

Investigating the role of Debt Advice on borrowers' well-being.

An Encouragement Study on a new sample of Over-indebted people in Britain

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DWP Areas of Research Interest Workshop

Over-indebtedness

- ▶ Over-indebtedness is defined as:
 - ▶ The presence of chronic, problematic, unsecured debt, or debt that is a large part of household income.
- ▶ Over-indebtedness is widespread:
 - ▶ In 2018 there were almost 9 million over-indebted adults in the UK (MaPS data) .
 - ▶ 17.2% of the adults are over-indebted in the UK
 - ▶ This share ranges from just over 10% in some areas of Scotland to almost 25% in some areas of England.
 - ▶ In the USA, around a quarter of the families in the bottom quintile spend more than 40% of their household income servicing their debt (Ong et al., 2019)

Consequences of over-indebtedness

- ▶ Over-indebtedness has been linked to negative consequences on:
 - ▶ Productivity (Kaur et al., 2019)
 - ▶ Decision-making (Ong et al., 2019)
 - ▶ Health
 - ▶ Heart attacks (O' Rand and Hamil-Luker, 2020)
 - ▶ Mental health for adults (Bridges and Disney, 2010; Gathergood, 2012; Hojman et al., 2016; Ong et al., 2019)
 - ▶ Children's socio-emotional well-being (Bergen and Houle, 2019)
 - ▶ And many other chronic diseases (Richardson et al.; 2013, Turunen and Hiilamo, 2014, Clayton et al., 2015; Blomgren et al., 2016)

Poor debt management

- ▶ Managing debt is not easy (Bertrand and Morse, 2011; Lusardi and Mitchell, 2014; Ponce et al., 2017; Disney and Gathergood, 2013; Gathergood et al., 2019)
- ▶ Borrowers have been found:
 - ▶ To be unable to minimize the borrowing costs
 - ▶ To lack relevant information (e.g., on the relevant interest rates)
 - ▶ To be affected by cognitive bias

The role of debt advice

- ▶ Debt advice can fill the knowledge gap and help borrowers address their bias
- ▶ Since the early 2000s, UK and then US governments have heavily invested in providing free debt advice (Pleasence and Balmer, 2007; Collins and Orton, 2010; Collins and Schmeiser, 2013)
- ▶ In particular, in the UK:
 - ▶ 2003: The government signaled an intention to improve advice and support for over-indebted people through a consultation paper.
 - ▶ 2004: 'Action Plan' on tackling over-indebtedness
 - ▶ 2004: Establishment of a 'Financial Inclusion Fund'

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→ Despite these investments, there is little empirical evidence on the effect of debt advice!

The paper in a nutshell

- ▶ We collect new data on a large sample of over-indebted people living in Britain.
- ▶ We provide evidence of the effect of debt advice on borrowers' well-being
- ▶ We use a randomised encouragement design to address the problem of endogenous selection into debt advice
- ▶ We estimate the effects of being encouraged to seek debt advice by comparing the outcomes of those who received and those who did not receive the random encouragement.
- ▶ We also estimate the LATE of seeking informal debt advice (not presented today)

Literature on the effect of debt advice: Non experimental

- ▶ Association between debt-advice and:
 - ▶ Improved well-being (Collins and Orton, 2010; Stamp, 2012; Europe Economics, 2018).
 - ▶ Reduced probabilities of foreclosure (Collins and Schmeiser, 2013)
 - ▶ Reduction of debt and account usage (Elliehausen et al., 2007)
 - ▶ Improved repayment strategies and communication with creditors (Stamp, 2012)
- ▶ but also:
 - ▶ Increased probabilities of missing payments (Ding et al., 2008; Collins and Schmeiser, 2013).

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→ Existing literature is mainly qualitative, observational, or -more rarely- uses quasi experimental methods (Propensity scores, Instrumental variables)

Literature on the effect of debt advice: Experimental

- ▶ Only Pleasence and Balmer (2007) use an encouragement design
 - ▶ Find limited effects of debt-advice (mainly on having a 'better' financial situation)
 - ▶ Small selected sample (from enrollment lists of 16 selected job centres in England and Wales)
 - ▶ Only one follow up wave



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→ We provide

- ▶ experimental evidence on the effect of debt-advice
- ▶ using a large representative sample of British borrowers (three times as large as Pleasence and Balmer's)
- ▶ and two follow-up waves

Data & timing of the intervention

- ▶ Wave one (Pre intervention): October 2016-February 2017.
 - ▶ Three components
 - ▶ Kantar's face-to-face omnibus survey;
 - ▶ Kantar's online omnibus survey;
 - ▶ An ad hoc online survey
 - ▶ Quotas to achieve a sample as representative as possible of the British population
- ▶ Information from wave one used to identify over-indebted people (1939 people eligible and issued to wave two) ▶ Eligibility
- ▶ Wave two (post intervention, 1st follow up): September-December 2017 (1081 people interviewed)
- ▶ Wave three (post intervention, 2nd follow up): November 2018-January 2019 (783 people interviewed)

