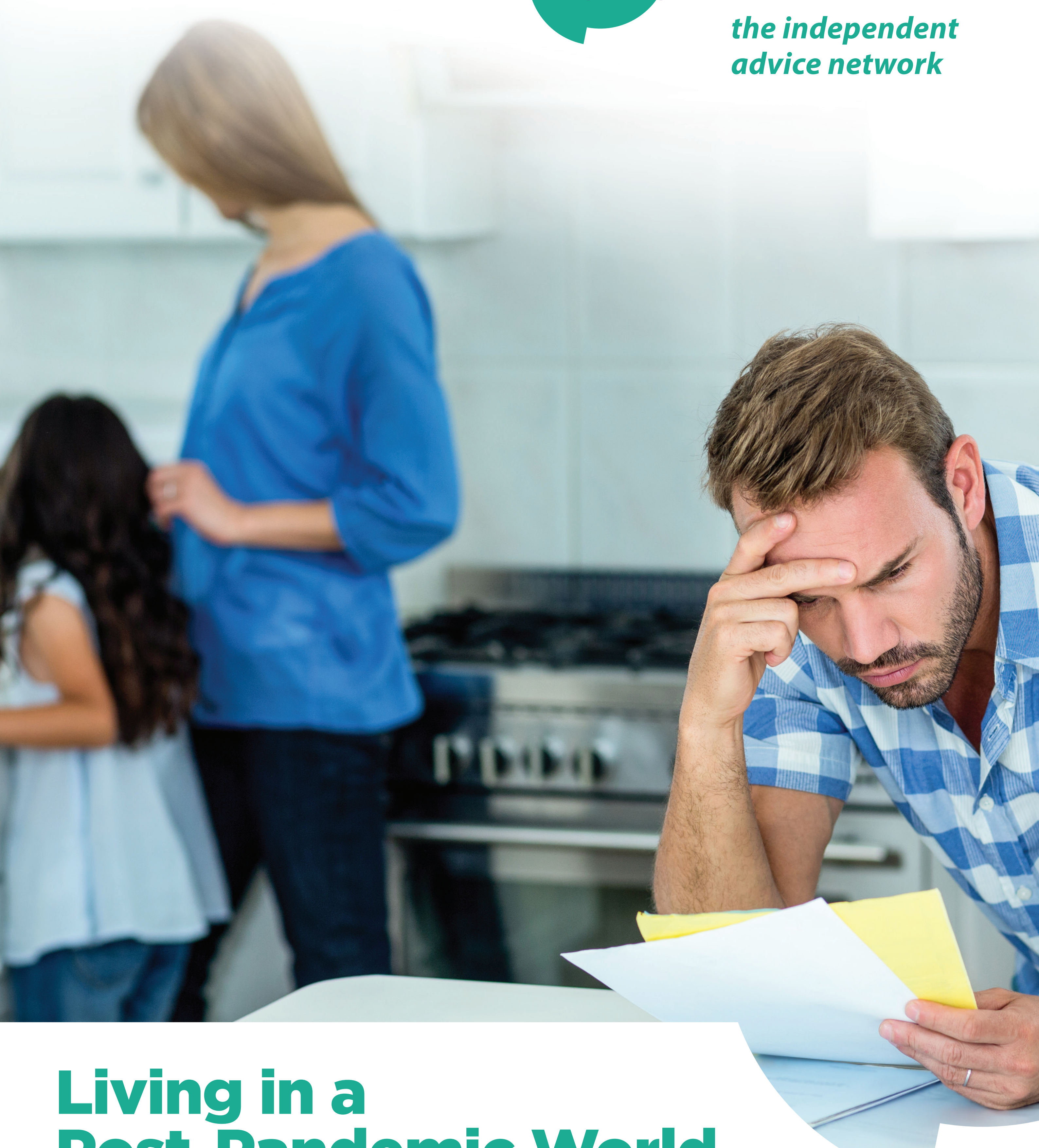
advice ni
the independent advice network



Living in a Post-Pandemic World

June 2023

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1.0. Background

In 2023, the Consumer Council NI commissioned Advice NI to explore the challenges faced by clients availing of the debt service, considering the impact of the Covid-19 pandemic, and the ensuing cost-of-living crisis. Reflecting on these ongoing societal concerns, Advice NI was asked to report on the adversities faced by clients relating to their problematic debt. To achieve this, Advice NI agreed to explore and analyse data since the beginning of Covid-19 in 2020, interview frontline debt advisers about their views and experiences of these matters and any recent trends in lending practices and debt collection. In addition to being interviewed, advisers were asked to provide client case studies to support these views and experiences.

