



MONEY AND
MENTAL HEALTH
POLICY INSTITUTE



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Financial Fairness Trust



DEBTS AND DESPAIR

How debt collection practices
cause psychological harm

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Executive summary

- While the pace of inflation has dropped since its Autumn 2022 peak, 1.5 million more people are behind on consumer credit payments – like credit card bills and loan repayments – now than at this time last year.
- In nationally-representative polling, we find that 5.2 million people (10% of UK adults) have been behind on consumer credit payments in the last three months, with the negative psychological impact of that all too evident. 49% of those (equivalent to 2.5 million people) report feeling harassed by the frequency of contact from their creditors.
- Half (50%) of people who are behind on consumer credit bills have had suicidal thoughts or feelings in the last 20 months as a result of the rising cost of living. This is nearly four times the rate among those not in arrears.
- Beyond the acute mental health impact, financial difficulty is fueling distress around the country, with over a quarter (27%) of UK adults feeling unable to cope due to the cost of living and one in five (21%) feeling dread about hearing from creditors.
- Through our polling, as well as a survey of our Research Community – a group of 5,000 people with lived experience of mental health problems – we've explored what is so harmful about being in debt. That analysis identified five key drivers behind the mental health impact of debt collection practices:
 - » **The stigma of being behind on debt** – negative public attitudes towards those of us in arrears prevents people from accessing support.
 - » **Insensitive debt collection practices** – firms' collections departments can be dismissive of customers' broader circumstances, or their processes may require people to explain themselves time and time again.
 - » **The tone of communications from creditors** – messages reinforcing the potential for legal action and the impact on credit scores can be experienced as threatening.
 - » **The frequency of communications** – nearly half (48%) of people in arrears have felt overwhelmed by the frequency of contact from their creditors.
 - » **The cumulative impact of multiple creditors' collections activities** – a quarter of people (24%) in arrears report being contacted by their creditors 16 times or more each month. Our polling suggests there is a 'tipping point' in the amount of communication people receive when contact flips from being helpful to becoming harmful, with 85% of people receiving five or more letters or emails a month reporting feeling harassed compared to 47% who receive four or less.
- Through the Consumer Duty, the Financial Conduct Authority (FCA) requires firms offering consumer credit products to prioritise a customer's needs. In our polling, however, only a quarter (27%) reported that recent contact from their creditor was helpful.
- With living standards projected to worsen over the next year, it's clear that immediate action is needed from the regulator and firms to protect those of us who are struggling with payments.

Key recommendations:

The government should:

- Task the FCA with an immediate review of consumer credit collection practices to address the harm caused by high volumes of arrears communications.

The FCA should:

- Launch an urgent review of collection practices to understand the scale of communications customers receive and use this to update outdated definitions of harassment in regulation.
- Develop principles to guide firms' collections departments when they use credit referencing data so debt collection strategies are created with a holistic understanding of the consumer experience built in.

Financial services firms should:

- Conduct comprehensive internal reviews to understand the frequency of communications customers in arrears receive. This should be done with a view to reducing communications to ensure collections approaches meet Consumer Duty requirements and minimise psychological harm.
- Commit to these three quick wins to address psychological harm in collections practices:
 - » Proactively collect customer information on preferred communication channels and contact customers via these when collecting arrears.
 - » Train all collections staff to understand how different mental health problems affect us practically and can make it harder to ask for help and take action, utilising the Need to Know guide and incorporating this best practice into quality assessment frameworks.¹
 - » Move beyond signposting to debt advice and offer direct referrals through partnerships with debt advice services.

1 Bond N and Fitch C. [The need to know: understanding and evidencing customers' mental health problems](#). Money Advice Trust. 2020.

The evolving relationship between mental health and problem debt

This is the fourth paper in our series tracking how the cost of living crisis is affecting our mental health, including for those of us with existing mental health problems. In our second paper in December 2022, we found that falling behind on key payments and the subsequent contact from creditors was leaving some people desperate and feeling like they had no way out.²

The UK is now nearly two years into a period of painfully high inflation. And while this has fallen from its peak in October 2022, we continue to be affected by the high costs of essentials. The mental health impact of increased costs has been widely felt and is likely to cast a long shadow on some people's finances.

This is the first of two papers funded by abrdn Financial Fairness Trust, in which we're exploring the psychological harm caused when people fall into arrears and how debt collection practices can reinforce that harm.³ In this paper, we focus on six popular consumer credit products: credit cards, store cards, buy-now-pay-later products, unauthorised overdrafts, personal loans and payday loans.⁴ Our second paper in 2024 will take a broader view of debt collection practices from a range of sectors, including local and national government, as well as exploring bailiff practices.

This paper builds on extensive evidence developed by Money and Mental Health over the last seven years about the risks problem debt can pose to our health. In that time we have found that:

- People with mental health problems are three times more likely to be behind on a payment than those without⁵
- Each year, almost six in ten (58%) people with debts of more than £30,000 had experienced suicidal thoughts⁶
- 100,000 people in problem debt attempt suicide each year in England, and those with two or more debts were five times as likely to have attempted suicide.⁷

This latest paper will begin with an update on the state of the cost of living crisis before exploring how being in debt causes mental distress and, specifically, how our systems of debt collection can exacerbate that harm. We will finish by setting out how things can be better.

To explore these questions, we:

- Commissioned YouGov to run a nationally-representative online poll of 2,069 adults over 24-25 October 2023, re-running several questions from our previous cost of living papers,⁸ and a selection of new questions to gain insights into different experiences of debt collection

2 D'Arcy C. Bombarded: reducing the psychological harm caused by the cost of living crisis. Money and Mental Health Policy Institute. 2022.

3 We define psychological harm as any detrimental impact on a person's mental wellbeing and sense of self, such as feeling anxious, unable to cope, feelings of dread, fear, hopelessness, harassment or threats in response to communications from creditors.

4 The FCA defines consumer credit as credit that enables consumers to buy goods and services, spreading repayments over time and managing cash-flow shortages. This includes credit products such as credit cards, personal loans, retail and motor finance, high-cost short-term credit including payday loans, home-collected credit, rent-to-own, buy now pay later offers, overdrafts, guarantor and logbook loans.

5 D'Arcy C. Bombarded: reducing the psychological harm caused by the cost of living crisis. Money and Mental Health Policy Institute. 2022.

6 Bond N and D'Arcy C. The state we're in. Money and Mental Health Policy Institute. 2021.

7 Bond N and Holkar M. A silent killer. Breaking the link between financial difficulty and suicide. Money and Mental Health Policy Institute. 2018.

8 D'Arcy C. Bombarded: reducing the psychological harm caused by the cost of living crisis. Money and Mental Health Policy Institute. 2022.

- Carried out an online survey, which received 264 responses from our Research Community, a group of 5,000 people with lived experience of mental health problems. The survey asked about contact from creditors for missed payments and was in the field between 20 October and 2 November 2023.

