BORROWED YEARS

A spotlight briefing on young people, mobile phone bills and financial difficulty

NATIONAL DEBTLINE

MONEY ADVICE TRUST

BUSINESS DEBTLINE NATIONAL DEBTLINE WISER ADVISER

Briefing 3 of 3 | November 2016

Foreword

Earlier this year the Money Advice Trust launched a series of spotlight briefings, 'Borrowed Years', on the subject of young people, credit and debt.

*Our **first briefing** showed that many young people are building up debt early in their adult life, while half are regularly worrying about their personal finances. Our **second briefing** focused on borrowing from family and friends and the vital 'safety net' that this provides for many 18 to 24 year olds.*

In this third and final briefing, we present our findings on this age group's experience with mobile phones – often the first financial commitment that young people take on in their lives. While most do so without any problems whatsoever, our research finds that nearly half a million 18 to 24 year olds 'regularly struggle' with the cost of their mobile phone, with many who are on contracts missing monthly payments, and some even borrowing as a result.

With mobile phones no longer a 'nice-to-have' but an essential part of everyday life, we need to make sure that anyone struggling to cope with this or any other household bill receives the support they need. To this end, we offer a selection of steps that mobile phone companies, and Ofcom, can take to better support customers in financial difficulty.

*These join the **policy ideas** we put forward at the launch of our Borrowed Years series, which we are pleased to see have generated a healthy level of discussion since. We look forward to continuing this conversation in the months ahead.*

Joanna Elson OBE

Chief Executive, Money Advice Trust

Mobile phone costs

Our research, based on a survey of 2,042 18 to 24 year olds conducted online by YouGov, found that mobile phone costs are causing financial challenges for a significant minority.

- Around one in twelve 18 to 24 year olds (8.5%) 'regularly struggle' to pay their mobile phone bill or top up their mobile phone credit – equivalent to an estimated 485,000 young people*
- Of those 18 to 24 year olds who have a mobile phone contract, 8% have missed one or more monthly payment in the last year
- 7% of all 18 to 24 year olds have borrowed money from a family member or friend in order to cover mobile phone costs

Spending and contracts

Many 18 to 24 year olds end up paying more than they expected on running their mobile phone, but there are mixed views amongst this age group when it comes to value for money.

- On average, 18 to 24 year olds spend £21.88 a month on their mobile phone, and 27% report that what they currently pay is higher than they expected
- 68% feel that 24 months is too long to be locked into a mobile phone contract
- 61% feel they receive good value for money, while 30% disagree

Measures that could help

The UK's debt landscape has changed significantly in recent years, with National Debtline and other advice agencies reporting a shift away from problems caused by traditional credit products, with more people instead falling behind with everyday household bills[1]. This includes telephone debts, which accounted for more than 18,000 calls to National Debtline in 2015 – around one in 10, up from just one in 25 calls in 2007.

While payment problems are far from unique to the mobile phone market, mobile phone companies, understandably, have somewhat less experience in dealing with customers in financial difficulty than many other creditors. As the problem of missed payments has risen in recent years, so has the need for mobile phone companies to develop more effective interventions to support customers who fall behind.

Fortunately, there is a considerable body of good practice in this arena – tried and tested in other sectors – which mobile phone companies can look to adopt, including working much more closely with the free debt advice sector.

In addition to improving support for customers in financial difficulty more generally, the mobile phone industry has an opportunity to make a meaningful difference to the financial capability of young people. For many young people, a mobile phone is the first significant financial commitment they will take on in life – and there is more that could be done to harness this opportunity, in line with the 'life events' approach laid out in the UK Financial Capability Strategy[2].

In this section we present a selection of measures for both mobile phone companies and their regulator, Ofcom, to consider as they seek to improve outcomes for customers – and for younger customers in particular.

[1] Money Advice Trust (2014), Changing Household Budgets, https://www.nationaldebtline.org/EW/Documents/Changing%20household%20budgets.pdf
[2] Money Advice Service (2015), The Financial Capability Strategy for the UK, https://prismic-io.s3.amazonaws.com/fincap-two%2Fd176f87b-48f9-4344-9d26-afc4df5d86f5_uk+financial+capability+strategy.pdf

Measures that could help

1. Supporting customers in financial difficulty

Mobile phone companies could take a number of steps to better identify the early warning signs of financial difficulty, and promote earlier engagement with customers. There is a pressing need for industry-wide guidelines in the mobile phone and wider telecoms sector to help develop and spread best practice.

- Communications with customers in arrears, including letters, SMS and online content, should be approached as opportunities to offer help to customers who are genuinely struggling and promote positive dialogue with customers. The industry should also focus particularly on training staff to be more aware of debt and affordability issues and ensuring they have the skills and confidence to discuss money problems with customers. This should include training in how to refer customers in difficulty to sources of free debt advice at the earliest stage possible.
- Some mobile phone companies offer short-term repayment plans, which give customers an opportunity to catch up with payments over a reasonable period of time and avoid losing their services. We would encourage companies to make greater use of repayment plans and work with the advice sector to ensure advisers and customers are aware of such options.
- In a number of sectors, including financial services and utilities, there are established industry guidelines setting out how customers in financial difficulty should be treated. These set out clear minimum standards covering both the original creditor and agencies that collect or purchase the debt – and guidelines of this kind for the mobile phone and wider telecoms sector would help support the development of best practice by firms. The industry's regulator, Ofcom, has the opportunity to address this issue through its forthcoming review of conditions of entitlement[3], but mobile phone companies could also drive this agenda through a voluntary customer charter or code.