2.0. Introduction

Advice NI is a membership organisation that exists to provide leadership, representation, and support for independent advice organisations to facilitate the delivery of high quality, sustainable advice services. Currently, we have 65 member organisations operating throughout NI that provide information, advice and advocacy services on an extensive range of matters including welfare rights, debt, housing, consumer, crisis intervention and employment issues. Together, with our members we make up the Independent Advice Network[1]. We provide our members with training, advice and information on management systems, funding and planning guidance, quality assurance support, training from foundation to diploma level, social policy co-ordination and ICT development to ensure best practice, best value and effective advice services delivery.

Advice NI also provides regional frontline advice services. All our services are delivered through an omni-channel approach and are aligned to the Northern Ireland Advice Quality Standard's principles – independent, impartial, accessible, confidential, effective, accountable, and free. Advisers must meet the training requirements to be able to deliver a professional quality service.

3.0. Methodology

Advice NI carried out a review of statistics available on the current cost of living crisis affecting Northern Ireland and the economy. Data from our debt advice service over the past three years was analysed to understand any trending issues. Then, we conducted one-to-one indepth interviews with seven debt advisers to capture their experiences at the frontline of debt advice during this period. These advisers were asked to provide case studies from their client base, to support the key factors uncovered from the above data analysis, excerpts of which are included in 5.2. Themes section overleaf.

4.0. Current picture

4.1 Covid-19

The Covid-19 pandemic had a substantial impact on Advice NI's debt advice services. Following the onset of the pandemic in March 2020, debt advice services were primarily provided through telephony, email and online digital channels such as zoom, with urgent faceto-face advice being administered in members' premises only on an intermittent basis between easing of lockdown regulations. Once restrictions began to ease, many local advice centres slowly resumed face to face services. During 2020, the number of clients contacting the debt service decreased by 34%. This dramatic decrease was attributed to the introduction of several government and creditor support packages that were established to help people deal with a projected loss of earnings. Last year was the first year that there was a slight increase in people presenting to the debt service.

4.2 Cost of Living Crisis

In 2021, just as Covid-19 was becoming less of a threat, the cost-of-living crisis emerged. The cost-of-living crisis has been defined as a fall in an individual's disposable income due to an increase in inflation, mainly driven by the rise of energy costs[2]. Government statistics[3] show that inflation increased to a 41-year high peaking at 11.1% in October 2022, compared to an inflation rate of 1.3% in December 2019 (pre-pandemic)[4]. The cost-of-living crisis has led to exponential increases in the price of essential goods and services, including groceries and fuel. This along with a decade of austerity and low wage growth has meant lower consumer resilience and severely squeezed incomes. To add further pressure on many households, the Bank of England has increased interest rates, from a notorious low 0.1% in March 2020 to 5% in June 2023[5], to try to reduce inflation. However, it is predicted that potentially 1.4 million households may financially struggle once their low interest, fixed mortgage term ends in 2023 onwards[6]. Some experts are warning that interest rates could rise to 6% before eventually decreasing, as inflation remains persistently high. In summary, it looks like these high costs will remain for some time to come, further squeezing incomes thus pushing more people into poverty.

