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Borrowers in Financial Difficulty following the Coronavirus pandemic – Key Findings

November 2022

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1 Executive summary

How the FCA has acted to help customers

1.1 The coronavirus (Covid-19) pandemic had an unprecedented impact on customers throughout the United Kingdom. We acted to help firms and customers manage the financial impact and ensured firms supported their customers who were struggling.

1.2 Guidance for firms to offer payment deferrals was quickly put in place, resulting in 1.8m mortgages and 3.4-4m consumer credit agreements having their payments deferred. Following this, and in recognition of the length of the pandemic and its changing nature, we put in place the Tailored Support Guidance (TSG) for mortgages (MTSG), consumer credit (CTSG) and overdrafts, so those experiencing payment difficulties as a result of circumstances arising out of coronavirus continued to receive appropriate support from their lenders. The TSG is underpinned by our Principles for Businesses (the Principles) and existing rules in the relevant sections of our Handbook, in particular the Mortgages Conduct of Business (MCOB) and Consumer Credit (CONC) sourcebooks.

1.3 We reviewed firms' policies and processes and spoke to them about their implementation of the TSG. We published a report in March 2021 that detailed our findings from this review. Our review at this early stage of firms' implementation of the TSG found that firms had progressed well, acting quickly to build their capacity to support customers. We also identified some risks firms needed to address. To continue this work and ensure firms were meeting the expectations we set out in the TSG and providing tailored help, we launched the Borrowers in Financial Difficulty (BiFD) project in Spring 2021.

Overview of the BiFD project and reports

1.4 The project assessed a range of retail lending products across the whole payment difficulties lifecycle. Firms supporting customers in financial difficulty are likely to be supporting customers who also hold products that were not within scope of this project, such as overdrafts. Many of our findings are likely to be relevant to all firms that support customers in financial difficulty.

1.5 We assessed firms against the existing Handbook standards; specifically the rules and guidance in MCOB 12, 13, CONC 5,6 & 7, Senior Management Arrangements, Systems and Controls (SYSC), Principles 6 & 7, as well as the guidance provided within the TSGs and our Vulnerable Customer Guidance (VCG). Work included:

- **Firm surveys** in which we asked over 400 retail lending firms a series of questions about their approach to borrowers in financial difficulty. We repeated the survey 4 times. We refer to some of the results of these surveys in the findings of this report.
- **Consumer research** which looked at customers' experience of contact and engagement with lenders and debt advice. We published the report on 6 July 2022.

- Four separate pieces of **multi firm work,** where we undertook 69 assessments across a range of 65 firms. These pieces of work covered:
  - Training, competence and oversight of staff and quality assurance (QA) – 19 assessments
  - Debt fees and charges – 13 assessments
  - Customer outcomes – reviewing customer files to assess firms' delivery of forbearance for a sample of individual customers across different sectors – 37 assessments
- A focused piece of work with 25 of the largest UK lenders in December 2021 to understand their ability to cope with a spike in demand for support.

1.6 We published interim findings from our work in January 2022, focusing on the results of our multi firm work on training, competence and oversight of staff and the results from the first 3 waves of the firm survey.

1.7 In June 2022 we published a Dear CEO letter, sent to more than 3,500 lenders. This letter outlined further emerging findings from our work looking at consumer outcomes and reminded firms of the standards they should meet as consumers are affected by the rising cost of living. We also noted that the guidance set out in the TSG is relevant to help customers affected by the cost of living crisis and that firms should provide appropriate tailored support and signpost sources of debt help and money guidance to those in financial difficulty.

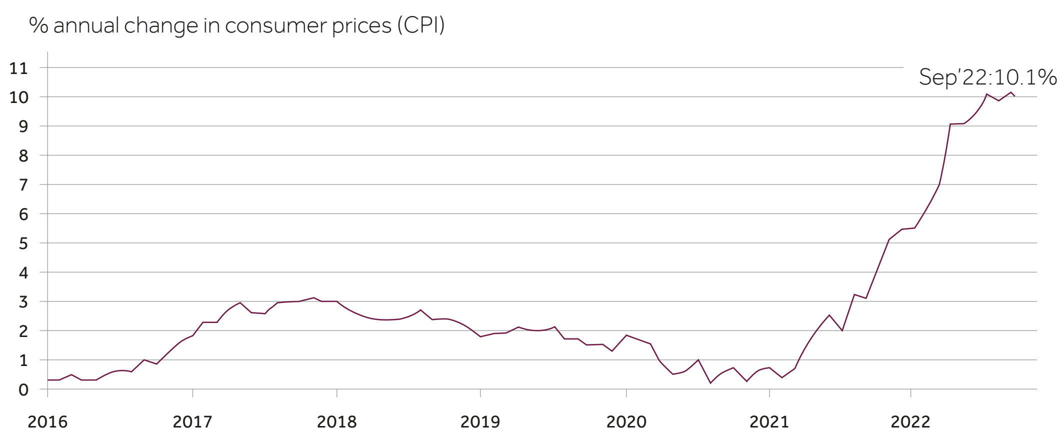
1.8 This, our final report, draws on all the workstreams above.

Economic Background

1.9 Since the pandemic, the economic outlook has been dominated by the cost-of-living rises. Near-term inflationary pressures have intensified significantly due to supply-side disruptions, with inflation rising by 10.1% in the 12 months to September 2022. This has been driven predominantly by Russia's restriction on its supply of gas to Europe and the risk of further curbs.

Inflation reached 10.1% in September 2022

% annual change in consumer prices (CPI)



Source: ONS, CPI annual inflation rate, series D7G7 [19 October 2022 update]

1.10 In response to rising inflation, the Bank of England raised the interest rate to 2.25% on 22 September. Market expectations of the Bank rate are significantly higher over the next 3-5 years, than over the past 3-5 years. High levels of inflation and rising interest rates are likely to impact on the affordability of goods and services for consumers and exacerbates financial difficulties for many borrowers. The squeeze on household real incomes will put increased pressure on household finances.

1.11 Since the announcement of the Energy Price Guarantee in September, the Bank of England project inflation to peak at just under 11% in October. The Bank of England expects that inflation will begin to fall back next year and be close to its target of 2% in around two years.

1.12 The economic outlook remains uncertain, and a greater number of customers are at risk of financial difficulty. Those who were able to pay their debts during the pandemic, in part due to Government support schemes (eg furlough and the Bounce Back Loan Scheme), may now find themselves in financial difficulty and challenges for those already struggling will be exacerbated.

1.13 Against this uncertain economic outlook, the consumer credit industry continues to grow. The Bank of England's Money and Credit statistical release August 2022 shows that the annual growth rate for all consumer credit remained at 7.0% in August; the highest rate since March 2019 (7.2%). The annual growth rate of credit card borrowing was 13 % higher in July – increasing at its fastest annual rate in 17 years. The rise in borrowing despite real wages falling, and consumer confidence being at its lowest suggest that households are borrowing more to maintain living standards.

Summary of our findings

1.14 Our findings are based on work undertaken during and after the pandemic.

1.15 While we have seen examples of firms delivering good outcomes, our 69 assessments of firms have shown that many need to do a lot better. We expect all firms to review these findings, make changes and if necessary, remedy any past failings. We have identified issues across firms in the mortgage and consumer lending markets and these findings are relevant to all firms.

1.16 We have set out our findings in the four key areas we think lenders need to focus on to improve outcomes for borrowers in financial difficulty. These are:

1. engaging with customers
2. effectiveness of conversations with customers
3. helping customers to consider and access money guidance and debt advice
4. fees and charges

1.17 In the report we have included examples of the good and poor practice we observed, along with supporting case studies. The examples of good practices are to help contextualise how firms could approach certain issues but are not intended to be prescriptive. We have provided feedback to individual firms about the poor practice set out in this report and asked firms to address it including taking remedial action where needed.

1.18 At the end of the report, we outline the work we intend to take over the coming months to continue to monitor and assess firms' treatment of borrowers in financial difficulty given the rise in the cost of living.

Firms could do more to encourage customers to engage, particularly when payment issues start to arise

1.19 Effective communication is fundamental to being able to deliver good outcomes for borrowers in financial difficulty. Customers may experience significant uncertainty, stress and anxiety about their financial circumstances. Our consumer research showed that many customers are reluctant to engage with lenders when they are facing financial difficulty. The reasons are broadly categorised as psychological barriers, negative views of lenders in general and misconceptions about the value and impact of contacting lenders.

1.20 When a customer indicates that they are experiencing or reasonably expects to experience payment difficulties, we expect the firm to work with them to resolve those difficulties before payments are missed (TSG 5.9-5.10).

1.21 For customers who had missed a payment, we found some firms did not do enough to engage with them. Firms should be clear that they want to help customers and set the right tone. Firms should also offer to engage with customers in different ways, including through a range of channels (MTSG 5.34, CTSG 5.53), taking into account expectations set out in the VCG for the fair treatment of customers in vulnerable circumstances (FG21/1, Chapter 1).

1.22 We also observed instances where excessive friction or unreasonable barriers resulted in poor outcomes. For example, customers were transferred between multiple departments and agents were not always taking adequate notes, requiring customers to repeat their circumstances. This can result in disengagement (MTSG 5.25, CTSG 5.46). Firms should ensure appropriate records are kept and are accessible to all relevant staff (MTSG 5.27, CTSG 5.48).

1.23 The Consumer Duty sets out further our expectations concerning the existence of unreasonable barriers to firms' provision of support to consumers (FG22/5, 9.25 – 9.27). The duty comes into force for new and existing products that are open to sale (or renewal) at the end of July 2023.