A crisis in consumer debt

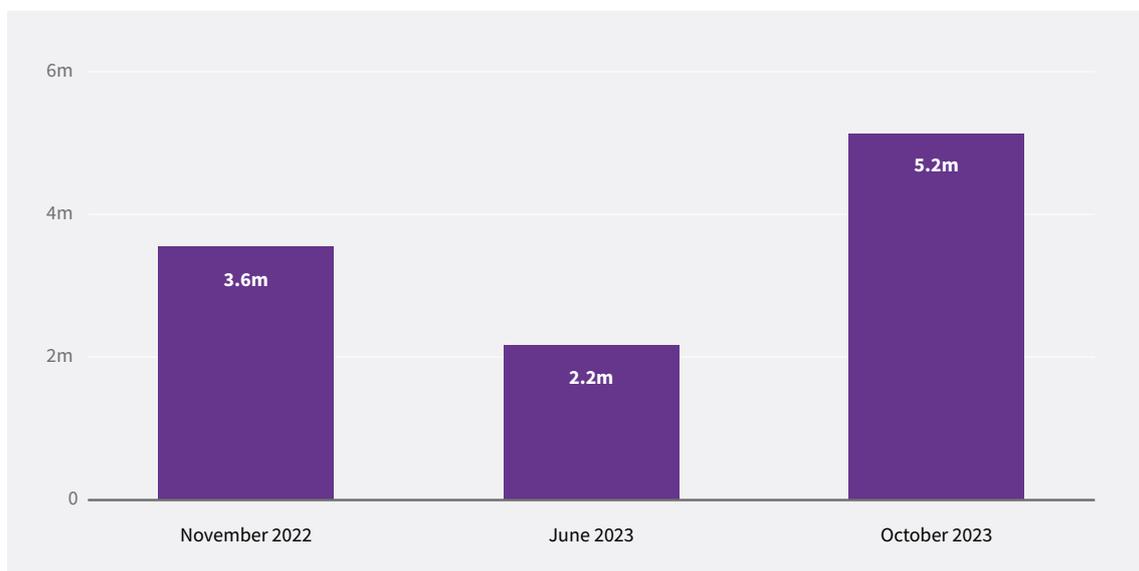
For many of us, in the right circumstances, credit is a powerful tool that can offer an affordable way to spread the cost of larger purchases.

However, for some, what starts as affordable credit can rapidly become unsustainable, through increasing living costs, poor health or periods out of work. People can struggle to stay on top of their payments, and debt can quickly become a nightmare.

One in ten (10%) UK adults have been behind on consumer credit payments in the last three months, equating to around 5.2 million people.⁹ This is an increase of 1.5 million from roughly the same time the previous year, as shown in Figure 1. Despite the pace of inflation easing, rising living costs present consumer credit lenders with a greater risk of customer arrears, which has important implications for debt collection departments.

Figure 1: 5.2 million people are currently behind on consumer credit bills, the highest since the start of the cost of living crisis

Still thinking about the last three months (i.e. since mid-July 2023)... Have you been behind on payments (i.e. missed a payment) to any of the following bills/suppliers? (Credit products (e.g. credit cards, store cards, BNPL purchases, unauthorised overdrafts, loans, etc).



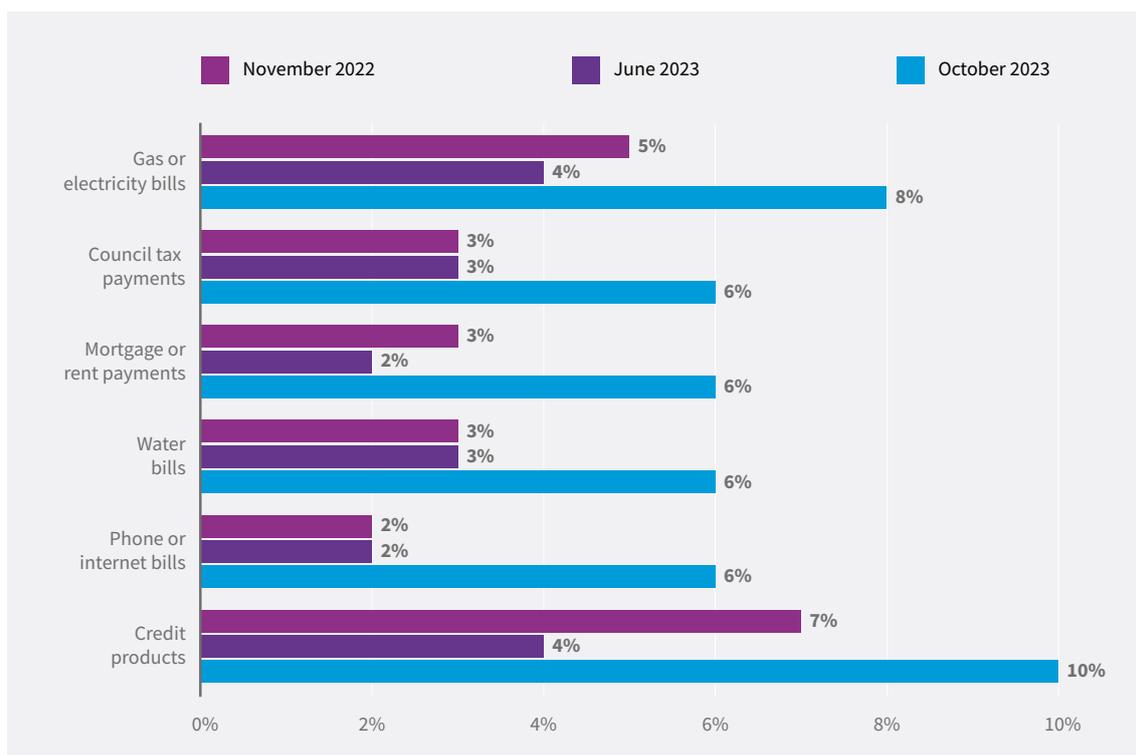
Source: Money and Mental Health analysis of YouGov online polling of 2,069 UK adults in October 24-25 2023, 2,047 UK adults in June 12-13 2023 and 2,049 in November 11-14 2022. Responses to the ONS Mid-Year Population Estimates, UK, June 2021, were used to calculate population level figures. This question was not asked in our May 2022 polling.

⁹ The total sample size was 2,069 adults. Fieldwork was undertaken between 24-25 October 2023. The survey was carried out online. The figures have been weighted and are representative of all UK adults (aged 18+). Responses to the ONS Mid-Year Population Estimates, UK, June 2021, were used to calculate population level figures.

While our polling finds that consumer credit debts have the highest levels of missed payments, this is only part of the wider situation facing people in the UK, with all key payments seeing the highest rates of arrears since November 2022, as Figure 2 below shows.

Figure 2: The number of people behind on key payments are the highest levels recently seen

Still thinking about the last three months (i.e. since mid-July 2023)... Have you been behind on payments (i.e. missed a payment) to any of the following bills/suppliers?



Source: Money and Mental Health analysis of YouGov online polling of 2,069 UK adults in October 24-25 2023, 2,047 UK adults in June 12-13 2023 and 2,049 in November 11-14 2022. This question was not asked in our May 2022 polling.