The government has taken steps to provide some financial respite for people, via several grant schemes and one-off payments. However, these support packages are reducing and the full impact of the cost-of-living crisis on Northern Ireland and its citizens has still to be realised. With continued political uncertainty present in Northern Ireland, the introduction of any further economic mitigation for those most in need to prevent a cliff-edge scenario remains unclear. The increasing cost of essential expenditures and stagnant income compounds current debt levels, with individuals borrowing more to try to address their household income deficits. The Money and Pension Service (MaPS)[7] highlighted during 2022, there was a 2% increase in those at risk of needing debt advice and 2% increase in those who need debt advice across the UK, compared to the previous year. Combined this equates to an extra two million people struggling to manage their debt.

5.0. Findings

5.1. A brief overview of clients presenting for debt advice

During the first year of Covid-19, the numbers presenting to the debt service has decreased dramatically, from 5,071 (2019/20) clients to 3,314 (2020/21). Last year, 3,601 clients presented for debt advice, which was an 8.6% increase, but this still remained notably lower than pre-pandemic levels. However, clients were dealing with higher levels of debt compared to the previous two years, the average debt per client had increased by 38.8%, from £6,578 in 2020/21 to £9,316 in 2022/23. Chart 1.0. highlights the growth in debt per client over the past three years.

Chart 1.0. Debt per client 2020-2023

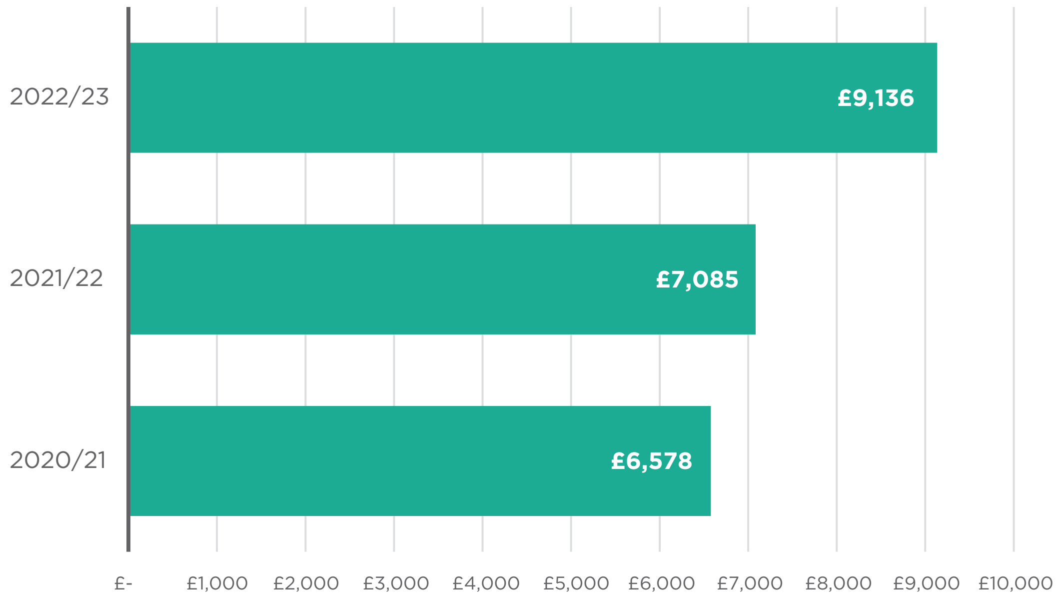
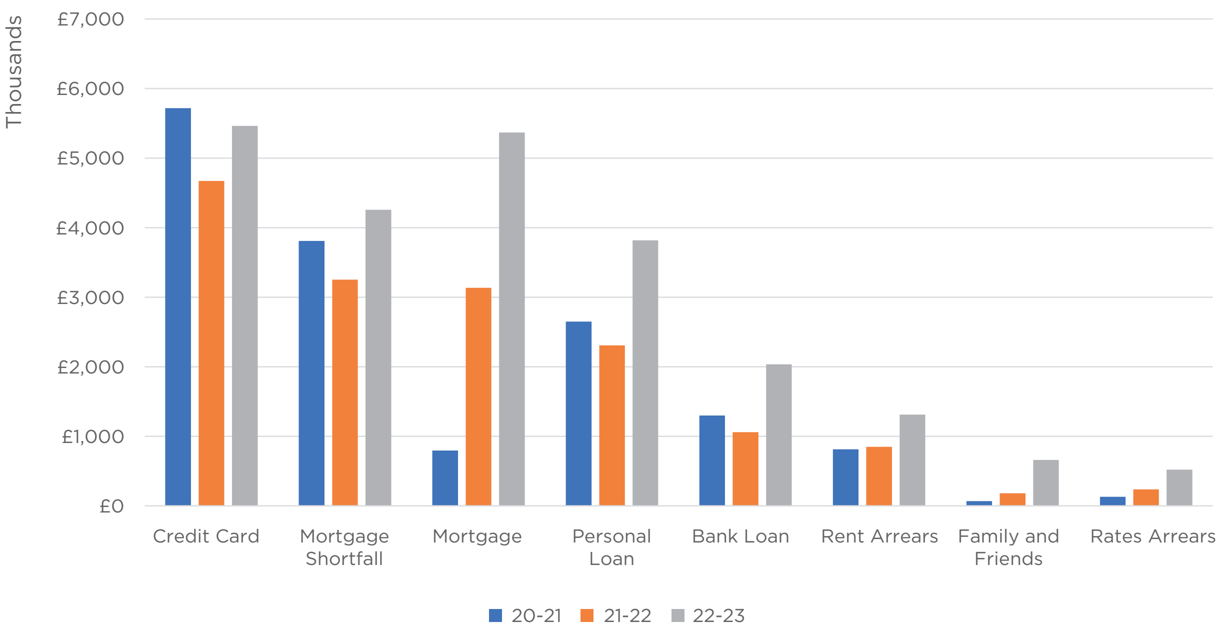