Ineffective discussions can lead to unfair, inappropriate and/or unsustainable forbearance arrangements

1.24 To meet the FCA's expectations and to deliver good outcomes, firms should engage effectively with customers to ensure they have a sufficient understanding of their personal and financial circumstances, including any characteristics of vulnerability.

1.25 Firms should consider a range of forbearance options (MTSG 5.12-5.17, CTSG 5.12-5.19) to support customers with different needs and circumstances. We observed that the most common forbearance option used was an arrangement to pay. We did not see much use of additional options, for example reducing the interest rate or making more structural changes to customers' arrangements, such as agreeing term extensions or periods of time paying interest-only. Firms generally did not demonstrate that they considered or took account of how circumstances may change for individual customers over time. This could affect the choice of forbearance option.

1.26 To enable effective discussions and to provide tailored support, it is critical that staff receive appropriate training. This is to ensure that they are competent and capable of having knowledgeable conversations which lead to fair, appropriate, and sustainable solutions for customers. This training needs to be on an on-going basis. We found that in some firms training plans were not applied effectively.

1.27 To assess whether discussions are effective and whether good outcomes are being achieved, firms should consider whether to adopt a quality assurance approach that reviews the end-to-end process, rather than focusing on individual interactions in isolation (MTSG 5.40, CTSG 5.62). We believe that a deeper insight into the customer experience will help to ensure that firms learn lessons, adapt and improve their approaches quickly.

1.28 Oversight arrangements must be in place, and where failings are identified these need to be addressed. We found many examples of a lack of oversight or control by firms, which may have resulted in poor customer outcomes.

Inadequate signposting and communication of the availability of independent, not-for-profit debt advice and the benefits this might have

1.29 We expect firms to help customers understand what types of debt advice or money guidance are available. They can do this by signposting or referring customers to appropriate sources of guidance (MTSG 8.2-8.7, CTSG 7.2-7.7).

1.30 While we found that most firms informed customers of sources of debt advice and guidance through their written and/or online communications, we found most missed opportunities to highlight the benefit of these services in telephone conversations. Linking this to our findings on training suggests that how and when agents highlight this important assistance depends on the agent's experience and training. Some consumer credit/mortgage firms engaged debt advice firms to inform and train their agents on how debt advice can help borrowers in difficulty.

Fees and charges may be applied to customer accounts inappropriately and this, along with unpaid interest accruing, may result in escalating balances

1.31 Fees and charges for those in arrears or payment shortfall should be applied fairly and only reflect the reasonable costs firms incur (MCOB 12.4.1 and CONC 7.7.5). We found a wide variance across all the firms we surveyed in the amount they charge for the same type of fee, as well as the number of times different fees could be charged. We found that firms typically charge borrowers in financial difficulty higher fees and charges for mortgages than for credit, for most fee types. This includes firms which provide both mortgage products and credit.

1.32 Firms should consider carefully their rationale for charging fees, focusing particularly on the impact this has on customers and whether fee charging is fair and cost reflective.

1.33 Firms also need to consider the impact of any fees charged upon shortfall balances. Where such fees are not paid and they consequently attract interest, outstanding balances will escalate.

What firms should do on reading this report

1.34 We want firms to consider the contents of this report and take immediate action where necessary to ensure that firms are well placed to support customers now, and as the situation becomes more challenging in the months ahead. In summary, firms should focus on the following areas:

- encouraging and facilitating customer engagement
- sufficiently resourcing their operations and ensuring staff are well trained and experienced
- providing appropriately tailored forbearance solutions to customers, which take account of their individual circumstances
- ensuring effective management oversight and quality assurance of forbearance processes and the customer outcomes achieved
- making customers aware of (and helping them to access) money guidance and/or not-for-profit debt advice
- ensuring that fees and charges for those in arrears or payment shortfall are applied fairly and only reflect reasonable costs incurred

Summary of outcomes for firms and what the FCA will do next

1.35 All firms included in our review have received specific feedback on our findings. As we set out below, we are working with a number of firms to address the issues we have found and this includes the specific examples of poor practice included within this report.

1.36 The following is a summary of action we and firms in the sample have taken, to date, in response to our findings:

- We have identified areas for improvement across all firms. 32 out of 65 firms have been asked to make material and significant changes to their processes.
- Of these, 25 firms have made changes based on our feedback or their own assessments and 1 firm has exited the market. We are continuing to engage with the remaining 6 firms on the detail of changes they need to make.
- Of the 32 firms asked to make material and significant changes, 12 firms have been asked to undertake past business reviews to date, or a similar review of the treatment of borrowers in financial difficulty had already been initiated by the firm independently of our feedback.
- All 12 of the above firms have appointed third parties to assist with their past business review or assess their forbearance policies and procedures.
- So far 7 of the 32 firms asked to make material and significant changes have provided remediation to customers. This is either following our reviews or through wider pieces of work being initiated within the firm on the treatment of borrowers in financial difficulty.
- At the time of writing, these 7 firms have estimated that they need to provide £12.38 million in remediation to 59,491 customers.

1.37 The FCA strategy includes our commitment for setting and testing higher standards to put consumers' needs first and to ensure that consumer credit markets work well in line with this commitment.

1.38 Combined with greater vulnerability among consumers due to the pandemic, the cost of living rises may drive greater demand for a range of credit products. Consumers will also increasingly look for new ways to manage and make more of their money. One of our statutory objectives is to secure an appropriate degree of protection for consumers.

1.39 As the cost of living continues to rise, we expect that more customers will need support from their lenders. Further, as part of our focus on improving the quality of services that firms offer, we will continue to test the way in which firms are supporting borrowers in financial difficulty. We intend to do this by collecting and reviewing data from firms on the outcomes for consumers. We will identify firms who have a higher concentration of customers who may be at risk of financial difficulty over the coming months, as well as firms whose outcomes, when compared to their peers, suggest that they may not be delivering the support we expect. We will take robust action where we identify firms who are delivering poor customer outcomes.

1.40 We plan to consult on the future of the TSG, and that may include proposing changes to our Handbook.

2 Detailed findings

Firms could do more to encourage customers to engage

2.1 Ineffective engagement is a key barrier to customers achieving good outcomes. In this section we discuss our findings in the following areas:

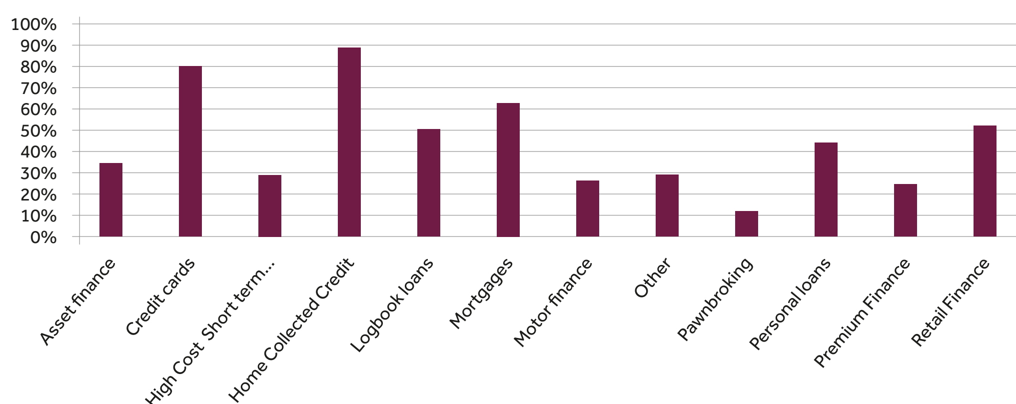
- engagement with customers before they miss a payment
- engagement with customers after missing a payment

Engagement with customers before they miss a payment

2.2 Our rules require that firms offering credit cards and revolving credit undertake proactive monitoring of customer accounts and other relevant information to identify signs of actual or possible financial difficulties. Credit firms' obligations to monitor customer repayment records are set out in CONC 6.7.2R and CONC 6.7.3AR.

2.3 Our firm survey highlighted the extent to which different groups of firms are monitoring, via internal risk modelling, those customers who are susceptible to financial difficulty and proactively communicating with them about the ways in which they can help in providing forbearance. There is no explicit requirement for mortgage firms to monitor customers in this way, although 63% of mortgage firms responding to our firm survey said that they did so.

Percentage of firms monitoring customers susceptible to financial difficulty



* Base: 509 firms in sample with 234 firms monitoring pre-arrears, July 2021

2.4 Firms advised that the types of monitoring and activity they have undertaken includes:

- Reviewing a range of payment data and recent customer interactions for
  - customers who have missed payments
  - customers who have made partial payments
  - customers who have not made any payments

- Amendments to bank accounts and payment sources.
- Use of credit bureau data to identify stressed accounts and perform stress tests on a range of economic scenarios.

2.5 For both credit and mortgage firms, where a customer indicates they have payment difficulties before they miss a payment, firms should treat them fairly and work with them to resolve the difficulties before payments are missed, in accordance with MTSG 3.3 and CTSG 3.4. In July 2021, over 77% of firms told us they offer some form of support and forbearance to customers who are up to date with their credit commitments but who worry they will fall behind.

2.6 Firms told us that for customers who are at risk of financial difficulties, but who haven't yet missed payments, they offered a range of options from those listed below:

- referrals to money advice or another not-for-profit debt advice service
- reduced interest rate, including switching from a standard variable rate mortgage to a fixed rate
- temporary switch to interest-only
- term extensions or spreading payments differently
- delayed payment
- waiving interest and charges
- other payment concessions

2.7 These customers included those which firms had proactively identified, and those where customers had indicated to firms that they were in payment difficulties (or expected to be).