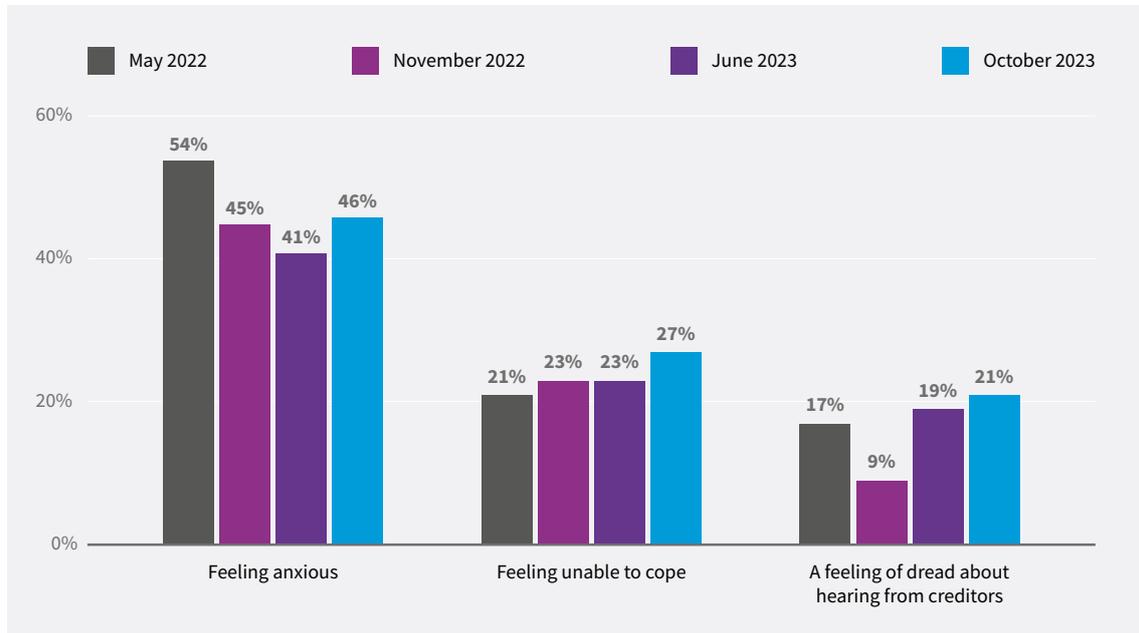
Unfortunately, this picture is bleaker for people with recent experience of mental health problems, who were nearly three times as likely to be in arrears across all household bills compared to people without mental health problems (11% compared to 4%, respectively).

More than one in four of us currently feel unable to cope

Unsurprisingly, rising costs and high levels of indebtedness are taking a toll on the nation's mental health. Almost half of people polled (46%) reported feeling anxious due to the rise in living costs. More concerning is the increased reporting of feeling unable to cope or feeling dread about opening letters, post, emails or receiving phone calls from creditors. Both sentiments are at the highest levels since our polling began, as Figure 3 illustrates. Over a quarter of people polled in October 2023 (27%) felt unable to cope, compared to two in ten (21%) closer to the start of the crisis in May 2022. **Two in ten (21%) of us now have felt dread about hearing from our creditors compared to one in ten (9%) in November 2022.**

Figure 3: Feeling unable to cope and feeling dread are both at peaks for the cost of living crisis. Levels of anxiety are lower than the May 22 peak but remain high.

Thinking about the last 3 months (i.e. since mid-July 2023)... Which, if any, of the following have you experienced as a result of the rise in the cost of living?



Source: Money and Mental Health analysis of YouGov online polling of 2,069 UK adults in October 24-25 2023, 2,047 UK adults in June 12-13 2023, 2,049 in November 11-14 2022 and 2,149 UK adults in May 5-6 2022. Full response "A feeling of dread about opening letters/post, emails or receiving phone calls from creditors."

These increases may partly be due to moving from nervousness about the future cost of living crisis into the reality of reduced financial resilience, as many used savings or increased their debt to make ends meet.¹⁰ Many may also be feeling anxious as they face this winter without governmental support that was available last year, such as the Energy Price Guarantee or Energy Bill Support Scheme.¹¹

The risk of arrears

The scale of the challenge the general population is facing is concerning enough, but in the next section, we'll explore the experiences and wellbeing of those in arrears, where these effects become even more acute.

Our polling found that almost seven in ten (69%) people recently behind on consumer credit payments reported feeling anxious in the last three months compared to just over four in ten (42%) of those up to date with payments.

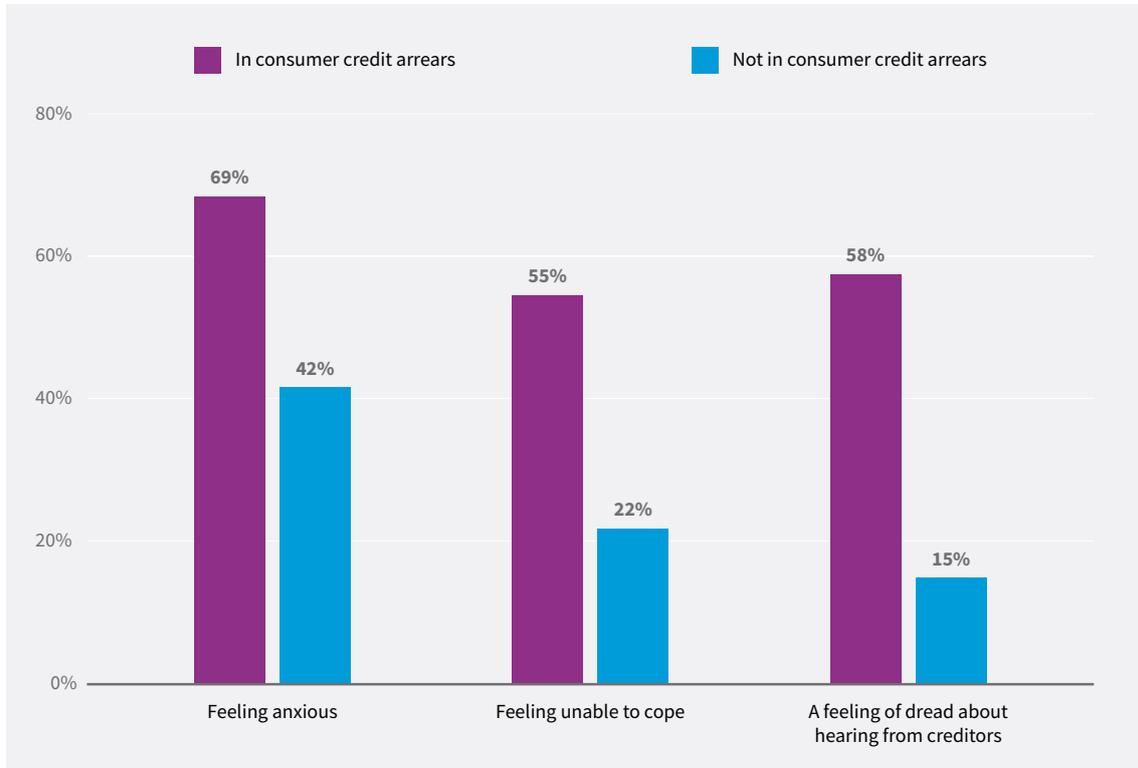
As shown in Figure 4, this division in experience is also reflected across other psychological harms. For those in consumer credit arrears, 55% reported being unable to cope in the last three months, compared to just 22% for those not behind on payments. Further, for those behind on consumer credit payments, 58% reported feeling dread about communications from creditors in the last three months, compared to just 15% for those not behind.