Chart 2.0 highlights some of the top debts we dealt with over the past three years.

Chart 2.0. Debt per client 2020-2023



Credit card debt remained the number one debt dealt with over the past three years. Both personal and bank loans have increased significantly since last year. Advisers told us that many clients often relied on the use of credit to get them through to the end of the month, and was regularly used to buy essential items, such as fuel or food.

Mortgage debt dramatically reduced during the first year of Covid-19, which was a direct result of the support provided at the time by government and the Financial Conduct Authority (FCA). However since this support ceased, the level of mortgage debt has increased significantly over the past two years. Coupled with the exponential increase in interest rates, which continues to affect many who are coming to the end of their fixed term, and those with variable and tracker mortgages. The advisers also reported that they were dealing with many clients with maturing interest only mortgages, with no payment mechanism in place to repay the outstanding capital. Rate arrears debt also significantly increased by 120% since last year, further adding to the pressure on household incomes.

Advisers report that many clients have resorted to "constant attempts to service debt by taking further debt on", in a manner akin to the saying: "robbing Peter, to pay Paul." The evidential increase in mortgage debt coupled with clients' reliance on credit cards to pay for everyday essentials, have impacted clients' ability to maintain their mortgage repayments, potentially putting their homes at risk.

Rent arrears debt increased by 56% since last year. Affordable housing was an issue, as many clients faced the prospect of losing their home, but also struggled to find a suitable alternative. Generally, rents have soared since Covid-19 with many Landlords facing increased costs and passing these on to the tenant. This has led to many Landlords exiting the market, creating a significant shortage of available stock[8].

Interestingly, last year debts to family and friends had also increased (264%). Advisers reported they were advising more clients who were relying on family and friends to lend them money and/or repay their debts, which is not a robust long-term solution to dealing with problematic debt issues. One client had a personal loan of £10,000, which she could not repay so eventually her family had to intervene and repay for her. Another client owed their family £8,700, but could not repay as they had to prioritise other debts or face eviction. This reliance can often put a strain on relationships and end up with the client feeling more alone and ostracised.

