



Submission to the London Assembly Economy Committee investigation into personal problem debt

Introduction

1. As the UK's financial capability charity, we welcome the opportunity to make a submission to the Committee's investigation.
2. We believe that being on top of your money means you are more in control of your life, your finances and your debts, reducing stress and hardship. And that being on top of your money increases your wellbeing, helps you achieve your goals and live a happier more positive life as a result.
3. Our vision is for everyone to be on top of their money as a part of everyday life. So, we empower people across the UK to build the skills, knowledge, attitudes and behaviours, to make the most of their money throughout their lives.
4. We do this by developing and delivering products and services which provide education, information and advice on money matters, in an appropriate way for young people and adults; working with all parts of the financial services industry to improve practice and outcomes for their consumers; and influencing and informing policymakers, the media, the industry and public attitudes to support our vision, purpose and delivery.
5. Empowering people to manage their money more effectively should form a key part of any measure to tackle problem debt. This can not only help people to avoid falling into problem debt in the first place by building their resilience to shocks (such as those identified as drivers of debt in the call for evidence), but can also help people who *have* fallen into problem debt to break the cycle and avoid future difficulty once they have regained their financial footing.
6. We are not a debt charity and do not offer individual debt advice, so are not best placed to answer specific questions regarding levels and types of debt. We respond to this call for evidence from a financial capability perspective, and in the belief that the best way to tackle problem debt is to prevent it from developing in the first place.

Nature and scale of personal problem debt

What more could the Mayor do to provide support to indebted Londoners?

7. There are a number of steps the Mayor could take to support Londoners who may be in or at risk of problem debt. One would be to encourage large employers and local authorities to include financial capability as a key part of their commitment to staff wellbeing.
8. We believe that anyone can benefit from knowing more about their money, whatever their financial situation, and have recently launched two training courses designed to help anyone get to grips with their finances. These cover five core areas:
 - How to plan your finances to enable you to stay on top of your money now and to help you to achieve your goals for the future.
 - How to structure saving to make bigger things happen and to prevent financial blips turning into a personal recession.
 - Problems repaying credit can happen to anyone, how take action to deal with it and where there is expert help available for free.
 - How to choose financial products wisely and use them to enhance your financial well-being.
 - How to keep on top of what's happening with your pay, your cash and your bank accounts.
9. If such a course was delivered widely, for example to all staff at a particular employer, it would avoid the stigma that 'debt advice' can often carry, and help people over the long-term not to slip into difficulty, ultimately improving their overall financial and non-financial wellbeing. We would greatly welcome any support from the Mayor's office and the Greater London Assembly to expand these courses and publicise the beneficial impact that such courses can have.
10. Additionally, we would welcome efforts to encourage financial capability training among local authority front-line staff. Local authorities are a common point of contact for people at risk of financial difficulty, whether this is regarding housing benefit, council tax arrears, or other support. Our full-day workshop also covers the areas listed above, but rather than directly delivering money management skills, it helps people to help others. This means participants who interact with service users gain an understanding of the reality of money management so can relate more readily to the service user's situation, as well as improving their own skills. It also means they can support those they come into contact with to stay on top of their money, leading to better outcomes in the long term.

Debt support services

At what point of indebtedness do people contact for help?

11. The available evidence suggests that many people do not contact anyone for help about problem debt until they are at 'crisis point'. Research from the Money Advice Service has found that nearly 9 million people across the UK were over-indebted, but 7.3 million of these were not accessing advice¹. Figures from StepChange further highlight this reluctance – 74% of their clients wait over six months between realising their debts are a problem and contacting a debt advice provider, while half wait over a year². A similar trend has also been identified in the fee-charging debt management company sector³.
12. This is partly a cultural issue – money remains a taboo subject for many people, and people are particularly reluctant to admit that they are struggling. One recent survey found that a third of adults find talking about money to family and friends difficult, and over 1 in 8 don't know their partner's salary⁴; if people don't discuss their finances with friends, partners or family, potential problems can easily go unnoticed or unaddressed.
13. Given these barriers to people accessing debt support, the need to reach out to people at an earlier stage, with interventions that are not specifically focused on 'addressing problem debt', is even greater. The same MAS research we reference above reported that nearly a third of those who are over-indebted either didn't recognise they were in debt, or did recognise it but did not consider it a problem.
14. By building the financial capability of Londoners and offering generic money advice to as wide a range of people as possible (including information on accessing debt advice), potential debt problems can be addressed at an earlier stage, reducing the overall impact on individuals, families, and communities.

Should there be a greater effort to resource targeting those in problem debt earlier?

15. As we state above, targeting people at an earlier stage – and ideally before they are in problem debt at all – should be a focus of any initiative to address debt.
16. However, it is important to understand, as we note in paragraph 13, that many people who are over-indebted do not recognise their debt or their problem, which limits the effectiveness of targeting such people with debt advice. Forcing debt advice upon people who don't believe they need it will cause resentment and may mean those people are then less willing to access debt advice when they actually need it. In contrast, we believe that most people would welcome the opportunity to make the most of their money, particularly if it is framed in a positive way that focuses on achieving their goals, not just staying out of debt.

¹ <https://www.moneyadviceservice.org.uk/en/static/indebted-lives-the-complexities-of-life-in-debt-press-office>

² <http://www.stepchange.org/Portals/0/documents/media/PersonalStatsYearbook2013.pdf>

³ <http://www.fca.org.uk/firms/firm-types/consumer-credit/consumer-credit-research/debt-management>

⁴ http://www.home-start.org.uk/about_us/what_we_do/money_talks_report

17. There is also some evidence from the financial services industry that pre-arrears contact can be successful in addressing potential problems before they become unmanageable⁵. If this approach can be successfully used by, for example, local authorities in their attitude towards collection of council tax, it could stop relatively small debts from spiralling into unmanageable difficulties.

⁵ <http://www.bristol.ac.uk/media-library/sites/geography/migrated/documents/pfrc1113.pdf>