prioritising housing costs and other priority creditors.

In this respect, these customers overlap with customer segment 6 (customers who habitually pay some creditors but not others).

One respondent seemed to have a haphazard approach to paying her creditors, however, which reflected her chaotic lifestyle. For example, she paid her credit card provider when she was offered a repayment arrangement on the phone:

'[The credit card company] said, Look if you pay us £150 over three months we'll stop hassling you and I thought, you know what, I spent the money, I owe the money, I'll just pay it.' (Source: Re-analysis of interview data)

But she had not paid her water bill for two years because she had not got round to it.

⁵ This is supported by a European study that highlighted the importance of default penalties in shaping debtors approaches to repayment (Duygan-Bump and Grant, 2009).

'I'm not paying the water at the moment because I keep meaning to sort it out but then there's no money so I think, Oh I'll do it next month and I've been saying that now for two years'.

(Source: Re-analysis of interview data)

Among these six respondents, no-one mentioned access to credit as a reason for paying some creditors over others.

2.4.4 *Would these customers benefit from money management advice?*

For two respondents in our re-analysis, there was some indication that money management advice might have helped. As well as a drop in income and financially supporting members of her family, one woman continued to incur bank charges for unpaid items because bill payments *'hit the bank at the wrong time'*. She may have benefited from advice about changing her payment dates or alternative ways of paying bills.

Another respondent with a haphazard approach to paying her creditors (described above) may have benefited from budgeting help. She tended to be over-optimistic about her ability to pay what she owed: *'I'll just tighten my belt next month and it will all be fine and it's not'*. She had found it useful to sit down with a debt adviser and go through all her paperwork because *'it kind of makes it more real and more urgent that it gets dealt with.'* She may therefore have been receptive to a similar approach to help her sort out a budget.

2.5 Customer segment 6: Paying some creditors but not others

For Arrow Global, this segment comprises customers who habitually pay some of their creditors but not others. In terms of their demographic characteristics, they look like a typical Arrow Global customer. In our re-analysis of interview data, there were seven cases where respondents paid some creditors but not others and where some sort of payment pattern was evident (even if it did not seem to be habitual).

We address the following questions that Arrow Global is interested in:

- Why does the customer pay some creditors and not others? Which ones and why?
- Is there a bias towards creditors who provide further credit?

2.5.1 *Why does the customer pay some creditors and not others? Which ones do they pay and why?*

Our re-analysis of interview data showed that respondents paid some creditors and not others for the same reasons that other respondents made erratic payments, namely because they could not keep up with all their bills and commitments following a drop in income or long-term low income. Poor money management or previous bad financial decisions also had a bearing in some cases.

Likewise, the strategies for paying some creditors rather than others were similar to customer segment 4. In some cases, respondents' actions were informed by advice from a debt advice service. The approaches that respondents reported were:

- Prioritising payments to creditors that levied penalty charges (notably overdraft charges), or not paying bills to avoid incurring overdraft charges

- To avoid further action from creditors, such as bailiff visits or court action that could result in a prison sentence (in the case of an unpaid parking fine)
- To avoid being disconnected (in the case of telephone and TV)
- To avoid repossession of property (in the case of a driving instructor who prioritised his car loan payments because without his car he could not earn any money)
- Ceasing to make payments to creditors because creditors refused reduced payment offers and returned cheques.

'I was sending them a cheque for what we could afford and they just kept sending me horrible letters saying this isn't good enough. This is what we want... in the end I said well what's the point in struggling, we'll just leave it.' (Source: Re-analysis of interview data)

In some cases respondents decided which creditors to pay based on the reaction of the staff they spoke to when they phoned to discuss late or missed payments. As one respondent (interviewed in 2002) explained:

'I think when I ring people up and I'm trying to explain to them that I get paid on such a day, that it's going to be late, they get a bit stroppy on the phone. So I think to myself, well I'm going to make them wait. Because they talk to me like I'm a piece of dirt sometimes, and I don't like to be spoken to like that... I think if they use the right attitude with me, if they're considerate and they think, well I understand what you're going through, then I'll be alright with them and I'll pay things on the dot then.' (Source: Re-analysis of interview data)

Another respondent described how one of her creditors refused to be included on her DMP or to accept her payment offers. Annoyed at this, at the time of the interview she was not paying anything to this creditor, even though she could have used a recent inheritance to clear the debt in full. In both these cases, respondents seemed to be exercising what power they felt they had (i.e. over repayment) in a situation where the power balance was tipped heavily in favour of their creditors.

2.5.2 Is there a bias towards creditors who provide further credit?

Among the seven cases in our re-analysis of interview data, there was some evidence that respondents biased payments towards lenders. One respondent planned to keep up the repayments on her recently acquired credit card because she might need it for emergencies.

'It's better to pay that and get that clear. Because you never know what's round the corner. You may need something urgent and not have it there.' (Source: Re-analysis of interview data)

Another disabled respondent on a low income often struggled to keep up with all his bills and payments, particularly during winter months when energy costs were higher. He talked about keeping up with repayments on his mail order catalogue because it was a useful way to spread the cost of items such as children's clothes. Other than these two cases, the reasons for prioritising some creditors over others was not linked to access to credit.

