COUNTING THE COST OF DEBT RECOVERY 2018

Research by Echo Managed Services. 2018

Foreword

18 months ago we published our “counting the cost of debt recovery” research report, outlining the general picture of debt recovery processes within UK organisations, and the impact they were having on customers, both good and bad.

This report revisits this important subject, at a time when UK households continue to feel a growing financial pinch, and when organisations are under increasing pressure to treat their customers in debt more fairly.

We’ll look again at who the nation’s debtors are and the reasons behind their debt, which sectors are getting debt collection right and wrong, the most effective ways to recover arrears, the hidden costs of poor practice and how the picture has changed in the last 18 months.

This time around we’ve also examined whether consumers in arrears attach a negative stigma to asking for help, how aware they are of the various support schemes organisations offer and whether they feel data sharing can help their service providers to better support them.

Here at Echo, we view debt very much as part of the customer journey, and as you read through the findings in this report, the importance of this becomes clear. Understanding your customers’ real lives and the many real causes of their arrears can really help in building more effective debt collection practices that positively impact both organisations and their customers.

Monica Mackintosh - Customer Services Director

2018 vs 2016

Key Findings

70% of people have experienced debt recovery: a 7% rise vs. 2016

More people are feeling the pinch. 35% couldn't pay due to outgoings greater than income (vs. 28% in 2016)

52% of people feel there is a negative stigma attached to asking for help when in debt

36% of these say it's down to poor practice from their service provider

TV licence is the bill customers would prioritise least if they couldn't afford to pay all their bills

Awareness is worryingly low around water and energy support schemes for vulnerable customers

CAN WE HELP?

53% of people don't think their service provider did enough to help them avoid getting into arrears in the first place

20% of people wouldn't want companies to share their data, even if it was to provide better support

Only 25% of people feel companies value customers in arrears (vs. 30% in 2016)

51% of people felt more negative about their service provider following debt collection (vs. 38% in 2016)

2018 vs 2016

Debt – a widening concern

Consumer debt has long been a concerning UK issue, and it's one that isn't going away. In 2016, our research highlighted that 63% of people had experienced debt recovery procedures due to a missed payment; just 18 months on, this has **risen significantly to 70%**.

Debt is also becoming a **more regular occurrence**, with 11% of people stating they have on-going repayment issues with one or more service providers. This is up 4% on 2016, suggesting people are finding it increasingly difficult to get themselves out of financial difficulties.

In terms of demographics, it remains clear that debt can – and continues to – affect people of all ages. However, our latest research indicates a spike in regular debt amongst the 25-44 age bands. This is in-line with recent research* conducted by debt charity StepChange that highlights that their client base is getting younger, with 63% of those they advised in the first half of 2017 being under 40.

And, although some organisations have taken steps in the right direction, it's clear that deep customer understanding and tailored and personalised approaches must remain at the forefront of more effective debt collection practices.

Customers face a vast array of very real debt scenarios; fully understanding this, truly engaging customers and responding to each in an appropriate manner are therefore crucial.

Split by age	18-24	25-34	35-44	45-54	55-64	65 and over
I am regularly late with my payments (2018)	3.9%	6.3%	11.1%	4.1%	1.8%	1.7%
I am regularly late with my payments (2016)	4.8%	4.1%	3.3%	4.6%	7.8%	0.3%

* StepChange 2017 UK personal debt and statistics Mid-Yearbook

More households feeling the pinch

Cost of living driving more debt

Over a third of people (35%) said their **monthly income was less than their outgoings**, compared to just 28% in 2016. The economic backdrop of rising inflation and wage stagnation is clearly having a more pronounced impact on the affordability of everyday bills.

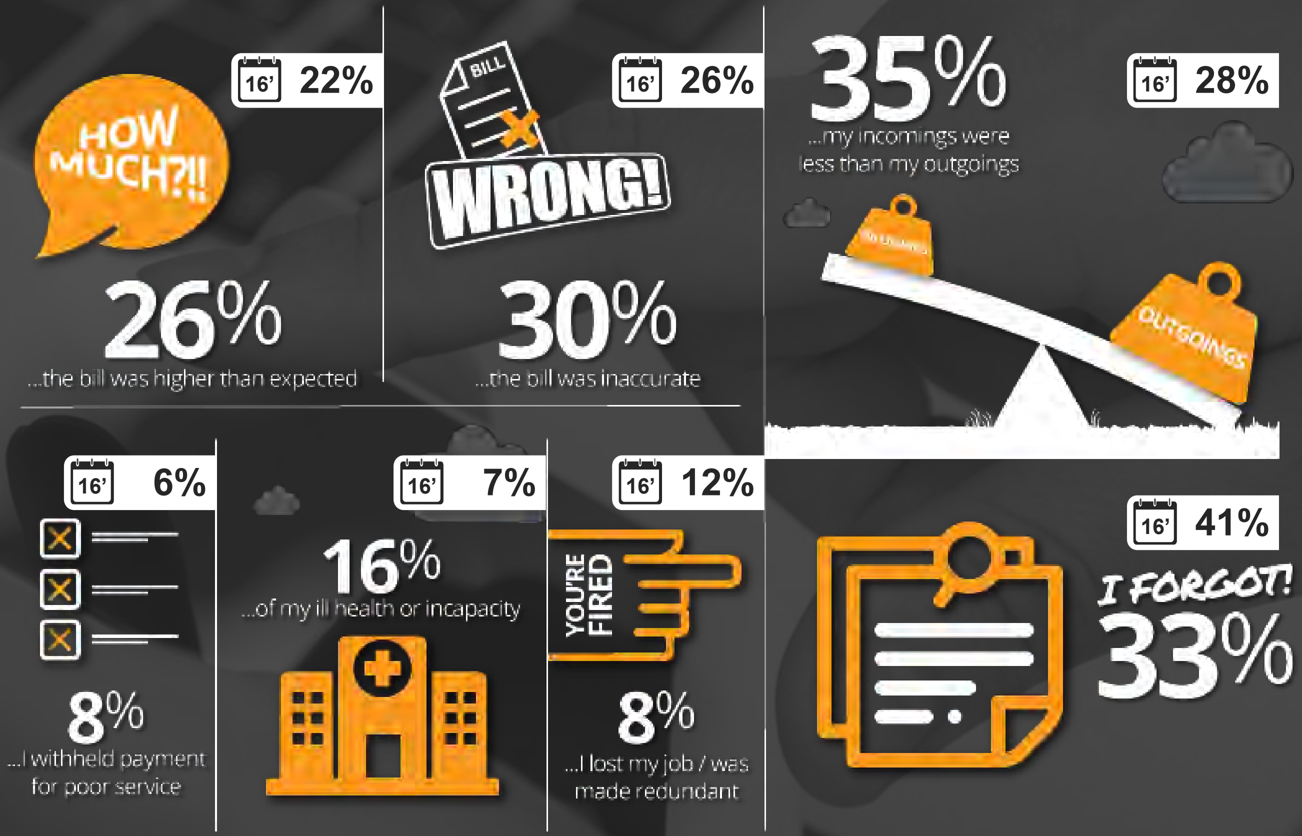
In contrast, **time-poor debt** – where customers simply forget to pay – was the top reason for customer arrears in 2016 (41%). We have seen a significant drop in payment forgetfulness (now 31%) in our latest research – indicating that bill payments are now more front-of-mind for consumers. This may be partly due to consumers being more aware of their finances given the impact of growing affordability concerns.