10 D'Arcy C. *A tale of two crises: the cost of living and mental health*. Money and Mental Health Policy Institute. 2022.

11 Royal College of Physicians. *Over two-thirds of Brits worry about the impact of rising energy bills on their ability to stay warm and healthy at home this winter*. (Accessed: 21/11/23).

Figure 4: People recently behind on payments are more likely to be experiencing psychological harms than those who are up to date with their payments.

Thinking about the last 3 months (i.e. since mid-July 2023)... Which, if any, of the following have you experienced as a result of the rise in the cost of living?



Source: Money and Mental Health analysis of YouGov online polling of 2,069 UK adults in October 24-25 2023, 271 of whom are behind on consumer credit payments., Full response "A feeling of dread about opening letters/post, emails or receiving phone calls from creditors".

Half of people in arrears have experienced suicidal thoughts

Our polling found concerning patterns at the acute end of mental distress as well. Of people who are behind on consumer credit bills, **half (50%) have experienced suicidal thoughts in the last 20 months as a result of the rise in the cost of living,**¹² and nearly one in seven (14%) say they have attempted suicide.¹³

There is rarely one single factor that drives someone to take their own life. Instead, typically, a range of social issues, life events, and cognitive and personality factors are combined. However, some factors mean a person can be at higher risk of suicide.¹⁴ As Figure 5 shows, people in arrears are almost four times more likely to have experienced suicidal thoughts than those who are currently up to date with their payments (50% against 13%). This rate rises to people in arrears on consumer credit bills being seven times more likely to have attempted suicide compared to those currently up to date with their payments (14% against 2%).

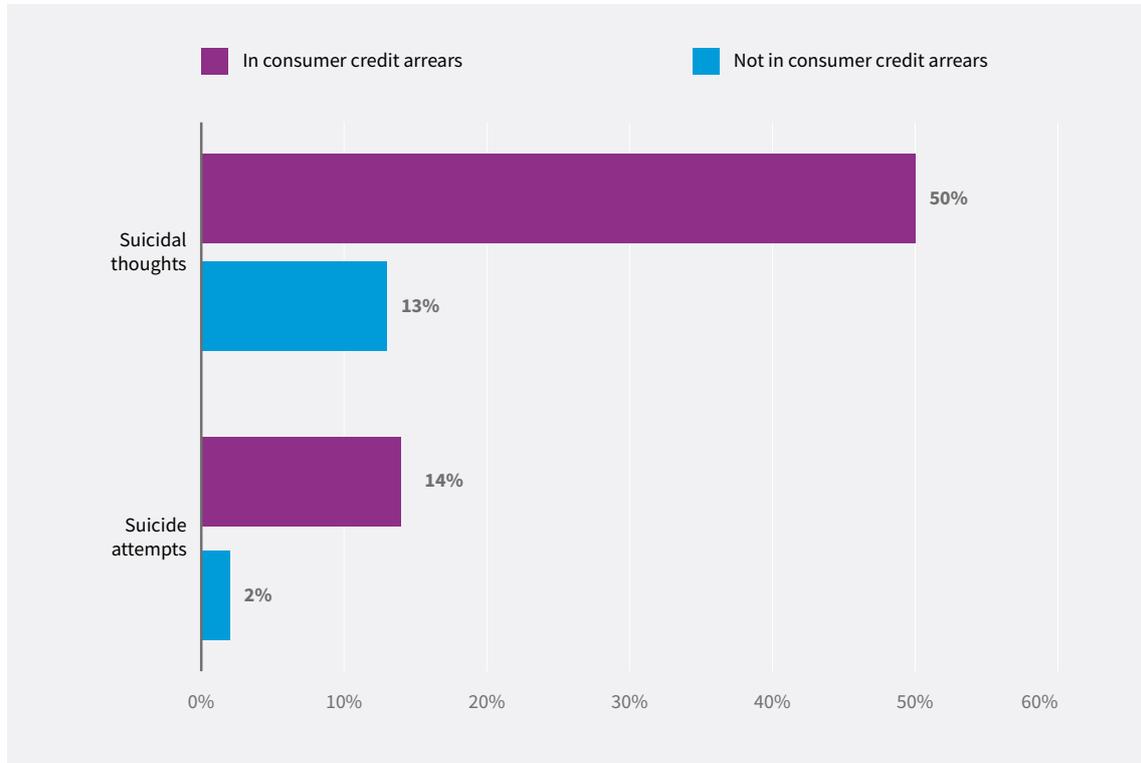
12 Throughout this paper, where appropriate, we have excluded certain missing answers when performing analysis. You can find details of all these in the accompanying methodology. We flag throughout the report where this has happened.

13 See methodology for excluded responses.

14 See for instance: [gov.uk/government/publications/suicide-prevention-strategy-for-england-2023-to-2028/suicide-prevention-in-england-5-year-cross-sector-strategy](https://www.gov.uk/government/publications/suicide-prevention-strategy-for-england-2023-to-2028/suicide-prevention-in-england-5-year-cross-sector-strategy)

Figure 5: People recently behind on consumer credit payments are nearly four times as likely to have had suicidal thoughts than someone who is up to date on payments

Have you ever experienced suicidal thoughts or attempted to take your own life as a result of the rise in the cost of living (since February 2022)?



Source: Money and Mental Health analysis of YouGov online polling of 2,069 UK adults in October 24-25 2023, 271 of whom are behind on consumer credit payments.¹⁵

The drivers of psychological harm in debt collection practices

Through testimony from our experts by evidence we've investigated this clear link between consumer credit arrears and psychological harm. This section will explore the impact of societal attitudes, as well as how the approach taken by creditors to debt collection is contributing to the worrying numbers we've seen.

"I stopped opening all letters once I became unable to keep up with my debt repayments because I felt completely overwhelmed. I couldn't work more because I was ill, so it felt like there wasn't anything I could do about it. I hated seeing letters reminding me of how much money I owed and letters telling me I had missed a payment and needed to make a payment ASAP. I was aware I missed payments, but I just didn't have the money to make them. I felt sick with anxiety."

Expert by experience

¹⁵ See methodology for excluded responses.

A survey with our Research Community identified five key drivers of psychological harm from consumer credit debt collection practices:

- The stigma of being behind on debt
- Insensitive practices
- The tone of communications
- The frequency of communications
- The cumulative impact of multiple creditors' collections activities.

We'll explore each of these below.

"Phone calls, receipt of emails and letters demanding repayment sent my anxiety levels through the roof and increased the severity of my depression. When my debts were passed on to debt collection agencies, the negative impacts on my mental health were multiplied by 10 times. I made four serious suicide attempts as I could not see any other way out of the debts I had incurred."