2.6 Customer segment 5: Improved circumstances

Arrow Global infers improved customer circumstances when total payments to creditors increase or customers report improved income on a credit application. Demographically, this customer segment represents an average Arrow Global customer.

We have information on the following questions that Arrow Global is interested in:

- Do customers increase their payments to creditors when their circumstances improve?
- Do customers seek out more credit when their circumstances improve?
- Does the customer want some breathing space when their circumstances improve to increase their standard of living?

2.6.1 *Do customers increase their payments to creditors when their circumstances improve?*

There were six cases in our re-analysis of interview data where respondents' circumstances had improved. These respondents were at various stages in terms of their financial difficulties.

Three respondents' circumstances had improved when they moved back into work following redundancy or reduced earnings due to long-term ill health. They reported re-starting or increasing payments to their creditors (we do not have any further details) in an effort to pay back what they owed.

'I've still got a bit of arrears of about £4,500... I'm making every effort when I can just to put something back into it.' (Source: Re-analysis of interview data)

Although her circumstances had improved, one of these respondents worried about the longer-term viability of her repayment arrangements given rising costs of living and her fears about a cut in hours.

There was no commonality between the other three cases. One respondent continued to have erratic income from self-employment but had paid off his credit card arrears using a lump-sum pension payout. He was repaying the rest of his outstanding card balance over time.

Another respondent reported being able to manage better since her new partner had started contributing towards her household bills. Without his help, she felt that *'I'd probably be in the pit'*. She did not mention increasing her repayments to creditors. Possibly the help from her partner meant she was just able to keep abreast of her commitments without juggling payments, rather than putting her in a position to offer her creditors more money.

At the time of the interview, the final respondent had a steadier income than in the past. However, any gain was offset by a recent loss of overtime and rent increases. With the help of an advice agency, she had recently set up repayment arrangements with her creditors although she also had historic debts which she had no intention of paying. Her situation was clearly unsustainable: her earnings could not cover both the debt repayments and her living costs, to the point that she regularly took out payday loans. This seemed to be a repeat pattern of behaviour, where she and her partner 'lived for the day' when they had money and could access credit.

In a study of the fee-charging debt management industry, customers who had been on a DMP for more than a year generally reported that the debt management firm carried out an annual review. In several cases where customers' income had increased, their DMP repayments also increased. In cases where customers' circumstances had deteriorated they tended to either contact the DMP firm to sort out reduced payments or tried to manage by cutting back on spending (Collard, 2009). The same type of review process is conducted by free-to-client debt management providers.

2.6.2 Do customers seek out more credit when their circumstances improve?

There was no evidence that customers tried to take out more credit when their circumstances improved. In our re-analysis of interview data, one respondent (described above) had taken out payday loans because her earnings did not cover her debt repayments and her living costs.

2.6.3 Does the customer want some breathing space when their circumstances improve to increase their standard of living?

People repaying their creditors by means of a DMP or self-arranged plan generally report having little financial leeway in their budgets (Collard, Finney and Davies, 2012; Collard, 2009). Some of the Plymouth Focus Advice Centre (PFAC) clients mentioned that they would welcome some kind of breathing space when their circumstances improved, as recognition for sticking to the repayment plan but also to give them some flexibility in their budget. Ideas included giving people a 'repayment holiday' after a certain amount of time on a repayment plan, or allowing people to keep a small proportion of any increased income.

3 Customer motivations to engage with creditors or debt collection agencies when they face financial difficulties

In previous qualitative research, debtors often report contacting some or all of their creditors when they fear they will not be able to make their contractual payments or (more commonly) when they have missed one or more contractual payments (Collard et al, 2012; Collard 2009; Day, Collard and Hay, 2008). In this section, we explore what motivates customers to engage with creditors or debt collection agencies when they face financial difficulties and the extent to which the threat of legal action motivates customers to engage with their creditors.

3.1 Understanding customer motivations to engage

The psychology literature identifies two types of motivations to act. The first type is *intrinsic motivation*, which means doing something because it is inherently interesting or enjoyable. Intrinsic motivation is a powerful determinant of individual action.

When intrinsically motivated a person is moved to act for the fun or challenge entailed rather than because of external prods, pressures or rewards. (Ryan and Deci, 2000, page 56).

In relation to financial behaviour, individuals may be intrinsically motivated to spend money on non-essential purchases and services such as clothes or socialising. In contrast, it seems unlikely that individuals feel any strong intrinsic motivation to repay their creditors!

The second type of motivation is *extrinsic motivation*, which means doing something because it leads to a separable outcome. For example, an individual may pay the money they owe to creditors because it results in cessation of letters or phone calls demanding payment. There are different types of extrinsic motivation which vary depending on the extent to which people internalise and integrate values and behavioural regulations. In the field of education, greater internalisation and integration has been shown to result in greater persistence, more positive self-perceptions and better quality engagement (Ryan and Deci, 2000). Given that many activities (such as debt repayment) are not intrinsically motivated, the challenge is to identify and (if possible) foster extrinsic motivations associated with greater internalisation and integration.

Based on our re-analysis of interview data and the depth interviews with PFAC clients, we have broadly grouped people's motivations to engage with creditors or debt collection agencies according to three different types of extrinsic motivation: external regulation; introjected regulation; and identification.

