Customer Intelligence Research

A TNS BMRB report for the Insolvency Service

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1. Background to this research

Personal and corporate insolvency arises for a variety of reasons, including financial misconduct and irresponsibility, but equally unforeseen circumstances or entrepreneurial optimism. Whatever the cause, insolvency has significant impacts on debtors and their creditors.

The Insolvency Service regulates the public services involved in the handling of personal and corporate insolvencies, and the mitigation of their impacts. The Insolvency Service's Official Receivers take an investigative and administrative role in the handling of bankruptcies and Debt Relief Orders (DROs). To aid its efforts to deliver a regime that supports growth, inhibits abuse, and is accessible, fair and efficient, the Insolvency Service needs as full an understanding as possible of how debtors and creditors respond to situations of unmanageable debt, and why they do so.

The Insolvency Service commissioned TNS BMRB to undertake qualitative research with debtors and creditors exploring experiences of unmanageable debt and actions to resolve it. The main objective of the research was to improve understanding of people in debt; in particular, to explore individuals' awareness of the options available to them for debt resolution and where they can go for help.

The specific aims were to:

- Establish what the "trigger" points are for deciding to find a solution to "unmanageable" debt
- Understand where people go for help and advice
- Gauge awareness of the different debt resolution options available
- Understand attitudes towards, and experiences of different debt resolution options, and how the Insolvency Service might improve the services offered
- Establish views on what support can be offered digitally by the Insolvency Service in the future.

With creditors, the specific research objectives were to:

- Understand creditors' dealings with debtors
- Establish how decisions regarding debt collection and other interactions with debtors are made
- Understand the drivers and barriers to petitioning for bankruptcy
- Understand attitudes towards the Insolvency Service, and the potential for further digital support for creditors.

2. Methodology and sample

A purposive sampling approach was adopted to represent a wide spectrum of debtor types. The fieldwork comprised 38 depth interviews (via a mixture of face-to-face and telephone) with debtors: eight who had taken no action relating to their debt situation, eight who had sought advice but not yet taken action, and 22 who had taken action – with a mix of debtors who had taken out Debt Management Plans (DMPs), Debt Relief Orders (DROs), bankruptcy, and Individual Voluntary Arrangements (IVAs). The sample also included some individuals who were currently (or who had previously been) the director of a company or business. Respondents were also recruited to represent a mix of gender, age and geographic location. The primary locations for fieldwork were Newcastle, Blackpool, Newport, London, Bristol and Kent.

Eight interviews with creditors were also conducted: with three local authorities, one bank, three debt purchasers, and one trade creditor. These interviews were conducted by telephone.

This report is based on qualitative research, and thus does not seek to quantify or to be generalised from, but rather to represent the range of attitudes and behaviours, and explore the underpinning emotional drivers and reasons for people's responses to unmanageable debt.

The research team's recommendations were provided to the Insolvency Service at the time of the presentation.

Additional note
TNS BMRB and the Insolvency Service would like to thank the Citizens Advice Bureau (CAB), the National Debtline and the Money Advice Trust (MAT) for their assistance in recruiting some of the participants for this project. We would also like to thank all the participants who gave their time and thoughts to this work.

3. Main findings

3.1 Understanding debtors and their journeys

Debtors in this research had all come into unmanageable debt as a result of a distinct set of personal circumstances; however, there was a common trajectory to the journeys that they described. It started by realising their situation was unsustainable. They then faced a range of practical and emotional barriers to taking action, which they needed to overcome before they could consider taking action. For many debtors, a ‘triggering moment’ provided the impetus necessary to overcome these barriers and seriously consider taking action. At this point, debtors would need information, advice and support to decide how to resolve their situation; it was usually only after seeking out or receiving this support that they felt ready to take action.

The ways this journey played out were continually shaped by the individual context of each debtor: their personality and attitude towards their debt, as well as the wider circumstances of their life. Debtors in this research fell into different typologies, based on their attitudes towards their debt. These attitudes were driven by five key factors, which varied a great deal among different individuals:

- Level of engagement with their debt situation
- Degree of confidence and ability to navigate information and apply this to their circumstances
- Sense of ownership and responsibility for their debt
- Existence of support networks to discuss their affairs and receive advice, and
- Degree of trust in authorities and others to meet their needs and work in their interest.