Intervention

- ▶ Carried out between waves 1 and 2
- ▶ Eligible respondents were randomly split into a treatment and a control group.
- ▶ The treatment group received an encouragement to seek debt advice:
 - ▶ Three mailing (using direct mail, emails and texts)
 - ▶ Call from one of the advice agencies
 - ▶ All material designed combining behavioural science concepts to minimize discomfort felt by receivers. [▶ Timeline](#)
- ▶ The control group received no encouragement

What we estimate

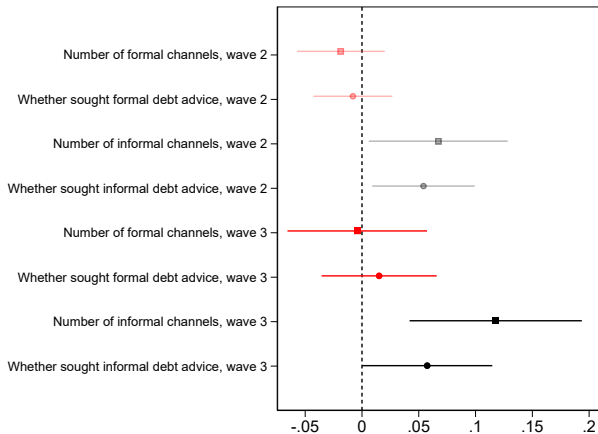
- ▶ The effect of receiving the encouragement on the probability of seeking debt advice ▶ Effects
- ▶ The effect of receiving the encouragement on well-being
- ▶ The effect of receiving the encouragement on debt-reduction strategies (mechanism)
- ▶ The effects of seeking informal debt advice on well-being
- ▶ The effect of seeking informal debt advice on debt-reduction strategies

Method

- ▶ We compare outcomes in the treatment and comparison group
- ▶ The treatment assignment is random conditional on the proactive status → we weight each observation for the inverse of the **known** probability of being in the treatment unit.
- ▶ For a similar method, see: **Heckman and Karapakula, 2019**
- ▶ The methods achieves balance:
 - ▶ Weighted share of the proactive people in treatment and control group is not statistically different (if anything, weights overcompensate)
 - ▶ Weighted characteristics at wave 1 (pre intervention) are balanced between treatment and control.
 - ▶ Robustness check: regressions where we control for proactive status → **Results are almost identical, weighted estimates are more conservative**

DID THE ENCOURAGEMENT INCREASE THE
PROBABILITY OF SEEKING DEBT ADVICE?

Figure: Effects of the encouragement on advice seeking behaviour



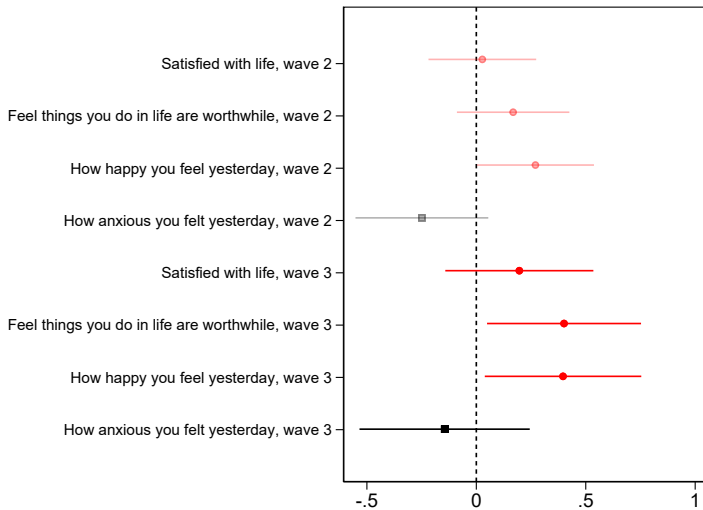
N(W2): 1078, N(W3): 659

Formal: free debt advice agency, fee-charging debt advice agency, insolvency practitioner, accountant, bank manager or other independent financial adviser, solicitor or lawyer

Informal: creditors, a bank or loan provider, friends or relatives, self-help resources (e.g. websites, leaflets etc.), other source.