2.8 The majority of customers' files we reviewed during our work had already missed payments. From a review of the small number of files where customers had contacted their lender before missing payments, we did not see any evidence that all the above options were being considered by firms. We only saw evidence of consideration of the following:

- agreement for interest to be waived while the customer was seeking debt advice
- delaying payment until the end of the month

2.9 We observed some poor practice when customers had contacted firms ahead of missing payments. This included some firms who did not signpost customers to not-for-profit debt advice at an early stage when it would have been appropriate to do so. We also saw in some cases that firms did not clearly explain the impacts of customers missing payments, particularly in terms of their credit files. An example of this is:

Case Study – Example of not clearly explaining the impact of missed payments

A customer phoned before missing a payment to discuss their options. They had been made redundant but had found a new job and needed some support. The agent went through 3 payment options, which appeared appropriate for the customer's current circumstances. While the range of forbearance options offered was positive, the agent gave a confusing explanation of these options and further advised that if they chose one of these options, it would be reflected in their credit file. The agent did not explain that any missed payment would be recorded in their credit file too. The customer decided not to progress and then fell into arrears not long after.

Engagement with customers when payments have already been missed

2.10 Our consumer research showed that in total only 32% of the sample of borrowers in financial difficulty recalled having any contact with their lenders.

2.11 This suggests that there is more that firms could do to encourage their customers to engage with them once they have missed payments. For example, the messages sent to customers do not always make it clear that firms are contacting them to help. Clearly if customers do not engage with their lenders then any help that can be provided, such as temporary payment arrangements or signposting to free debt advice, will not be possible. Firms should use their communication channels, including digital channels, to proactively tell consumers about the support available. They should encourage them to articulate their needs, what support would help them, and take these into account (CTSG 5.56 and MTSG 5.38).

2.12 Our consumer research shows that one clear barrier to engagement is that 40% of respondents believe that their credit file will be affected if they contact their lender. Firms should be clearer with their customers that just talking to them will not affect their credit file or credit score.

2.13 The consumer research also found that 42% of borrowers who were struggling ignored their lenders' attempt to contact them because they felt ashamed. 32% stated that they knew they needed to take action but "hadn't been able to face it yet". Participants felt that better education on the risks of not making contact, and the benefits of contact, may lead them to seek support from their lenders. They felt that a variety of contact methods should be available from lenders and that this would further encourage them to make contact.

2.14 We identified issues with the way in which firms engage with customers at 19 out of 36 firms in our review. We saw some firms made it more difficult for customers to engage due to operational issues and barriers, leading to delays in support being provided and customers disengaging. Firms should consider the examples set out below:

The use of different communication channels

2.15 Our consumer research found that telephone was the most popular method used by borrowers in financial difficulty to contact their lender as they saw it as more immediate, "more human" and easier to discuss complex situations compared with digital methods.

2.16 We saw examples where some firms would not make outbound calls or prevented customers calling them. Some firms would only accept emails or, conversely, did not offer this as a communication channel at all. Firms should offer to engage with customers in different ways including through a range of channels and, where possible, provide the ability to switch between them (MTSG 5.34, CTSG 5.53).

2.17 We also saw good examples of agents adapting to individual customer circumstances for example switching communications channels to meet the needs of a customer with characteristics of vulnerability.

The requirement to provide supporting documentation

2.18 We found that some firms required customers to complete a firm-specific income and expenditure (I&E) form or provide documents such as bank statements or medical records before setting up and formalising any forbearance arrangement. We also

saw examples where firms did not re-contact those customers who did not provide documentation to assess whether they still required forbearance.

2.19 In some cases, we saw customers who had agreed an offer to pay but who continued to be charged fees by their lender until they returned certain forms or documents. We note that MCOB 13 and CONC 7.3 do not require evidence to be provided in writing. The imposition of a charge for a payment shortfall on a customer who is adhering to an arrangement may be relied upon as tending to show a contravention of MCOB 12.4.1R (MCOB 12.4.1AE). Therefore, we would not expect such customers to incur further fees and charges while they source documents.

2.20 In some cases, documents had to be submitted via a particular channel e.g. through the post or by email with little flexibility offered. Some customers, including those with characteristics of vulnerability, may need more flexibility to meet their needs than we observed in practice (MTSG 5.33, CTSG 5.52).

2.21 We saw examples where customers could not provide requested documentation as the lender's offices were closed during lockdown. This caused delays to customers being granted forbearance or other support. Others struggled because of lack of access to technology.

Case Study – Example of delays to forbearance caused by a lack of flexibility

In a call with a customer, the firm asked for bank statements in pdf form to corroborate I&E information so they could put the customer into a plan and stop interest accruing. However, the customer was unable to get pdf statements on their mobile and they only had mobile banking not online banking. The agent followed up the call with an email about how to access online banking and how to then download pdfs which would have required access to a computer and printer. No forbearance plan was set up and the interest kept accruing. This customer's balance started to escalate as a payment plan could not be put in place until the documents were sent to the firm in the prescribed format.

2.22 Other firms in our sample were using technology well to keep customers engaged. For example, one retail finance firm is currently developing a link so that customers will be able to easily access and complete an I&E form online and upload supporting documents using their phone. Customers will no longer have to complete and return a hard copy and will not need to have the IT skills or access to a computer to edit a PDF online.

Repeated contact from firms with non-tailored or unsupportive messages

2.23 Outside of statutory arrears notices, we observed examples of customers being contacted multiple times with standard, non-tailored or unsupportive messages, even when they had a forbearance plan in place. Firms' written communications in response to emails is often template text with minimal tailoring, making it difficult for customers to understand the action they need to take and what is likely to happen when they get in touch with a firm, both of which may lessen uncertainty and anxiety. We also saw emails and letters sent to customers with demands for action that could appear intimidating, and a communication strategy which did not suit the customer's circumstances. We expect firms to set the right tone in communications to encourage customers to contact the firm and that they take reasonable steps to contact customers at a suitable time. An example of repeated non-tailored contact is below:

Case Study – Example of repeated non-tailored contact

The firm contacted their customer by phone. A family member who took the call explained that they were taking legal steps to act on the customer's behalf. Over the following weeks the firm made repeated calls concerning the account. The customer's circumstances did not appear to have been noted nor did the firm consider a more appropriate time to call again. During one call, the customer's representative said that they had received 10 calls over a 4-day period.
The firm eventually acknowledged the situation and placed restrictions on communications to prevent all but mandatory documents being sent while the legal process was addressed. The customer's representatives became reluctant to speak to the firm, a situation which might have been avoided if the firm had addressed this sooner.

2.24 This case study highlights that repeated non-tailored communications were counter-productive to customer engagement.

2.25 Better firms' communications set out the benefits of engagement including:

- personalised information on the customer's position
- forbearance options that might be available to help
- what the firm can do to help bring the customer's agreement up to date if they engage early

Customers repeating their circumstances

2.26 It is important that firms enable agents to keep, and subsequently refer to, clear records of interactions with consumers, including their individual circumstances and any judgements made, to give consumers continuity and support (MTSG 5.27, CTSG 5.48). SYSC 9.1.1R also sets out firms' record keeping obligations in order to evidence that the firm is complying with its obligations.

2.27 Agents did not always take adequate notes on their files, leading customers to have to repeat their circumstances. We also found examples where customers with multiple product holdings with a single firm had to follow separate processes for each product. This unnecessarily lengthened the time needed to receive support and meant the customer needed to repeat the same information to different staff or departments. Where some product operations were outsourced, systems were not linked sufficiently for customer information to be shared, which made it more difficult to access records.

2.28 Recording information accurately is also important to firms. Agents continually having to re-take information is inefficient and creates potential cost implications for firms, as well as the negative impacts on customers.

Poor customer service

2.29 Customers at some firms were being left on hold for long periods of time. We also saw many examples where customers were regularly moved between teams and transferred on multiple occasions. For example:

Case studies – Examples of poor customer service

One customer was transferred 8 times over 1.5 hours, and their question was still not answered, and, at one point, they were transferred back to the agent they originally spoke to.

After discussing their payment difficulty with collections staff, where a payment deferral (PD) was identified as a possible solution, customers then needed to either email or call a separate department. This caused unnecessary delays. One customer stated that they had sent an email to the relevant department, but they had not replied. When they tried to call, they were advised of a 2 hour wait time. Another customer was transferred to the PD department while on a call with collections but was advised they could not have one as they had already had 6 months of PDs. This information was not available to the collections department before transferring the customer. The PD department said that there was 'nothing they can do to help' and the customer wasn't given the opportunity to discuss further alternatives.

2.30 In one firm, when customers needed to speak to someone in a different team, they were expected to contact the different team themselves.

2.31 The Consumer Duty, due to come into force next July, sets out our expectations on firms providing support that meets their customers' needs. Firms will need to consider their call waiting times and make sure that the support they provide is effective, regardless of the channel used to provide support (FG22/5, 9.6 and 9.7).

2.32 Our consumer research captured the impact that staff can have on borrowers who are in difficulty if they do not engage customers appropriately. Comments from participants included:

- *'You can tell they're not really interested in you and your circumstances; she was knowledgeable but not supportive.'*
- *'There's no empathy or personality. It's just ticking boxes. You feel so judged. There's no way of helping you. I get that they don't have to care, but there is a real person behind it. The country is crippled by mental health.'*

2.33 We also saw examples where the firm's systems acted as a barrier to good outcomes for example:

Case Study – Example of firms' systems acting as a barrier to good outcomes

At one firm, customers were prevented from making payments towards their mortgage using the automated phone system while in arrears and not in a payment arrangement. One customer had been trying to make payments (to bring the account up to date while not in an arrangement) using the automated system but was unable to, resulting in late payment charges being added to their account.

