

18<sup>th</sup> March 2024

In June 2023, the FCA, Ofgem, Ofwat, and Ofcom published a [joint letter](#) via the UK Regulators' Network (UKRN), setting out shared expectations on how firms in our respective sectors should support customers in financial difficulty.

We also committed to considering what our shared expectations are in relation to debt collection.

Some consumers continue to experience severe financial strain due to cost of living pressures and are at risk of falling into arrears and being subject to collections action from firms. It is a priority of ours that firms support customers in debt – and that firms' collection practices are not causing harm to customers. This letter sets out the consumer outcomes that we – the FCA, Ofgem, Ofwat and Ofcom – expect to see firms delivering, in response to identified consumer harms that cut across our sectors.

We set out the rules, guidance, and best practice relevant to delivering these outcomes in each of our sectors in an annex at the end of this letter.

### **Debt collection and vulnerability**

Customers subject to collections activity are highly likely to be in vulnerable circumstances due to financial difficulty – and may also have other, non-financial characteristics of vulnerability such as problems with their physical or mental health.

Firms should be aware that customers in vulnerable circumstances may find it difficult to engage with creditors, and that their vulnerabilities may be exacerbated if creditors take an inappropriate approach to collections.

### **Consumer harms in debt collection**

Through regulatory work in our sectors and engagement with stakeholders involved in debt collection, advice and support, we have identified the following areas that can cause consumer harm:

- **Customers in financial difficulty feeling they are being inundated by collections communications:** this may be due to firms contacting customers in collections with high frequency, which can be compounded if customers receive multiple collections communications from different creditors (often across different regulated sectors). This can cause consumer harm in various ways, such as affecting customers' mental and/or physical health, leading them to make decisions that are not in their best interests, or to not engage with the collections process.
- **Use of intimidating or threatening tone in collections communications:** this can cause consumers to disengage with their creditors, reducing chances of repayment and the likelihood of seeking free debt advice. It can also have a negative impact on customers' mental and/or physical health.
- **Advisers working for free debt advice organisations are facing unnecessary barriers when engaging with creditors on behalf of their clients:** debt advisers report spending substantial time and effort trying to contact their clients' creditors and finding it hard to reach the right people. If they can't, those creditors may not properly register the involvement of the adviser and continue to contact customers, undermining customer engagement with free debt advice and support services.

**Outcomes we expect our regulated firms to deliver:**

- **Firms ensure an appropriate frequency of collections communications and reduce the frequency where it is not delivering positive customer engagement or is causing harm to consumers:** we expect firms to engage with customers in a timely manner where they have reason to believe they are in, or at risk of, financial difficulty and to offer support. This positive engagement is crucial – but firms should consider the impact of the frequency and channel of their collections communications on their customers and avoid and/or change collections communications strategies that are not delivering positive engagement.
- **Collections communications use tone that is supportive:** we expect firms to tailor their communications and use language that is supportive in tone, and that facilitates positive engagement with the customer – and avoid language that is intimidating or threatening.
- **Information about free debt advice and how to access it is clear and prominent in collections communications and ‘warm’ referrals (where a firm refers the customer to another organisation directly so that the customer doesn’t have to make a second call) are used where appropriate** to help customers engage with free debt advice as early and easily as possible.
- **Firms make it as easy as possible for advisers from free debt advice organisations to contact creditors** and ensure customer service agents are empowered to resolve the issues advisers contact them about. Firms should consider how they can clearly signpost the contact channels available to debt advisers, and whether these channels are sufficiently resourced.

The expectations set out above are drawn from existing rules, guidance and best practice across our sectors. Firms should be prepared for regulators to use their respective powers to ensure these expectations are met and embedded in firms’ processes in their sectors. Where we find firms are falling short and delivering poor outcomes leading to consumer harm, we may take robust action.

We want firms to commit to delivering these outcomes and will continue to monitor how firms in our sectors are supporting customers in financial difficulty in 2024.

We will continue to work together as a group of regulators, and will keep under review whether further action is required to ensure firms use debt collection strategies that provide the right support, and minimise harm to their customers.

Yours faithfully,

Tim Jarvis - Director General, Ofgem

Lynn Parker - Senior Director, Ofwat

Lindsey Fussell - Group Director, Networks and Communications, Ofcom

Sheldon Mills – Executive Director, Financial Conduct Authority (FCA)

## Annex - Rules, guidance, and best practice relevant to delivering these outcomes

We set out below key relevant rules, guidance, and work in each sector to prevent consumer harm arising from debt collection practices.

