

Wishing Covid-19 debt away

How over-optimism
stops people from
seeking help

A report by the
Fairbanking
Foundation
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About The Fairbanking Foundation

The Fairbanking Foundation is a charity dedicated to encouraging and helping banking institutions to improve the financial well-being of their customers and thereby the UK public as a whole. Our work is designed to provide well-researched, independent and insightful new input to assist in producing financial products that benefit customers.

More information about Fairbanking can be found at www.fairbanking.org.uk and enquiries can be sent to info@fairbanking.org.uk.

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Foreword

The Fairbanking Foundation charity encourages and helps organisations that provide financial services to improve the financial well-being of consumers by understanding consumer behaviour and designing better products and services.

Through our Fairbanking Mark accreditation scheme, which ran until Autumn 2021, we encouraged financial institutions to design products that encourage and help individuals and families to manage their money better, and thus improve their financial well-being. We regularly undertake research into consumer experiences, motivations and preferences and provide advice on how products and services for customers can be improved.

It is undeniable that the Covid-19 pandemic in the UK and the restrictions on people's lives and work has had an impact on the financial well-being of consumers across the UK. And it has caused some people to experience financial difficulties for the first time in their lives. Although by Spring 2021 the overall picture in the UK was thought to be relatively benign - total household savings had risen and debt had remained at a broadly similar level - ONS has reported that by December 2020, nearly 9 million people had to borrow more money than usual because of coronavirus, with some households, particularly those on lower incomes, more likely to have increased their debt since the start of the pandemic.

For any consumers experiencing debt or other difficulties it is important that they know about the help available and are motivated to use it. Financial guidance and debt advice services can help people get unmanageable debt under control, prevent court action and remove the risk of people losing their homes. This research looks at the views and expectations of those consumers with no experience of personal debt problems prior to the Covid-19 pandemic. Our hypothesis was that these people newly experiencing money troubles may not be able to judge whether and how those difficulties could be addressed, and also have no familiarity with advice or financial guidance services. The research bears this out and suggests how providers of 'financial guidance' services could overcome barriers to this group of consumers asking for the help that would improve their lives.

We are grateful for the generous support of FIS, a leading global provider of technology solutions for merchants, banks and capital markets firms. The research has been undertaken for the charity by Vanessa Buehler of University College London and led by Professor Ivo Vlaev of Warwick University Business School.

Teresa Perchard

Chair – The Fairbanking Foundation

1 commonslibrary.parliament.uk/research-briefings/cbp-9060/

Executive Summary

In September 2021, we conducted an online survey of 799 adults in the UK who were experiencing financial difficulties due to the Covid-19 pandemic.

We asked them how willing they would be to seek financial guidance² in the future and about the reasons that might hold them back. Almost half (396) of the participants were experiencing financial challenges for the first time due to the pandemic. Our primary interest was to see if there are differences between adults experiencing financial difficulties for the first time due to the pandemic and those who already had experience of financial problems before Covid-19.

The results showed that these two groups exhibited significant differences in terms of their likelihood to seek financial guidance. In fact, a majority of both groups (about 80%) told the researchers they were 'willing' to seek financial guidance. However, there was a big gap when it came to turning this into action. Only 41% of the recently indebted group had actually sought help, compared to 71% of the group who had money troubles before the pandemic hit.

When we looked at the reasons for this, in the context of established theories of behaviour change³, four main themes emerged as enablers and barriers to seeking financial guidance.

Wishing debt away – those respondents with new post-Covid financial difficulties were significantly more optimistic that “their financial difficulties would sort themselves out”, and more inclined to believe that “the future will take care of itself”, “nothing I do will make much difference to my financial situation” and “with regard to financial difficulties”, were “optimistic about the future”. This over-optimism is a barrier to taking action.

Weak intention – despite saying they were 'willing' to seek help, people had post-Covid financial difficulties were significantly less likely to 'want' to do so and had less intention of doing so in the near future compared to those people whose debts pre-dated Covid-19. The 'intention trigger' needs to be stronger for those people indebted post-covid to act.