Expert by experience

Stigma is a critical factor in the psychological harm of being in arrears

Research suggests that stigma around problem debt persists, and those of us in arrears are often viewed as irresponsible with spending and budgeting.¹⁶ People in arrears often absorb these stigmatising and entrenched messages. Research Community members describe how they felt like a failure or even a criminal for being unable to repay their debts.

"I feel like I'm a bad person for not complying with credit agreements. I'm useless because I don't earn enough or I can't sort out my money."

Expert by experience

"Every time you phone up your creditors, it's so stressful for you. I feel like I am a criminal."

Expert by experience

These prevailing attitudes push people further away from sources of support. The stigma associated with being in debt means people often delay seeking help, which contributes to worsening mental health and financial difficulties.^{17 18}

Rising costs, employment, and health difficulties are key drivers of arrears. However, this reality is at odds with the stigmatising attitudes that persist despite national trends and widespread awareness of the pressure the cost of living has placed on household budgets. Two-thirds (66%) of Research Community respondents reported that the increased cost of essentials was a key factor in being unable to keep up with consumer credit payments. This was followed by difficulties managing money (48%), a period of sickness absence from work (39%), a drop in hours or wages or job loss or redundancy (35%), and an unexpected cost such as the washing machine breaking down (34%).

16 StepChange. [Why do our clients have debt problems?](#) Stepchange. 2017.

17 Tutton P and Reynolds F. [Mixed messages: Why communications to people in financial difficulty need to offer a clearer, better route to help.](#) StepChange. 2022.

18 Money Advice Trust. [Talking Money: Who is seeking debt advice: a National Debtline perspective.](#) Money Advice Trust. 2022.

Very few Research Community respondents attributed being behind on their debts to a single cause, with eight in ten (81%) reporting they were behind on payments for multiple reasons.¹⁹

InSENSITIVE debt collection practices

Our polling found that more than four in ten (44%) of those in arrears said they felt hopeless or unable to cope following contact from their creditors.

Research Community members told us it felt like creditors cared more about the debt they collected than the human they spoke to. This was particularly acute when creditors were dismissive of people's wider circumstances around their inability to pay their debt or when the tone of their contact was belittling.

"Even though I said I had no money to give them, they said I had to pay the money back. I explained my mental health situation, and it was considered irrelevant. The sound of impatience and the 'here we go' sighs and attitude of the caller."

Expert by experience

Constantly retelling your story to a new person at your creditor each time was exhausting, especially when it's met with a dismissive approach.

"I explained I could not pay and why to everyone who phoned and phoned. There was a constant bombardment of calls and letters asking the same questions again and again."

Expert by experience.

Research Community members told us that, in response to the contact they received from creditors, they would isolate themselves by not answering the phone, not leaving the house, and not opening post. These actions likely serve only to exacerbate mental distress by cutting people off from support networks.

"I am left feeling more depressed. My anxiety is through the roof. I live in constant worry and stress 24/7. I do not sleep very well, and if I do sleep, it is not a restful sleep, and I often wake up anxious. I feel sick when the letterbox goes or if the house phone rings. My mobile is on silent."

Expert by experience

The tone of creditor communications can feel threatening

Our polling found two in five (43%) people in arrears said they found the tone their creditor had used threatening, and similar numbers (40%) felt frightened by the language used by their creditor or the way the letters from their creditor looked.²⁰

A key theme that emerged from respondents who felt scared of contact with their creditors was the threat of legal action hanging over them. Legal proceedings can be a huge time commitment and a source of even more stress and concern – particularly for people who can't afford to pay their debts.

19 Money and Mental Health survey. Base for this question: 137 Research Community members who have been behind on consumer credit products in the last 3 years.

20 For an example of written communication creditors may send out, we recommend Appendix A of the report [Mixed Messages](#) written by Stepchange Debt Charity. (Accessed 29/11/2023)

"There were demands of how much to pay. Only after an agreement to pay something did they say, "Is this affordable?" In fact, none were really affordable, and the "protection" statement came too late. All sorts of threats were made about courts, debt collectors, and other things."

Expert by experience

Similarly, information about the impact that not making payments on time could have on an individual's credit score was also felt to be threatening, as it could have knock-on effects on the affordability of other products and services or their ability to apply for debt in the future.

Finally, there was a clear sense running throughout responses that customers often felt powerless in relation to their creditors and that creditors didn't have their best interests at heart.

"I don't think they realise how much they are playing with people's lives. Many times, I've made plans to not be here any more due to the impact it's had on me."

Expert by experience

The frequency of communication from creditors can be experienced as harassment

When these threatening communications come thick and fast, the psychological harm can be amplified. Nearly half (49%) of the people we polled who were in arrears had felt harassed (equivalent to 2.5 million UK adults), and 48% felt overwhelmed by the frequency of contact from their creditors.

When people are already experiencing difficulty making ends meet for reasons out of their control, constant contact from creditors can be actively unhelpful, leading to people feeling overwhelmed – and negatively impacting their mental health.

"Constant letters and phone calls, after I have explained my circumstances. I dread the post and the phone ringing."

Expert by experience

The frequency of collections communications is driven by individual firms' overall collections strategy, and communications via email, telephone, and post are typically automated processes. Research Community members told us that being on the receiving end of this automation can feel relentless and overwhelming.

The cumulative impact of multiple creditors' collections activities

Communication from individual creditors is only half the battle. Over eight in ten (83%) people in arrears are behind on multiple consumer credit products. This means the contact that one creditor is making is often only the tip of the iceberg. If someone is behind on their credit card payments, that customer is likely receiving not just calls and letters from that credit card company but other consumer credit companies too. Around half (51%) of Research Community respondents are behind on four or more credit products.²¹

²¹ Money and Mental Health survey. Base for this question: 128 Research Community members who had been behind on credit products within the last three years.

"I hated the position I knew I was in and saw no way to rectify it. Constant reminders and requests from multiple creditors just added to the feeling of hopelessness and failure."

Expert by experience

"I explained via letters and emails that I found it extremely difficult to talk on the phone due to my mental health issues – severe anxiety and severe depression – but several of my creditors continued to phone me every 2-3 days..."

Expert by experience

By asking participants in our nationally representative survey roughly how many contacts they received from all their creditors (either over the course of the last month, or in a recent, representative month) we found that **a person in arrears hears from their creditors, on average, seven times a month**. This may be contact from a single creditor or several different creditors, and contact is made across a range of different categories, whether that's phone calls or text messages, emails or letters, or home visits.²²

At the lower end of the spectrum, our polling found half of people in arrears (50%) hear from their creditors five times or less a month. On the surface, this level of contact may seem manageable, but when settling your debt is unaffordable, this level of contact can still feel like you're sinking.

"When you know you haven't any cash left approaching the end of the month, the text messages alerting me felt awful. I haven't felt like this since I was a young single mother..."

Expert by experience

However, many people in arrears are hearing much more than that. Our polling found **a quarter of people (24%) in arrears are contacted by their creditors 16 times or more each month**. This means that, each month, one in four people hear from their creditors about their missed payments more than once every other day. The impact of this level of contact takes a huge toll on people's wellbeing.

"I struggle with anxiety, and the tone of letters and phone messages are sometimes very threatening... I was receiving daily phone calls to the point I stopped answering the phone."