Use of scripts

2.34 We know it can sometimes be challenging for agents to have in-depth conversations to understand the causes of financial problems, the impact on income and expenditure

and to determine an appropriate solution and outcome for the customer. But firms can act to help their staff and customers interact effectively and cover adequately the appropriate elements of a conversation about forbearance.

2.35 Firms sometimes try to help their staff by providing scripts for staff to follow. However, during our assessment of phone calls, in some cases it appeared that staff were following scripts rigidly and that they appeared to lack the skills and confidence to deviate away from them. While scripts may be useful to ensure that customers are informed of important information and that conversations are consistent, they are not a replacement for comprehensive training programmes. We found that they can lead to staff not always listening to the customer or being able to adapt the conversation to help them. This led to examples where we found customers being asked to repeat information which had already been provided and to phone calls which took a long time.

Case Studies – Example of poor use of scripts

At one firm we saw example of agents having to read out lengthy scripts covering a range of topics, some of which seemed to have no relevance to the customer. This meant that the customer became confused and that helpful advice was possibly lost among lengthy scripted passages. On some calls, agents apologised before reading out scripted passages which meant immediately that customers were likely to discount any value in the content.

We also saw an example of a firm using a scripted process to identify the most appropriate forbearance solution which led to poor customer outcomes. For example, in one case we saw debt being defaulted when a customer had savings with which to make payments because this was not covered by the scripted process.

2.36 As we make clear in Principle 7 'a firm must pay due regard to the information needs of its clients and communicate information to them in a way which is clear, fair and not misleading'. Consequently, we expect firms to consider if and how staff use any scripts to ensure that discussions are clear and helpful.

Ineffective discussions can lead to unfair, inappropriate and/or unsustainable forbearance

2.37 Firms need to have effective discussions with customers. These discussions should ensure that firms sufficiently understand a customer's circumstances to be able to deliver appropriate and tailored support.

2.38 In this section we discuss our findings in the following areas:

- understanding customer circumstances
- assessing the affordability of different payment options
- range of forbearance options used
- customers with characteristics of vulnerability

- staff training, skill and experience
- quality assurance and oversight

Understanding customer circumstances

2.39 In our sample of 50 assessments, and across both the mortgage and credit sectors, the focus of the discussion between the firm and the customer, was too often on asking customers how much they could pay. Firms often moved to this before exploring or collecting information on the customer's circumstances.

2.40 Out of our sample of firms where we reviewed files, only 15 assessments out of 50 (30%) sufficiently explored and responded appropriately to customer circumstances over the period of our review.

2.41 The following example is typical of what we saw during our reviews of customer files.

Case Study – Typical example of approach to understanding customer circumstances

A customer called the firm to discuss their loan. The customer was on long term maternity leave but was keen to resume payments. Despite the customer explaining that they 'don't really have anything coming in' and would not be earning for a further few months, the agent asked when and how much they could pay. The customer suggested an amount which was accepted without any assessment of affordability or sustainability. The plan was set up for four months.

2.42 In this case the firm did not take the time to explore the customer's circumstances. They did not demonstrate any recognition that the customer had said that they didn't have 'anything coming in' or explore whether and how the customer could pay the amount proposed. Whilst the customer did actually maintain payments during the agreed period, no further payments have been made to clear the remaining arrears since the plan ended.

2.43 In some cases, firms asked a few questions about a customer's situation but then did not explore this further to understand the root cause of their problems. For example, we observed customers stating that they or their partner had been in hospital, but this was not followed up by agents with any questions about the impact of this on their financial circumstances. For those in more complex situations, such as self-employed customers or those with zero hours contracts, agents need to consider how to achieve sustainable arrangements when the income is variable. Below is an example of a firm not fully understanding a customer's circumstances:

Case Study – Example of a firm not fully understanding a customer's circumstances

A customer contacted the firm before missing a payment to advise that they had lost their job and would not be able to make the next minimum repayment on their credit card. They offered to pay a percentage of the minimum payment instead. The agent established that the customer had a negative disposable

income and was short of what they needed to live on. Following a heavily scripted process, the agent suggested that the best course of action would be to cancel the card and pass the debt to a third party to manage a repayment plan. No further questions were asked to understand the customer's circumstances nor alternative support suggested. The customer was not signposted to debt advice, which may have helped them to rearrange their finances before going into arrears. The account was closed and a default letter sent with the outstanding balance passed to a Debt Collection Agency (DCA). The DCA were able to establish early on that the customer had savings which he could use to make partial payments. This arrangement could have been agreed with the firm without the need to default and unnecessarily affect the customer's credit score.

2.44 We did see some positive examples where agents explored customer circumstances more fully and took time to understand the customer's situation.

Case Study – Good example of a firm exploring a customer's circumstances

This customer had missed a payment as they had been unable to work. The customer wanted to make up the payment as quickly as possible and offered to make a double payment the following month. The agent appropriately asked the customer if making a double payment would be affordable. The customer confirmed that it would be. The agent continued to probe the customer's circumstances, including further detail on the reasons for the missed payment, the customer's new income and expenditure and whether they had other outstanding debts. This further probing highlighted that the customer would not be able to afford 2 payments in one go and the agent suggested spreading the arrears over 3 months so that the repayment amounts were affordable. The agent also moved the payment date to fit in with the customer's next pay date. The customer agreed and was very grateful for the agent's help.

2.45 In some firms, customers regularly spoke to the same agents which enabled agents to build up a good understanding of these customers' circumstances.

2.46 A good understanding of a customer's circumstances includes a knowledge of:

- the reason for missed payments
- the current situation including the customer's financial position
- when, or if, this is likely to change

2.47 Building this picture is important in ensuring that firms can consider and discuss appropriate forbearance solutions with customers. A good understanding will also enable firms to identity vulnerabilities (FG21/1, 3.11 ,3.14) and what additional support a customer might benefit from, for example, debt advice, budgeting tools, advice on maximising their income or other support. We observed that some customers were able to rectify their position when given this support. As increases to the cost of living continue, it is important that firms help customers to access specialist debt advice.

Assessment of whether forbearance solutions are affordable

2.48 As noted above across both the mortgage and credit sector, arrangements to pay were often customer-led and based upon what the customer said they could pay, with little evidence that the customer was aware of other options. Further, the extent to which firms assessed whether these were affordable varied. Some firms did not probe further and just accepted the customer's offer. Others committed to undertaking detailed income and expenditure (I&E) assessments either during conversations or asking customers to complete these separately.

2.49 507 firms responded to the question in our July 2021 firm survey to explain how they considered customer's financial circumstances. In their narrative responses, firms told us that they often flexed their approach depending on the circumstances. Firms typically said that they attempted some or all of the time to gather income and expenditure information via their own process or standard financial statements (SFS).

2.50 Firms noted however that despite having a policy to gather income and expenditure information, there were some circumstances where they would accept the customer's offer without gathering information around their financial circumstances. These included:

- where the period of financial difficulty was relatively short and customers could pay the arrears back over a very short period
- where there had never been any prior history of arrears
- where the customer confirmed they could cover essential expenditure and priority bills
- where the nature and structure of the product meant that the impact of being in arrears was relatively low

2.51 From our review of customer files, we found that in general firms could do more to fully understand customer circumstances to be able to provide appropriate support, including referring customers to debt advice where appropriate.

2.52 In our file reviews, we found areas where firms could improve in the assessment of whether forbearance solutions are affordable. Examples include the following:

Limited review of financial information

2.53 From 9 assessments of mortgage firms, we found 5 offered arrangements to pay without fully exploring whether these are appropriate, affordable, and the best option for the customer's circumstances and 21 out of 28 consumer credit firms also did the same.

2.54 Firms often agreed payment arrangements based upon a brief understanding of what the customer said they could afford, with limited probing. This often resulted in customers suggesting unaffordable payments, especially if their current circumstances meant they were struggling to understand or take in information (FG21/1, 4.63).

Focus on specific limited questions to confirm affordability

2.55 Many firms limited their probing about their customers' financial position to asking if they were up to date on their priority bills. They did not undertake further exploration of whether the customer had other debts or could afford the offered amount. It is also not clear whether customers always understood this question.

Lack of, or late discussion of, I&E forms or bank statements

2.56 Some firms asked customers to complete I&E forms and to provide bank statements, but information from these was then not discussed or explored with the customer. Some firms had separate teams to review I&E forms which made the process very disjointed with agents being relayed questions to ask with little context. Some firms only explored a customer's financial position or completed an I&E assessment after the customer had broken repeated arrangements. The CTSG sets out our expectations for credit firms assessing income and expenditure (CTSG 5.31 – 5.35).

Repeat I&E assessments

2.57 We saw some cases where I&E assessments were re-done and adjusted so that the customer's disposable income correlated with the customer's view of what they could afford to pay. It appeared that agents were trying to do the right thing for customers by discussing expenditure categories and arriving at a level of disposable income which the customer felt was reasonable. However, occasionally different expenditure figures were revisited multiple times to manipulate them into generating the disposable income the customer was comfortable with, with the knowledge that the system would then use part or all of this figure to calculate an arrangement to pay.