5.2. Themes

5.2.1. Increase in Complexities of Presenting Cases

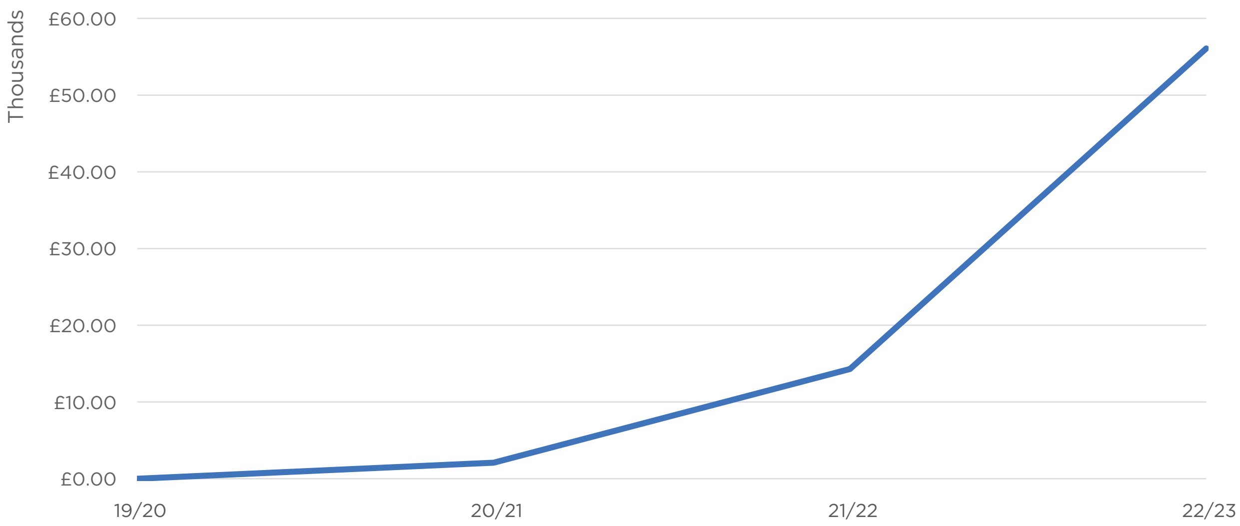
During discussions with frontline advisers, the first theme revealed was how presenting cases were becoming more complex now than they had been prior to Covid-19. Traditionally, problematic debt would have been primarily due to one or two overriding issues with debts such as credit cards, mortgage shortfalls or personal loans. However, advisers reported that the issues with problematic debt were more multifaceted, especially when dealing debts relatively new to the market, such as Buy Now Pay Later, and an increasing number of clients were presenting with vulnerabilities. For example, the number of emergency cases presenting to the debt service increased 70% since last year.

Anecdotally, frontline debt advisers regarded Covid-19 lockdown restrictions as being significant as to why cases were now more complex, mainly due to the fact that it pushed more people online and away from cash transactions. They believe this has made the exchange of money more "of an abstract concept" due to it being a "ping" from one electronic device to another, as opposed to physically handing over cash. In turn, this has impacted client's susceptibility to online scamming, and also how they access debt, especially in the Buy Now Pay Later arena, where this can be agreed by both sides "at the click of a button". This was regarded as being partly due to individuals spending time online (and leaving themselves more vulnerable to ensuing problem debt) where they previously had not.

5.2.2. Buy Now Pay Later (BNPL)

BNPL credit has increased dramatically over the past three years, which is illustrated in Chart 3.0. BNPL enables consumers to defer payments, interest free, into one or more instalments. Very little is known about how consumers use BNPL products, despite the market's rapid growth, and scrutiny by the FCA. In turn, the prominence of BNPL creditors such as PayPal Credit, Zilch, Clearpay and Klarna, has enabled clients to avail of instant credit, which in the past was not as readily accessible.

Chart 3.0. Growth in BNLP debt over the past three years



In 2022/23, the advisers dealt with over £56,000 in BNPL debt, which was a 292% increase compared to 2021/22. Covid-19 changed purchasing habits as many people turned to online shopping. Notably, this boom in online trade has not reduced following the reopening of high street vendors, with the feeling that BNPL consumption is here to stay.