3.1.1 External regulation

External regulation is associated with weak internalisation and integration. It describes behaviour that is performed to satisfy an external demand or to obtain a material or psychological reward that depends on fulfilling a contractual obligation. Individuals typically feel they have little control over the situation and may feel alienated from it (Ryan and Deci, 2000).

Based on our data analysis, external regulation seems to be a common form of customer motivation in creditor-debtor relationships. Examples of this type of motivation included:

- Respondents engaging with creditors to avoid (more) penalty charges, to discuss charges already incurred, or to try and freeze interest
- To prevent further letters or phone calls from creditors or debt collection agencies demanding payment
‘Sometimes I leave it until I get the red one. Then I know I’m making them angry on the other side, so I’ll go and pay it then.’
- To prevent court action, repossession of personal items or eviction
- To retain or be re-connected to a valued service such as phone, TV/internet, access to credit.

3.1.2 Introjected regulation

Introjected regulation is associated with stronger internalisation and integration than external regulation. Nonetheless, people still feel they have little or no control over their situation. Where people are motivated by introjected regulation, they perform actions with the feeling of pressure to avoid guilt or anxiety or to enhance or maintain self-esteem and feelings of self-worth.

In our data analysis, examples of customer engagement that seem to typify introjected regulation included:

- To alleviate negative impacts of financial difficulties on mental and physical wellbeing, including debt-related stress and anxiety
- To alleviate concerns about bankruptcy or personal insolvency
- To avoid relationship or family breakdown
- For reasons of pride or self-esteem
‘I got myself into this mess, so I want to get myself out of this mess.’
- To ‘get my life back’
‘I can start to live and enjoy what I’m earning, go out for dinner and whatever, the pictures.’

3.1.3 Identification

Identification is a stronger extrinsic motivation than external or introjected regulation. It describes an individual who identifies with the personal importance of an action and has accepted the regulation of the behaviour as his or her own. An example from education is a student who memorizes spelling lists because they see it as relevant to writing, which they value as a life goal (Ryan and Deci, 2000). Our data analysis identified three possible examples of this extrinsic motivation in creditor-debtor engagement:

- Respondents who expressed a strong desire to pay back what they owed because they felt it was their personal responsibility or the morally right thing to do
‘My personal view is, well if you’ve spent it you pay it back... pay it off, clear it, you know, and I would have a clear conscience and know that, you know, I didn’t take the easy route out.’ (Source: Re-analysis of interview data)
‘I knew I had to do the right thing by sorting out my financial affairs.’ (Source: Re-analysis of interview data)

- Respondents who wanted to become debt-free by a certain stage in their life (such as retirement), or in order to emulate a respected role model (such as a prudent parent) or because it was an integral part of an addiction recovery programme

'I don't want to be in debt when I'm 60. I aspire to be like my mum, at that age she didn't have any debts.' (Source: Re-analysis of interview data)

- Respondents who wanted to sort out their financial difficulties in order to retain or rebuild their credit rating to be able to access financial services (such as a mortgage) in the future

'I want y'know my own stuff and if I've got all this stuff going on I'm getting black marks against my credit, I'm not gonna get nowhere when I'm older.' (Source: Re-analysis of interview data)

3.2 To what extent does the threat of legal action motivate engagement?

Where customers engage with creditors, debt collections agencies or advice services following threats of legal action, this behaviour is likely to be motivated by external regulation i.e. it is performed to satisfy an external demand.

Not all of the cases in our re-analysis of interview data mentioned threats of legal action, because respondents were at different stages in their customer journey. Most of the PFAC clients (eight of the ten) had received threats of legal action, which reflects the serious financial difficulties they were experiencing by the time they sought help.

In cases where threats of legal action were effective, some respondents were prompted to seek help from an advice service, when they received threats of bailiffs or eviction. In a few cases, respondents had previously been evicted or had belongings repossessed, and wanted to avoid a repetition of the experience.

'So they did come, they did take stuff, but it just puts you where you know you should be. You know you've got to pay it. I think that's what they did, they gave me a wake-up call'. (Source: Re-analysis of interview data)

Others in this situation contacted the creditor to discuss the matter, or else paid the creditor that threatened legal action at the expense of others.

"It was when they were saying they were going to come and bang on the door and I was like, Whoa, I've got to pay them.' (Source: PFAC client interviews)

There were also cases where legal action had *not* been effective in prompting customer engagement, and may even have been counter-productive. There were four main reasons why threats of legal action seemed ineffective.

First, the threats came after creditors had rejected respondents' offers of payments, based on what the respondents felt they could pay. Similarly, a number of PFAC clients ignored threats of legal action because they knew they could not afford the level of payments that creditors wanted. In these instances, it seems likely that respondents saw no value in trying to engage (further) with creditors, because they had effectively reached an impasse.

'The amounts that they want were just unrealistic.'

'It doesn't matter what you paid or what you tried to pay it wasn't, they weren't satisfied with it.' (Source: PFAC client interviews)

The third reason for non-engagement, mentioned by one respondent in our re-analysis of interview data, was because he felt that creditors (notably credit card providers) 'cried wolf', making threats that did not materialise.