Based on the differences in these key attributes, debtors were seen to fall into five typologies: Risk-Takers, Pessimists, Disengaged, Copers and Confident.

Risk-Takers were those who knowingly built up debt, with little concern for the consequences of their actions – expressing a ‘live for today’ attitude. Along with Pessimists, these individuals were the least likely to take action to resolve their situation. They were not drawn from any particular income or educational bracket.

Risk-Takers did not engage much with the consequences of their actions. They tended to see loans and credit as a way to win short-term advantages, and had a low sense of responsibility to their creditors. Some expressed a desire to take action in the future, but very few felt that it was necessary for them to deal with their situation at present.

Risk-Takers faced a wide range of barriers to taking action, and many of these debtors in this research had not yet overcome them. These included attitudinal barriers, such as an expectation that they were unlikely to be caught, or extreme anxiety that a friend or loved one would learn about their behaviour. They also want to avoid losing assets they had built up through their spending. Equally, where significant debts had been built up, some believed their debt was too large to be effectively dealt with.

> *"I might as well pay it all, or not at all. Maybe I should start hacking away, but it's having the money to do it rather than covering other things – petrol, gas, electric, food.",* (36-44, Female, No advice sought, No action, Bristol)

Pessimists had the most extreme responses to finding themselves in unmanageable debt, underpinned by a fearful and fatalistic view of their circumstances: they did not believe they could resolve their debts. These debtors felt under intense pressure, which sometimes had serious consequences for their wellbeing, such as exacerbating illnesses or depression. This group tended to be from lower socio-economic groups, with more physical and mental health conditions. Alongside Risk-Takers, these debtors were the least likely to take action to resolve their situation.

Pessimistic debtors tended to have fewer reliable support networks – many were vulnerable, isolated individuals, with few friends or family to turn to. Where these connections did exist, Pessimists tended not to see them as an opportunity to discuss their problems and get help.

> *"It was the worst time of my life. I felt I let my husband down, I blamed myself because it was me that was ill ... I still struggle with [my health condition], that's why it took so long to declare bankruptcy.",* (36-44, Female, Sought professional advice, Bankruptcy, Kent)

Due to their fatalistic attitude, Pessimists were among the least likely to take action. The few who had taken action were typically triggered by exhaustion at having struggled for an extended period of time, being prompted by the intervention of a friend or family member, or proactive contact from a third party, (such as a debt management plan provider). Once they felt ready to seek information and advice, Pessimists almost always turned to sources they already knew. In their vulnerable state, they tended to place total trust in the person or organisation that they were receiving advice from – even if they had been fearful or sceptical of doing so earlier in their journey. This could create problems where the advisor did not present them with sufficient information to make a decision appropriate to their situation.

Disengaged debtors were very unresponsive to their debt situation. This was a passive disengagement, unlike the Risk-Takers who actively sought to avoid consequences and mislead creditors. Disengaged debtors often suggested they had kept their 'head in the sand' about their debts. As they typically ignored letters and phone calls from creditors, their unmanageable debts were often due to the gradual accumulation of debts over an extended period of time. Typically, they had low confidence and limited understanding when dealing with financial matters, which contributed to their disengagement.

> *"I've always put it off and thought it wasn't that bad … I was probably naïve and thought it would go away.",* (18-35, Female, Sought advice, No action, London)

Disengaged debtors had limited awareness of the debt resolution options available, and lacked the confidence to seek these out on their own. For these debtors to take action, it was necessary to disrupt or challenge their disengagement. This impetus usually came from a clear external threat, such as pressure from creditors, or an external offer of help. Disengaged debtors were initially suspicious of authorities and third parties – however, once they did decide to act, they were often reliant on encouragement and guidance from third parties in order to move things forwards.