Not using the results of an I&E to inform the forbearance arrangement

2.58 We saw cases where there was little exploration or further probing if the disposable income figure did not tally with information the firm was given by the customer about what they could afford to pay. In some cases, the results of the I&E assessment were ignored and even when it was clear the customer had no disposable income to make any payments towards their debts, arrangements to pay were still agreed.

Lack of understanding of I&E information

2.59 We saw cases where staff struggled to understand the financial circumstances of self-employed customers.

Inappropriate use of I&E

2.60 In some cases, an I&E assessment seemed to be used as a tool to encourage customers to make or increase an offer of payment – eg '*if you can't make a payment offer or a high enough offer, we'll have to review your I&E'*.

2.61 We have included three credit case studies below which illustrate some of these points:

Case Studies – Examples of poor assessment of affordability

During one call, the customer contacted the firm and explained that their arrears had accrued due to exceptional circumstances, and that they had applied for universal credit. The account was placed on hold. The customer was then asked what they could afford to start paying towards the arrears. The customer offered to make 2 payments. The only assessment of affordability by the agent was to ask the customer if this was affordable and if it affected any priority bills. The plan was arranged which then failed. Despite explaining that they had been having some issues, further arrangements were put in place, without discussing income and expenditure. All these arrangements failed.

A customer, unemployed for several months, continued to pay their loan from savings. When unable to maintain the full payment, the customer contacted the firm to discuss their circumstances. The agent asked if their 'priority outgoings'

were up to date, the customer confirmed they were and offered a monthly amount to clear the debt. The agent established that the customer's only income was a Personal Independence Payment. The customer failed to maintain the arrangement and the account was terminated. Weeks later an offer of a lower amount from a debt recovery firm was received to clear the debt. In this case the payment offer from the customer was accepted on the basis that the priority outgoings were being maintained. Neither the customer's financial or personal circumstances were explored and the agent ignored the contradictory indicators that the offer was not affordable or sustainable.

During a call the customer was asked what they thought was an affordable amount. The customer stated that the contractual monthly payment amount was already stretching them financially. They completed an I&E assessment, mentioning various other debts, including a debt management plan. A disposable income was calculated, however the agent appeared to question and encourage the customer to decrease some of the financial outgoings they had quoted to increase the disposable income. This amount didn't allow for the 'emergency buffer' that was usually left on a customer's budget and the agent made an adjustment on the system to override this. This led to continued failure to meet the arrangements to pay.

2.62 Firms should assess whether a repayment arrangement is sustainable on the basis of an objective assessment of income and expenditure (CTSG 5.31-5.35).

2.63 We saw some firms using Open Banking to establish financial circumstances. But we saw very little explanation given to customers on what the technology was used for and how customer data would be accessed. At one firm, a link was sent to customers with no explanation and customers queried why they needed to provide their internet banking passwords. Open Banking may support operational effectiveness and reduce the amount of time agents and customers need to spend on each call reviewing I&E forms. Customers should be given a choice as to whether to use Open Banking to provide financial information. Firms should also not assume that the use of Open Banking means they have discharged their responsibilities to explore customer circumstances.

2.64 At a small number of firms, we have seen money taken from a customer's account under a continuous payment authority (CPA). At one of these firms which used Open Banking to identify when the customers had available funds, the firm had taken all the arrears outstanding in a single payment without any understanding of whether this was affordable. See the case study below:

Case Study – Example of poor use of CPA

Despite the customer making the firm aware that they were seeking support from a debt charity, the firm used its CPA to take payments. This left the customer overdrawn and unable to pay their priority bills. The following month, the CPA also took the money that a family member had lent them to pay their rent arrears. The customer called the firm to complain, and the money was returned. The CPA payments were taken at the weekend, seemingly without notice, leaving the customer distressed and anxious.

Use of different forbearance options

2.65 Firms should consider a range of forbearance options (MTSG 5.12-5.17, CTSG 5.12-5.19) to support customers with different needs and circumstances.

2.66 Relevant considerations of a customer's circumstances will often include the root cause of their payment difficulty and their current and future ability to pay. For example, a customer suffering a temporary income shock might first benefit from some form of temporary payment concession. A customer's ability to pay may change over time with their future ability to pay becoming clearer. If and when the root cause of their financial difficulty can be addressed, they may be able to get back on track and start to make full monthly payments once more. At some point they may be able to afford to pay more to reduce any shortfall that has accrued. It is important that firms' review arrangements on a regular basis and revise them as necessary.

2.67 As customers' longer-term positions become clear, some may benefit from a more structural change or variation to their contracts to reduce their payments to an affordable level. This may help support customers at the outset, for example if the root cause of their payment difficulty is the rising cost of living rather than due to a temporary loss of income. Or a structural change may be appropriate later once the root cause of their difficulty is addressed. This might take the form of a term extension or conversion to interest-only for example, or an interest rate reduction.

2.68 We did not generally see much evidence of such considerations, or the use of a range of forbearance options to respond to differing customer needs and circumstances. Firms generally did not demonstrate that they considered or took account of how circumstances may change for individual customers over time.

2.69 Our firm survey showed that between July and December 2021, arrangements to pay were the most common payment option used to support customers in financial difficulty. This is not surprising but it is worth noting that other options could include firms reducing the interest rate or making more structural changes to customers' arrangements such as agreeing term extensions or periods of time paying interest-only. The average duration of the payment arrangement was 2 to 3 months. Arrangements could be for more than or less than the contractual monthly payment (CMI).

2.70 In most cases, mortgage firms made arrangements for customers in payment shortfall to pay more than the contractual payment. We asked 4 mortgage firms, whose customer base is predominantly sub-prime (by which we mean borrowers with a poor credit history), for data on the types of forbearance they gave their borrowers over 12 months from April 2021. We found that 83% of customers who were in arrears agreed an arrangement to pay CMI+. We also asked the same firms how frequently all arrangements failed to be maintained by the borrower. We defined failure as where the borrower fails to pay the agreed sum due either in full or part by the due date *OR* where the firm chooses to withdraw a concession, due to the borrower failing to make the payment agreed. Over the same 12 month period just under half (48%) of the CMI+ arrangements failed.

2.71 We are concerned that some firms are setting arrangements which large numbers of customers are unable to maintain. This suggests that the focus of arrangements is to collect payments in the short term rather than to agree sustainable forbearance arrangements through the full range of help available within a firm's range of solutions. This is unlikely to be in the best interests of the customer.

2.72 For the credit firms we reviewed, again we found that the range of forbearance options discussed with and offered to customers is very limited. Arrangements to pay, including zero and token payments, were the most frequently agreed. We rarely saw other forms of support, such as interest rate reductions or write offs, being considered. Changes to interest rates were generally only made once a customer was in an arrangement to pay.

2.73 While these arrangements may have been an appropriate outcome for some customers, it was often difficult to assess and confirm this given the lack of information about the customer's individual circumstances. In the cases we reviewed, firms did not clearly justify why the decision to offer a particular option was appropriate, show evidence that other options were considered or explain why they were dismissed.

Case Studies – Examples of firms not considering a range of forbearance options

Joint mortgage holders contacted their firm early in the pandemic as both were affected by furlough and reduced hours. They had been in an arrangement but wanted further help due to their lost incomes. While the firm completed an I&E assessment which established that they couldn't afford the existing arrangement, the agent said that they would still accept the payments at the agreed level. The customers made contact again as they were still unable to afford payments. However, the firm insisted that the agreed payment continued to be paid which caused the customers to borrow from family members. Shortly after the next payment was made the firm contacted them again, demanding an additional payment towards the arrears. Despite the clear financial difficulty and potential vulnerabilities caused by Covid, the firm did not consider any alternative approach or explore the customers' circumstances.

In this case it is clear that the firm should have considered alternative options once it became apparent that the customers were unable to continue with the arrangement.

The customer, in retirement and receiving state pension only, had been in arrears for over 12 months. During this time, they had continually failed to keep up to date with a weekly payment arrangement, and their balance escalated before they finally defaulted. Multiple calls had taken place in which the customer suggested they were struggling financially and were behind with priority bills. The only option to pay ever presented was to try and make up any recently missed payments and continue paying the agreed weekly amount. In another call, the customer advised that they were struggling financially and were in arrears on their utilities. The customer asked for the phone number for National Debt Line. The agent gave the number but then immediately asked for payment. There was no exploration of the customer's circumstances, no informal breathing space was offered and the weekly arrangement was reinstated.

A self-employed customer had a serious accident resulting in a substantial reduction in their income. They were provided with a temporary switch to interest-only and were benefitting from a fixed interest rate which allowed them to maintain their payments until the start of 2020, when their fixed rate period ended. The customer explained clearly that their income alone did not allow them to switch back to repayment and increase the interest rate but the firm refused to

consider whether they could provide further help. The firm gave no consideration to whether a more suitable forbearance option, such as a term extension or the continuation of the interest-only concession and a new fixed interest rate, could be suitable. Although the firm knew about the issues and that the problems were long-term, we saw no change in the firm's approach to the options offered. The firm continued to request unaffordable payments from the customer which the file review showed clearly caused distress. The customer had to repeatedly explain the situation whenever they made contact with the firm. The firm did not put any suitable forbearance arrangements in place to support the customer whilst the customer's income was reduced. In addition, as no formal option was put in place for the customer, the firm continued to charge fees, further compounding the customer's financial difficulties.

Payment deferrals

2.74 We further identified some examples of failings in the implementation of our payment deferral guidance which may have caused poor consumer outcomes. This includes failing to offer payment deferrals to eligible customers and operational / technological failures which resulted in payment deferrals not being processed. There were also long delays in implementing payment deferrals at some firms. This meant that some customers missed payments while they were waiting for payment deferrals to be given. Where firms have experienced payment deferral issues, we expect them to ensure that any issues have been resolved to address customer harm. If there is uncertainty or concern here, firms should look to undertake a past business review to consider whether customer harm has materialised and if so, consider whether any redress is due.