It also potentially points to a more positive picture, one where service providers are doing more to support customers and tackle payment forgetfulness by issuing **regular reminders and communications** before bills are due for payment.

However, a quarter of people were unable to pay due to **receiving a higher than expected bill**, compared to 16% in 2016. Although price increases in some sectors – such as gas and electricity – may have contributed to this picture, it does highlight that companies need to do more to **alert customers to unusually high bills** pre bill issue, and to model the impact of any price increase against regular usage.

Protest debt – where customers deliberately withhold payment due to poor service – has risen slightly; 8% of consumers withheld payment at protest, compared to 6% in 2016.

Which of the following reasons apply to why your household's payments may have been late?



2018 vs 2016

A shift towards later payments

In 2016, almost half of debt was cleared immediately as soon as people were reminded to pay, but this has now **dropped to 40%** - perhaps due in part to more people living with outgoings that exceed their income.

In fact, this general shift towards later payment was mirrored throughout the debt cycle, with 27% of people only paying after receiving a final reminder letter – an 8% rise on 2016.

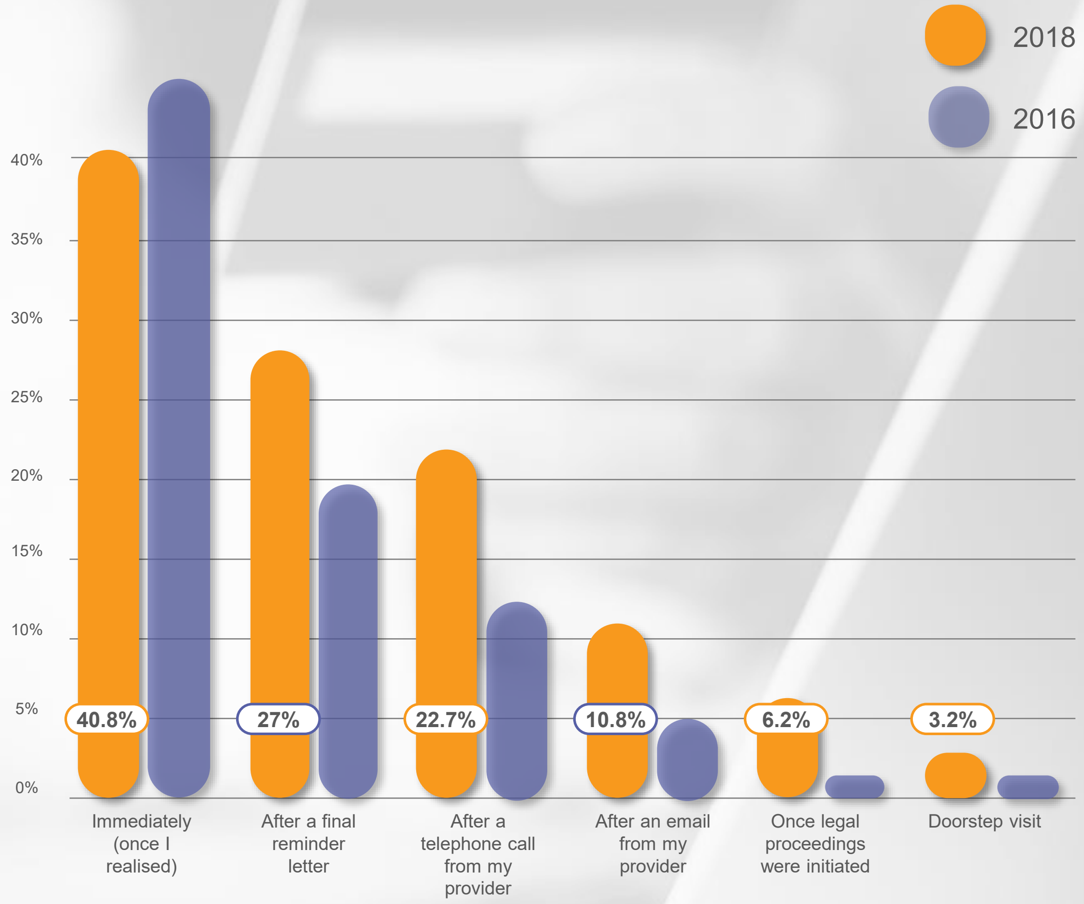
As household budgets become increasingly squeezed, many people could be taking steps to **more strictly control their cash flow** and only settle bills when they absolutely need to, rather than immediately. Companies need to acknowledge this and amend their intervention strategies accordingly – and a more sympathetic approach is likely to be far more effective.

In the same way that companies are extending their credit terms in the B2B world, many consumers are having to effectively do the same, as finances are squeezed. Suppliers, in some senses, may need to accept this, patiently working with customers and **allowing them more time**, with a focus on “when” customers might be able to pay – not “why” they haven’t.

Customer intelligence can be used to good effect to tailor the debt collection cycle to each customer, using payment patterns and habits to help send the right message to the right customer at the right time.

For example, an earlier phone call could lead to faster payment for the 22% of consumers who are waiting for that first call to take action.

When getting into debt with an everyday service provider, at which point were you able or willing to make a payment?



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Not all bills are equal

Clearly, consumers may be forced to prioritise payments when money is tight. This is becoming increasingly common given that more people are feeling the pinch this year. But which bills would customers **prioritise least** in times of financial hardship?

For almost 1 in 3, their **TV licence payment** is deemed the most non-essential, with many highlighting that this could easily be sacrificed in the short term. Almost 25% would **deprioritise their mobile phone** in times of financial difficulty, quoting the fact it is not needed and is even a luxury.

Insurance, credit card, water and landline/broadband bills are also common payments placed to the bottom of the pile. In the case of water, although deemed a basic necessity of life, those that gave their water bill least priority were acutely aware that their supplier is unable to cut them off should they not pay.

Of course, there is a clear difference between "not paying" and "sacrificing". Consumer responses highlighted varying opinions as to why they chose their least priority bill. In some cases, whilst they were happy to deprioritise their payment, they were not agreeable to their service being taken away.