Belief in positive consequences – respondents in both groups who said they believed in the effectiveness of obtaining financial guidance were much more likely to seek it. Finding ways to persuade people that seeking financial guidance would be useful, that it would lead people's financial situation to improve and that they would make better financial decisions would be a trigger to getting help.

Goal from seeking financial guidance – if participants were not clear on what they wanted to achieve they were significantly less likely to seek help. Being unable to envisage a goal from seeking financial guidance acts as a barrier to action.

2 A consumer facing definition of Financial Guidance was developed as part of the 2017 Treasury/FCA review of the financial advice market. Financial Guidance is “an impartial service which will help you to identify your options and narrow down your choices but will not tell you what to do; the decision is yours. It is usually free, but some providers might charge you. You can get financial guidance face to face, on the telephone or on the internet” In this report, we use a broader definition, covering issues such as understanding your financial situation, drawing up a budget, options like taking a payment 'holiday' on a loan or your mortgage, rescheduling or writing off your debts, or help with formal processes like insolvency or bankruptcy. That is, the definition covers regulated debt advice as well as guidance.

3 We based our research on the Theoretical Domains Framework (TDF), which was designed by a group of behavioural scientists to help determine which domains are important for a particular behaviour and consists of 14 domains.

Recommendations

Our recommendations are directed at all organisations that provide, procure/commission or make policy on the availability and design of financial guidance services. Our aim is to raise awareness that there are significant numbers of people who need and could benefit from financial guidance who may not actually seek that help due to behavioural barriers, rather than methods of delivery or level of services available. We have suggested how those barriers could be overcome, primarily through the approaches taken to communications and marketing of financial guidance services.

There are two recommendations on how to get more people to turn to financial guidance on debts by focussed 'marketing' messages from relevant bodies.

- The stark financial and emotional consequences of not dealing with debt should be explained in simple language, to address over-optimism. Trusted sources, such as money guides or debt advisers from credible organisations, or well-known independent influencers should be used to deliver these messages.
- The other key message to get across is that the future will look brighter if people get help with their debt problems, and that it will assist them to get back on an even keel more quickly. This will help them imagine a life where they feel less stress over financial troubles.

This would involve using examples of individuals who tell their own story about how they were helped to deal with debt problems they experienced for the first time in the Covid pandemic. The object is to let people recognise that they could achieve a goal, just like others, to improve their situation.

Conclusion

This research draws out the thinking and behaviour of people who may never have been in financial difficulties before, who were hit by the bolt from the blue that is the Covid-19 pandemic, and who have been unprepared to seek and obtain help with debt. It has identified the key behavioural drivers which make people less likely to ask for guidance or advice, and suggested interventions to address these.

But the report has lessons on a broader level. Future pandemics or similar economic shocks will require policymakers to take account of people whose sudden and stressful indebtedness may have profound effects on their health and welfare, with potential consequences for public expenditure and the wider economy.

The Fairbanking Foundation believes further work will be needed to test out the intervention approaches suggested by this ground-breaking research. A workshop (nudgeathon) could flesh out the recommended techniques with stakeholders (e.g. Money and Pensions Service, StepChange, Citizens Advice, DWP) and the Fairbanking Foundation. It should be possible to develop robust challenges to undue optimism, ('wishing the debts away') and also counteract doubts or fears about how useful guidance may prove to be.

Statistical Research Findings

Participants

799 participants (N=799) were recruited via the Qualtrics platform in August 2021. Qualtrics recruited participants for this study in several different ways and through multiple market research panels. Potential participants were invited to take part in the survey via email, in-app or SMS notification. The invitation email did not include specific details about the study to avoid self-selection bias in participants. Eligibility requirements were being between 18 and 65 years of age, having an income from paid work at the beginning of 2020 and being financially affected by the Covid-19 pandemic. Participants were consequently divided into two groups. One group already experienced financial difficulties before the Covid-19 pandemic (N=403), and the other group experienced them for the first time due to the pandemic (N=396). The study was not designed to be representative in terms of socio-economic profile as we were seeking to survey people based on their experience of financial difficulties in relation to the Covid-19 pandemic. Nevertheless, the overall sample includes participants from all parts of the UK. (see Appendix for demographic tables).