[3] Ofcom (2016), Review of the General Conditions of Entitlement, https://www.ofcom.org.uk/consultations-and-statements/category-1/review-general-conditions

2. Products that better meet customer needs

The mobile phone market works well for many consumers, but as our research amongst 18 to 24 year olds shows, there are areas of mismatch between existing products and customer needs. Across the market, 'postpay' contracts that tie customers in for a specified period of time continue to grow at the expense of more flexible Pay As You Go and SIM-only deals[4]. The typical length of these contracts is now 24 months, which our research shows more than two-thirds of 18-24 year olds feel is too long to be locked in to.

A key factor driving these trends is the growth of expensive smartphones which have effectively turned mobile phone contracts into a vehicle for financing the purchase of handsets. An additional issue is the difficulty many consumers still have in predicting their spending in advance, and managing their mobile phone costs accordingly.

- The regulator and industry should review alternative options for financing smartphones. Consumers who use a mobile phone contract to finance a smartphone should not have significantly less protection than those who use other types of finance, particularly Consumer Credit Act-regulated loans.
- Many companies already provide 'spend management' tools, which allow customers to monitor their spending, and caps, which allow them to set limits on usage and avoid accidental overspending. This is helpful but we would encourage greater promotion of such spend management tools and caps to customers – including at the point of sale.
- The mobile phone market is increasingly complex, with consumers facing an increasing number of options to choose from not only in terms of products but also service bundles and packages. We welcome efforts by the regulator to ensure consumers can navigate this complex landscape effectively[5], and would urge that young people be considered as a priority audience in this work.

[4] Ofcom (2016), The Communications Market Report 2016, https://www.ofcom.org.uk/__data/assets/pdf_file/0024/26826/cmr_uk_2016.pdf
[5] Ofcom (2016), Annual Plan 2016/17, https://www.ofcom.org.uk/__data/assets/pdf_file/0036/59499/annual-plan-2016-17.pdf

3. Improving financial capability for young people

Mobile phones are often one of the first financial commitments young people will make in their lives – providing many with their first real experience of monitoring and managing spending and their first exposure to contracts, credit checks and other important money and personal finance topics.

There is undoubtedly an opportunity for mobile phone companies to do more to help develop financial awareness with young customers through effective, timely financial capability interventions. This could both make a meaningful contribution to improving financial capability in the UK, as well as achieve positive impacts for companies themselves through improved customer loyalty and payment behaviour in the future.

- As many people turn to the internet rather than high-street stores to choose and compare mobile phones, companies could build online budgeting and affordability tools into their websites to encourage customers to check what they can afford. These tools could incorporate advice about payment methods and spend management tools, as well as signposting for customers with money and debt concerns to free debt advice.
- A credit reference check is usually carried out on customers taking out a new mobile phone contract. For customers who take out contracts in store, this is an opportunity for a wider conversation about credit and affordability. There are widespread misconceptions about credit referencing, and companies could consider working with credit reference agencies to produce materials that help consumers understand this important area better.
- Many phone companies host online forums or communities for their customers. These are often the first port of call for customers with technical issues or service problems to resolve. Companies could consider integrating debt and money problems more fully into these online forums either by giving their own representatives a ‘money champion’ role, by linking to other forums, or by inviting organisations with money and debt expertise to participate.

For more on our Borrowed Years series

Borrowed Years briefings

In our first ‘Borrowed Years’ briefing we presented a selection of policy ideas – for consideration by government, financial services firms, schools, colleges, universities, charities and other organisations – designed to stimulate discussion on what more can be done to support young people to manage their money with confidence.

These included earlier, more co-ordinated financial education, timely support for first-time borrowers, practical reforms to student finance payments, a bigger role for employers, help with building up a credit history and improved access to banking and savings.

For more information read our first and second ‘Borrowed Years’ spotlight briefing at **www.moneyadvicetrust.org**

Ten top tips for under 25s

Read and share National Debtline’s ten top tips on money and borrowing for under 25s at **www.nationaldebtline.org/borrowedyears**

Methodology

The research findings presented in this briefing are based on a survey of 18-24 year olds commissioned by the Money Advice Trust and conducted online by YouGov. All figures, unless otherwise stated*, are from YouGov Plc. Total sample size was 2,042 adults. Fieldwork was undertaken 16-25 August 2016. The survey was carried out online. The figures have been weighted and are representative of all GB young adults (aged 18-24). *All population estimates are based on Money Advice Trust analysis of the results compared with the latest ONS mid-year population estimate published in June 2016.

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