

WAY FORWARD

QUANTIFYING THE MENTAL
TOLL OF DEBT STRESS



EXECUTIVE SUMMARY

Way Forward provides a free service to people in financial hardship, aiming to resolve their debt burden. We are a person-centred organisation that seeks to understand the lived experiences of the people we support to help them get back to financial stability. Way Forward is committed to long-term support so people have the strategies they need to continue to manage their finances independently. To better understand these first-hand experiences over the past year, we conducted semi-structured interviews to gather information about the way our service can assist people.

These 23 stories highlighted consistent experiences, through which a series of themes were identified. These themes related to mental health, interaction with lenders and struggles managing daily life expenses when paying off debts. These narratives now form a catalogue of stories published on Way Forward's website.

To gain a deeper insight into the themes raised by the interviews, we issued an anonymous survey with Way Forward clients with three main objectives:

- Better understand how/whether the mental health of our clients has been impacted by their financial hardship
- The extent to which they had benefited from Way Forward's service and whether using our services led to an improvement in their financial wellbeing and/or mental health
- To better understand the relationship between our clients and their creditors

The survey was available to our clients between September and December 2020, and completed by 63 individuals.

KEY RESEARCH FINDINGS

	Key finding	Evidence
01	There is a correlation between financial wellbeing and mental wellbeing	Those who frequently worry about finances see a more significant impact on their mental health. 86% of individuals who worry about money all the time see this impact their mental health at least weekly.
02	Clients only share a small portion of their hardship situation with their lenders	Client interviews revealed they were generally reluctant to reveal their whole socio-economic hardship situation due to embarrassment or for fear of the information disadvantaging them at a future point.
03	The level of savings a client holds is a key contributor towards the likelihood of financial worry	The less savings an individual has, the more frequently they worry about finances, which subsequently contributes to poor mental health.
04	Whilst Way Forward clients still worry about money, they have seen a dramatic improvement in both their financial situation and mental wellbeing and are optimistic about the future	All clients who responded to the relevant survey question saw an improvement to their financial situation and mental wellbeing. They also indicated they feel more informed, in control and confident about their financial situation in the next 3 to 6 months.
05	The way in which a bank approaches their relationship with their hardship clients has a large impact on a client's experience and whether they would advocate the lender's services	On average, the standout lender with the most positive responses is approaching clients in financial hardship with a focus on understanding and support. On the other end of the spectrum sits lenders who often prioritise recoveries over client experience and engagement.

This report provides more details into the findings above.

At Way Forward, we encourage a move towards a holistic approach to supporting people with multiple creditor debts. In practical terms, this means a collaborative cross-lender approach where lenders work with organisations like Way Forward and financial counsellors to shift away from competing for debt management of an individual's debt.

We understand that our clients are still highly reluctant to tell their story to creditors for fear of penalty. It's important creditors recognise this reluctance as a natural reaction and therefore, opt for a neutral, non-partisan voice to represent clients. By doing this, creditors are more likely to glean the complete story about a person's financial situation.

INTRODUCTION

According to several direct client interviews, an exceptionally high proportion of people spoke of moderate to extreme mental anguish resulting from their financial debts.

People who were interviewed stated they became anxious, depressed, agitated, quick to anger, changed temperament and personality, viewed a negative impact on their personal relationships as their debts became increasingly unmanageable.

These insights led Way Forward to conduct a more comprehensive study into the attitudes and behaviours from our client group to better understand their perceptions of their mental wellbeing.



“Had the person at Bankwest not referred me to Way Forward, I hate to say it, but you and I wouldn’t be probably having this conversation. Debt has a direct correlation to mental health. You’ve got to talk about it. There is still a fair way to go. I am not jumping over fences with enthusiasm or anything like that, but my optimism is certainly rising.”

- Dave, Way Forward client

“I consider myself a positive person but three months ago – before I spoke to Way Forward – I couldn’t care if I went bankrupt. I was at the point of despair.

You are a different person and who you always hoped you were going to be. It’s just incredible. It’s not preoccupying every living thought. Previously, you woke up and you go to bed and you’re just thinking about the financial pressure.”

- Leo, Way Forward client

The interest repayments were completely depleting, it sucked the life out of me, thinking of how much I was putting in and then how much I was getting out. My mental health was really poor because it pushed me into a state of burnout because I was trying to get on top of it. I had relationships completely deteriorate. My partner and I really struggled for about a year because I was constantly at work. My whole quality of life is different now. I can spend time with my friends and family and feel like I have the choice. It’s a feeling of freedom.”