Finally, respondents reported that they did not engage even when threatened with legal action because they were frightened or stressed by the situation. This was mentioned by several PFAC clients who had mental health problems or whose financial difficulties were tied up with traumatic events such as relationship breakdown or addiction.

'I wanted to kill them... because they were harassing me.'

'... the language which is used, I think it's designed for you not to understand it and just to be frightened by it... very, very legal sorts of words.'

'The house, the kids, the wife walking out, all the debt... I just thought, Why am I bothering? And that's when I thought sod it... they can't have what I ain't got... they can have the house, they can have whatever. Just go away and leave me alone.' (Source: PFAC client interviews)

A very similar picture emerges from the MIND survey data. In its recent survey of people with debt and mental health problems, 71 per cent of respondents said they had been threatened with legal or court action (MIND, 2011). Our re-analysis of the MIND survey data indicates that people with debt and mental health problems ignored letters and phone calls because they could not cope with them; turned the phone off or changed their phone number; and were frightened to go out or to open the door for fear of bailiffs or debt collectors.

'I cannot deal with any of these as I have severe anxiety and depression, so I ignore them.'

'Some days I just can't cope with it so I don't even open my mail.'

'Now the postman has just been and it's not even worth my while opening the post. I wish someone would send me a nice letter for a change.'

'Increased anxiety due to the threat of somebody knocking at the door. Curtains stay closed and phone is not answered.' (Source: re-analysis of MIND survey data)

Receiving threats of legal action therefore increased the stress that these respondents felt, potentially reinforced their social isolation, and crucially resulted in them withdrawing from any means of contact with creditors.

4 Barriers that prevent or deter customer engagement

In our re-analysis of data and our depth interviews with PFAC clients, respondents had generally had at least some contact with one or more of their creditors over the course of their financial difficulties. There were respondents who reported very positive experiences of engaging with their creditors (without the help of a 3PDM), where the process was straightforward; the creditors were helpful and understanding; and a mutually acceptable repayment agreement was reached.

Other respondents reported less positive experiences. From the customers' perspective, there were two main barriers that they felt made it difficult to engage with creditors. The first barrier was how creditors communicated with customers when they were in financial difficulty; the second was creditors' approach to debt repayment. The evidence also points to other barriers to engagement which relate to customers' attitudes and beliefs.

4.1 How creditors communicate with customers in financial difficulty

The evidence indicates four aspects of creditor communications that customers found off-putting and could act as a barrier to engagement.

The first two aspects relate to the way in which debt recovery or collection staff communicated with customers. Respondents described the staff they spoke to as aggressive, rude, cold, threatening, hostile. As with threats of legal action (Section 3.2), this could make respondents frightened or reluctant to engage with their creditors. One respondent described her experiences in the following way:

'...very threatening... pay up or else we'll take everything... it doesn't matter to us... it's your problem... phone calls of horribleness.' (Source: PFAC client interviews)

Linked to this, respondents felt that staff were not interested in understanding their situation or did not listen when respondents tried to explain why they could not pay what they owed. This came through particularly strongly where respondents had mental health problems.

'I was at a stage of my depression where I could barely even get myself out of bed in the morning. But if you try and explain that to credit companies they laugh in your face and tell you to 'pull yourself together'.' (Source: re-analysis of MIND survey data)

'Companies keep demanding payments and don't seem to believe you when you say you are mentally ill – they think it is an excuse not to pay.' (Source: re-analysis of MIND survey data)

In the 2011 MIND survey, most respondents with debt and mental health problems agreed that 'Despite telling the organisation about my mental health problems, I felt as though I was harassed about my debt repayments'. Only a minority felt they had been treated sympathetically and sensitively once they told creditors about their mental health problems (MIND, 2011).

The second two aspects of creditor communication relate more to creditors' systems and processes. Respondents found dealing with call centres frustrating and unnecessarily time-consuming. It could be difficult to make themselves understood, or to understand call centre staff. Very often respondents had to recount their situation (which might be fairly complex) from scratch in each

conversation they had, because call centres did not seem to have any ‘organisational memory’ about their case. This made calls longer than respondents thought they needed to be, and cost them more in phone calls as a result.

‘It was all call centres, and one call centre didn’t seem to know what the other one was doing half the time.’ (Source: Re-analysis of interview data)

‘You’re just screaming inside, thinking I’ve told them the position, they know how much I’ve got.’ (Source: Re-analysis of interview data)

Similarly, respondents mentioned the disjointed nature of creditor communication. There were various examples of this. One respondent reported that she kept getting phone calls from a creditor even though she was in regular contact with them by letter. Another respondent had received different advice from different bank staff.

4.2 Creditors’ approach to debt repayment

The second barrier to engagement that respondents faced was creditors’ approach to debt repayment, which is largely determined by company policy and the targets and incentive structures that individual firms use for collections and recoveries.

For the most part, this related to creditors’ inflexible approach and refusal to accept the reduced payments offered by respondents, based on what they felt they could afford to pay. In some cases, creditors refused payments that had been worked out for respondents by 3PDMs. As a result, respondents continued to be persistently contacted by creditors demanding a higher payment or full payment. If they believe they cannot afford to pay what the creditors want, customers may well conclude there is little point engaging.