Copers were highly conscious of their debt problems, and eager to find a resolution. Unlike the Disengaged, Copers had usually found themselves in unmanageable debt through changed or unexpected circumstances, and were quite responsive to their debt situation, and keen to gain a clear understanding of the situation. This was combined with a strong sense of moral responsibility to repay debts.

There were two main barriers to Copers taking action: firstly, because of their strong sense of moral responsibility, Copers sometimes delayed finding a definitive resolution as they tried to manage or deal with their debt situation themselves first, e.g. by negotiating with creditors. Secondly, they tended to lack certainty about the best route to choose, and did not have full awareness about the options available to them; in order to take action, they needed reassurance and affirmation from others.

When they did take action, Copers usually turned to people they knew, or third parties who were able to offer help, for the guidance they needed. Given their own lack of confidence, they looked to these sources as the "*experts*" to direct them to the best solution.

Confident debtors were highly engaged with their situation. As with Copers, their debt usually resulted from unexpected circumstances, and they were the fastest and most proactive in seeking a solution to their problems. Many Confident debtors had made direct contact either with the creditors themselves, or with advice organisations, to try and gain a clear understanding of the situation. They typically made proactive use of their contacts and social circles to find a way out of their situation.

These debtors felt capable of navigating and making use of information to resolve their debts. Confident debtors were generally well-educated and better-off individuals, and faced few practical barriers when it came to accessing and understanding information. Furthermore, these debtors also wanted to actively choose the debt solution that would work best for them – their key need was to have the information (including options available) to facilitate their decision making.

> *"The CAB offered to negotiate with creditors for me on my behalf, but I felt confident enough that I didn't want them to do it. Their advice helped increase my confidence, but I wanted to do it myself.",* (18-35, Male, Sought advice, Informal agreement with creditors, London)

As the most proactive debtors, these individuals all had a strong sense of personal ownership of their situation, and often expressed a moral sense of responsibility (like the Copers) for their debts.

3.2 Taking action and debt resolution options

The journeys discussed in Section 2.1 started with debtors getting into unmanageable debt in the first place, through to the point where they (at least, some) were ready to take action. At the next stage – where debtors were deciding what to do next, and which option(s) to take, there were two key factors influencing their decisions: the **scope of their awareness**, and their **emotional responses** to the options in view. As detailed previously, debtors' perceptions of what was available to them was often very limited, with generally only Confident debtors being aware of and able to consider all the options. This was in part due to debtors' heightened state of emotion by the time they took action. This meant their decision-making was not necessarily a rational, balanced consideration of options, but instead, emotionally driven, and with limited (if any) perceived alternatives.

However, when presented with the four different resolution options during the research interview, respondents raised a number of common questions and concerns, which changed their views on the options available, and the actions they wanted to take. For example, debtors considered how much each option would cost, how it related to their debt situation (and if they were eligible for it), the impact it would have on their current situation and on their future prospects (work and financial), and other people's judgements. The extent to which each of these was relevant depended on the type of debtor and debt resolution option itself. These are covered in turn below:

Debt Management Plans (DMPs)

DMPs were relatively well known due to active promotion by debt management companies, and they were generally seen as a good starting point for taking action, as it enabled debtors to directly contribute to reducing their debt. It generally appealed to debtors with a strong sense of ownership for their debt (such as the Copers and Confident debtor types), who saw the ability to make repayments as a 'moral' responsibility. Across all debtors, relief from the pressure of dealing with creditors was a key factor in choosing this option; others saw additional advantages, e.g. being able to run a business and not being put on a public register, (unlike some of the other debt resolution actions).

There were however, a number of barriers to DMPs. The length of time DMPs lasted meant that they were not generally considered by Risk-Takers in particular, who were looking for more 'quick fix' solutions. The involvement of a third party was a concern for the more wary and mistrusting of debtors (especially, but not solely Pessimists). The practical cost of set up and handling fees associated with this involvement was also problematic for many, as they wanted to avoid adding to their debts. Lastly, for those who were unable to make contributions each month, DMPs were not a viable option in the first place; in some cases, debtors had started but were unable to keep them up, and a further action was required.