- Amanda, Way Forward client

“Way Forward are like my guardian angels. They were so helpful, I felt supported and listened to. I finally had someone on my side to help me work through my large debt that I was left with after a financially abusive marriage. I had extreme anxiety and depression from my financial situation, and they took all the hassle out of it by working with me on a liveable budget and working with all the creditors on my behalf. If I didn’t find Way Forward, I don’t even know where I would be right now... possibly on the street.”

- Anonymous respondent

METHODOLOGY

Looking at the research in two parts, we initially undertook client interviews as part of a storytelling exercise. Following these 23 interviews over the period of May 2020 to May 2021, we gathered stories of people going through financial hardship. Our clients come from diverse backgrounds, locations within Australia and a variety of circumstances. However, the unifying factor is that they are in distress because of financial hardship.

Way Forward also conducted a survey, emailed to 292 existing clients Australia-wide in November 2020. We received 63 responses over a two-month period. Through the survey, we attempted to get a more detailed view of the circumstances that led to financial issues, conditions that brought them to Way Forward, strategies since implemented and the relative success of those strategies in supporting people manage their financial issues.

We engaged an actuarial consultant to objectively analyse the survey data to understand the issues, trends and outcomes to ultimately, offer actionable recommendations how financial institutions and their hardship teams can better support clients struggling with debt and prevent further financial hardship.

The insights have been presented in a way that allows a wide range of relevant stakeholders, from legislators to industry decision makers, to better understand how debt impacts Australians' mental health.

CONSIDERATIONS AND ENVIRONMENT

At the time the survey was conducted, Australia was emerging from the first lockdown. The impacts of both COVID-19 and the lockdowns were unknown and especially on the economy and employment. At the time, it was predicted the country would experience its first severe recession in almost three decades, potentially significant increase in unemployment and housing instability, leading to many people unable to pay their debts. As the country grapples with extended lockdowns due to the pandemic, the insights are more relevant than ever.

Looking at how our clients reach us, we have found that of the 1,083 referrals received in 2020, 566 people referred did not proceed making a debt management plan with Way Forward. Of those 566, 214 were referred to a financial counsellor because of having no or insufficient income (38%) and hence, our team being unable to help them. Considering this ongoing referral system between our service and financial counsellors, it is important we continue to build upon a strong relationship with financial counsellors and their services to ensure they fully grasp which clients Way Forward is able to help.

To begin, the following observations were made with regards to the demographics of respondents.

It is important we continue to build a strong relationship with financial counsellors and their services.



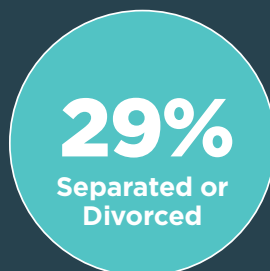
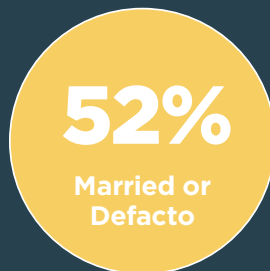
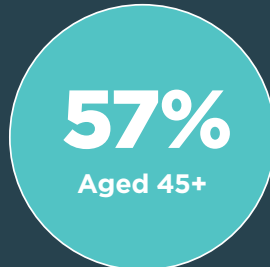
RESPONDENT DEMOGRAPHICS