### In financial services:

- Firms should start from the position that customers in collections are highly likely to have characteristics of vulnerability (for instance, inadequate income, over-indebtedness and other aspects of financial difficulty), and act in accordance with expectations under the Consumer Duty ([FG22/5](#)) and the FCA's Guidance for firms on the fair treatment of vulnerable customers ([FG21/1](#), 'Vulnerability Guidance').
- The Consumer Duty, introduced last year, strengthened existing requirements as set out in the Vulnerability Guidance. Under these, firms are expected to monitor and assess where they are meeting and responding to the needs of customers with characteristics of vulnerability and to make improvements where this is not happening. This is relevant for firms when assessing whether their collections processes (including the tone and frequency of debt communications) are delivering fair outcomes for their customers.
- There is a foreseeable risk of harm if debt collection communications sent to customers are perceived to be intimidating or unsupportive. Additionally, under the Consumer Duty the FCA requires firms to test communications (for instance, debt collection communications) where appropriate, taking into account the purpose, context, timing and frequency – as well as the scope for harm if the information being conveyed is misunderstood or overlooked by customers ([FG22/5](#), 8.39 onward). The scope for harm is high if debt communications are missed or not driving intended behaviour, so testing is likely to be appropriate.
- The Vulnerability Guidance also states ([FG21/1](#) 4.56 and 4.57) that firms (especially large ones) may want to enable 'warm' handovers between frontline and specialist teams internally, and to external customer support organisations. For example, firms may consider making 'warm' handovers to debt advice organisations to help customers receive timely debt advice and/or money guidance.
- The Consumer Credit Sourcebook (CONC) 7.9 sets out obligations for firms contacting customers in arrears and states that a firm must not contact customers at unreasonable times and must have regard to their reasonable requests (for example, customers who work in a shift pattern) in respect of when, where and how they may be contacted (CONC 7.9.4R).
- The FCA has a track record of enforcement action and redress when those in financial difficulty are poorly treated by those it regulates. In 2020, the FCA fined firms a total of £90million for failures in their treatment of mortgage and consumer credit customers in arrears, with firms paying over £570 million in redress to customers.
- Additionally, the FCA has worked with almost 100 lenders on how they treat borrowers in financial difficulty and sought significant improvements from many of them. Firms have agreed to pay nearly £60million in compensation to 270,000 customers.
- The FCA aims to publish its Policy Statement in H1 2024 in response to its consultation ([CP23/13](#)) setting out plans to incorporate aspects of the Tailored Support Guidance (TSG) into CONC and the Mortgages and Home Finance: Conduct of Business (MCOB) sourcebook and withdraw the TSG. Under the proposals, firms'

communications with customers, where appropriate, should make them aware of the support available, the potential benefits of accessing debt advice and money guidance and how to access it.

- Although the term 'debt collection' has a specific meaning within financial services, for the purposes of this statement this term applies to creditors exercising their rights and to debt collectors working on their behalf.

#### **In water:**

- Ofwat brought in a new [customer-focused licence condition](#) in February 2024, aimed at establishing high standards of customer service and support for the full diversity of customer needs. It sets out the principles that all water companies will be required to meet and will give Ofwat the power to take action against companies who fall short – including giving Ofwat the power to take enforcement action where it has information suggesting a breach of those principles.
- Ofwat's [Paying Fair Guidelines](#) set out expectations for companies on customer treatment, including customers experiencing debt enforcement action. Companies with approaches that are found to be insufficient or that are making slow progress on Paying Fair actions are at risk of not complying with the new licence condition. At a minimum, the Paying Fair Guidelines expect companies to:
  - Make payment, help and debt services inclusive by design, and use approaches to debt management for customers in vulnerable circumstances that are appropriate to their circumstances.
  - Treat customers facing debt recovery action with empathy, sensitivity and provide the same quality of service as other customers.
  - Contact customers using different methods and stop chasing them if they are getting debt advice.
  - Make sure communications are friendly and company representatives are easy for customers to talk to.
  - Tailor debt recovery strategies and review them for suitability, fairness and empathy.
  - Regularly review and update debt communications learning from feedback.
  - Use reputable debt collection companies that treat customers fairly and in line with agreed levels of service
- Ofwat recently published [Service for All](#) – final guidance for all water companies in supporting household customers in England and Wales who need extra help accessing water and wastewater services. It will monitor company support for customers who need extra help by reference to these new guidelines, and through companies' updated vulnerability strategies.

#### **In electricity and gas:**

- Ofgem's [Standards of Conduct](#) requires suppliers and any organisations representing them (for instance, debt collection agencies) to identify and understand the characteristics, circumstances, and needs of consumers in vulnerable situations and satisfy themselves that their actions, such as debt recovery actions, are resulting in consumers being treated fairly (SLC 0).