These findings illustrate that some sectors will naturally **have to work harder to recoup their share** of a customer's available income. The priority here needs to shift to **debt prevention** and **early stage intervention** – as once a customer finds themselves in difficulties, a supplier may find themselves at the bottom of the priority pile.

In addition, **building brand loyalty** and taking a more understanding and customer-centric approach can help suppliers to **stay on good terms** with their customers and may even encourage earlier payment where feasible.

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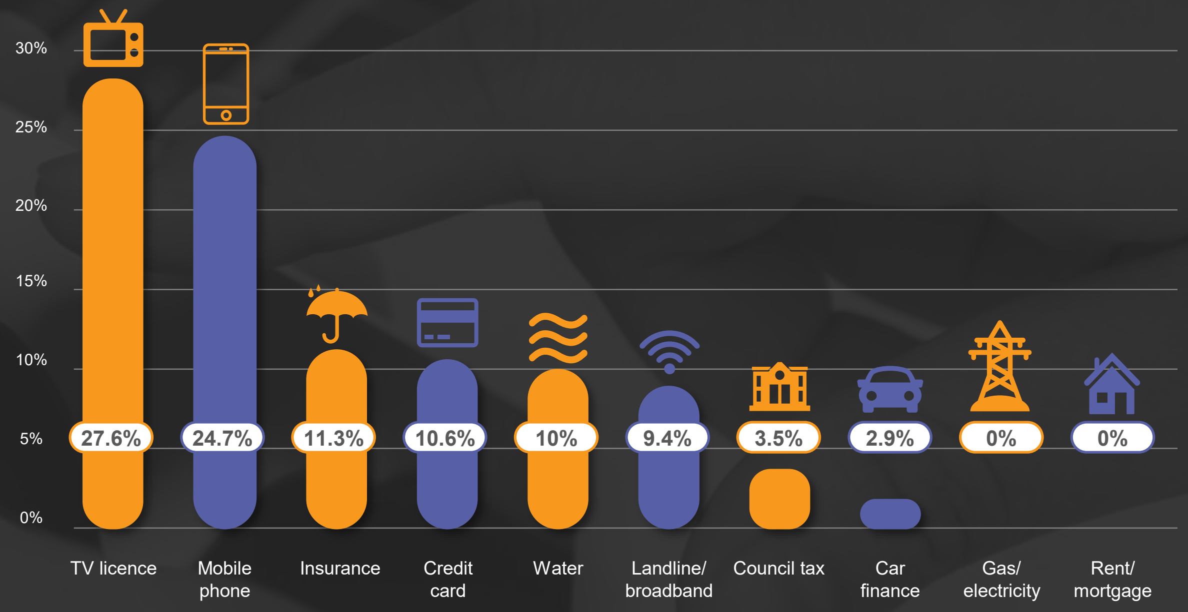
If you couldn't afford to pay all of your bills at any given time, which payment would you prioritise least?



Do companies value customers in arrears?

When getting into debt with an everyday service provider, did you feel that throughout the debt recovery process they valued you as a customer?

Looking more closely at whether customers in arrears feel valued by their service provider, a **mixed picture** emerges.

A quarter of customers (25%) felt they were valued, despite their arrears; but this percentage has fallen from 30% (2016). Worryingly, 60% of people told us that they did not feel valued as a customer, up significantly from 48% (2016).

What's clear is that despite the collections industry promoting itself as more customer-centric, and the undoubted change activity already underway, it is simply **not landing well** with many consumers who are clearly **not feeling the change**. Viewing **debt as an integral part of the customer journey** can help change perceptions by integrating commonplace customer service measures and expectations across the debt collection cycle.

This doesn't mean the answer is that suppliers must become softer. What's important is that a customer-centric approach becomes **truly embedded across operations.** For example, removing unintentional bias and prejudice by ensuring all advisors fully understand the challenges facing consumers, and by proactively raising further awareness of **help schemes and support**.

25% YES — 16' 30%

60% NO — 16' 48%

15% UNSURE — 16' 22%

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Breaking the stigma

HELP

52% feel there is a negative stigma attached to asking for help

52% of people told us that they feel there is a **negative stigma** attached to asking their service provider for help if they should fall behind on their payments.

The reasons behind this opinion highlight both general **consumer attitudes** to debt as well as **poor company practice**.

59% of customers attribute the negative stigma to society stereotyping and their own feelings of shame, embarrassment or inadequacy. A further 36% blame the practices deployed by their service providers for making them feel that way, and 16% stated it was a combination of both factors.

These findings highlight just how important it is for organisations to stand out as **approachable and helpful**. Ensuring all communications convey this is vital; across verbal and written contact, as well as the general tone of information available on a company's website.

Responsible organisations will understand their impact on negative stigma and be committed to making change for the better.

?

Why do you feel there is a negative stigma attached to asking your service provider for help?

- **59%** due to personal feelings and attitude
- **36%** caused by poor practice by service providers
- **16%** a mixture of both personal and service provider factors

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Putting a stop to stereotyping

Given that debt affects people from all walks of life, for so many different reasons, and that such a negative stigma is attached to debt, it's crucial that companies **avoid making assumptions** about customers and what has led them into arrears.

The impact of assumptions

Assumptions can easily influence the types of questions and statements used by advisors which can have a detrimental effect on customer wellbeing and willingness to pay. It's vital that all communication is **open, understanding and impartial**; focusing on treating each customer as an individual.

For example, making a customer feel guilty about lifestyle choices is not going to help the situation, and statements designed to promote fear and guilt can have an extremely detrimental effect, especially for those in extreme hardship or circumstances of vulnerability.

Invest in your people

Investment in **advisor training and empowerment** can help companies take a more understanding and empathetic approach that will be mutually beneficial in the longer term. And, of course, this should be consistently applied across both in-house and third party teams.

The ultimate goal of any debt collection contact should be to **encourage customers to talk** and to create a balanced resolution, with advisors using their skills and experience to help clear an outstanding balance without stretching the customer to breaking point.

Keeping an open mind and appreciating the lifetime value of a customer – who may be simply experiencing a temporary blip – is crucial. These findings highlight that here, consumers feel organisations still have more work to do.

Promotion of fear/guilt

"You'll end up in court if you don't pay."
"This is your fault."
"You have to pay."
"It's not good enough."
"That's not acceptable"

Detachment

"I can't help you."
"It's just my job to collect the money."
"That's not my concern."

Negative profiling

"What benefits do you receive?"
"I see you live in a very deprived area."
"Does your disability stop you working?"

Lifestyle judgement

"I see you spend a good deal on alcohol."
"Why can you pay other companies, but not us?"
"This is just a token payment."
"You can definitely afford more than that."
"You should just give up cigarettes."

A best practice approach – who's getting it right?