Overview

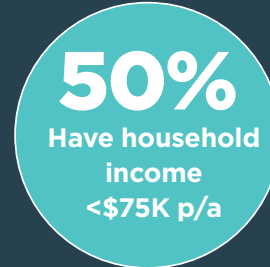


Assets

Life Situation



Employment and Finances

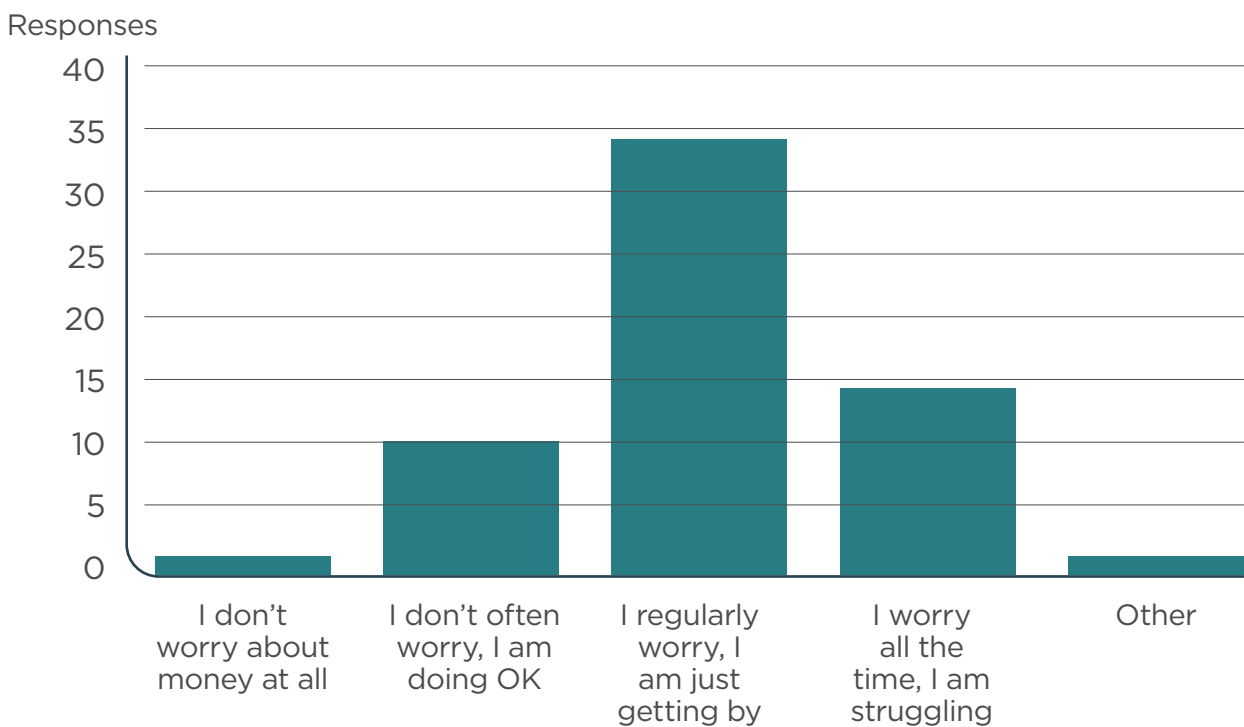




Finance worries – having an arrangement in place doesn't stop the worry

Way Forward works closely with its clients to confirm a budget that is realistic. This includes confirming income and expenses from transaction statements and allowing a savings buffer to cater for unexpected expenses.

How often do you worry about money?