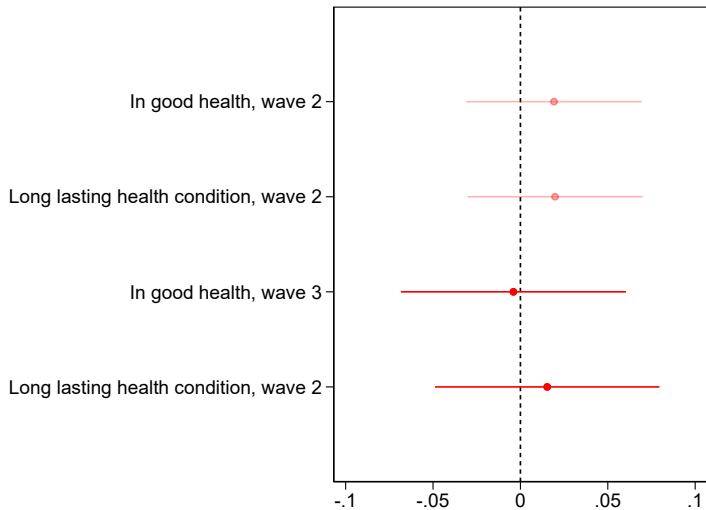
DID THE ENCOURAGEMENT INCREASE
WELL-BEING?

Figure: Effects of the encouragement on well-being



N(W2): 1081, N(W3): 659

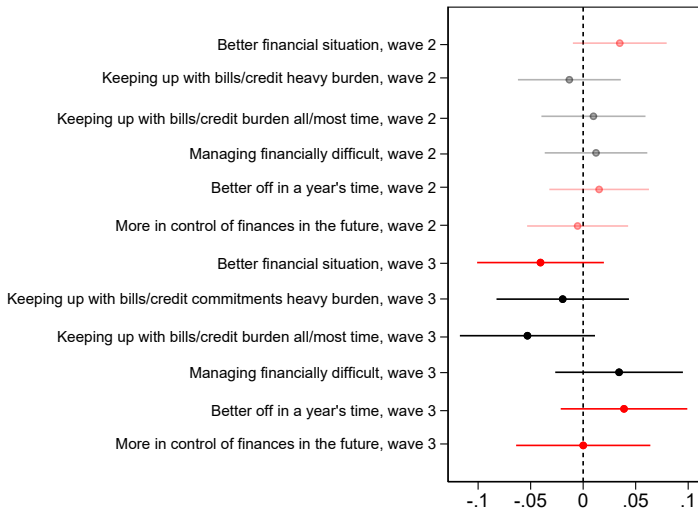
Figure: Effects of the encouragement on physical health



N(W2): 1081, N(W3): 659

DID THE ENCOURAGEMENT INCREASE
FINANCIAL WELL-BEING?

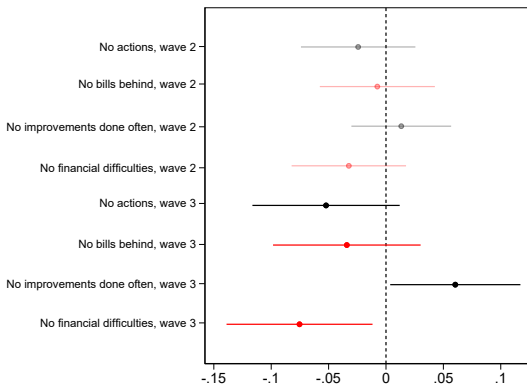
Figure: Effects of the encouragement on financial wellbeing and outlook



N(W2): 1081, N(W3): 659

DID THE ENCOURAGEMENT LEAD TO
IMPROVEMENTS IN DEBT MANAGEMENT?

Figure: Effects of the encouragement on debt management



N(W2): 1081, N(W3): 659

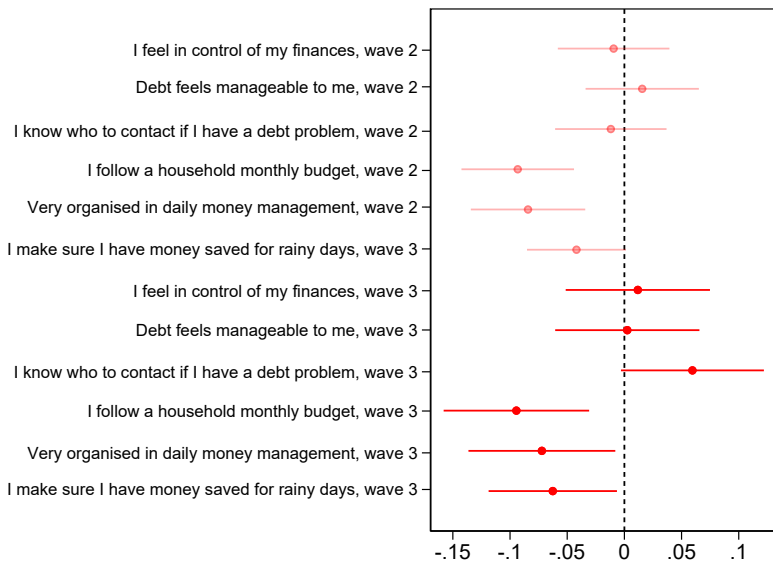
Actions: Set up a repayment plan, set up a debt management plan, agreed a period of time where no payments have to be made, set up an Individual Voluntary Arrangement (IVA), set up a Debt Relief Order (DRO), set up a trust deed, set up a Protected trust deed, set up a debt arrangement scheme, filed for bankruptcy, made a full and final settlement of debts, Had debts written off, consolidated debts, accessed benefits/credit options not previously aware of, agreed/increased overdraft limit with bank, other.