‘They [bank staff] can’t help you because they see what’s on the screen... this can be offered, that can’t be offered, whatever, and they just turn round and say no, instead of sitting there and thinking, Right, what can I do for this person?’ (Source: Re-analysis of interview data)

No matter how many times I phoned to make arrangements I was told, forcibly, to pay the full amount there and then or suffer the consequences.’ (Source: Re-analysis MIND survey data)

Some respondents were exasperated by the fact that creditors refused to accept their payment offers, but did accept similar offers made by a 3PDM.

‘What, now suddenly you believe that I’ve got a problem, was I lying before?’ (Source: re-analysis of interview data)

‘They won’t listen to you, they’ll listen to, you know, a company [3PDM]... Looking at it now I just think it’s disgusting, it’s laughable.’ (Source: PFAC client interviews)

There were also instances where creditors continued to contact respondents after payments were agreed – to try and get them to pay a larger amount. If customers do not feel they are able to pay more, and have not experienced any improvement in their circumstances, this tactic seems unlikely to be effective and may be counter-productive if customers end up agreeing increased payments that they cannot sustain.

4.3 Other barriers to engagement

As well as the impact of mental health on creditor-debtor engagement described in earlier sections, the evidence indicates a range of other attitudinal and situational barriers that may prevent or deter customers from engaging with their creditors. These include:

- Customers believe that creditors can't or won't help them
- Customers feel daunted by the prospect of contacting multiple creditors
- Customers are not aware of debts because they have been incurred by a partner or ex-partner.
- Customers have strong negative views about their creditors as a whole, do not distinguish one from another, and so do not engage with any of them

'I still see them as devils... you don't want to talk to the devil.' (Source: Re-analysis of interview data)

- Customers feel embarrassed to contact their creditors (although this can be overcome by a good experience of talking to a creditor or by working with a 3PDM)
- Customers lack confidence or self-esteem, which may be linked to the reasons for their financial difficulty (e.g. job loss, ill health, relationship breakdown)
- As noted in Section 2.3.1, debt problems can be lower on the customers list of priorities than other things, such as compulsive gambling, drug or alcohol addiction, or recovering from a relationship breakdown. Often these issues are intertwined, and one cannot be successfully tackled without addressing the other.

Across the evidence we looked at, respondents with consumer credit debts often considered that lenders were at least partly responsible for their financial difficulties. In hindsight, respondents felt it had been too easy for them to borrow money and that past creditor practices such as automatic credit limits on cards or debt consolidation loans had contributed to their debt problems. These views did not seem to act as a barrier to engagement. Rather, respondents felt that having lent them the money, lenders had a responsibility to help them when things went wrong.

'They're meant to be responsible lenders so some of the onus should be on them.' (Source: Re-analysis of interview data)

'They're happy enough to lend it to you, but don't want to know when you're having trouble paying it back.' (Source: Re-analysis of interview data)

4.4 The effect of barriers to engagement on customer motivations

The psychology literature suggests that customer experiences of barriers to engagement can adversely affect their motivations to engage. Fundamentally, the barriers to engagement described above (particularly how creditors communicate and their approach to repayment) mean that customers can find it difficult or impossible to satisfy the basic human need for autonomy (personal control), which is a crucial aspect of motivation (Ryan and Deci, 2000). The evidence highlights a number of ways in which the customer's need for autonomy is undermined by their financial difficulties and in their relationships with creditors.

First, people in financial difficulty often feel that their situation is out of control, or getting that way. In our analysis, respondents talked about *'sinking'* or a *'downward spiral'* which they were not able to reverse. In their dealings with creditors, customers can feel powerless to improve their situation or achieve a good outcome. Creditors do not listen or understand the customer's situation; and they turn down the customer's payment offers.

'You just feel like you're being backed to a cliff and you're going to fall off.' (Source: PFAC client interviews)

The psychology literature also indicates that power creates psychological distance from others, hinders perspective-taking, and provokes a less emotional response to other people's suffering (Rucker, Galinsky and Dubois, 2012). This is consistent with customers' descriptions of their interactions with creditors, which implied that creditors were in a position of high power relative to customers.

'... what it feels like is that the, you know banks, credit card companies, whoever, they seem all powerful... that they can rule your life, they can take over your life.' (Source: Re-analysis of interview data)

Second, debt problems are often tied up with traumatic life events such as job loss, relationship breakdown, ill health, which may undermine people's self-esteem. Because of the way they communicate, creditors can make customers feel worse about themselves or their situation. Feeling like a failure, customers may doubt their ability to sort out their financial situation or question whether it is even possible.