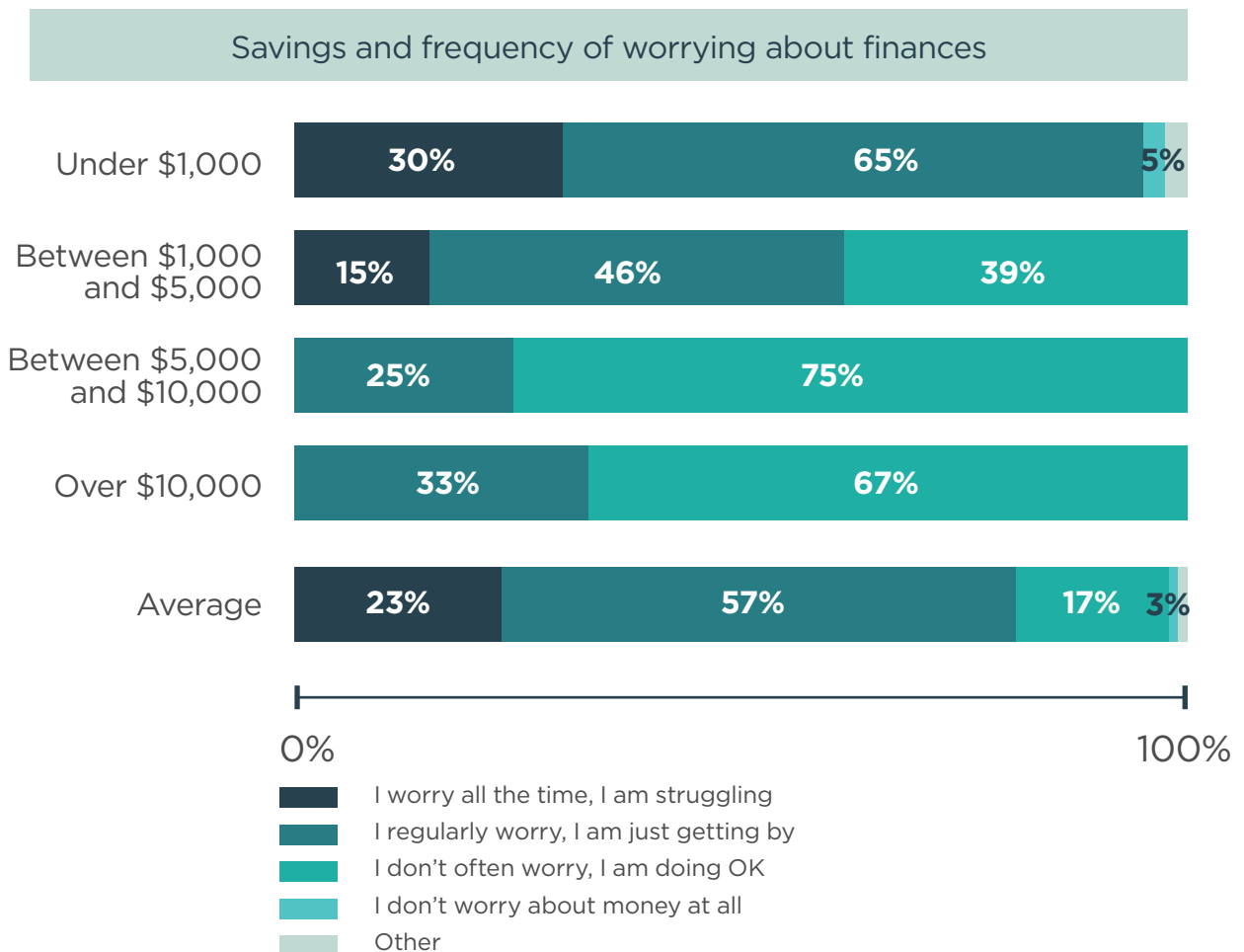


Even with these plans in place and an optimistic view of the future, it does not stop the worry for **76%** of our clients.

Finance worries – those with lower savings are more likely to worry about finances

When asked “How often do you worry about money? For example, because you cannot pay a bill, don’t have enough money for rent or food, must sell something because you need the money”, a correlation was found between the amount of worry and the amount of savings an individual has.

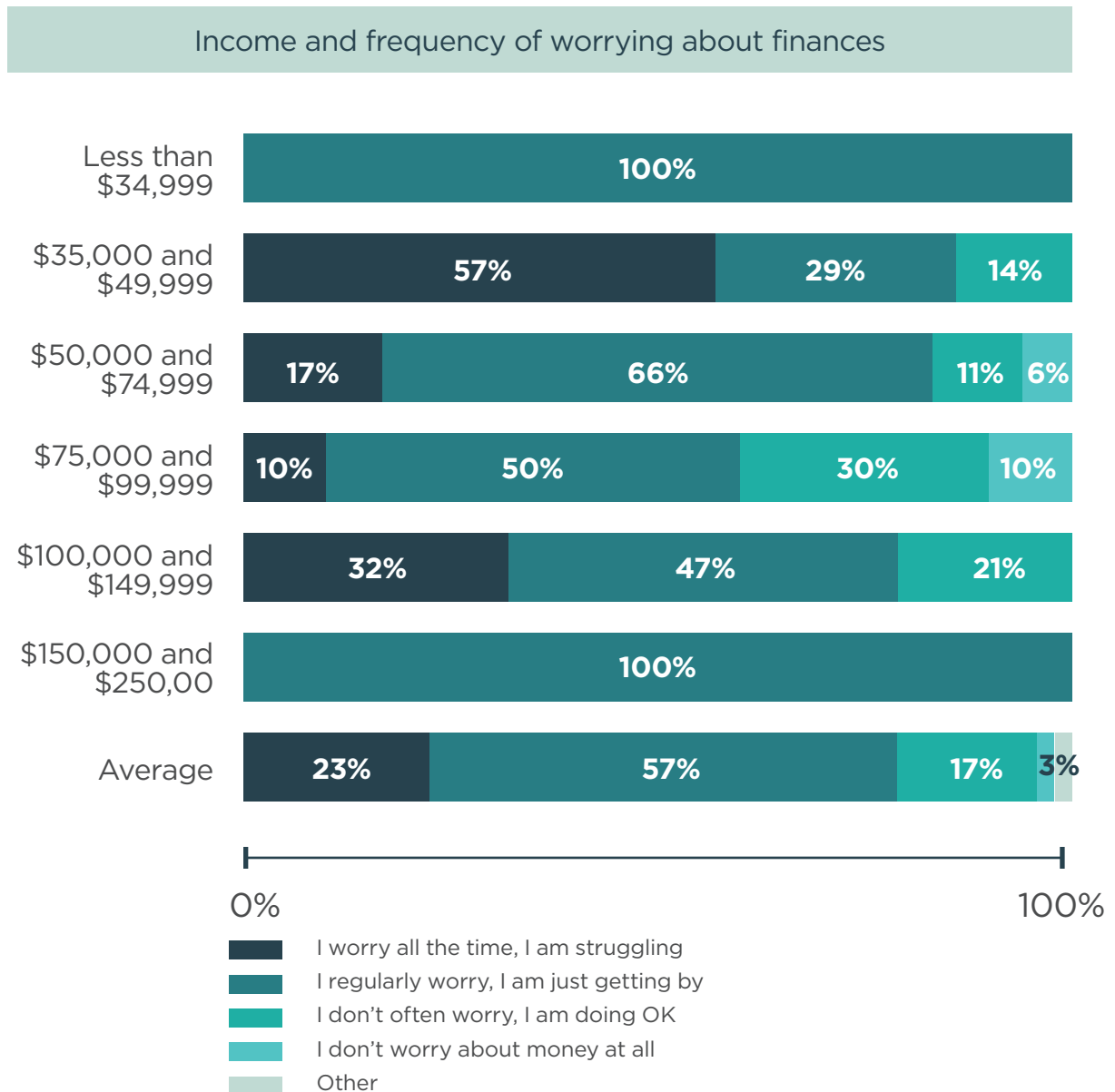
Those with less than \$1,000 of savings regularly worry significantly more than those with over \$5,000 in savings.