Individual Voluntary Arrangements (IVAs)

Individual Voluntary Arrangements (IVAs) were comparatively less well known than DMPs, usually being heard about from third parties. IVAs were seen to share several disadvantages with DMPs, such as the involvement of a third party and the costs attached to them. However, overall they were considered the more appealing option as a means to repay debts, but with a time limit and an element of write-off. This was considered a positive compromise and a 'fair' way of repaying creditors, (particularly important to some, for example the Copers), as there was a clear end point and definitive conclusion to their debt.

However, as with DMPs, IVAs did not always achieve full debt resolution in cases where debtors were unable to keep up repayments, and in some cases were terminated mid-way through.

Debt Relief Orders (DROs)

Debt Relief Orders (DROs) were the least known of the debt resolution options, but it was an appealing option for those who were eligible – typically debtors in most need of support.

Those who were eligible for a DRO saw few barriers to taking this option other than their typically low awareness of it.

The benefits of DROs were seen to outweigh the disadvantages, particularly in writing off debt. Being put on a public register or no longer able to run a business were generally of little relevance to the eligible, whose top priority was to eliminate their debt. The option was also considered 'fair' to those with no other means of resolving their debt.

Bankruptcy

Bankruptcy was the most familiar of the debt resolution options explored, it provoked the strongest reactions, and also presented the most initial barriers. It was considered common knowledge, or heard about through the media or friends and family's experiences. Many had fixed preconceptions about who bankruptcy was for – that it was "*just for businesses*" or very large debts, and therefore *"not for me"*. It was also seen as a "*last resort*", and so was discounted as an option until other options had been found to fail.

Additional barriers to choosing bankruptcy were found across all debtor types. These included practical issues, such as the cost of the fee and losing credit rating; negative associations driven by fears about social stigma; and fear of losing of assets, one's 'last bit of security' – especially for those who had built up assets with credit or loans, (e.g. prevalent among the Risk-Taker debtors).

> *"[It was] an emotional thing … just the name … you're told it's the worst thing in the world ... like death/ divorce.",* (36-44, Male, Sought advice, Taken Action – IVA, Bristol)

Those who had gone through bankruptcy generally felt it was an effective way of dealing with their debt situation and were positive about the "*fresh start*" it had given them. They reported facing a variety of barriers (as outlined above), but advice from formal sources had helped them overcome these.

Multiple debt resolution options

In some debt journeys, debtors went through more than one debt resolution option. Typically, the debtor went into a DMP and/ or IVA, before bankruptcy or a DRO. These journeys were usually due to debtors' need to feel they had tried everything before they could accept bankruptcy or a DRO. There were often psychological drivers opposed to bankruptcy, such as the wish to take ownership of debt through a DMP, or a fear of ruining their credit rating, despite the severity of their situation. These journeys highlight how debtors' perspectives on what the available options are can change in response to their learned experience and psychological, as well as practical journey to find a resolution. However, other individuals stalled at the point of failure to repay debts through a DMP or IVA, and could not accept bankruptcy as an option.

3.3 Developing a digital service to meet debtors' needs

As highlighted in Sections 2.1 and 2.2, debtors had a number of practical and emotional needs during their journey to resolve debt, and this impacted on their ability to act. When developing a digital service for debtors, it is important to consider these needs, and how they could be met through an 'online journey'.

Based on the findings of this research, our recommendations for the Insolvency Service's role in digital service delivery are detailed below. Debtors' online journey can be broken down into five key stages:

1. Awareness of and access to the digital service
2. First interactions: the landing page of the website
3. Gathering and navigating the information
4. Deciding on a course of action; and
5. Undertaking an application process online.

Awareness of and access to the digital service: Making debtors aware of the Insolvency Service's digital service is a significant challenge given the barriers around awareness, fatalistic attitudes, and lack of engagement with debt. Debtors of that mind-set need to know about the service, to help disrupt and challenge their assumptions – such as by prompting Risk-Takers to reflect on their debt accrual, and encouraging Pessimists to see that debt resolutions are possible, or support is freely available.