Reasons for financial difficulties

The main reason for people's financial difficulties was that employers cut their working hours or salary. One third of the people who experienced financial difficulties for the first time due to the pandemic were affected in this way. Similarly, one-third of people in this group were furloughed under the government's retention programme, while 20% were laid off or made redundant by their employer.

Severity of financial difficulties

39% of participants who experienced financial difficulties for the first time due to the pandemic reported that they "never" or "not very often" have money left over in the month after paying groceries and bills. This compares to only 27% of respondents in the other group. These are serious financial problems that should be addressed early on.

The four main domains

The questionnaire was developed using the 57-item Theoretical Domains Framework (TDF) to identify behavioural domains relevant to seeking financial guidance for financial difficulties. The results of the study indicate that four domains of the TDF are important to achieve an increase in the uptake of financial guidance from organisations in the UK (see Appendix). These are optimism, intentions, beliefs about consequences and goals. There is a short description of each domain below.

Both groups expressed a high willingness to seek financial guidance in the future if they had financial difficulties, but there were significant differences between the two groups in the strength of the triggers and barriers in actually achieving this for the domains "optimism" and "intention" as follows:

Optimism

is the confidence that things will turn out for the best or that desired goals will be achieved (e.g. "I am confident that the problem I have will be solved"). However, there are also items that can be used to measure extreme forms of optimism and pessimism, where people either believe that they do not need to change anything about their situation or feel that there is nothing they can do to change their situation.

A person might say...

"My financial problems are probably going to solve themselves so I can always get financial guidance later if I still need it."

Those respondents with post-Covid financial difficulties were significantly more optimistic that "their financial difficulties would sort themselves", and more inclined to believe that "the future will take care of itself", "nothing I do will make much difference to my financial situation" and "with regard to financial difficulties, were optimistic about the future".

Well-founded optimism is positive, but these responses strongly indicate a level of potentially naïve optimism and a degree of pessimism being present that acts as a barrier to action.

Intentions

are the conscious decision to act in a certain way (e.g. "I have decided to do x"). A high intention to do something is often a good predictor of behaviour. Intentions can be further reinforced by creating commitment and entering into behavioural contracts.

A person might say...

"I have decided to seek financial guidance from an organisation offering it."

The respondents who had post-Covid financial difficulties were significantly less likely to want to seek financial guidance and had less intention of seeking financial guidance in the near future. Being willing to seek financial guidance will only translate into action if there is an intention to do it. The intention trigger needs to be stronger.

The following two domains are statistically significant for both groups in determining whether financial guidance is sought.

Beliefs about consequences

are the assumption of the truth, reality or validity of the outcomes of a behaviour in a particular situation (e.g. "If I do x, I expect y to happen"). Usually, when people believe that good things will happen when they perform a behaviour, they are more likely to perform it.

A person might say...

"I believe that getting financial guidance will help me make better financial decisions in the future, so I should take it now."

there was a significant effect of positive beliefs about consequences on people's willingness to seek financial guidance. Hence, the belief that seeking financial guidance would be useful, that it would lead their financial situation to improve and that they would make better financial decisions as a result of getting financial guidance leads people to be more willing to seek financial guidance.

Goals

are mental representations of outcomes or end states that a person wants to achieve (e.g. "I have a clear idea of what I want to achieve by doing x"). Similar to beliefs about consequences, having clearly defined goals motivates people to change their behaviour.

A person might say...

"I know exactly what I want to achieve through getting financial guidance. I have very clear goals that motivate me to get financial guidance"

If participants had less clarity on what they wanted to achieve through getting financial guidance this decreased the likelihood of their being willing to seek financial guidance. Having an intention and a goal are closely related motivations. Interventions designed to increase intention and goal achievement are likely to trigger the desired behavioural response.

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The pre-publication academic paper which forms the basis for this report is "Closing the financial guidance gap: Applying behaviour change theory to encourage individuals experiencing financial difficulties due to the Covid-19 pandemic to seek help". The paper is available on the Fairbanking website.