Token payments and timing of default at credit firms

2.75 For credit firms, our expectations in CONC and the CTSG infer that any forbearance option a firm proposes should be appropriate for that customer given their individual circumstances. Accepting token payments for a reasonable period of time may be appropriate where a customer needs time to get back on their feet. For example, to recover from an unexpected income shock (CONC 7.3.5). However, in some cases, we found firms setting up token payments when it was not appropriate for those customers given their circumstances, for example because the customer had no or negative disposable income. This may pressurise customers to make payments they cannot afford. It was not always clear whether firms had considered if customers had made the same arrangements on other debts or if the use of token payments was in the customer's interest.

2.76 In some cases, it may be in the customer's interest to default, write off or terminate the agreement where it is clear there is no hope of recovery based on the customer's circumstances. It is important that firms explain clearly to customers the alternative options to making token payments when it is clear their circumstances will not change. As part of effective conversations and understanding customers' circumstances, firms should also explore other debts and whether customers can afford multiple small payments. This is likely to continue to be an important consideration as customer incomes are squeezed over the coming months. Firms should also ensure that they are clear about the credit file implications of any forms of support they offer to customers (CTSG 4.7 and MTSG 4.7).

Friends and family support

2.77 We saw examples of firms encouraging customers with limited or no disposable income to seek support from friends and family to make payments. Firms should consider carefully whether this is appropriate in the circumstances, and whether such an arrangement can be deemed sustainable.

Customers with characteristics of vulnerability

2.78 Our Guidance for firms on the fair treatment of vulnerable customers (VCG) sets out our view of what firms should do to comply with their obligations under the Principles for Businesses to ensure they treat customers in vulnerable circumstances fairly. The Consumer Duty raises the standard we expect from firms across the board for all customers, including those in vulnerable circumstances. It builds on the VCG by requiring firms to focus on the diverse needs of their customers, including those in vulnerable circumstances, at every stage of the customer journey.

2.79 While our firm forbearance survey showed that most firms do flag customers in vulnerable circumstances in their systems, our review of customer files identified many examples where customers clearly displayed characteristics of vulnerability that agents did not pick up. We also found examples where customers explain issues but, as the agent did not note or flag this on their file, customers then had to repeat this with other agents.

2.80 The VCG states that firms should be asking themselves what types of harm or disadvantage their customers may be vulnerable to, and how their own actions can increase or reduce the risk of harm (FG21/1, 2.18). Firms' senior leaders should create and maintain a culture that enables and supports staff to take responsibility for reducing the potential harm to customers with characteristics of vulnerability and the fair treatment of vulnerable customers should be embedded in their policies and processes throughout the whole customer journey (FG21/1, 1.7).

2.81 Firms should also consider customers with low capability or reduced cognitive ability that may need help to complete forms. These customers may also struggle to understand what action they need to take and be unable to communicate this (FG21/1 4.62). We found that agents did not always explain the process to such customers effectively. It may be that this was a result of poor processes and procedures at firms, rather than a lack of staff competency.

2.82 From our review of customer files, it was generally not clear whether firms had assessed whether they needed to change their approach, such as referring to a specialist team or escalating cases, for customers who they identified as having characteristics of vulnerability. In the 50 assessments where we reviewed the handling of these customers directly, we found that only 12 recognised and responded to customers with characteristics of vulnerability appropriately. While not all customers with vulnerable characteristics will need a change in process, we expect that firms should adapt their approach to deliver a service that meets these customers' individual needs (FG/21/1, 4.39). We observed that some firms were quick to identify vulnerable characteristics and follow processes to ask customers whether they can record this information, but the impact this information then had on the customer journey was unclear.

2.83 Some firms transfer customers to specialist teams, but this does not necessarily change the firm's approach. At one firm, a customer explained they were unable to read well but the firm continued to communicate with the customer in writing with no adaptations to help them. We also saw other examples where customers were left on

hold for long periods of time while the agent spoke to the specialist team. Instead of transferring, agents would discuss the customer's situation and then relay information back to the customer. This has a negative impact on the customer journey for those individual customers who were not given appropriate support. We expect firms to give their customers a level of care that is appropriate given the characteristics of the customers themselves. The level of care that is appropriate for customers in vulnerable circumstances may be different from that for others and firms should take particular care to ensure they are treated fairly (FG21/1, 1.6)

2.84 Where customers exhibited characteristics of vulnerability, few firms signposted relevant organisations that might be able to offer more specific support.

Case Studies – Poor examples of the treatment of customers with characteristics of vulnerability

The customer called to explain they had been off work. The firm did not undertake any I&E assessment or explore their personal and financial circumstances. The agent only asked what the customer could afford to pay and a weekly agreement was made. Over the next 12 months the customer continually missed payments. They referred to their vulnerable circumstances on multiple calls but the firm still did not make notes or ask how this would affect their income.

In an outbound call from the firm, the customer's relative took the call and explained that the customer was unwell and would never recover. Although the agent did not press for payment, they only put the account on hold for 2 weeks and the customer's relative was called again. This happened multiple times with multiple agents seeming unable to take appropriate action, only placing short holds on the account. The relative became very distressed over a 6-month period before the account was transferred to the appropriate team. The balance was eventually written off.

Case Studies – Good examples of the treatment of customers with characteristics of vulnerability

- regular weekly meetings with agents to discuss both real and 'typical' vulnerable customer situations that helped keep the focus on these customers
- some firms were able to keep the same agent engaging with the same vulnerable customer
- some firms organised staff training from external specialists in this field
- agents at one firm participated in role plays that covered a wide number of potential vulnerabilities including relationship breakdown, caring responsibilities, terminal illness, addiction and domestic violence. The firm also helped agents by providing a useful tool which helped them identify and signpost customers to specific third party organisations which could give additional support
- a customer was struggling with their mental health and was also in arrears. The agent discussed not-for-profit debt advice and also suggested local

mental health organisations that might offer support. The agent was able to build a relationship with the customer and discussed a range of options that might help them. The agent was aware of the customer's anxiety so explained who would call when and what number would show on their phone, so the customer felt comfortable to answer

Staff training, skill and experience

2.85 We expect borrowers to receive appropriate support from their lender at times of financial difficulty. So it is critical that staff in financial assistance teams are competent and capable of having knowledgeable and helpful conversations which lead to fair, appropriate and sustainable solutions. To achieve this, it is important that firms provide high quality, effective training which gives staff the appropriate skills.

Training materials and approach to training

2.86 Our multi-firm work looked at the training materials and approaches firms used to support new and existing staff who provide forbearance. Generally, we found that most firms had structured training plans and specifically designed training materials with information on the arrears and forbearance options, policies and the processes required to put solutions in place. Some firms also provided training on interpersonal skills which were designed to try and help staff engage effectively with customers.

2.87 Some firms took advantage of the range of learning resources from external organisations such as the Money Advice Trust. These were often used to educate staff about arrears and forbearance at a more generic level. While this can help staff understand the wider financial challenges faced by customers, it was not always clear how staff were then trained to link this learning to their firm's specific policies.

2.88 Classroom-based training was common, although we also observed on-the-job training at many firms. From the firms we assessed, training timescales took between 6 days to 6 weeks with training delivered either by a dedicated training resource or by existing staff using the firm's policy and process documents. Most firms completed knowledge assessments to check understanding during the training and in some cases had assessed role plays to confirm competency before new staff could start speaking to customers. However, in 15% of the firms assessed, there was no initial formal assessment and new staff were allowed to start engaging with customers based solely on supervisors confirming that the training had been delivered. Firms may wish to consider the benefits of introducing a formal assessment before staff are able to speak with customers and an appropriate timeframe for adequate training to be delivered.

2.89 In general, we found limited evidence of how staff were trained on the range of payment options available when customers are in financial difficulties. Knowing how different options work and what type of situations they could be applied to is important if firms are to provide appropriately tailored, sustainable solutions to their customers. For example, we found one firm's training materials failed to ensure that staff understood how to tailor solutions to those with more complex financial situations, such as the self-employed or small business owners.

2.90 In some cases, we found that staff lacked knowledge of other departments or actions the customer needed to take to address the arrears/payment shortfall. This included staff not knowing what would happen when a case moved towards more serious arrears and recoveries, of other more structural forbearance options or how information was reported to credit reference agencies and what the impact of that may be. By staff having an awareness of other functions, they should be able to help customers who are worried about what may happen as they address the arrears/payment shortfall.

Training on how to help customers in vulnerable circumstances

2.91 Our work found that all firms had training in place to help staff identify customers with characteristics of vulnerability, although the quality of training varied considerably. At some firms the amount of time taken to help new staff understand this critical subject and how help should be tailored was short, sometimes as little as an hour. Inadequate training and development of staff to help them identify and understand how best to support customers who may be vulnerable can lead to poor outcomes for customers.

2.92 There was a wide variety of training methods in this area. At one firm, the collections team discussed cases where customers were identified as being potentially vulnerable each week to build understanding and knowledge. However, in another firm, which considered all its customers as being potentially vulnerable, agents were just asked to read the vulnerability policy rather than being given specific training on this important area.

2.93 It is important that staff are adequately trained for their roles and can support customers including those who are potentially vulnerable.