Over **65%** of respondents had less than \$1,000 savings in the bank - an issue especially impacting women. Feeling insecure by lack of savings could also explain why over **50%** admit they regularly experience challenges with their mental health even after a plan was in place.

Individuals worry about finances regardless of their income level

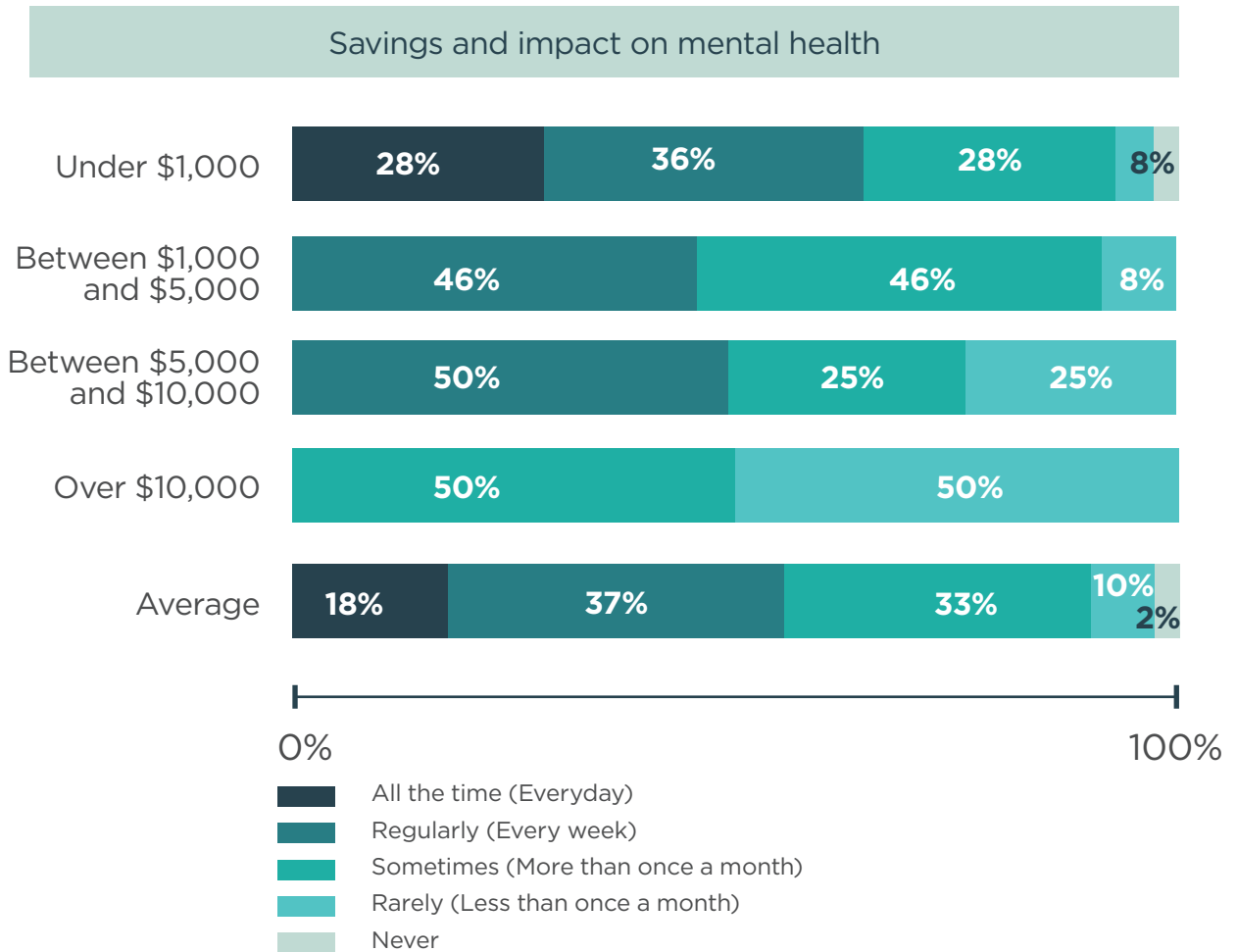
When asked “How often do you worry about money?”, both people earning less than \$35,000 and between \$150-\$250,000 per year reported high levels of stress about money.