Current Rank	vs. 2016
1. Telephone company	▲
2. Car finance company	▲
3. Credit card company	▲
4. Water company	▲
5. Local authority	▲
6. Retailer	▼
7. Energy company	▼
8. Mortgage lender/bank	▼

We asked consumers to think back to when they'd been in debt with an everyday service provider, and to indicate whether they'd experienced any of the following **better practice debt recovery procedures**:

- Friendly, helpful and understanding staff
- The offer of an affordable payment plan
- A freeze on interest/charges
- Referral to debt charities who can offer advice
- They made it easy to pay, offered payment options
- They provided clarity/breakdown of charges I owe

Of all the sectors included in our study, **telephone companies** were found to be the most likely to deploy best practice techniques in their debt recovery procedures, scoring above average for employing friendly, helpful and understanding staff, making it easy to pay via easy payment options and for referring customers to debt charities who could offer them free advice.

However, the all sector average scores (as shown on the next page) do **paint a worrying picture**. Only one quarter of consumers (24%) had dealt with friendly, helpful and understanding staff during debt collection, whilst scores for referrals to debt charities (17%), a freeze on interest/charges (20%), making it easy to pay (22%) and clarity of charges (15%) were lower still.

The most **commonly experienced best practice was the offer of an affordable payment plan**, which 33% of consumers said they'd experienced during debt collection. Energy companies, water companies and retailers were the most likely to offer this to consumers in arrears.

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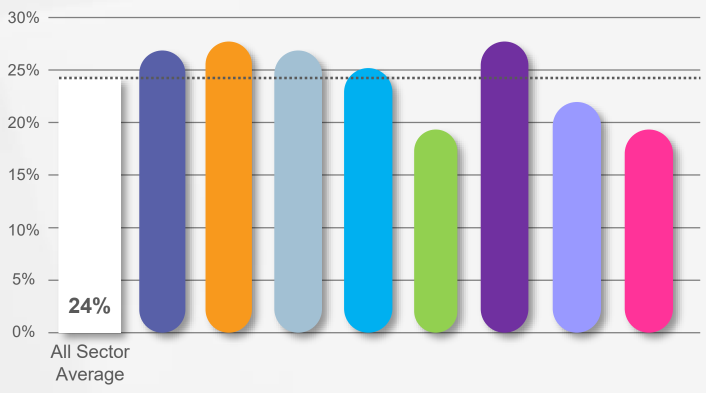
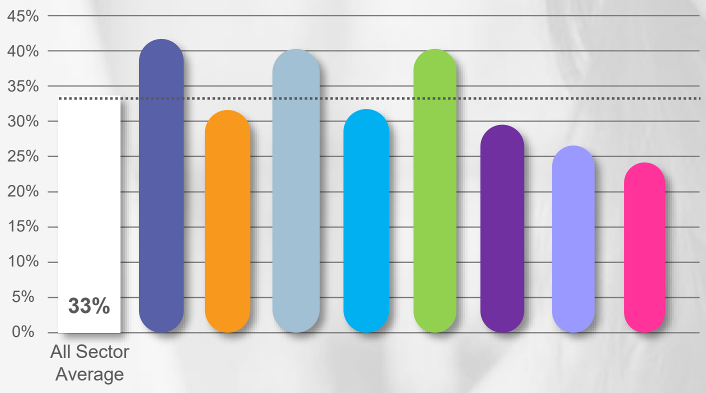
Best practice by sector

- All Sector Average
- Energy company
- Telephone company
- Water company
- Local authority
- Retailer
- Credit card company
- Car finance company
- Mortgage company / bank

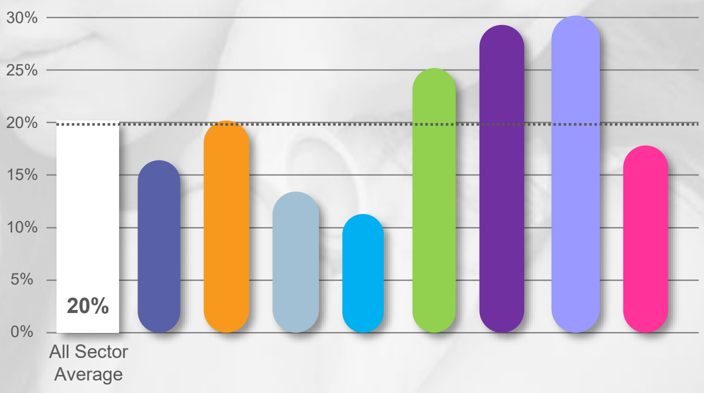
Friendly, helpful and understanding staff



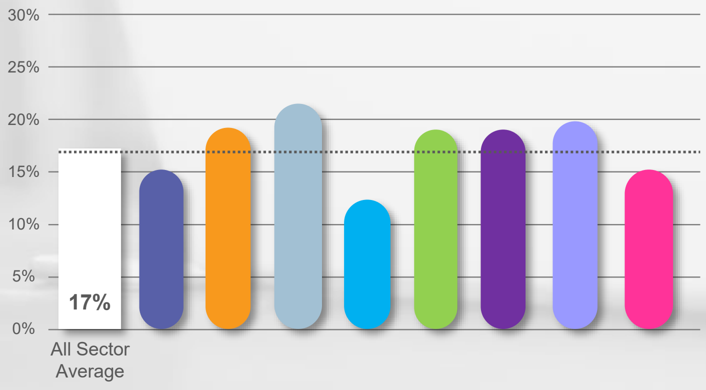
The offer of an affordable payment plan



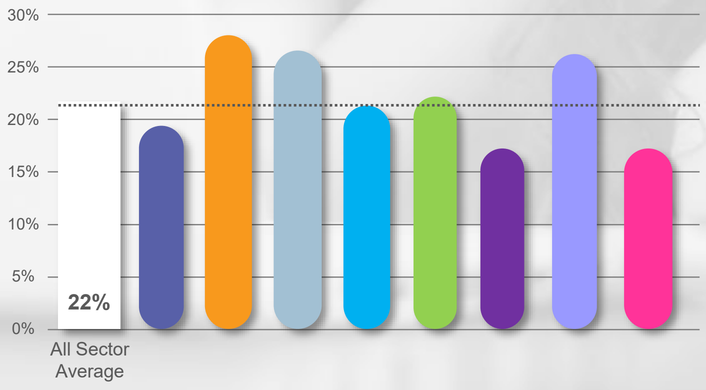
A freeze on interest/charges



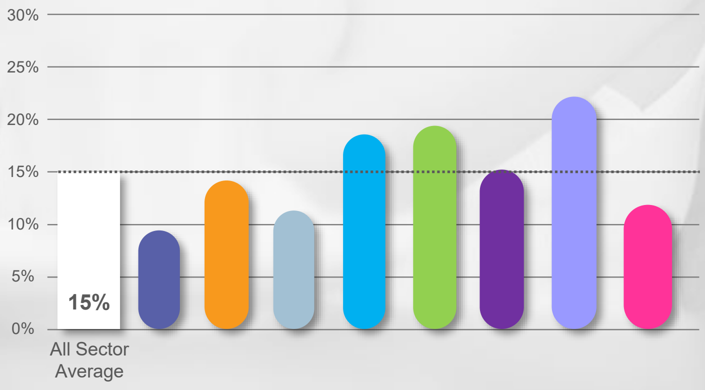
Referral to debt charities who can offer advice



They made it easy to pay, offered payment options



They provided clarity/breakdown of charges I owe



Worst practice – who takes a poor approach?