Expert by experience

There is an apparent tipping point in the effectiveness of debt communications

Some contact from creditors is essential, for instance making clear when a payment is due, how much it is and what options are available. But our polling suggests there is a tipping point at which the number of communications from a firm moves from helpful to harmful. Just under half (47%) of people who received four or fewer letters or emails a month reported feeling harassed. This nearly doubled to 86% for anyone receiving five or more letters or emails a month.

A similar story was evident across people receiving phone calls and text messages. This impact was linked to levels of contact as well, as people who received five or more phone calls a month

²² Respondents gave an indication of the range of contact they received by each set of methods (e.g. from not at all, to once or twice a month up to ten or more times a month), and these were combined to give an overall picture of the average amount of contact a person in arrears will receive each month.

were much more likely to report contact had a negative impact on their mental health – 91% compared to 57% for people receiving four or less calls. Overall, 68% said collections activities had a negative impact on their mental health.²³

“I had terrible anxiety. I was worrying about where the next payments were coming from. I was harassed by letters & phone. I was already depressed, but this made it so much worse.”

Expert by experience

Significantly reducing the psychological harm caused by collections is possible by limiting the amount of contact a person receives in relation to their debts, whilst ensuring communications are as helpful as possible.

Where customers found contact from their creditors helpful, they were less likely to report psychological harm. Among people who felt contact from their creditor had been unhelpful, eight in ten (80%) said this contact had a negative impact on their mental health. While still high, this was reduced to six in ten (58%) for those who found that contact helpful.

We also found that higher levels of contact were not helpful to customers. Of those receiving four or less phone calls a month, 41% said contact with their creditor was helpful, compared to 33% for those receiving five or more. There was a similar but less pronounced trend for emails and letters.

Our research found that the most common response to what made contact helpful was primarily speaking to friendly and understanding customer service staff. Some Research Community members highlighted that this was particularly important when firms understood and supported customers to get back on track with their debt through forbearance measures, such as access to Breathing Space,²⁴ or freezing interest.

“My credit card company were helpful and understanding and asked if I knew of mental health crisis numbers, had a safety plan in place, they froze interest for two months.”

Expert by experience

Fortunately, many firms recognise the additional needs and vulnerabilities of some customers in arrears, and exception processes exist in many companies. Here customers can be removed from ‘business as usual’ (BAU) processes in favour of a specialist collections approach. Sometimes referred to as Specialist Support or Vulnerable Customer Team(s) based in collections departments.²⁵ Where customers receive appropriate advice and support, there is often a cost-saving benefit to firms as well.²⁶

23 See methodology for excluded responses.

24 The Debt Respite Scheme (Breathing Space) gives someone in problem debt the right to legal protections from creditor action. A standard breathing space entitles any client with problem debt legal protection for up to 60 days. A mental health crisis breathing space lasts for the duration of that crisis, plus 30 days.

25 Customers identified as requiring Specialist Support often have high levels of need that impact their ability to understand, communicate or repay their debts. Here, customers are usually removed from BAU processes, which, in practice, typically means that, except for mandatory letters, customers are removed from automated communications about their debts. Staff carry out collection practices, typically with additional training on vulnerability. They can offer bespoke and tailored communications by sometimes designated case workers – who can support customers to repay their debts and/or seek regulated debt advice.

26 StepChange. Transforming Lives: A review of the social impact of debt advice for UK individuals and families. 2014

Need outstrips supply

Many people struggling with their mental health receive support through such Specialist Support Teams, where bespoke processes and tailored support can mean customers feel better supported by firms' collections departments. However, given that almost half of people in problem debt also have a mental health problem,²⁷ unless firms significantly expand specialist teams, they cannot possibly serve all those customers who require support. This means that the majority of customers with mental health problems are left to contend with 'BAU' collection practices.

Further, our research found that those living with mental health problems are also likely to be at the acute end of collections processes. Seven in ten (71%) Research Community respondents who had recent experience of being in arrears told us at least one of their debts had defaulted in the last 20 months.²⁸

The urgent need for reform

Throughout this paper, we've seen how the frequency and tone of consumer credit collection practices can be experienced as intimidating and pressuring and can lead to psychological harm.

Positively, a considerable amount of work by regulators and firms has taken place to improve consumer credit collection practices. These gradual reforms have sought to carefully balance firms' needs to recoup debts with customers' needs. See Box 1 for a summary of consumer credit collection practices reform.

Box 1: Reform of consumer credit collection practices

- **Consumer Credit Act (1974) and the Consumer Credit Act (2006)** – sets out what creditors must do when they lend and collect money and consumers' rights when they borrow money. The Act and connected Regulations have been changed many times to give further protections to consumers, including through Money and Mental Health's 'Stop the Debt Threats' campaign, which led to the removal in 2021 of outdated and threatening elements of letters that creditors were required to send.
- **Consumer Protection from Unfair Trading Regulations (2008)** – rules giving Trading Standards the power to take enforcement action if firms use aggressive practices to collect on debts. This could include debt collectors pressuring people to repay debts by contacting them at unreasonable times or threatening people with action to recover money for unenforceable debts. The Office of Fair Trading issued guidance on what constitutes harassment when a debt is being collected.²⁹
- **The Consumer Credit Sourcebook (CONC) comes into force (2014)** – sets out obligations for firms when carrying out credit-related regulated activities, including the frequency and content of regulatory letters sent to customers in arrears. See Appendix A.³⁰

27 Money and Mental Health Policy Institute. [The Facts](#). (Accessed: 21/11/23)

28 Money and Mental Health survey. Base for this question: 112 Research Community members who had been in arrears on credit products in the last 20 months. Our definition of default was: "Default is when a borrower is considered by their creditor to have failed to make appropriate payments on a debt. For consumer credit products, this is likely to happen after six months of missed payments."

29 Department for Business, Enterprise & Regulatory Reform. Consumer protection from unfair trading. 2008. Office of Fair Trading.

30 FCA. Consumer Credit (CONC) sourcebook

- **FCA thematic review³¹ to understand staff incentives, remuneration and performance management in consumer credit markets and subsequent publication of new rules³² (2017-2018)** – addresses the risk of consumer detriment from firms' financial incentives and performance management practices, which were identified as high-risk by not treating those in default or arrears difficulties with forbearance and due consideration, and likely to encourage high-pressure collections.³³ The Consumer Credit Sourcebook was updated accordingly.³⁴
- **FCA introduced the Consumer Duty (2023)** – this marks a huge shift for firms, requiring the delivery of good outcomes for customers and setting higher and clearer consumer protection standards. Notably, the Duty's cross-cutting rules also require firms to act in good faith and avoid causing foreseeable harm.³⁵ Further to this, the FCA wrote a 'Dear CEO' letter to debt collecting firms earlier this year, reiterating their responsibility under the Duty in light of rising living costs.³⁶
- **FCA consult on Strengthening Protections for Borrowers in Financial Difficulty³⁷ (2023)** – making permanent many of the consumer credit Tailored Support Guidance measures introduced during the Coronavirus pandemic.³⁸
- **Reform of the Consumer Credit Act (2024 and beyond)** – significant legislative change is pending in 2024 in the form of the long-awaited review of the Consumer Credit Act.³⁹

To meet the requirements above, firms must send regulatory letters to customers in arrears (see Appendix A). Beyond these regulatory letters, creditors can ask customers to pay their debts and keep reminding them to pay occasionally. Firms must balance the need to collect on debts and provide customers with sufficient communication about the status of their debts while also ensuring their practices do not veer into threats or harassment.