Bills: rent/mortgage, fuel, phone, water, council tax, credit or store card(s), overdraft from a bank or building society, personal loan from bank/building society/credit union, payday loan, loan from door2door lender/Home credit, loan from family or friends, Other.

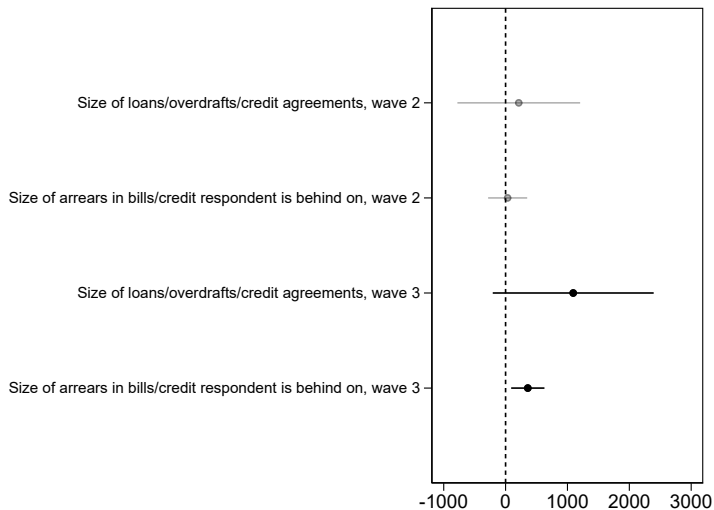
Improvements: stick to a spending plan, plan ahead for household bills and other expenses, check your bank balance regularly, make cut backs on spending, make savings by shopping around or switching suppliers.

DID THE ENCOURAGEMENT LEAD TO BETTER
ATTITUDES TO DEBT AND LOWER DEBT?

Effects of the encouragement on attitudes to debt



Effects of the encouragement on amount of debt



N(W2): 1081, N(W3): 659

Summarizing the results

- ▶ The encouragement increases the probability of seeking informal debt advice (by 5/6pp) → Effect driven by advice sought from family and friends
- ▶ The encouragement does not increase the probability of seeking formal debt advice
- ▶ The encouragement leads to increased well-being (especially at wave 3), but not to improved physical health
- ▶ The increase in personal well-being does not translate into an increase in financial wellbeing and better financial outlook
- ▶ This is probably because debt management strategies do not improve
- ▶ The result is a worsening in the attitudes to debt and an increase in the size of the debt

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Well-being increases DESPITE bad financial management.

Discussion

- ▶ The desirable consequences of receiving debt advice is limited to increased well-being.
 - ▶ In line with the experimental literature that finds limited effects on objective outcomes
 - ▶ In line with qualitative research highlighting the anxiety-relieving effect of discussing debt problems with somebody trusted.
- ▶ The lack of effects on objective outcomes may be due to the fact that people do not seek/follow formal debt advice.
 - ▶ In line with the literature suggesting that people do not seek/follow formal debt advice
- ▶ New research is needed that uses an encouragement that effectively promotes formal debt advice
- ▶ In a time of rising personal debt, this is particularly important to make sure none is left behind.

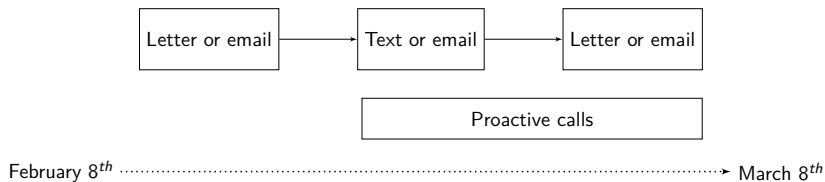
THANKS!
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Eligibility

- ▶ Eligible people are those:
 - ▶ Who say keeping up with bills and credit commitments is a 'heavy burden'
 - ▶ and/or have fallen behind or missed any payment for credit commitments or domestic bills in at least three of the previous six months
 - ▶ had not sought formal debt advice in the previous six months
 - ▶ agreed to be re-contacted for a follow-up survey and provided their contact details.

▶ [Back to Timing](#)

Timeline of the encouragement



[▶ Back to intervention](#)

Figure: Direct and indirect effect of the encouragement on well-being