Current Rank	vs. 2016
1. Car finance company	▲
2. Local authority	▶
3. Energy company	▼
4. Retailer	▲
5. Telephone company	▼
6. Credit card company	▼
7. Mortgage lender/bank	▼
8. Water company	▼

We asked consumers to think back to when they'd been in debt with an everyday service provider, and to indicate whether they'd experienced any of the following **poor approaches to debt recovery**:

- Their billing was inaccurate, I didn't owe what they claimed I did
- They tried to push me into an unrealistic payment plan
- I felt harassed by them
- They were overly aggressive
- They made me feel embarrassed about my situation
- It was hard or confusing to know how to make a payment

Of all the sectors included in our study, **car finance companies** were found to be the most likely to deploy poor practice techniques in their debt recovery procedures, scoring above average for five of the six poor practices identified. In particular, consumers were more likely to experience overly aggressive tactics (33%) and confusion over how to pay (22%).

Local authorities were also ranked as one of the worst sectors for their poor approach to debt collection, and highlighted as the sector in which the highest percentage of consumers had been pushed into an unrealistic payment plan (34% vs. an all sector average of 24%).

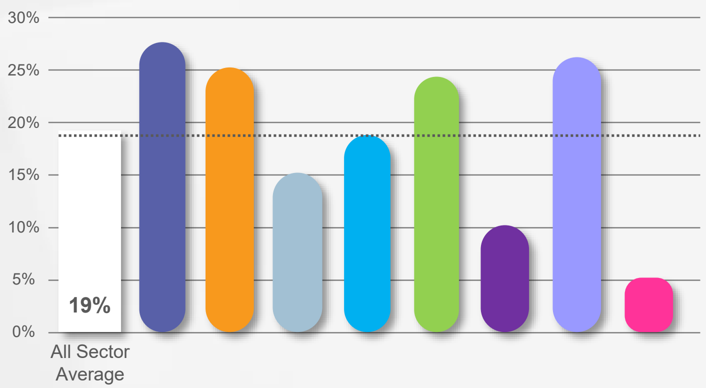
The most **commonly experienced poor practice was consumers feeling harassed** by their service providers (33%) with mortgage lenders and banks being identified as the worst offenders.

NEW

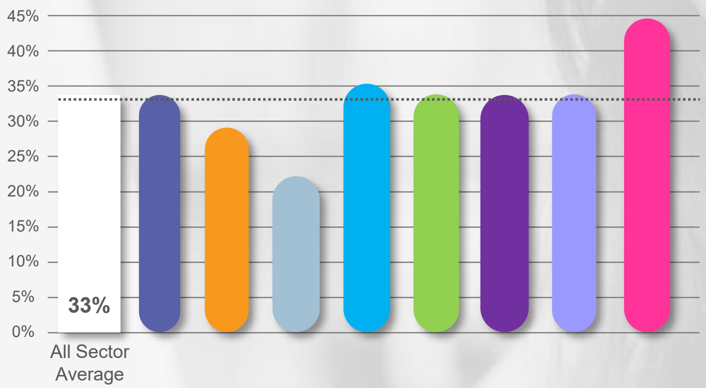
Poor practice by sector

All Sector Average
Energy company
Telephone company
Water company
Local authority
Retailer
Credit card company
Car finance company
Mortgage company / bank

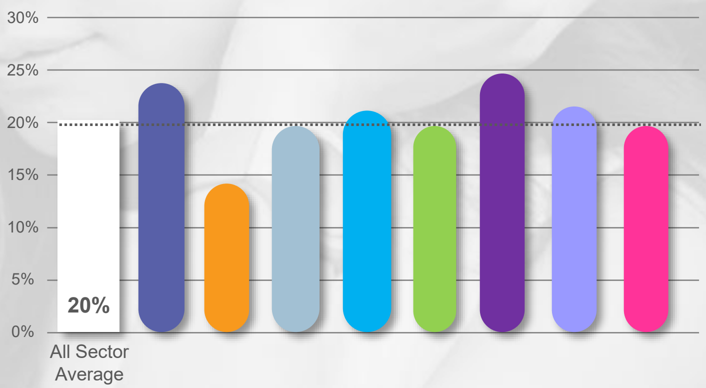
Their billing was inaccurate, I didn't owe what they claimed I did



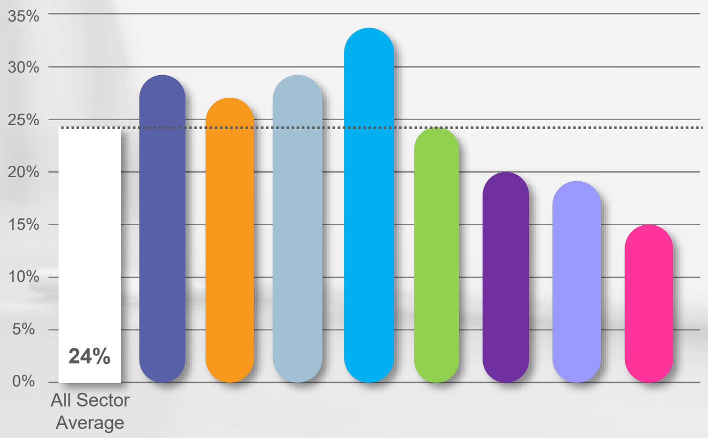
I felt harassed by them



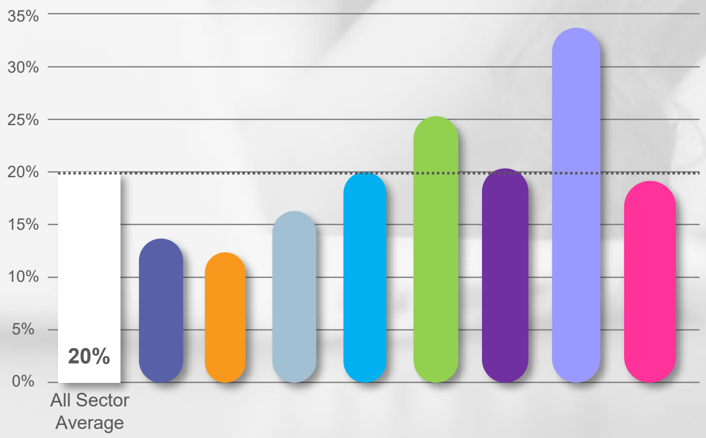
They made me feel embarrassed about my situation