'It was just the continual feeling of that I was hopeless, you know, they were making me feel, well you know, this is your account you should be able to manage it better.' (Source: Re-analysis of interview data)

'Only one creditor helpful. The others made me feel really bad about myself. I had visions of them knocking on my door and bailiffs coming round and shaming me in front of my neighbours... I feel ashamed because of it.' (Source: Re-analysis of MIND survey data)

Third, customers' motivation to engage with creditors may decrease over time, based on their earlier (poor) experiences. The psychology literature indicates that achieving goals (such as engaging with creditors) *'often requires the completion of effortful tasks that can drain an individual of limited resources over time'* (Touré-Tillery and Fishbach, 2011: page 416). In other words, customers may lose the motivation to continue engaging with creditors if they are making little or no progress, because of the time and emotional resources that it involves. This may be particularly true for customers with mental health problems or where debt problems are linked to other complex issues such as gambling, addiction or close personal relationships. There was also evidence from our data re-analysis that motivations could ebb and flow over time, depending on the respondent's personal circumstances (e.g. whether or not they were in work).

Finally, there was also a strong sense in the evidence that we reviewed that unsuccessful engagement (further) undermined customers' trust in their creditors. And if customers do not trust their creditors, they may feel less motivated to engage with them. This lack of trust was manifest in a number of ways: creditors were held partly responsible for the situation customers were in;

creditors showed themselves to be incompetent, for example because of repeated administrative errors; and in cases where creditors implied that customers were lying about their situations in order to get out of paying what they owed. Trust and loyalty were particular issues for bank customers. Where respondents had held an account with the same bank for a long period of time (and often held other products with the bank as well), they thought this would be taken into account when things went wrong. They were disappointed when this was not the case.

5 Overcoming barriers to engagement

Previous research has explored what an ideal *pre-arrears* intervention looks like from a customer perspective (Collard, 2011). While some of the same factors are evident in the analysis we undertook for this study, by the time individuals are customers of Arrow Global they are already in arrears, often with multiple creditors. In situations where customers are faced with serious debt problems as well as other issues such as mental health problems, and perhaps have tried unsuccessfully to talk to creditors, the involvement of a 3PDM may be the most effective way of overcoming barriers to engagement.

In this section, we explore how to overcome the barriers to engagement described in Section 4: how creditors communicate with customers in financial difficulty and their approach to debt repayment. We also look at potential 'touch points' where customers could receive help or be signposted to a 3PDM. The final section looks at other types of support that people in debt say they would value (although not necessarily provided by creditors).

5.1 How creditors communicate with customers in financial difficulty

From a customer perspective, communication was the main area where creditors could make improvements that might encourage engagement (or at least make it less daunting). This came through strongly from our re-analysis of data and the interviews with PFAC clients. Although the main focus of their comments tended to be conversations they had had with staff, respondents' views applied to both written and oral communication.

Better communication meant that creditor staff would be polite; they would listen; they would treat each customer like an individual; and crucially they would show empathy and understanding towards the customer's situation. It was also important that creditors avoided 'legalese' and used simple language that was easy to understand in all their communications.

Respondents provided examples of messages they would like to hear from creditors (emphasis added):

*'I'm sorry to hear about your situation, hopefully you'll get it sorted, what we'll do for you is...'*this is what we're prepared to do for you...how can we help.... We'll do what we can.'

'Sorry you've got in this situation or something and we'll try and help you.'

'If they had phoned and said 'look we obviously appreciate that you're struggling.'

'Well, perhaps they could just say 'we know everybody gets in financial difficulties and could you please contact us and we could discuss this to your advantage and ours.'

'We can work this out and start up a like a Payment Plan... don't worry, there's things we can do... working together hopefully we can arrange, organise the best outcome.'

'... how can we work this out together so that we can put you back in control... Leaves you with a very positive feeling of yes, actually, we have to work together on this, it's not them and us.'

Notably, these messages are very similar to the ones that respondents valued hearing from 3PDMs and have some common elements:

- They demonstrate empathy and understanding, which may help engender trust and make customers feel less isolated
- They offer practical help, which gives customers the opportunity to regain financial control and to feel competent to address their financial difficulties
- They propose creditors and customers working together, which again offers customers personal control and a sense of redressing the power imbalance they may feel when they deal with creditors
- They offer outcomes that can work for both creditors and customers.

As we saw in Section 3.2 in relation to threats of legal action, blunt messages such as ‘*call us immediately*’ could be off-putting or even counter-productive because they made respondents frightened or anxious to contact their creditors.

5.1.1 Creditor communication with people who have debt and mental health problems

For people with mental health problems, it was important that creditors (and advice services) had some understanding about the impact of mental health problems on an individual’s ability to deal with their finances. As noted earlier, in a recent MIND survey only a minority of people with debt and mental health problems felt they had been treated sympathetically and sensitively once they told creditors about their mental health problems (MIND, 2011).

Among other things, our re-analysis of MIND survey data indicated that it would be helpful for creditors (and advice services) to understand that mental health problems can affect people’s ability to retain and process information, which means they require clear and simple information with enough time to take it in.

They [creditors] could have helped more by giving me time to understand the questions and give me time to explain myself fully. My anxiety meant that I felt I wasn't being understood and I felt rushed. (Source: Re-analysis of MIND survey data)

5.2 Creditors’ approach to debt repayment

From the customers’ perspective, it would be a major improvement if creditors accepted the payment offers that they made, even if the payments were less than creditors ideally wanted. This idea of working from a basis of affordability (rather than, say, minimum repayment thresholds) has been raised elsewhere (for example, McDermott, 2010).