According to the results, both low and high earners seem more prone to financial worry than the average Australian - and no income bands are immune. This suggests all Australians tend to worry about money and the amount of worry does not reduce as your income increases.

Mental health – those with lower savings are more susceptible to having a more regular impact on their mental health

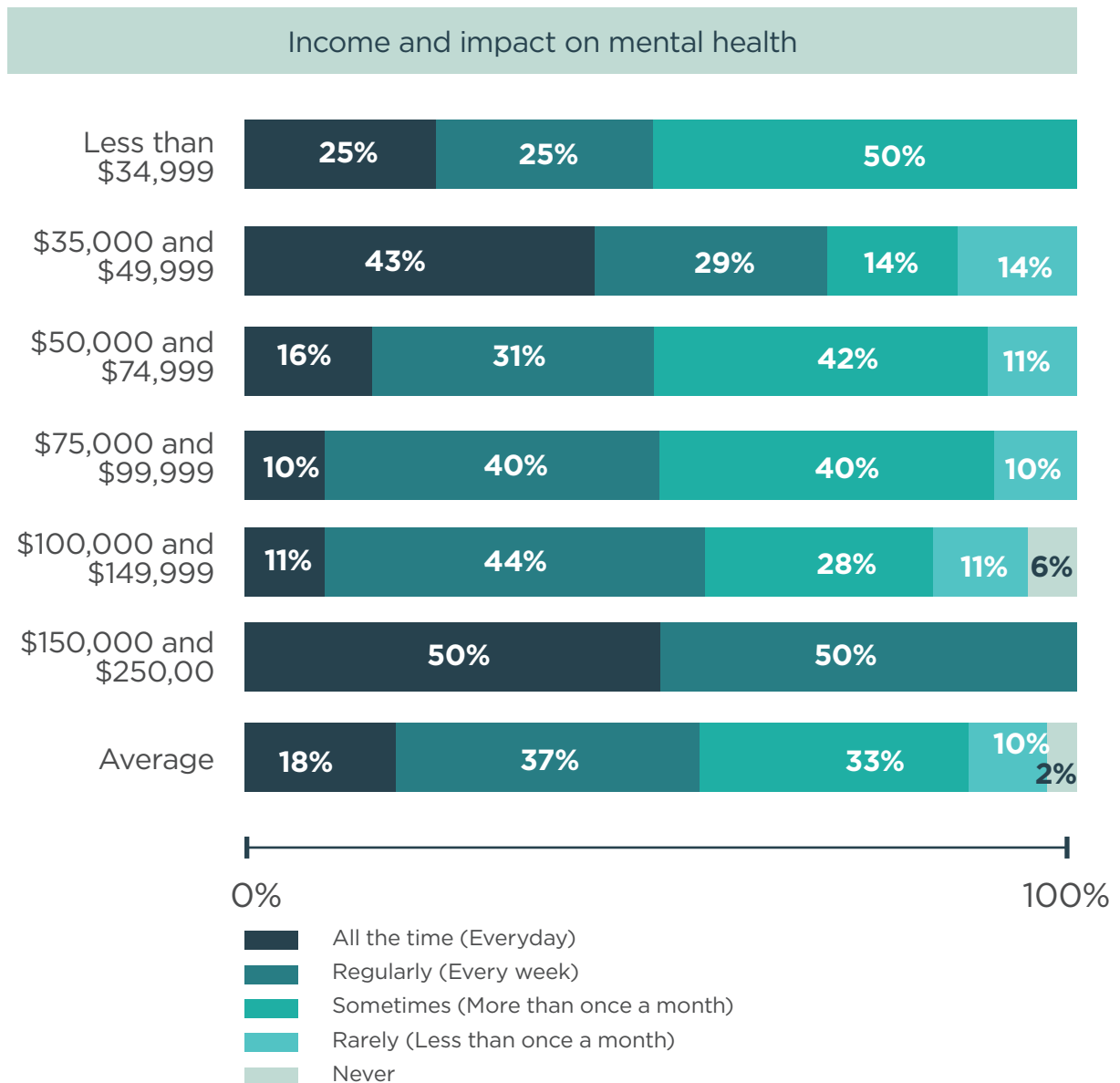
How often would you say your financial situation would impact your mental health?



Having over \$1,000 in the bank creates a protector for one's mental health when it comes to money worries - although all respondents are somewhat impacted.