The Insolvency Service is not currently associated with information and help. Driving a stronger brand association with support is a crucial first step in encouraging debtors to use an online resource. Furthermore, the Insolvency Service's status as a government body offers reassurance of impartiality. Given the low scope of awareness and debtors' heightened emotions, they are likely to turn to the sources they already know; so signposting from places where debtors already are, (e.g. creditors, the CAB, public services), is important. Finally, making the service prominent in web search results and using search optimisation will help those already seeking help online.

First interactions: the landing page of the website: Once through to the online service, debtors' first experiences on the landing page can determine whether they continue into the site. Given their often heightened emotions and sense of urgency, they are seeking information quickly and easily that targets their own needs. Unless they see this opportunity immediately, they may go elsewhere, especially given preconceptions that official support tends not to be personally relevant.

Early signals to acknowledge their urgency and reassure them on the site's relevance is important. Showing empathy, reassurance and confidence will aid this, as well as clearly signposting to help debtors easily navigate the site and make it feel personalised.

Gathering and navigating the information: When looking at information online, debtors are likely to be sensitive about how it is presented, who it is from, and its relevance to them. Consequently, some debtor types are likely to need reassurances, whether it be of its impartiality, (e.g. for those with low levels of trust of others, such as the Pessimists), or that it presents all the different options available, (for the more Confident debtors).

Across all debtor types, making information feel tailored and personal is crucial, ensuring the site fits different circumstances and helps users access what is most relevant, in an easy and accessible way. The use of 'decision trees' and 'journey prompts' could support this process, as well as the division of information into 'first' and 'second' levels, with clear signposting to the more detailed information. Maintaining a non-judgemental tone and using clear language will also be key. Lastly, supplementing the site with web chat options or signpost to other human support such as the CAB and third parties would provide reassurance for those most in need of extra help.

Deciding on a course of action: Enabling debtors to use information to make decisions can be challenging in a digital setting, especially given the low levels of capability and confidence seen among many of the debtor types discussed in Section 2.1. Whether it be full guidance or just reassurance, debtors are likely to seek support in making decisions perceived to be important, and lack of support at this stage can stall progress in taking a definitive action.

While the site cannot itself provide 'human' reassurance, there are a number of ways in which a digital service can help debtors feel they are emotionally and practically supported. For example, simple ways to determine eligibility for certain options, e.g. information on spare income and assets for a DRO, would be of great practical use. Offering examples of resolved cases, using real life examples, could also help debtors overcome fears of the 'unknown' and give affirmation for their decisions. In some cases, this could also challenge preconceptions, (e.g. bankruptcy only being for businesses). As some debtors may still need additional phone or face to face support to validate choices, clear signposting to intermediaries who can provide this will help debtors feel supported.

Undertaking an application process online: Debtors had mixed reactions to the idea of completing bankruptcy applications online, and the barriers were significant. Bankruptcy was considered both complex and crucial to get right, with fears of serious implications in the event of a mistake. Debtors' lack of confidence meant they strongly felt they would need affirmation, validation, and human interaction to be confident in their application. An online bankruptcy process was also felt to be *"too easy*", relative to the significance of the decision for the debtor, as well as debtors' concerns about data privacy.

Perceived advantages of an online process included the speed, flexibility and convenience, privacy, and avoiding court. To support debtors during an online process, these advantages should be highlighted as well as actively addressing barriers by:

- Clear guidance on what is required
- Reassuring debtors that all information is secure and legitimate
- Links and signposting to 'human' support for those most in need of this support.

3.4 Creditors

Creditors all engaged with their debtors through a range of highly structured systems and processes. Local authorities (LAs), banks, trade creditors and debt purchasers all had dedicated teams and employees within their organisations who were tasked with responding to and dealing with those who were failing to make payments. Smaller organisations, (such as the trade creditor involved in this research), tended to have more flexible processes, whereas larger organisations such as LAs and banks were dealing with so many debtors that, in some cases, processes had been automated in order to cover the workload.