An adviser discussed a case where the client was in receipt of benefits, as they had to give up work due to mental health issues. They had numerous BNPL debts totalling over £2,700, due to overspending when they had manic episodes. The client had a significant deficit budget, therefore had no way to service the debt. Often, clients disclosed to advisers that they had not read the terms and conditions they agreed to at the time of purchase. Therefore, were unwittingly unaware of how quickly debts can spiral out of control, because of late payment fees following the expiration of 0% interest offers.

The boom of BNPL has been partly put down to the increased regulation of payday and doorstep lenders, with some prominent lenders ceasing to trade altogether resulting in customers seeking alternative ways to gain access to 'quick credit'. The debt service has witnessed a steady decline in doorstep lending debt, which has nearly halved since 2020/21, decreasing from £131,465 (2020/21) to £68,847 (2022/23). Store card debt has also been declining albeit at a slower rate, decreasing 9% since 2020/21.

5.2.3. Illegal Lending

Over the past two years the debt service has dealt with increasingly higher levels of illegal lending, with nearly £40,000 debt dealt with during 2022/23, averaging approximately £3,600 per debt. This was an increase of 61% from 2021/22. Advisers believed this was only the tip of the iceberg, with many clients still not declaring these debts or continued to disguise them as owing family and friends. Interestingly, in all illegal lending cases the clients had either sought help from their family to repay the debt, or their family had taken on credit for the client to allow them to repay the illegal lenders.

Stigma and fear continued to surround these debts. For example, one client borrowed £15,000 from a local illegal lender, and had been paying £50 per week for four years but still owed £15,000. Client was too afraid to challenge this and once his income was maximised to include all benefits and entitlements, he was happy to continue to pay this debt.

In another case, the client had been taking out loans with illegal lenders for over 20 years and had recently begun to struggle due to the rising cost of living. In total the client owed four loans, valued in the region of almost £9,000. The client was unsure what she owed back and did not want to ask, as she was hoping the lender would forget about one of the loans. When she came for advice, she was repaying back £165 per week. Client's sole income was benefits, as she was unable to work due to severe mental health issues.

The following case study highlights how the family have supported a client who got into debt when her relationship broke down. She owed £300 to illegal lenders, which was being repaid at £150 per week. However, client also owed over £20,000 to Credit Union, BNPL, personal loans, overdraft, credit cards, catalogues, social fund, tax credits and owed nearly £14,000 to family. Apart from prioritising repaying the illegal lenders, she had also been prioritising her and her ex-partner's family members, to ensure relationships were not damaged. The family had been supporting her by taking out credit for her, therefore she felt obliged to repay them. It was evident that the client was prioritising family repayments over creditors, which could be challenged. The client was considering bankruptcy, but she cannot afford the fees, plus there was potential risk of a restrictions order being imposed due to the preference payments being made. These restrictions could also affect her other family members. Client was a single parent, worked part-time hours and relied on benefits to top up her income. In this case the client only had another two repayments to the illegal lender. She worked with the adviser on re-profiling her budget, and to help set up repayments to her creditors. The adviser also coached her in how to discuss her finances with her family to help her situation.

5.2.4. Scamming

Advisers have noticed a recent upward trend in debts as a result of scamming, which has increased from 8 cases in 2020/21 to 60 in 2022/23. These scams, mainly online, can range from purchasing of cryptocurrency to romantic fraud. Usually, scamming has targeted and wiped out an individual's savings, which would have been used to mitigate against any sudden economic shocks leading to debt (such as loss of job, illnesses, change in family dynamic), leaving the client unable to absorb rising costs or service any debt they have. Unfortunately, these scams are becoming more sophisticated, and can often lead to the person becoming susceptible to multiple scammers.