Other aspects of debt repayment mentioned by respondents included freezing interest on accounts; invalidating credit cards so that respondents could not continue to use them; and offering customers a breathing space to see if their situation improved. For some respondents, the experience of ‘breathing spaces’ had not been very positive: once the time elapsed, creditors were reported to have immediately resumed their collections and recovery activity even though people’s situations had not improved.

In our re-analysis of interview data and the interviews with PFAC clients, some respondents talked about wanting to pay off their debts one at a time (e.g. paying off the smallest debt first) rather than on a pro rata basis. By paying off their debts this way, respondents felt they would see real progress in reducing their debts, which in turn was linked to a sense of greater personal control.

'... psychologically that one's paid, that one's gone' (Source: PFAC client interviews)

'... a bit of a feel-good factor about it, you know, I'm actually doing something proactive.'
(Source: PFAC client interviews)

As described earlier, one respondent had ceased her DMP so that she could pay off her debts one at a time; others on repayment plans realised that this was not the way creditors worked.

5.3 Potential touch points

Arrow Global is interested to explore whether customers are in contact with other organisations that could act as 'touch points' – for example to provide written information about dealing with debt or to refer people to debt advice services.

In our re-analysis of MIND survey data, the potential touch points mentioned by respondents included mental health professionals (community psychiatric nurses, psychiatrists, therapists); mental health support services (MIND, Rethink); social workers and GPs. Respondents reported mixed experiences of getting help with debt problems from these sources – from very helpful to dismissive or uninterested.

In the interviews with PFAC clients, we explored the sorts of organisations that clients were in touch with and whether these could have provided information or referred people to PFAC or another advice service. PFAC is a debt advice charity with a Christian ethos that is based at a church. The fact that PFAC is a charity was an important signal to clients that it was an organisation they could trust. Being a faith-based organisation was also important for some clients.

Most of the 10 clients we interviewed came into contact with PFAC through a friend they knew through the church. Two respondents had been encouraged to contact PFAC by a mental health professional (in one case a Community Psychiatric Nurse, in the other a psychiatrist).

'She [CPN] said, Look we've got to deal with these problems, because you're not going to get any better, you're going to get worse... That's what she said to me, You need to pull your head out of your bum and get it sorted.' (Source: PFAC client interviews)

Several other clients were in regular contact with health services, typically their GP. There were mixed views about GPs acting as a touch point for debt advice. Two clients felt that it was not the job of GPs to tell people about debt advice services because they were already busy: *'There's only so much they can do'*. Two other clients had, however, discussed their debt problems with their GP because this was linked to their illness. One client was not told about any advice services by her GP, but would have welcomed this. The other was told about the CAB by her GP, but already knew that she could not get an appointment at the CAB for several weeks.

Other PFAC clients had also been told about the CAB, either by friends, the local council, the Job Centre or the benefits agency. They had either contacted the CAB but did not receive the help they

wanted, or thought there was no point going to the CAB because they could not afford to pay their creditors.

Other touch points that were effective in getting clients to PFAC were a school-based parental adviser (recommended to the client by other parents), and an addiction support volunteer. Other touch points that were less effective were a trade union (which provided leaflets that were of limited use); and an employer-based counsellor (who provided leaflets that the client did not feel able to act upon).

'Waking up was an effort. I didn't want to read anything, I didn't want to talk to anybody.'
(Source: PFAC client interviews)

Employers were ruled out as sources of help by two clients – in one case because they were afraid they would lose their job, in the other because the employer had been very unsympathetic when the client tried to talk to him about being stressed.

Overall, the evidence indicates that the effectiveness of any particular touch point depends on a number of factors, including the willingness and ability of individuals or organisations to discuss financial matters with people in financial difficulty when this is not a core part of their job (or at least is not perceived to be); and the receptiveness of the person in financial difficulty to offers of help, which may be dulled by ill health or other priorities.

Not surprisingly, the evidence suggests that a personal referral to an advice service can be more effective than providing information (such as a leaflet). But ideally any referral should be to an advice service that has capacity to help the individual. Referrals from someone that the individual trusts are also likely to be more effective – be that a close friend or a support worker. This would seem to rule out creditors or debt collection agencies as sources of referral, but on the other hand they are likely to be in regular contact with customers.

In terms of communication methods, the PFAC clients we interviewed were generally alarmed by the idea of a home visit from a creditor, although they valued face-to-face debt advice. There seemed to be little appetite for communication by text message, for example because this would make a blunt message even blunter. In other words, the primary communication methods are likely to remain telephone and letter.

5.4 Other types of help and support

From our analysis, we identified two other types of help and support that can overcome barriers to engagement. The first involved customers working with a 3PDM to 'fight their corner' and deal with creditors on their behalf. Most of the PFAC clients we interviewed, who had been in serious financial difficulty and often had other issues to deal with as well, expressed no desire to have any contact with their creditors at all. They were relieved to hand over to an adviser to advocate on their behalf. These respondents had received intensive help from PFAC on both a practical and emotional level.

The other type of help that some respondents felt they would have benefited from was a better understanding of their legal rights and responsibilities, especially what action creditors could or could not take and what debts they should prioritise. For respondents with mental health problems,

this extended to knowing how organisations (such as creditors and debt collection agencies but also government agencies) should treat people with mental health problems. Increased knowledge of this kind was sometimes an outcome of getting advice from a 3PDM, as a result of which respondents felt more confident to deal with their creditors.