Training on signposting and referring customers to debt advice

2.94 A further area where we observed wide variations in the approach towards training was how staff identified the need to signpost customers towards sources of debt advice. At one firm, we were pleased to note that staff were asked to do research into a debt advice or other helpful third-party service which borrowers in financial difficulty could benefit from. Having done this, they presented back their findings to the rest of the group. However, at other firms, it appeared that the need for agents to signpost customers towards debt advice services was simply a task which had to be completed during any conversation. This occurred without any consideration of whether this was appropriate, or any guidance given on how to explain the benefits to customers.

2.95 It is important that staff are adequately trained to be able to identify customers that would benefit from free debt advice and to be able to explain to customers why this would benefit them.

Staff skills and experience

2.96 We were encouraged to learn that some firms have started to think more broadly about the skills and experience needed for their collections' teams. One firm told us it was looking at 'life experience' of staff so that they may have greater understanding of their customers' situations, while another encourages their staff to consider professional qualifications. While these were not common across firms, we did find a general recognition that helping borrowers in financial difficulty is an increasingly complex activity and one which requires competent, skilled and well-trained staff.

2.97 The importance of having adequately trained staff capable of helping customers in financial difficulty is supported by the findings from the consumer research. Participants reported a wide range of experiences both across firms but also sometimes within the same firm. This was perceived to be due to an inconsistency in

staff knowledge, skills and capability. Experiences were seen to differ by credit product and were significantly better for contact about mortgages (69%), compared to credit cards and personal loans (55%).

Case Studies – examples of the impact of poorly trained staff

A customer submitted a complaint about their treatment. A call agent contacted the customer to advise them that their complaint had not been upheld and that the customer would need to speak to the Financial Ombudsman Service if they wanted to take the complaint further. Despite working in the firm's complaint department, the agent was unable to explain what the Financial Ombudsman did or what the customer could expect to happen next. The customer was repeatedly put on hold so that the agent could find out the answers to their questions.

A small firm delivered one-to-one training for new staff through an existing team member who had previously received a significant number of fails when their work was quality assured. The new joiners were able to move into role, speaking with and helping borrowers in financial difficulty on their own after 8 days without any testing, assessment or role plays and having been trained by a member of staff who had performance problems.

Quality assurance (QA) and oversight

2.98 Effective QA is critical for firms to understand if customers are being treated fairly through the provision of appropriate forbearance. We were disappointed to identify many instances where there was a lack of oversight and/or poor control by firms. We are concerned that this has contributed to poor outcomes for customers as firms did not identify procedural and policy failings or act upon them. We also found examples of poor record keeping that made it difficult to understand what QA had been undertaken and whether firms had taken appropriate action to address failures.

Common QA failure reasons

2.99 From our review of QA cases, a common reason for QA failure was a lack of probing and questioning by staff of customer circumstances before setting arrangements. As a result, we were uncertain whether the payment arrangements agreed were appropriate and sustainable. However, while firms appear able to identify such issues, we are concerned that we regularly identified the same issues. This indicates that firms identify the issue but are not successfully rectifying the problem. In one firm, we found staff continued to fail for the same issue for several months without any apparent attempt to address the causes. Such issues may be worsened by a lack of attention by management and senior leadership and by poor management information (MI) which does not highlight recurring issues, relevant trends and root causes.

Firms' actions following identification of QA fails

2.100 We found some firms had clear and robust policies to deal with failed QA cases. These included set timescales for re-contacting customers and the completion of additional checks to identify if similar issues had occurred elsewhere. However, at other firms, it was unclear who was responsible for correcting cases and within what time period. One firm relied on the customer to make contact if the arrangement, identified as being potentially unaffordable through QA, could not be maintained. At a very small number of firms there was no requirement to re-contact the customer when issues were identified.

2.101 Given that in some instances the QA fails identified may have caused potential harm to the customer, we are very concerned that some firms' processes did not either require the customer to be re-contacted or could not identify whether remedial action had been taken. The following case illustrates this:

Case Study – example of a firm not taking action after a case was QA'd

Having benefitted from payment deferrals, a customer called the firm to explain that their partner continued to be out of work and that full payments could not be resumed. Although the factors of existing arrears, deferred payments and reduced income were known, the agent did not ask any questions to understand the customer's personal or financial circumstances and simply agreed a reduced arrangement for the amount the customer offered. In addition, despite the evident financial hardship, the agent did not mention that independent sources of money guidance or not-for-profit debt advice were available. The case was QA'd by the firm but despite the inadequate questioning being identified, no action was taken to recontact the customer to confirm whether the arrangement was sustainable and appropriate.

2.102 However, we did see some good practices. For example, at one firm, we found that following a failed case, the staff member was no longer able to take calls from customers until they had completed bespoke training to help them improve and prevent a repetition of the issue.

End to End QA

2.103 The TSG says that firms should adopt a QA approach that reviews the end-to-end process rather than just individual interactions (MTSG 5.40 – 5.42 / CTSG 5.62 – 5.64). Our review of customer files found that often QA was based on a point-in-time review of one call or process. These checks also tended to be process-driven and any assessment of outcome was limited to that specific call or process.

2.104 However, we were pleased to note that more firms of all sizes have introduced end-to-end outcome testing. 8 out of 13 firms in our work looking at QA and oversight carried out end-to-end outcome testing with other firms confirming they were planning to introduce this testing in the near future. A further 9 firms involved in the customer outcomes work said they now also undertake end-to-end outcome testing. We found firms which undertook such outcome testing assessed all interactions with customers over a period of between 6 and 9 months. This helped them understand whether the forbearance given was helping to support the customer. The reviews also identified a wide range of other issues, including new contact details not recorded, conversations not being recorded in full and customers having to repeat themselves every time they call. While these issues may not always directly affect the overall outcome, they highlight the kinds of frustrations which customers experience, and which can make them less inclined to engage. Highlighting these issues to the firm will allow them to take remedial action.

Management Information (MI) and Root Cause Analysis

2.105 We were pleased to find that firms sometimes used a combination of good quality MI from QA results together with robust root cause analysis to identify developing trends and investigate issues. At one firm, MI identified that worsening QA results related to a

specific forbearance option that staff didn't know how to process correctly. At another, additional training was given to staff on how to register special vulnerability markers after QA checks identified a repeating fail in this area.

Signposting effectively to debt advice

2.106 As we explained in our Dear CEO letter in June, given the added cost of living pressures we would like to see firms discussing the benefits of money guidance and free of charge debt advice in conversations with customers, as well as signposting these in communications.

2.107 The TSG *(section 8 for mortgages and section 7 for credit)* sets out our expectation for firms to signpost borrowers to appropriate sources of debt help or money guidance to help them understand the different types of debt help and money guidance are available. This includes that firms' signposting and referral processes should take into account the full range of delivery channels including telephone services.

2.108 Our consumer research asked consumers what could have encouraged them to seek debt advice sooner. The most important areas they identified were the need to provide information:

- on what not-for-profit debt advice is and how it can help
- about how seeking advice affects credit files
- on how to contact a debt adviser

2.109 Data from our firm forbearance survey identified that, between September and December 2021, 80% of firms answering this question referred at least half of their customers to debt advice via letter or email. However less than a third (30%) of firms surveyed confirmed they signposted to debt advice during a phone call at all and only 17% of firms surveyed confirmed they signposted at least half their customers this way.

2.110 Our review of customer files also confirmed that information was often given in letters and was available on websites but that verbal signposting during arrears calls was limited.

2.111 Only 14 firms out of the 49 we assessed during 2022 (28.6%) discussed debt advice on customer calls. Further, in several of these assessments this was only discussed sometimes.

2.112 On the calls we listened to, we did not hear firms consistently helping customers to understand what type of debt help or money guidance was available or helping customers to access these services where it would have been appropriate to do so. Discussion of debt advice, where it happened at all, sometimes appeared to be a 'tick box exercise' with reliance on including the message on debt advice in scripts. There was little additional explanation by the agent or discussion with the customer around the types of advice available or what the benefit might be. For example, on one call we heard the agent tell the customer that they had to read a script signposting to debt advice 'to pass' the call assessment. The customer may have disengaged at this point and not properly heard the messages being given.

2.113 To be clear, we are not asking firms to undertake debt counselling activities. We expect firms to help customers understand what types of debt help or money guidance are

available and to help them access these services (CTSG 7.2 and MTSG 8.2). PERG 17.5 provides a useful explanation of the differences between providing advice and providing information. The examples given in PERG 17.7, particularly Example 5, are also helpful.

2.114 Effective signposting of not-for-profit debt advice also appears to depend on the adviser's experience, which links to our findings on training and oversight. Our assessments showed that agents sometimes had limited understanding of what debt advice is and were simply expected to signpost 'where appropriate' but without guidance on what an appropriate situation was. As a result, the information was either delivered in a scripted way or not at all.

2.115 We saw some better examples of firms helping their agents understand what debt advice is and how it can help. As previously mentioned, one firm asked new staff to research certain providers and share their learning with colleagues, while others have used debt advice firms to train staff on how they can help borrowers in difficulty. We also heard during our file reviews a small number of conversations which were clear and helpful to the customer, including positive examples of agents redirecting customers to not-for-profit organisations.

Case Study – Good example of an agent re-directing a customer to not-for-profit organisation

In one file we reviewed a customer had contacted a debt management firm which was going to deduct fees from the monthly amount which they could afford to pay. The firm's agent highlighted that not-for-profit debt advice firms existed and that they may be able to help, something which the customer followed up on, ultimately securing a fee-free debt plan.