Appendix

Questionnaire based on the Theoretical Domains Framework (Response: 7-point Likert scale. Strongly disagree – Strongly agree)

Knowledge

1. I am aware that there are organisations that offer free or affordable Financial Guidance
2. I know when I should consider my financial difficulties severe enough that I should seek Financial Guidance
3. I know that I can reach out to utility companies for help if I am unable to pay a bill
4. I know that I can reach out to lenders for help if I am unable to repay a loan, overdraft, or credit card
5. I am aware of the content and objectives of Financial Guidance
6. I know how to recognise financial difficulties that would require Financial Guidance
7. I know how where to find organisations/ sources that offer Financial Guidance
8. I know how to access free Financial Guidance on the internet

Skills

9. I know how I can get in touch with the organisations that offer Financial Guidance

Social role and identity

10. I feel comfortable with the idea of seeking Financial Guidance
11. I generally do not feel comfortable to ask others for help with financial difficulties*

Beliefs in capabilities

12. Reaching out to organisations for Financial Guidance is difficult for me to do*
13. I do not feel confident about seeking Financial Guidance*

Optimism

14. I don't need Financial Guidance because my financial difficulties will sort themselves out*
15. When it comes to money, the future will take care of itself*
16. Nothing I do will make much difference to my financial situation
17. With regard to financial difficulties, I am always optimistic about the future*

Beliefs about consequences

18. Seeking Financial Guidance from an organisation is useful to me
19. If I seek Financial Guidance, I expect my financial situation to improve
20. I would make better financial decisions if I sought Financial Guidance

Intentions

21. I want to seek Financial Guidance from an organisation offering it
22. I intend to seek Financial Guidance in the near future

**Item is reverse coded*

Goals

- 23. I have a clear idea of what I want to achieve through getting Financial Guidance
- 24. I really want to seek Financial Guidance to reduce my financial difficulties

Memory, attention and decision-making processes

- 25. Financial Guidance is easy to remember
- 26. I have no trouble focusing my attention when I need to focus on Financial Guidance
- 27. I have difficulties deciding whether I need Financial Guidance or not*
- 28. I am likely to put off seeking Financial Guidance even if I decide to do it*

Environmental context and resources

- 29. It is easy for me to get to a Citizens Advice Bureau or other guidance agencies
- 30. It is easy for me to receive confidential financial information by post
- 31. It is easy for me to get to use a telephone in private to discuss financial matters
- 32. I feel like I don't have enough money to seek Financial Guidance*
- 33. It is easy for me to access the internet to get information about money or my finances
- 34. I can seek Financial Guidance even when I am short of time

Social Influences

- 35. I find it hard to seek Financial Guidance when others are doing well financially*
- 36. My family / friends would support me if I sought out Financial Guidance
- 37. Most people whose opinion I value would approve of me seeking Financial Guidance
- 38. Seeking Financial Guidance for financial difficulties is normal
- 39. People I know / my family and friends use Financial Guidance
- 40. The people I spend my time with would get Financial Guidance

Emotion

- 41. Negative emotions prevent me from seeking Financial Guidance*
- 42. I start to worry when I think about seeking Financial Guidance*
- 43. Asking for Financial Guidance seems too scary*
- 44. I would feel embarrassed to seek Financial Guidance*
- 45. My daily life is too stressful to seek Financial Guidance*
- 46. During the past two weeks I have been able to enjoy my normal day-to-day activities

Behavioural Regulation

- 47. When noticing my financial situation is getting worse, I would automatically consider seeking Financial Guidance
- 48. I know how to keep track of my money in order to identify financial difficulties
- 49. I have a clear plan under what circumstances I would actively search for Financial Guidance
- 50. I have a clear plan of how I will seek Financial Guidance
- 51. I have a clear plan of when I will seek Financial Guidance

**Item is reverse coded*

Mean, standard deviations and statistical significance levels for the TDF domains for both groups