In one case, a client who was retired, saw an advert on Facebook for bitcoin allegedly backed by one of the dragons from Dragons Den. Shortly after making the purchase, he was contacted by a woman who said she was a 'case manager' and told him his investment was now worth £690. He asked for the £490 to be paid out to him leaving the £200 to be reinvested. Unfortunately, the scammer got the client to send over his bank account and passport details. Unsurprisingly, the money was never paid out, instead she had opened a Wise account in his name, which allows easy international transfers of money. Unbeknownst to the client, the case manager then applied to the client's own bank for a £20,000 loan in his name. This was approved and the money was sent to his Wise account by the bank, which was immediately transferred elsewhere. The client only became aware of this when his bank began to take £380 per month from his account to repay the loan. This client has very little savings, and was in receipt of benefits. The most worrying part of this scenario, was the client received further calls from other scammers telling him about monies that he was entitled too when he was not, and attempted to get further banking details from him.

Whilst most scamming takes place online, the debt service still dealt with in person scammers. As this case highlights, a person turned up to a client's place of business and struck up a friendship with them. This quickly turned sour when the person began buying items and asked the client to pay for them, the client felt obliged to buy them off the person as they felt they were being generous. Gradually over the years, the amounts of money escalated to the point where the person was claiming the client owed them in the region of £150,000 to start a business. During this time the client's mental and physical health declined and she had to stop working. She denied owing the person money to start a business; however, it transpired that the client had been paying a weekly sum to this person. The person then issued court proceedings to get a charge on the client's property. Unbeknownst to the person, the client was in the process of surrendering the property, as she had an interest only mortgage and had no way of repaying the capital. Only when the house was repossessed did this person stop contact with the client.

5.2.5. Increase in Mental Health Issues

Adding an extra layer of complexity to debt cases, was the noticeable increase in clients presenting with mental health issues, an 18% increase since last year. In fact, advisers have told us that most clients will present with some level of anxiety due to their debts and often a client's mental ill health goes undiagnosed. Several academic research papers also highlight how Covid-19 detrimentally impacted mental health wellbeing due to the restrictions and isolation[9] [10] [11]. Additionally, the detrimental impact of mental ill health has a close relationship with the onset and outcomes of over-indebtedness. Interestingly, Lea[12], describes a perpetual cycle around debt and poor mental health, portraying poor mental health as both a cause and an outcome of problematic debt. Lea[13], suggests that mental health issues can be a cause of someone going into debt but, also, debt can be a factor in the deterioration of individual's mental health and, subsequently, the detrimental outcomes of both are exacerbated by this cycle. This is echoed by the research conducted by the Money and Mental Health Policy Institute[14] suggesting that 46% of people in debt also have a mental health problem, and 86% said their financial situation had made their mental health problems worse.

Advisers have described the combination of Covid-19 and the cost-of-living crisis as a '*perfect storm*' plunging clients into a spiral of debt, impacting detrimentally on their mental health. Consequently, the advisers have reported an increase in the use of the debt and mental health evidence form (DMHEF). Recognised by the FCA, this form must be completed by a healthcare professional and is sent to creditors who will consider the presenting issues and decide whether to write the debt off. Advisers said they were relying on this form now more than ever, however they stated that this can increase workload due to gathering information from third parties and negotiating with creditors. Dealing with clients who have complex mental health needs can be more time consuming, as they can become quickly overwhelmed, or forget they need to take action to progress their case. Advisers believe that this increase in poor mental health has been exacerbated by the lack of accessible mental health support available in NI.

One client who was going through divorce proceedings contacted Advice NI's debt advice service following a suicide attempt. Due to her severe mental health problems the client could only communicate via email. The options available to her were either try to the get debts written off through the DMHEF or apply for bankruptcy. Client was adamant that she does not want to go through Bankruptcy, as she was convinced it would be used against her in the divorce. The client's mental health, combined with her preference for email communication, prolonged the advice process. The adviser felt the extra burden of responsibility to ensure the client fully understood what was being discussed, especially as they were very aware of the fragility of her mental health. In the adviser's words, *'I feel like I am juggling between being a debt adviser and a counsellor role and it can be emotionally draining, particularly when I am not a trained mental health professional.'*

5.2.6. Not seeking debt advice sooner

Advisers also highlighted that often clients waited too long before seeking debt advice. Based on our 2022/23 annual client satisfaction survey, 63% respondents said they had been struggling with their finances for over a year before seeking help, with 47% of that figure waiting over two years. Advisers explained how waiting to get advice can reduce the options available to deal with debt.