2.116 We found that a small number of firms transfer calls directly (a 'warm handover'), to not-for-profit debt advice organisations. Our firm survey identified that just 3% of all firms surveyed said they had used this channel between July and December 2021. Credit card firms were the most likely to make these 'warm handovers' with 13% of these firms saying they used this approach.

Case Studies – Good examples of customers benefiting from the help their lender was able to provide

A customer who had been contacted by their lender after falling into arrears explained that they were self-employed and that their business had collapsed due to the pandemic. The agent explained that, given the customer's current financial position, completing an I&E assessment was not appropriate and that a referral to a debt charity would be advisable. The agent explained that the charity would help them with all the firms they were in arrears with rather than them having to contact all the firms individually. In the meantime, the agent agreed 1 month's informal breathing space with no fees or interest charged.

One agent reviewed the customer's circumstances to arrange payments and identified that the customer was in arrears with their mortgage and other

priority household payments. The customer was also in arrears with other creditors but without arrangements. The agent offered the customer a referral to a debt charity and completed the online appointment booking process. The agent booked the appointment on the customer's next non-working day. The customer received an appointment text during the call. The firm also put informal breathing space in place for 14 days to allow the customer time to consult the debt charity.

A customer had completed an I&E assessment with the firm which highlighted a negative disposable income. The agent gave a 40-day hold on the account while the customer applied for universal credit. The agent also suggested that the customer seek not-for-profit debt advice and spent some time explaining the support this kind of debt advice could provide. As a result of the conversation, the customer took the number of a debt charity for further help.

Applying arrears related fees and charges and escalating balances

2.117 When firms choose to apply these fees and charges, we expect them to do so fairly and to only reflect the costs that firms incur (MCOB 12.4.1 and CONC 7.7.5). In this section we discuss our findings in the following areas:

- fees and charges
- escalating balances

Fees and charges

2.118 We reviewed fees and charges in more detail at 13 firms in the mortgage, retail and mainstream credit sectors. We also looked at the way in which fees and charges were applied as part of our customer outcomes multi-firm work.

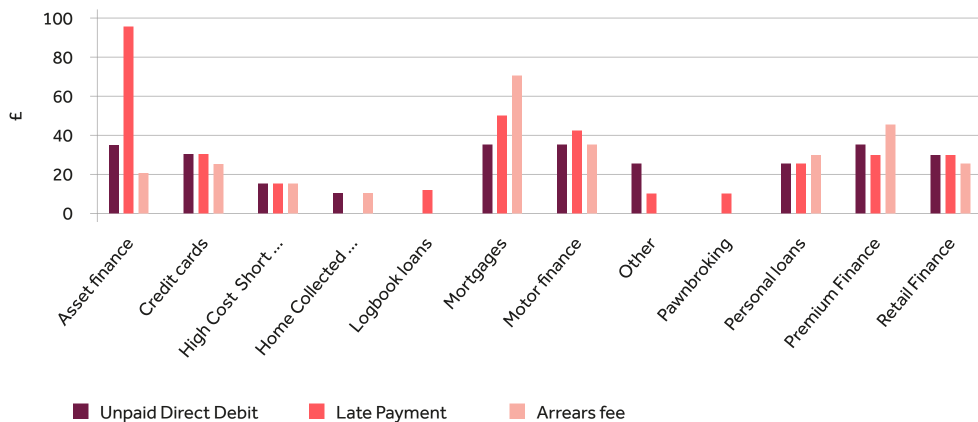
2.119 Our work sought to understand the overall level of charges applied to customer accounts during a 12-month period. We also reviewed a small sample of customer files to assess how they apply charges in practice.

2.120 We have explained these findings in more detail below.

Fees charged across all sectors

2.121 Our firm forbearance survey in July 2021 highlighted that there is a wide variance in the fees charged to borrowers in financial difficulty. Some firms don't charge any fees. The chart below shows the maximum fee we saw charged in each category. Some mortgage and premium finance firms also charge a broken arrangement fee.

Maximum Fees Charged to Borrowers in Financial Difficulty



* Base: all firms in survey, July 2021

2.122 Our multi-firm work also found that mortgage firms generally have higher fees than credit firms. Firms in our sample who offered both products charged more in relation to mortgages than for credit products.

2.123 The survey found that for credit firms a £12 charge for late payment fees was most common, with 45% of firms charging this fee charging this amount. Some credit card firms also charge an overlimit fee of £12.

2.124 Firms are increasingly implementing automated processes. So we would expect the charges applied to customers to reduce over time as the costs for automated processes are less than the cost of more manual and labour-intensive processes.

2.125 We remind firms that fees and charges for those in arrears or payment shortfall should be applied fairly and only reflect the costs that firms incur (MCOB 12.4.1 and CONC 7.7.5).

Fee charging policies

2.126 We found that all firms had a fee-charging policy and some firms had caps in place to ensure that the impact of charges on customer accounts was limited.

2.127 All firms followed a cost allocation model to calculate charges that reflect costs. We observed that some firms include only direct costs in their fee calculation while others include central costs such as property and staff costs. Some models are based on the average process handling time. Some firms used a third party to review their basis for their fee-charging structure.

2.128 All firms regularly reviewed their cost allocation policy, although some firms said the most recent review had been delayed due to the pandemic. One firm in our sample conducted a review of all fees to ensure that they were not excessive and were consistent across the firm's brands. This resulted in a reduction in the level of fees in all categories.

2.129 The majority of firms in our focused review on fees and charges could apply all fees in a single billing period. In most firms, the failed direct debit fee would not be charged after

two months, as the direct debit would be cancelled and would require a conversation with the consumer to reinstate it. One firm limited the number of times that the arrears fee could be applied to an account to three times in a 12-month period. All other firms allowed the fee to be charged continuously.

2.130 21% of firms in the review had stopped charging their standard arrears fee during the pandemic period. One retail bank has ceased charging all monthly arrears fees and missed payment fees on credit and mortgage products.

2.131 All firms gave customers information about fees and charges within the terms and conditions of the product at the outset. All firms also included this information on an annual basis, within statements, thereafter. The majority of firms also include this information on their website, although it was sometimes difficult to find.

2.132 Our work found evidence that some firms had applied charges to customer accounts in error, contrary to their own policy. The reason for these errors were system and individual agent errors.

Links to charging in the overdraft market

2.133 Our analysis of refused payment fees in the overdraft market in CP 18/42 highlights the potential for harm of charges if they are too high, especially if they are highly concentrated on vulnerable consumers.

2.134 Firms should consider carefully their rationale for charging fees, focusing particularly on the impact this has on customers and whether fee charging is fair and cost reflective.

Impact of customer engagement on fee charging

2.135 We saw a small number of examples of mortgage firms charging fees to customers who were paying an arrangement that they had agreed verbally with the firm. In most cases this happened when the firms were waiting for documents such as bank statements in order to 'formalise' the arrangement. We remind firms of our mortgage rule concerning payment shortfall charges being applied to customers, where there is a payment arrangement in place (MCOB 12.4.1A E).

2.136 We saw a positive example at one firm we reviewed. Agents were reversing recently applied late charges when customers contacted them about needing forbearance. Not only did this reduce the customer's arrears balance but also ensured that the balance would not escalate further.

Escalating balances

2.137 The MTSG (paragraph 5.19) and CTSG (paragraph 5.38) set out our expectations on escalating balances when a repayment arrangement is in place. Firms should also be aware of our Handbook rules relating to the treatment of customers in arrears. We would also like to remind firms that in the second charge market only simple interest applies to arrears related fees and charges (MCOB 12.5.5 R).

2.138 Firms need to consider the impact of any fees charged upon shortfall balances. Where such fees are not paid and they consequently attract interest, outstanding balances will escalate.

2.139 10 of our 50 assessments showed firms which charged fees inconsistently or charged fees which increased customers' debt, with no plan in place or discussion

with customers as to how these fees would be paid back. We also found that these increases compounded financial difficulty. Some firms gave little consideration to how the customer would be able to pay both the fees and increased arrears amounts outstanding.

Case Studies – Poor examples of firms not considering how customers will pay the fees and increased arrears

A customer receiving universal credit was struggling to make their repayments towards both a loan and overdraft. The firm set up an arrangement to repay the arrears, but the arrangement appeared not to consider the customer's personal and financial circumstances. The firm also applied an arrears surcharge on the debt over and above the interest which continued to be charged. The customer's balance continued to escalate, and the firm did not consider or discuss with the customer how the outstanding balance would be repaid and whether the additional charges were appropriate.

A customer had defaulted on their loan during the year but a weekly late payment fee continued to be charged. This resulted in extra fees charged over a 6 month period. The firm did not try and understand the customer's circumstances until month 5, by which time the customer's outstanding debt had increased.

3 Next steps

3.1 We will continue to engage with firms to monitor how they are implementing the changes we have asked for and to improve outcomes for borrowers in financial difficulty. As the cost of living rises continue, we expect that more customers will need support from their lenders.

3.2 We intend to continue to monitor data to assess how firms are considering and delivering forbearance. Some of our efforts will be focused on firms with a customer base that may be more likely to struggle with the rising cost of living. Over the coming months we will also be investigating firms which, based on the range of data sources available to us, appear to be outliers and potentially not delivering good outcomes. If we identify firms who are not meeting our expectations we will take robust action, including asking firms to make changes to their processes, undertake past business reviews and remediate customers where appropriate.

3.3 Where necessary, we will use our supervisory and enforcement powers to ensure that customers are protected from poorly performing firms. In some cases, we will also consider asking firms to stop lending where we see that they are delivering poor customer outcomes.

3.4 We plan to consult on the future of the TSG, and that may include proposals to make changes to our Handbook.

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