The Consumer Credit Sourcebook provides guidelines setting out firms' obligations when collecting on debts owed (see Box 2). However, the current definition focuses on ensuring debtors are given sufficient time to repay debts and the times of day and places where people should be contacted about arrears. It provides limited guidance on the frequency of contact firms can make with debtors.

31 FCA. Staff incentives, remuneration and performance management in consumer credit Findings from our thematic review and proposed new rule and guidance. 2017

32 FCA. Staff incentives, remuneration and performance management in consumer credit – Feedback to CP17/20 and final rules. 2018.

33 Specifically, 81% of sampled firms had defined sales or collections targets, and for 75% of those firms, sales or collections volumes featured prominently in appraisal documentation compared with 52% where quality or customer outcomes featured prominently.

34 FCA. Consumer Credit (CONC) sourcebook.

35 FCA. [Consumer Duty](#). 2023 (Accessed: 29/03/23).

36 FCA. Dear CEO letter: Implementing the Consumer Duty for Debt Purchasing, Debt Collecting and Debt Administration Services ("DPCA") portfolio. 2023.

37 FCA. CP23/13: Strengthening protections for borrowers in financial difficulty: Consumer credit and mortgages. 2023

38 FCA. Consumer credit and Coronavirus: Tailored Support Guidance. Finalised guidance. 2021

39 Gov.UK. [UK commits to reform of the Consumer Credit Act](#). 2022

Box 2: What qualifies as threats and harassment?

The sourcebook principally covers parts of the Consumer Credit Acts above, specifically about firms' conduct when collecting on debts. CONC stipulates that:

"A firm must not pressurise a customer: (1) to pay a debt in one single or very few repayments or in unreasonably large amounts, when to do so would have an adverse impact on the customer's financial circumstances; (2) to pay a debt within an unreasonably short period of time; or (3) to raise funds to repay the debt by selling their property, borrowing money or increasing existing borrowing."⁴⁰

CONC provides guidance on when, where and how contact with customers should occur, but this is vague, and doesn't provide clear direction on the volume or frequency of contact:

"A firm must not contact customers at unreasonable times and must pay due regard to the reasonable requests of customers (for example, customers who work in a shift pattern) in respect of when, where and how they may be contacted."

National Debtline has a helpful resource that sets out what standards of behaviour customers can expect from their creditors and their routes to recourse if these are not maintained.⁴¹

Where customers feel contact from their creditors has not complied with these obligations or is intimidating, forceful or unduly persistent, they have routes of recourse.

Customers can make a formal complaint directly to their creditor. Where resolutions remain unsatisfactory, customers can escalate their complaints to the Financial Ombudsman Service (FOS) – the independent service that settles complaints between consumers and financial services. However, the cognitive and psychological effects of mental health problems can make it harder for people to reach out for support or advocate for themselves.⁴² Relying on customers to identify, challenge and report poor practices is insufficient.

Further, this definition of harassment is outdated. In 2008 when the Office of Fair Trading issued guidance on what constitutes harassment only 65% of households had internet access, compared to 90% in 2017.⁴³ With the rise in digital forms of communication this definition does not accurately reflect how firms communicate with their customers and therefore is open to misinterpretation and requires updating.

Given the progress made with the consumer outcomes focus of the Consumer Duty, the obligations in CONC seem out of step with current practices and the ambitions of the Duty. Given the evidence of psychological harm in this report, we remain concerned about the frequency and tone of collection practices.

40 FCA. Consumer Credit (CONC) sourcebook, section 7.3.10.

41 National Debtline. [Harassment by creditors](#). (Accessed: 21/11/23)

42 Bond, N & Holkar, M. [Help along the way](#). Money and Mental Health Policy Institute. 2020.

43 ONS. Internet access – households and individuals, Great Britain: 2017.

Unfinished business

While progress has been made, there is still a way to go to ensure that consumer credit collection practices achieve the standards strived for in the Consumer Duty. Despite the long lead-in time to prepare for and implement the Duty, four months in, our research finds that firms are still falling short.

Of people polled in arrears in the last three months since the Consumer Duty came into effect:

- Nearly two-thirds (64%) reported contact from their creditors had a detrimental impact on their wellbeing (such as contact being frightening, overwhelming or driving feelings of hopelessness),⁴⁴ with just over a quarter (27%) reporting that contact from their creditors was helpful.
- Three in ten (29%) felt their creditor wanted to help them find a good financial outcome – a key requirement for firms under the Consumer Duty.

It's clear that despite the changes introduced, many firms still have a mountain to climb, specifically putting customer outcomes front and centre of their debt collection strategies and practices.

Recommendations: To address the psychological harm caused by firms' collection practices

In our paper in December 2022, we made several recommendations to government, regulators and firms to protect people who are struggling to repay debts.⁴⁵ These recommendations remain vital. Here, we build on those recommendations, drawing on insights from our research to consider the next steps for addressing the harm experienced by debt collection practices.

It's important to recognise the scale of the challenge facing creditors. Increasing consumer credit arrears during a cost of living crisis has meant firms have had to adapt rapidly, adjusting collections strategies and increasing resources to deal with the volume of customers in and at risk of arrears. We present this suite of recommendations to support firms in meeting their requirements to ensure good outcomes for customers under the Consumer Duty.

The government should task the FCA with an immediate review of consumer credit collection practices to address the harm caused by high volumes of arrears communications

As a minimum, the FCA's review should develop principles and guidelines regarding the frequency of collections communications over and above regulatory letters from a single firm across all products and communication channels within a given period. To achieve this, we recommend that several steps be taken to inform the development of these principles. Specifically, the FCA should:

- Launch an urgent review of collection practices – to understand the frequency with which firms communicate with customers in arrears via the full range of communication channels
- Develop a clearer and updated definition of harassment in debt collection practices, drawing on research about how people on the receiving end of collections feel, and update CONC accordingly.

⁴⁴ See methodology for more information about this measure.

⁴⁵ D'Arcy C. *Bombarded: reducing the psychological harm caused by the cost of living crisis*. Money and Mental Health Policy Institute. 2022

The FCA should require consumer credit firms to utilise cross-sector data to understand customers' overall indebtedness

Given the evidence that there may be a tipping point for the effectiveness of and distress caused by collection communications, the FCA should require consumer credit firms to utilise credit referencing data to benefit consumers. **To help firms do this, the FCA should develop principles to guide firms in using this data to inform debt collection strategies with the consumer experience in mind.**

Consumer credit firms can, and often do, pay for regular access to high-level customer information through monthly batch data from one of the three major credit reference agencies: Equifax, Experian and TransUnion. This data can help firms identify customers' needs, spotting those in and at risk of arrears across all their credit products and utility payments. Information can be used to spot early warning signs that a customer might be at risk of financial difficulties, such as consistently making only minimum payments on credit cards, cash withdrawals on credit cards, and where overall balances continue to rise. Crucially, it can also enable firms to understand how many products customers are in arrears on.