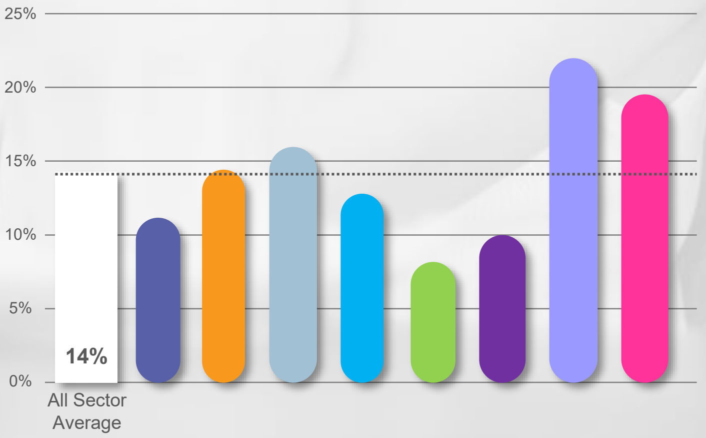
They tried to push me into an unrealistic payment plan



They were overly aggressive



It was hard or confusing to know how to make a payment



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Are service providers doing enough?

Before you fell into arrears, do you feel your service provider worked with you enough to avoid you falling into arrears in the first place ?

YES 53% **NO** 47%

Looking more closely at whether customers felt their arrears could have been prevented had their service provider worked with them, a truly **mixed picture** emerges.

Whilst many businesses appear to be doing a good job in the eyes of their customers (47%), 53% of people stated that they did not think their service provider had provided sufficient support to prevent them from falling into arrears in the first place.

When asked what more their service provider could have done, a variety of themes emerged with the most common being **improved communication**, **more understanding and empathy**, **more flexibility and more affordable bills**.

Looking more closely at improved communication, the main themes to emerge were around **active listening**, more **regular touchpoints** and **proactive alerts**, **reminders** and **warnings**.

In today's multi-channel world, improving communication doesn't have to lead to huge expense. Newer digital communication channels such as texts and apps can be used to great effect for direct communication that **doesn't prove cost prohibitive**.

What more could your service provider have done?

39% Improve communication

20% More flexibility

22% More understanding & empathy

17% More affordable bills

- Arranged a service plan to reduce my monthly payment while I was incapacitated and allowed me to pay over longer period.
- Bring the cost of bills down, their profits are huge.
- Been a little bit more understanding for a relatively short while and take into account previous good payment history.
- They put us on the wrong tariff, didn't tell us we weren't paying enough each month until we were £2000 in arrears.
- They could have made sure that the bill was correct.
- Been more understanding of my individual circumstances and my financial situation. Worked with me ahead of time to avoid getting behind.

NEW

Supporting vulnerable customers

Supporting customers in vulnerable circumstances has become a widely discussed area of focus across **energy and water** in recent times.

It's a fundamental theme that water regulator Ofwat is championing through its 2019 price review; requesting water companies demonstrate how they intend to provide sensitive, well-designed and flexible support and services for customers.

In energy, Energy UK has launched a new Commission for Customers in Vulnerable Circumstances, to explore how standards of care and support could be improved. This follows Ofgem's vulnerable customer study last year, which concluded that customer experiences vary widely.

Low awareness of customer support schemes

Our research indicates that this focus is quite rightly needed as **awareness is worryingly low** around the support systems available for customers who find themselves in circumstances of vulnerability.

At best, just over a third of consumers were aware that support was available via flexible payment plans and the warm home scheme. Awareness was lower still when it came to knowledge of charitable trusts, priority service registers and home visits.

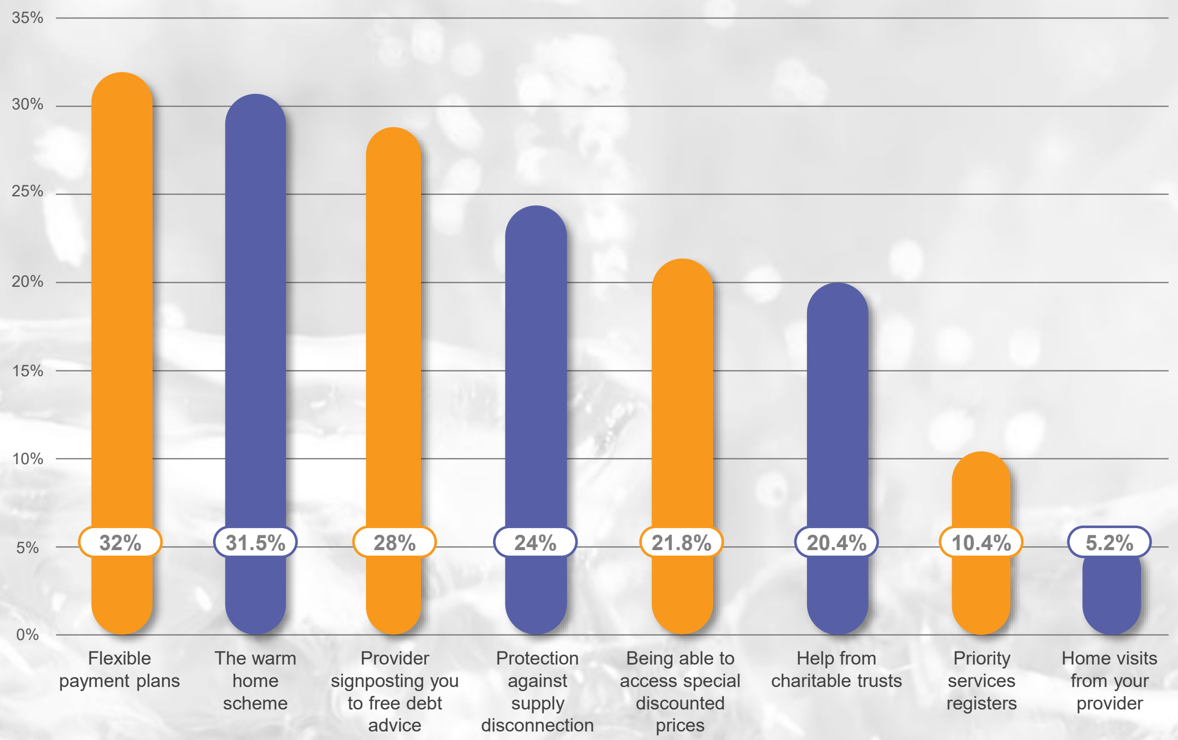
Evidently, investing in support schemes and training front line staff to recognise vulnerability isn't enough; providers need to **more actively promote** the range of services they offer, so that their wider customer base is aware that support is there should they, or a relative or friend, ever need it.