This has been compounded by the lack of credit enforcement. Like other service providers, during the Covid-19 pandemic, creditors ceased many of their normal core business processes, as society came to terms with the impact of the pandemic on day-to-day life. To protect borrowers, the FCA issued guidance to creditors to offer extra forbearance. This led to a reduction in creditors pursuing debt, and required them to tailor advice depending on the client's circumstances. This approach certainly helped many to re-budget, pay down and reduce their debts, however for others it has only exacerbated the debt, as many advisers believed that clients have just *"kicked the can down the road"*. They commented that clients will only deal with the debt once the creditors begin chasing them for repayment. Many expected a tidal wave of clients once Covid-19 restrictions were lifted and we returned to business as usual. This has, however, not materialised, due to the Ukraine invasion resulting an unprecedented rise in the cost of living, which has meant creditors, energy providers and the government has had to offer further support to help people get through this new crisis.

Advisers also discussed that many of their clients who were coming for advice were wary of taking action. Some client's believed that their situation would improve in the future, some would not commit as their income was too unstable, whilst others were simply *'burying their head in the sand'*. Advisers believed that most of these clients will return when they are forced to deal with their debt. One example of this, was a client who presented with problematic debt, but who only wished to access a food bank. The client was very aware they had a debt problem, they understood that it was an issue that needed to be addressed. However, right at that moment it wasn't a priority for them and they did not want to deal with it. Client had priority debts, but what was more important for them was getting food and keeping afloat on a day to day basis. This highlights the lack of appetite that some clients have to deal with long term issues. The focus for many is the here and now and getting through each day at a time.

Advisers voiced their fear that clients *'struggling to make ends meet'* has become *'normalised'*, and has led to individuals believing that their struggles are no different to anyone else's, therefore, they do not seek advice. Despite being counterintuitive, this mindset has a potentially serious impact on individuals, as well as advice providers, with the belief that the bombardment of credit contact will eventually materialise. Ultimately, the delay in clients' seeking advice may mean the presenting problematic debt will be more challenging and complex in nature.

6.0. Conclusion

This report highlights some of the issues faced by Advice NI's debt advice service post Covid-19 and the subsequence onslaught of the cost-of-living crisis. It is evident that the advisers are dealing with more complex cases. Peoples' mental health has been detrimentally affected by Covid-19 and the restrictions imposed by the pandemic. This was reflected by advisers reporting more clients were presenting with anxiety and poor mental health, and that they were increasingly using the Debt and Mental Health Evidence Form to try to get debt written off for clients. Often these cases can increase workload due to the time spent gathering evidence and negotiating with creditors.

It was also evident that clients continue to seek help usually when their case reaches a crisis point, which can limit their options. The sector needs to continue working on breaking down the stigma and barriers to the perceived shame surrounding debt and debt advice, so that people seek help earlier.

The service has seen a significant increase in area such as Buy Now Pay Later, illegal lending, and scamming since Covid-19. All of which bring further complexities to the advice process. We believe that this will continue for the foreseeable future. Creditors may begin to restrict lending practices, and many will be forced to look for unsuitable sources of credit. Therefore it is vital that alternative affordable lending streams are fully scoped and resourced, so that people have access to an accessible lending source.

Covid-19 and the cost-of-living crisis has been encapsulated in uncertainty, lurching from one crisis to another. Serious pressure has been put on incomes due to the persistently high prices. No-one is immune to the fall out of the pandemic, the extortionate increase in prices or the affect it has had on mental health. Now, with the unrelenting pressure on homeowners and renters, it leaves us wondering are we are heading towards another crisis. As demand for the debt advice service starts to increase, it may be only a matter of time before demand begins to outstrip supply, as creditors resume business as usual, government support ceases, and inflation remains stubbornly high. All of these factors combined are creating the perfect storm. Therefore, frontline debt advice services need to be able to react and funders need to be prepared to increase funding quickly, so that no client is left behind.

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