Box 3: A note on Credit Reference Agencies (CRA) Batch Bureau Data

- The FCA and the Information Commissioner's Office (ICO)⁴⁶ regulate the operation of CRAs. Both bodies set out the principles under which information about arrears, temporary repayment arrangements and defaults are filed with the CRAs.⁴⁷
- Data sharing between CRAs and creditors is currently not legally required. And the impetus for firms to do so is the reciprocity of the arrangement. However, the FCA recently confirmed its intention to introduce mandatory data sharing between designated CRAs, with a consultation planned for the end of 2024. This framework should provide creditors with more accurate, consistent and comprehensive credit information.^{48 49}
- Firms all access credit referencing data at the very least to assess someone's suitability for lending. Credit score information helps firms decide whether to lend, and each firm has its own risk appetite for lending. Some firms are cautious and like to see relatively unblemished credit records. Others specialise in lending to those with lower credit ratings who potentially present a higher default risk.⁵⁰
- Firms often receive monthly batches of bureau data on their portfolio of customers. The more detailed the batch bureau data, the higher the cost implications, both in accessing the data and in resourcing teams to analyse and act on the data.^{51 52}
- Many big lenders access this data routinely and can use it to inform their collection strategies, targeting different cohorts of customers with varying collection strategies to recoup arrears and, for some, proactively offering support to those at risk.

46 In matters relating to data sharing practices.

47 Principles for the Reporting of Arrears, Arrangements and Defaults at Credit Reference Agencies. 2016.

48 FCA. [Credit Information Market Study Final Report](#). 2023.

49 FCA. [Credit Information Market Study: Interim report and discussion paper](#). 2022.

50 Citizens Advice. [How lenders decide whether to give you credit](#). 2023. (Accessed 27/11/23).

51 Experian. [Affordability IQ](#). 2023. (Accessed 22/11/23).

52 The amount of batch bureau data firms receive can have cost implications, specifically, in analysing, resourcing teams and acting on data, can be a key challenge, especially in the case of small to medium size lenders.

With the onus on ensuring good customer outcomes in the Consumer Duty, **the FCA should require firms to utilise a cross-sector view of levels of customer indebtedness and arrears that information like batch bureau data affords to inform their collection practices.** The FCA should require firms to understand the number of arrears products a customer has and ensure this informs their collections strategies. This would ultimately help to ensure that firms understand the number of collection communications a customer will likely receive across a range of products and firms. Drawing on the lessons learned from the review and updated definition recommended above, **the FCA should develop principles to guide firms not to consider their collections activity in isolation but to understand and respond to the experience of customers with multiple arrears products.**

We welcome the FCA's latest proposals in the Credit Information Markets Survey final report that will enable creditors to hold more accurate and consistent information on their customers. In implementing these proposals, the FCA should ensure any common data format introduced supports creditors to understand the full picture of a customer's indebtedness.

Firms should ensure they comply with Consumer Duty requirements and address the harm caused by debt collection practices

While we believe regulation is required to ensure customers are treated fairly, firms can get ahead of the curve on this. **Firms should ensure their collections approach complies with Consumer Duty requirements by carrying out a comprehensive review to understand the frequency of communications that customers in arrears on a single consumer credit product experience in a given month across their suite of communication channels.** Given the evidence presented above on the barriers customers in arrears face in responding to communications, this review should consider the maximum number of communications a typical customer in arrears may receive. It's important this review also explores the experience of those who do not respond to any communications. The reasons for customers' non-engagement are complex, as evidenced above, and we suspect they may receive higher levels of communication for not engaging.

Firms that have customers in arrears on multiple products should harness the data oversight they have. They must ensure collections strategies take into account customers with multiple products in arrears and that communications for those arrears are proportionate and do not drive psychological harm. Firms with several creditor brands should apply this oversight across all their brands.

Three further quick wins firms can take to address the psychological harm caused by insensitive and threatening collection practices

- **Creditors should routinely and proactively collect customer information around preferred communication channels and communicate with customers via these when collecting arrears** – Collecting communication preferences before someone becomes mentally unwell or falls into financial difficulty is crucial to ensuring that messaging reaches them and they can engage with support when needed.
- **Train collections staff to understand different mental health problems** – and how they impact people's ability to earn and manage money and repay debts, utilising the Need to Know guide,⁵³ and incorporating this best practice into quality assessment frameworks. Training should also equip staff to understand the shame, guilt and humiliation that can accompany falling behind on financial commitments.

53 Bond N and Fitch C. [The need to know: understanding and evidencing customers' mental health problems](#). Money Advice Trust. 2020.

- **Creditors should move beyond signposting to debt advice and instead offer direct referrals through partnerships with debt advice services** – Where a creditor knows a customer is struggling financially and a referral to debt advice is appropriate, they should work with the customer to choose the most suitable option. Customers should be given the choice to receive a call via warm transfer or an immediate or scheduled callback. Alternatively, they should be able to choose from starting a digital advice journey directly through the lender’s website or being proactively referred to a local face-to-face debt advice partner.

Conclusion

Four months since the introduction of the Consumer Duty, it seems there’s still a distance to travel to truly place consumer needs at the centre of our financial products. Our research has shown that collections practices are still experienced as threatening and pressurising and can cause serious psychological harm. The Consumer Duty demands firms consider customer outcomes. It should not be on customers to ‘prove’ that the collection practices they’re experiencing are causing harm. Firms, regulators, and the government should take action to address this on consumers’ behalf.

This report has focused solely on consumer credit debt collection practices, which, for some parts of this sector, are considered to be ahead of their counterparts in government and unregulated debt collection practices. In 2024, we will be revisiting collections practices, focusing on a range of sectors, including local and national government and reviewing practices between different regulators to share best practices and opportunities for improvement.

Appendix A

Table 1: Regulatory communications sent to customers in arrears

Arrears stage	Required regulatory letters	BAU process
Up to date	Monthly notification of up-to-date bill.	<p>Beyond regulatory letters, creditors can ask customers to pay their debts and keep reminding them to do so, providing this does not veer into 'harassment'.⁵⁴</p> <p>This typically includes multiple automated communications across channels, including:</p> <ul style="list-style-type: none"> • Outbound calls • Texts • App notifications • Emails • Letters. <p>And in exceptional circumstances:</p> <ul style="list-style-type: none"> • Home visits.
Early arrears	Monthly notification of account status and arrears due .	
2+ months in arrears	Notice of Sum in Arrears letter (NOSIA) sent within 14 days of missed or underpayment includes encouragement to contact your creditor and a note emphasising that 'doing nothing could make things worse', information about entitlement to Breathing Space and signposting to debt advice.	
6 months in arrears	Default Notice issued – giving at least two weeks' notice of application of a Default to a customer's credit file.	
Every 6 months thereafter	A Subsequent Notice of Sum in Arrears letter – (SNOSIA), including the sum outstanding, interest and charges payable.	

54 FCA. Consumer Credit (CONC) sourcebook.



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