5.4.1 Help with budgeting

While not directly linked to overcoming barriers to engagement, in our re-analysis of data help with budgeting was mentioned by a number of respondents. In one study, some bank customers had welcomed practical help from bank staff, such as setting up internet banking to keep a closer eye on their finances, or going through bank statements to identify redundant direct debits or standing orders.

Practical help with budgeting also came through strongly in our re-analysis of MIND survey data. The types of help respondents wanted included setting up a budget, looking at income and outgoings, help to reduce spending, understanding direct debits, and keeping records.

'Budgeting advice – I've made budget myself but always seem to miss out a lot of my spending and am unable to work out where I'm wasting money. Advice about practical things like lowering my food/utilities bills.'

'Showing me where my money goes out as well as my income, then talking through what outgoings can be gotten rid of or reduced.'

'... advice on how to keep documents together, how and where to file them, explaining how to find information.' (Source: Re-analysis of MIND survey data)

MIND survey respondents mentioned the Money Saving Expert website as a source of information that was easy to understand. Some respondents valued hearing from or talking to people in a similar situation, for example via the Money Saving Expert online forum, which provided emotional as well as practical support.

'The MSE Forum has helped us to find strategies to keep us on track and see that we are not alone.' (Source: Re-analysis of MIND survey data)

Several respondents mentioned the value of online resources generally. These were good if respondents did not feel able to see or talk to people in person, and they could check out different online sources. The main issue was finding out what online resources there were, and although not mentioned explicitly, which ones to trust.

5.4.2 Help to understand and manage the links between mental health and debt

Closely linked to help with budgeting, managing money and debts, there was also a strong desire among MIND survey respondents to understand and manage the impact of their mental health problems on their spending patterns.

The sorts of help mentioned by respondents were:

- Help to manage their spending and finances when they were unwell, e.g. feeling manic and prone to spending or depressed and unable to deal with calls or letters from creditors
- Better insight into how their mental health problems affected their spending and how to deal with this e.g. by putting in place coping strategies like a daily credit card credit limit, or other strategies that were less advised such as giving credit cards to someone else when they were unwell or someone else taking control of their money
- Someone to keep an eye on their spending '*so that if it starts getting out of control then there can be an intervention*'
- Understanding that sorting out money/debt problems was likely to have a positive impact on mental health.

Like help with budgeting, this type of support is not directly linked to overcoming barriers to engagement. It does, however, form part of the broader picture of help and support that people with mental health problems may benefit from. With appropriate training, mental health professionals or debt advisers that specialise in mental health seem best-placed to provide this type of support.

6 Summary

Arrow Global commissioned this study to (1) provide insight into its customer segments; (2) to better understand debtors' motivations for engagement and non-engagement with creditors, and (3) to better understand the actual or psychological barriers to engagement with creditors that debtors may experience. Focusing on the customer perspective, we have employed quantitative and qualitative research methods to achieve these aims.

By the time people are customers of Arrow Global, they are already in arrears, often with multiple creditors, and may have been in financial difficulty for some considerable time. Problem debt can have complex causes that mean it is not straightforward to resolve. Debt often results from traumatic events such as job loss, poor physical or mental health and relationship breakdown. It may be linked to poor money management, disputes with creditors, 'playing the system' or drug, alcohol or gambling addictions. Financial difficulties can lead to people paying some creditors but not others, making sporadic payments to creditors, or paying nothing at all. Understanding the complexity of the causes and responses to problem debt can help 'down the line' creditors such as Arrow Global respond more effectively to its customers.

From the customers' perspective, how creditors communicate with them and creditors' approach to debt repayment shape their relations. If creditors get things right in these two respects, the chances of recovering the money owed to them increase. If they get them wrong, they risk the customer disengaging from further dialogue.

Aggressive, unsympathetic communication from creditors and an inflexible approach to debt repayment undermines the basic human need for personal control that is a crucial aspect of customer motivation. If creditors do not listen or understand the customer's situation and turn down their repayment offers, customers feel powerless to improve their situation or achieve a satisfactory outcome. If creditors make customers feel worse about themselves or their situation, customers doubt their ability to sort out their debt problems. Over time, customers may lose the motivation to continue engaging with creditors if they make little or no progress, because of the time and emotional resources involved. In this context, repeated threats of legal action become counter-productive, because they increase the stress and anxiety that customers experience without offering any reasonable plan of action to resolve the situation.

We can learn a great deal about improving creditor-debtor engagement from the experiences of people with serious debt problems. They would like creditors to demonstrate empathy and understanding; to provide practical help; and to propose working together to find an outcome that works for both sides. This approach motivates customer engagement because it helps engender trust; it makes customers feel less isolated; it gives customers the opportunity to regain financial control; it makes customers feel competent to sort out their debt problems; and it helps redress the power imbalance that customers may feel when they deal with creditors.

Based on the study findings, Arrow Global plans to pilot and evaluate a range of interventions to better engage and motivate its customers. Once completed, the outcome of this testing will be shared in a published report.

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