Clearly, regulatory pressure in both sectors is expected to drive positive change, but service providers should look beyond regulatory compliance to bring about widespread transformation. As reputation and trust become more intrinsically linked to brand value, **community support must never just be a 'box-ticking' exercise, but a concrete social consideration.**

SPOTLIGHT ON
WATER / ENERGY

?

Thinking specifically about your water, gas and electricity charges, if you, or a member of your family, were to find yourselves in circumstances of vulnerability (e.g. where it is hard for you to pay your bills through financial hardship and/or medical/mental health issues) are you aware of the following support systems?



Research by Echo Managed Services. 2018

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Data can help, but customers are cautious

Data sharing can enable companies to **develop better insight and intelligence** about their customer base; more accurately create payment profiles for individual bill payers; and provide more targeted support for customers who need it most.

It is likely that data sharing holds part of the solution to help better manage bill payment and more tailored support for customers. However, it's important **not to assume** that customers would automatically be happy to share their data – even if it would help them in the long-run.

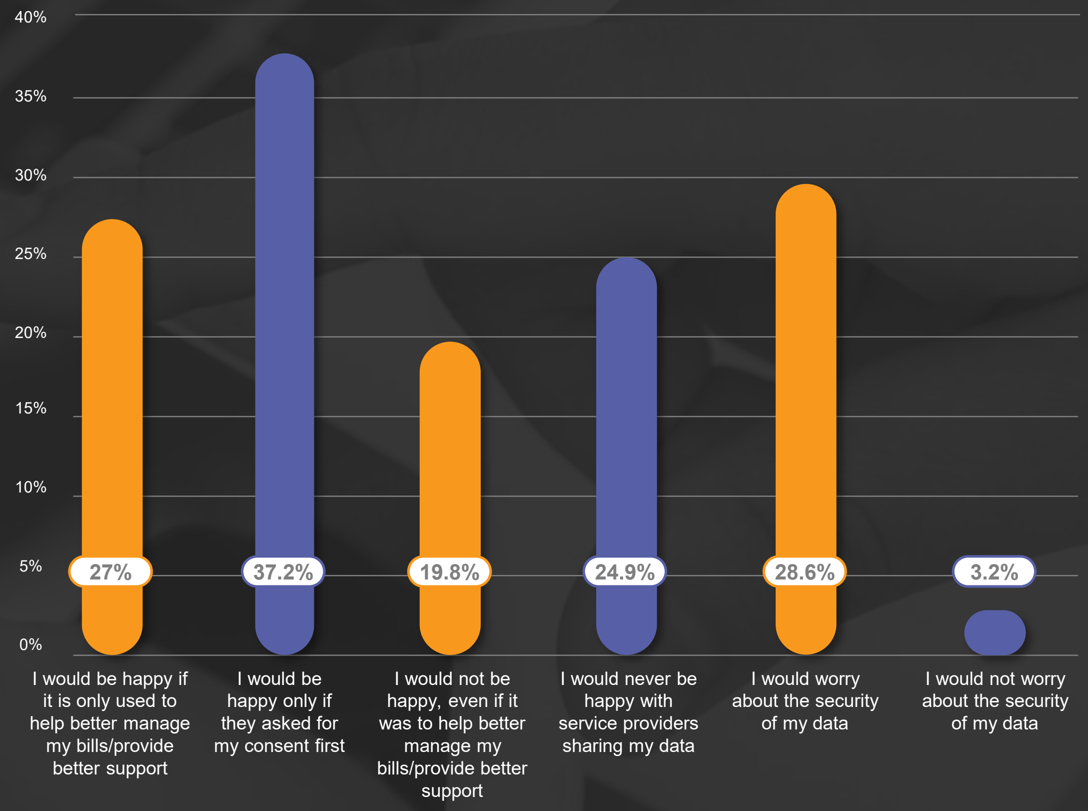
Over a third (37%) would only be happy to share data if their service provider asked for consent first and explained the benefits it would bring. However, a fifth of people would not be happy under any circumstances for their service providers to share their data between each other and other third parties. Interestingly, the age groups which claimed they are most financially stretched (25-34 and 35-44) were most reticent about data sharing.

Educating and reassuring consumers around data sharing and data usage may go someway in alleviating customer concerns, providing suppliers ensure they follow through on this; making sure customers experience real benefit and not just data sharing for sharing's sake.

However, companies must acknowledge that data sharing is, and will remain, a **highly sensitive** area. The forthcoming introduction of GDPR of course highlights this very fact. And whilst across many sectors data sharing is a hot topic – suppliers must be aware that **not all consumers will see it as a positive**.

Real reservations, in particular, may arise from suppliers sharing their customer data with each other. However, where data sharing has already been seen to add real value is where service providers work in collaboration with third parties, such as charities. Take for example British Gas and their collaboration with childrens' cancer charity CLIC Sargent – supporting families from the moment their child is diagnosed.

How would you feel about your everyday service providers sharing your data with third parties and other service providers to help you better manage your bills or provide you with more tailored support?



2018 vs 2016

How does debt collection alter brand perceptions?

Over half of consumers (51%) who'd experienced debt recovery processes stated that they now held a **more negative view** of their service provider. This was significantly greater than in 2016, when 39% held a more negative stance. This is a worrying finding for service providers and highlights that debt collection practices can, and do, lead to lasting **brand perception damage**.

Worth noting is that in recent times, society has seen a shift towards a **blame culture** which, in some instances, could be leading to change in attitude around debt ownership and accountability. This may in turn impact negatively upon consumer perceptions when it comes to debt collection practices.

However, it's clear from the verbatim comments given by respondents, that their negative outlook can in many cases be **avoided** through a more customer-centric approach.

It's important to remember that many customer arrears may simply be as a result of a **temporary "blip"** in a customer's life. Maybe they were ill, lost their job, or even a close relative. Looking at things from a **customer rather than account perspective** can help service providers to tailor strategies more appropriately – rather than taking a blanket approach led by age of arrears and fixed communication methods and timings.

51% NEGATIVE ▲ 16' **39%**

24% POSITIVE ▲ 16' **23%**

25% INDIFFERENT ▼ 16' **38%**

? How did the debt recovery process make you feel about your service provider?

Financial and reputational impact

Customers in arrears (who've been on the receiving end of debt collection activities), as with all an organisation's customers, will likely **form an opinion** on the service they have received – and this can lead to financial, reputational and customer retention impacts.