Creditors emphasised that the most difficult debtors for them to deal with were those who refused to engage and ignored contact; the easiest were those who had open channels of communication with debtors, with sufficient information about them to understand their circumstances.

Decision making processes

Most creditors followed a standard, linear process when collecting debts. This process would begin with softer measures: reminder phone calls, letters with information, and (in some cases) signposting to debt advice. Where these measures encouraged a debtor to make contact, the next stage in most creditors' processes was to attempt to negotiate a repayment plan. If these softer measures and negotiation failed, the case would be escalated and enforcement measures would begin: debt collectors and bailiffs would be sent out to visit the debtor. Where a debtor still refused to pay, this was the point at which creditors would begin legal actions: including County Court judgments, bankruptcy, and other legal measures.

These systems and processes tended to be guided by two key priorities: cost-effectiveness and being responsive to the needs of the debtor in question. All creditors emphasised that the point of their debt collection activities was to bring in money for the organisation that it would not otherwise receive, and so having clear processes of escalating measures helped ensure that cheaper options (such as sending letters), were exhausted before more expensive ones (sending out bailiffs), were attempted. Equally, creditors emphasised that their processes were designed to be responsive to debtors – debtors could respond to letters and phone calls in order to enter a conversation with creditors about their needs and capability to repay. More severe measures (such as bailiffs and legal action) were only used against debtors who appeared unwilling to engage. All creditors emphasised that they did their best to be conscious of debtors in circumstances who might be unable to pay, and some had dedicated teams that were able to handle cases where debtors had illnesses or recent changes of circumstances that required special attention.

> *"We're not just making someone bankrupt for bankruptcy's sake – we make sure that if someone does go down that route we know that they have assets, and we will definitely get paid out."*, (Local Authority)

Creditors all identified bankruptcy as a last resort. There were numerous prominent barriers to petitioning: it was costly, took a long time, and produced relatively little yield, (it was noted that some of the money gained through a bankruptcy petition had to go to the Insolvency Practitioner, and to the debtor's other creditors). Smaller organisations felt that it was preferable to wait for other creditors, or the debtor themselves to make the petition first. Many of the creditors were also conscious of their public image, and felt that being known as an organisation that made people bankrupt could potentially have a negative impact on the way they were seen.

For a bankruptcy petition to be pursued, creditors identified a number of 'triggering' factors. Firstly, there had to be a clear sense that the petition would result in sufficient yield to make it worth the cost and time taken to petition. Secondly, a petition could also be triggered in a situation where a debtor had refused all other forms of contact with creditors. Lastly, some creditors spoke of particularly prominent cases in which they had felt it was necessary to 'make an example' of a particular debtor.

Perceptions of the Insolvency Service

All creditors were aware of the Insolvency Service, and most of them had had at least some dealings with them, primarily as a result of the bankruptcy petitioning process. Creditors had had mixed experiences of dealings with the Official Receivers – some creditors had positive interactions, while others saw them as slow and bureaucratic when processing a petition.

The Insolvency Service was not top-of-mind as an organisation for advice or information for creditors, and very rarely a source of information they signposted debtors towards, (usually they signposted to organisations such as StepChange and the National Debtline). A few remembered receiving information packs and leaflets from the Insolvency Service in the past, although this tended not to be recent.

Reactions to the proposals of new digital services that might be offered by the Insolvency Service were broadly positive. The idea of an online service that would allow debtors to declare themselves bankrupt was welcomed: creditors hoped it would reduce the workload of Official Receivers, and help speed up their responses to creditor petitions. However, some creditors were concerned that making this process digital could make it too easy for debtors to declare themselves bankrupt, and wanted to be sure that debtors had received appropriate advice and fully understood the consequences of a petition.

Creditors also largely welcomed the idea of a digital platform that could offer information and notices about relevant bankruptcies, provided that the information available via this service was ‘new’, (such as information about who was applying for bankruptcy, as well as who had been declared bankrupt), and not something that they already had access to.