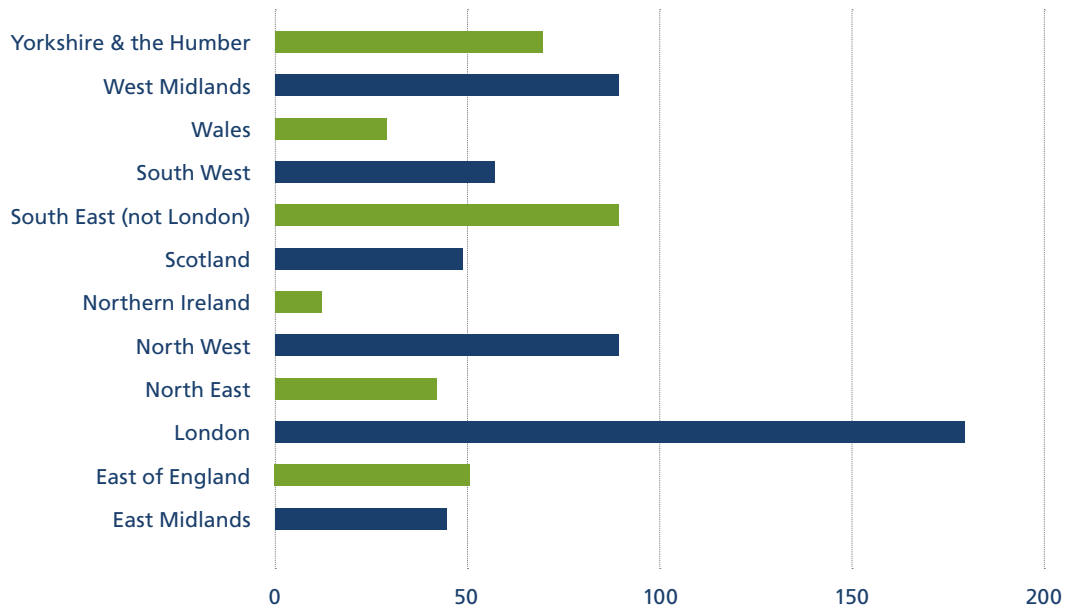
Domain	No financial difficulties pre-pandemic		Financial difficulties pre-pandemic		F (3,334)	η^2
	Mean	Standard Deviation	Mean	Standard Deviation	Distribution	Effect Size
Knowledge	4.75	1.10	4.99	1.16	.25	.00
Skills	4.73	1.50	5.04	1.38	.79	.01
Social Role and Identity	3.73	1.23	3.80	1.06	1.86	.02
Beliefs in capabilities	3.55	1.40	3.19	1.43	.90	.01
Optimism	3.82	1.09	4.47	1.34	3.31*	.03
Beliefs about consequences	4.87	1.01	5.06	1.20	2.32	.02
Intentions	4.59	1.35	5.03	1.36	7.29***	.06
Goals	4.68	1.22	5.07	1.24	1.93	.02
Memory, attention and decision processes	4.18	.96	4.09	.70	.53	.01
Environmental context and resources	4.60	0.95	4.72	.93	.29	.00
Social Influences	4.34	.89	4.61	.92	.16	.00
Emotion	3.68	1.22	3.39	1.08	1.14	.01
Behavioural regulation	4.46	1.17	4.89	1.25	.46	.00

Items marked with stars have the following significance levels * $p < .05$; ** $p < .01$, *** $p < .001$

Effect sizes .01: small effect size; .06 medium effect size; 0.14 or higher: large effect size, effect size refers to the proportion of variance that is explained by a domain of the total variance remaining after accounting for variance explained by other variables in the model (MANOVA)