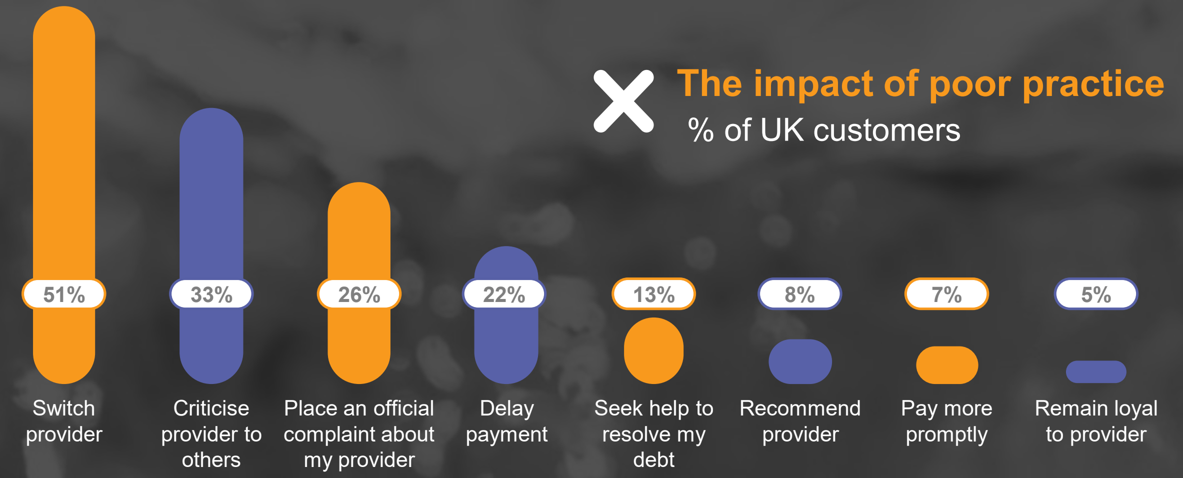
The hidden cost of poor practice

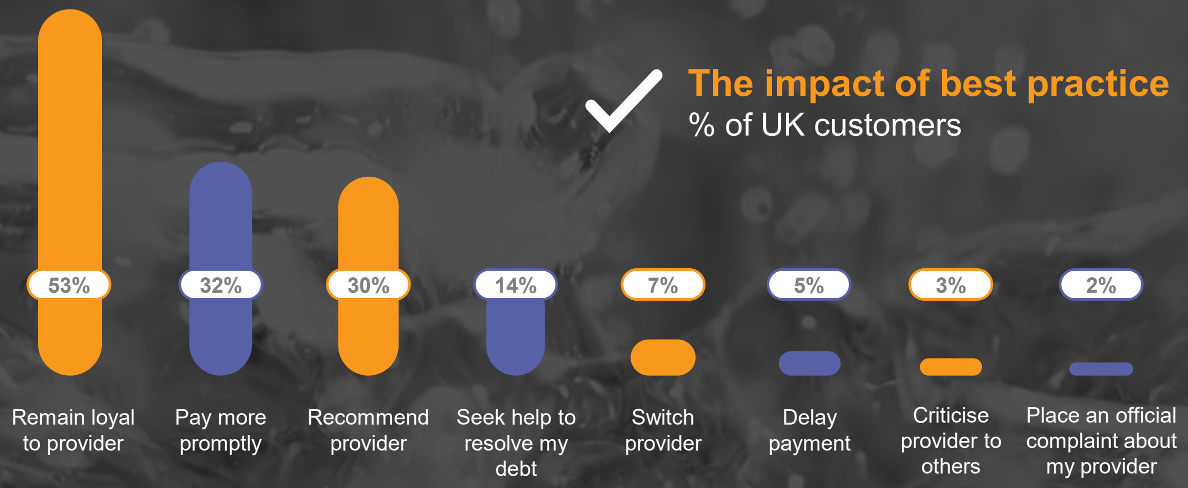
Whilst it's true that debt collection is often a necessity to recover monies that a customer owes an organisation, what's clear is that consumers still **expect to be treated well and receive good service throughout**. Should this not be the case, the impacts can be significant. Over half of consumers said it would lead to them **switching their provider**, over a third would **share their story** with others, 26% would place an **official complaint** and 22% would simply **delay their payment** even further.

The benefits of getting debt collection right

Where, however, companies take a more customer-centric approach to their debt collection operations, it's clear that consumers would **value this** and **reward their service provider** accordingly. Over half of consumers would **remain loyal** to their provider, a third would be encouraged to **pay more promptly** and 30% would even **recommend their suppliers** to others.

In a changing world where debt is quite rightly seen as an integral part of the customer journey, effective collections strategies have never been more important. Service matters – whether a customer owes money or not. Customers must be placed at the heart of operations to improve engagement, protect your brand and collect more.





Research by Echo Managed Services. 2018

Summary

Many organisations have already taken steps to implement a more tailored, personalised and customer-centric approach to recovering customer arrears, but there is clearly more to be done to truly place customers at the heart of operations.

Our research has shown that there is a clear link between how organisations treat customers in arrears and the impact this has upon brand loyalty, advocacy and reputation. Consumers expect organisations to understand their real lives and the real causes of their debt, and to help and support them in resolving arrears. If organisations fail to adapt to these customer needs and expectations, it's likely that both collection rates and customer relationships will suffer.

Debt is an integral part of the customer journey, and it's important that we all work to bring customer service and collections closer than ever before. Stronger early arrears dialogue, for example, is an imperative part of any debt collection strategy that can help bridge the gap between customer service and collections. A well-designed and effective service here can help both reduce debt balances and maintain healthy customer relationships.

Organisations that wish to minimise customer debt and its effect on their reputation, should reflect on current practice and ensure they put their customers first.

> "The collections industry has already taken huge steps towards becoming more customer-centric, but this research highlights that **consumers feel there is much more still to be done**."

? So, what are the key takeaways from this research report?

Key takeaways

Avoid making assumptions about customers. Every individual situation is different and must be treated as so.

Businesses are a contributing factor in building a negative stigma around debt. This needs to change.

Invest in advisor training and empowerment to avoid assumption-making and stereotyping customers.

Take earlier preventative steps to reduce instances of debt and to increase customer engagement.

Key takeaways

It's a tough economic climate – give people more time. Be more accommodating, work closer with them, and trust them – knowing they will pay you when they can.

Trust in brands is waning and service providers need to work harder to earn it back. Keep your brand and the lifetime value of customers front of mind.

Really know your customers and use this knowledge carefully and effectively to really make a difference / support customers to resolve their arrears.

Ensure your people and process are joined up across in-house and third party operations to ensure a customer-centric approach is truly embedded.

Be less linear, become more fluid. Move together with your customers as their lives and circumstances change.

To discuss this report further or to find
out more about our services, get in touch:

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