More income doesn't necessarily mean money has less impact on mental health

How often would you say your financial situation would impact your mental health?



Again, people earning \$150-\$250K are most prone to having money impact their mental health compared to others. Those who constantly worry about finances, **42%** have responded their finances impact their mental health daily. A further **42%** have responded their finances impact their mental health weekly.

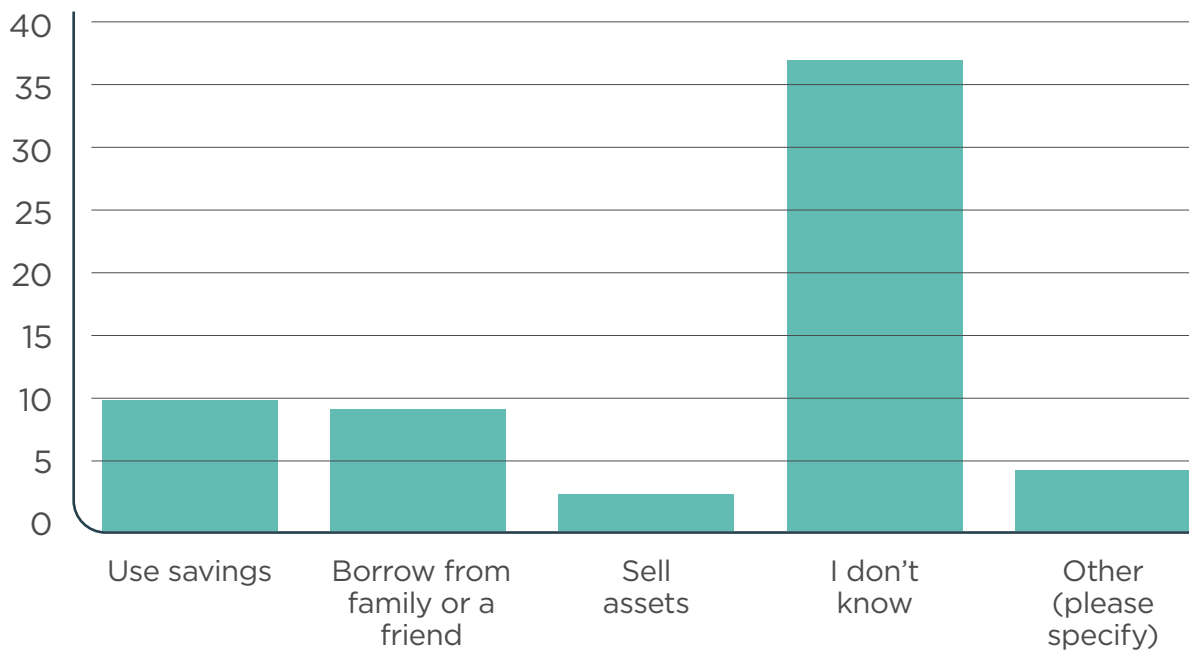
Optimism for the future – Whilst 80% are likely to worry about their finances, 83%-90% are confident for the near future

Whilst 80% of respondents are likely to worry about their finances, 83-90% are confident they can meet their upcoming financial obligations.





When compared with the question on confidence to meet their expenses, 61% of respondents didn't know what they would do if they suffered a 1/3 reduction in their income.

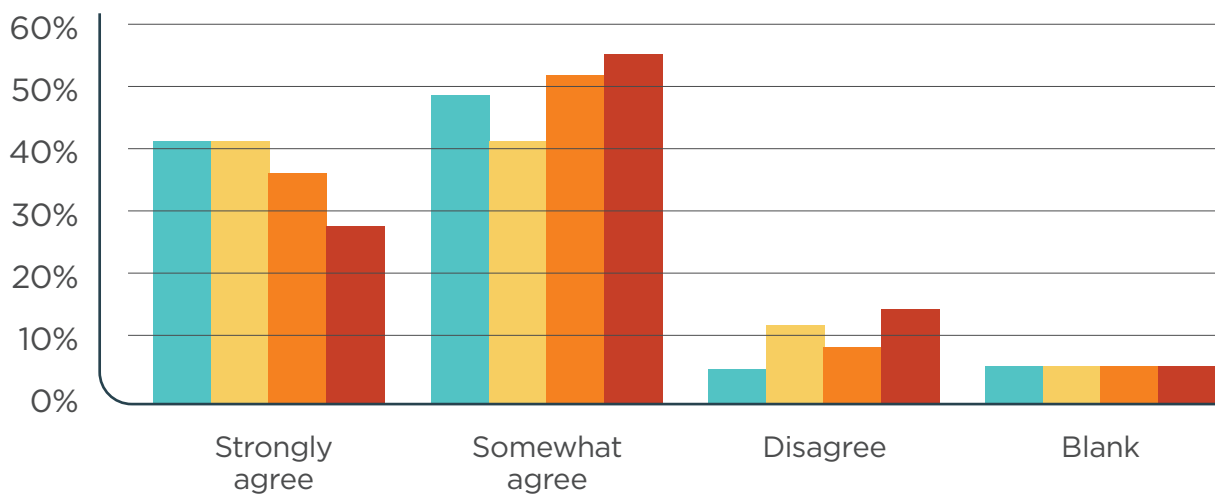
If your income fell by one-third, how would you meet all of your expenses?