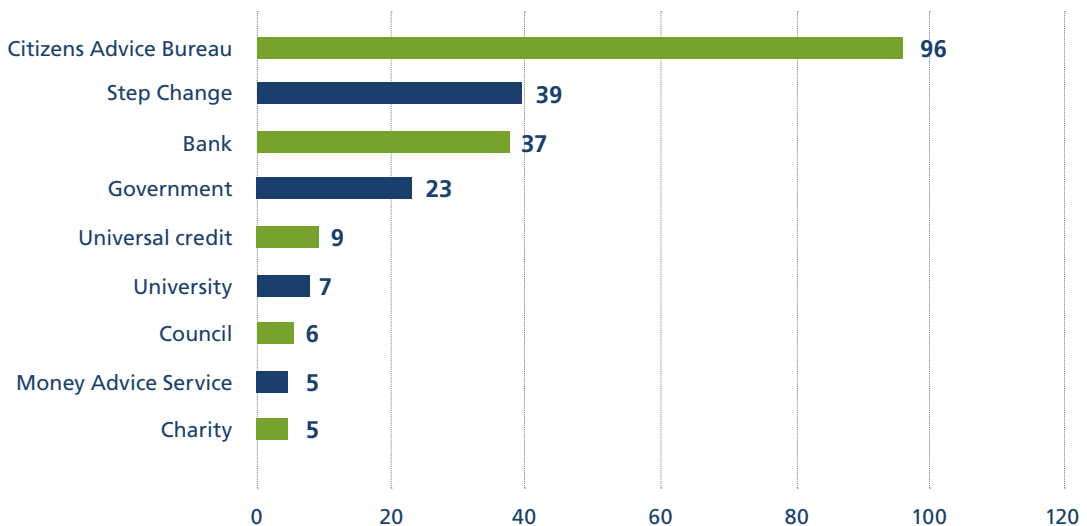
Where do you live?

Figure 1: Distribution of the origin of participants



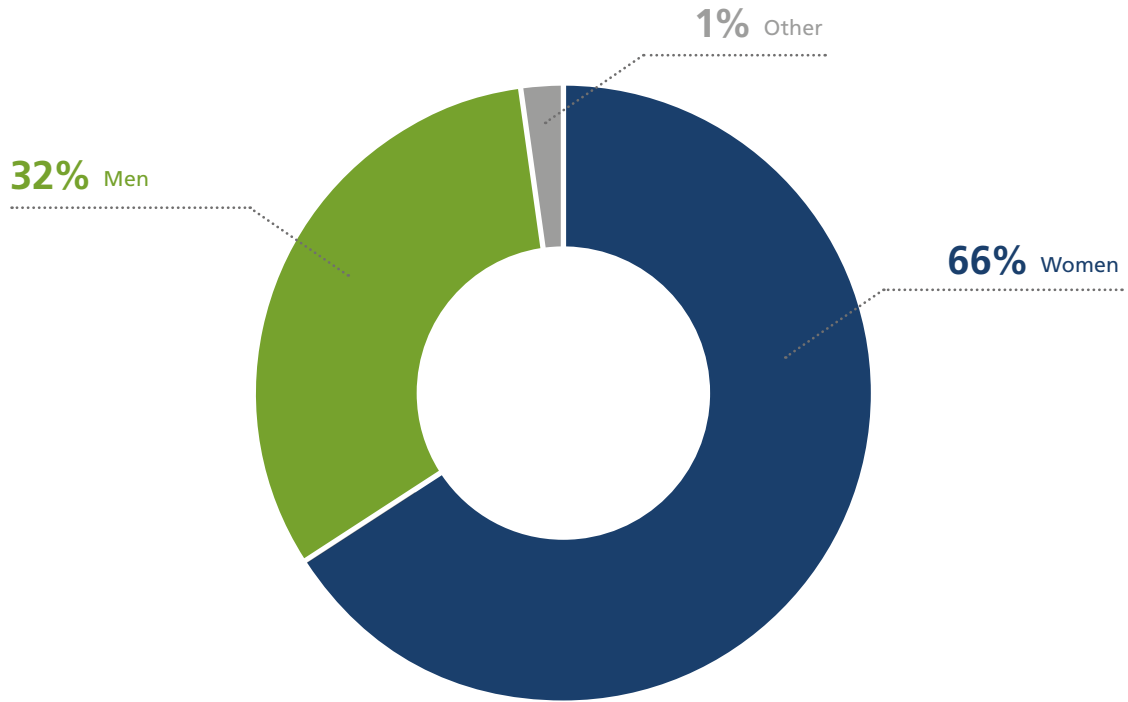
Providers of Financial Guidance

Figure 2: Providers of financial guidance ranked by number of users



Gender

Figure 3: Gender distribution in the survey



Highest level of education

Figure 4: Highest level of education of participants