- Ofgem requires suppliers to [prioritise enquiries](#) from consumers and/or representatives of consumers in vulnerable situations (for instance, debt advisers) who may require immediate assistance, guidance, or advice (SLC 31G.3B).
- The [proportionality principle](#) requires any debt recovery action to be proportionate to the circumstances and amount owed – suppliers shouldn't escalate the debt recovery process too quickly or levy disproportionately high charges in the course of recovering debt (SLC 28.14 – 28.16).
- When deciding whether to install or remotely switch a customer to an involuntary prepayment meter, suppliers must follow the recently updated [guidance](#) on safe and reasonably practicable prepayment meters. This includes guidance on involuntary prepayment meter communications.
- Suppliers are required to [provide information](#), as appropriate in the circumstances, on debt prevention and management, including signposting to debt advice organisations (SLC 31G.2).
- The protection of consumers in vulnerable situations is a priority for Ofgem, and will take further action, including compliance or enforcement, if suppliers are in breach of their supply licence obligations.
- Ofgem has published [good practice](#) on how suppliers can support customers in payment difficulty. This includes good practice across the consumer debt journey, including debt prevention, debt communications, debt support and debt collection.
- Ofgem has published [research](#) on what constitutes 'good' debt communications. This includes communicating in an understanding and empathetic tone and providing clarity about available debt solutions and support.
- Most suppliers have made commitments under Energy UK's [Winter 2023 Voluntary Debt Commitment](#) to:
  - Fully consider information (including budgets, affordable payment offers and prepared Standard Financial Statements) and third-party authority forms from a customer's chosen credible debt or consumer body organisations, including FCA-authorized debt advisors.
  - Review and where necessary updating their staff training and debt communications in pursuit of best practice for their customers, including delivering frontline training on working with customer referrals from external organisations.
  - Sign-off policies for the use of High Court enforcement and County Court Judgements (CCJs) for debt at board level or equivalent.

#### In telecoms:

- Ofcom's [General Conditions of Entitlement](#) set rules on how customers are treated when in debt collection. These General Conditions place obligations on communications providers to ensure that any measures they take to effect payment or disconnect services are proportionate and not unduly discriminatory (GC C3.11). Providers must also publish details of the measures they may take to obtain payment or disconnection, where a customer has not paid all or part of a bill (GC C3.12).
- In addition, Ofcom has rules requiring the fair treatment of vulnerable customers. The General Conditions C5.1-C5.5, require providers to have policies and procedures in place to make sure vulnerable customers are treated fairly.
- In addition to these rules, Ofcom's [Treating vulnerable customers fairly guide](#) suggests measures providers could adopt to ensure the fair treatment of vulnerable

customers, including financially vulnerable people. Providers should recognise that customers who are in arrears are likely to be vulnerable and the guide encourages them to take extra measures to make sure customers in debt or customers struggling to meet their regular payments are treated fairly. In relation to communication with customers, free debt advice organisations, and debt collection agencies, providers should take the following steps:

- Proactively and prominently emphasise the provider support available to customers in debt (such as payment deferrals or payment plans) in direct communications about payment and/or debt to customers and with debt advice organisations acting on their behalf. Providers should also ensure that information about the support available to customers can easily be found on their websites.
- When contacting a customer about their debt, take account of the customer's circumstances where appropriate as well as their preferred communication channel. If a customer in debt has not expressed a preference or if they are not responding, use a range of communication channels before taking any follow-up action, such as enforcement and debt recovery. Rotate between communications channels to increase the chance of reaching the customer.
- Include information in payment and collection related communications about where customers can access free debt advice, recognising that not all debt advice organisations operate across the whole of the UK. This information should be clear and easy to find.
- Refer customers to debt organisations or charities that can provide free debt advice and support (directly where possible). Consider offering to set up and action such a referral for the customer.
- Make it as easy as possible for free debt advice organisations, subject to any reasonable verification and consent procedures, to represent their clients, for example by providing a direct way to contact the provider. Providers should also ensure their frontline staff are aware that customers may be represented by debt advice organisations and facilitate such arrangements.
- Help customers by seeking to understand a customer's individual circumstances before instructing a debt collection agency to pursue them and by using debt collection agencies that have strong policies for treating vulnerable customers fairly.
- The Treating vulnerable customers fairly guide sits alongside Ofcom's [Fairness for Customers commitments](#), developed to strengthen how companies treat their customers. All of the UK's biggest providers have signed up to these commitments.