Responses



Thinking about the next 3-6 months, how much do you agree with these statements?

 “I feel informed about my financial situation”	 “I can see a path to a financially stable and sustainable future”	 “I am confident that I can meet my current financial obligations”	 “I feel in control of my finances”



So those with a realistic plan to manage their finances:

- Still worry about their finances
- Would struggle to meet their ongoing expenses if they had a significant reduction to their income
- Are still likely to be impacted by the challenges associated with mental health

Yet they are confident they can now meet their financial obligations and gain control of their finances, suggesting a realistic plan can provide confidence to someone in financial hardship.

CONCLUSIONS & RECOMMENDATIONS

Drawn from qualitative client interviews and quantitative survey to better understand the lived experience of Way Forward clients, we found there is a high correlation between those experiencing financial hardship and poor mental health.

We can also conclude that:

- 1. Those with sufficient reserves to meet two weeks of expenses (i.e. roughly \$1,000) experience lower stress to their mental wellbeing.** This means that having a financial buffer can provide some reprieve in an otherwise stressful situation.
- 2. Just because you earn more does not mean you are immune from financial worry.** In fact how much someone earns has no correlation with less worry and mental health challenges. The impact of financial difficulty impacts all people regardless of household income.
- 3. Having a realistic plan to get out of debt can provide the hope to press forward despite the challenges of worry and impact on mental health.** There are many ways financial institutions can support clients in financial hardship and importantly, educate customers around better management of their finances to avoid problem debt in the first place.



The first payment was a massive milestone. I'm one month in and for the first time in what feels like forever, I haven't watched my bank account dwindle down to nothing two days after I get paid because of the credit card repayments.

- Leo, Way Forward client

RETHINKING CLIENT RELATIONSHIPS DURING THE PANDEMIC

Underpinning the results are the interactions people have with their lenders when they are in financial hardship and how their perceptions are influenced during this stressful time.

From our engagement with industry, and working closely with clients and members, we understand there is an on-going effort to support people in hardship directly through hardship teams.

However, creating an organisational culture that recognises the impact of financial hardship on people's lives, families and their mental health is imperative across Australia's financial sector.

Further, a commitment to continuous improvement of industry best practice is especially critical as COVID-19 continues to create stress and uncertainty among everyday Australians.

Whilst financial institutions supporting people impacted by COVID-19 should be acknowledged, the granting of payment moratoriums cannot be the only support being offered.

A particular worry is the support for secured debt, but less so for unsecured debt - leaving many Australians struggling with complex, bad debt.

From our engagement with industry, and working closely with our members, we understand there is an on-going effort to support people in hardship directly through hardship teams.

NEW STANDARDS FOR HARDSHIP TEAMS

Financial organisations making debt arrangements for customers should ensure their hardship teams have minimum standards. This can be but is not limited to:

1. Treating all people equally

Offer the same level of support to everyone experiencing hardship, no matter how they found themselves in the situation. For example, someone who has made decisions that led to the difficulty (i.e. overcommitted/overspending) compared to someone whose circumstances have been outside their control (i.e. loss of job, illness) could be treated differently.

By treating everyone's situation equally and without judgement, the focus can shift towards enabling progress and improving the situation for the person – right from the moment the need for assistance has been identified.

2. Inclusive hardship programs

Once someone has missed a payment, assume that they are experiencing financial difficulty. Then match the right support option to the underlying challenge rather than seeking a promise from the client that they will repay the debt.

Free support for individuals is easily available so it's important the hardship team does the due diligence and directs the client to the right team to minimise stress and back-and-forth between institutions.

3. Allow for the unexpected

When working through budgets with people experiencing financial hardship, ensure that a buffer of at least \$100 per month is applied to go towards funding any unexpected expenses.

4. Approaching clients in financial hardship with kindness

Providing a 'language library' with clear information to staff, particularly in explaining the implications of supporting people experiencing financial difficulty, will be a helpful resource for staff to lean on when supporting clients in distress.

Also, we suggest moving away from the client needing to prove or justify why they ended up in their situation to qualify or warrant support from their creditor. Furthermore, ensuring long-term support is offered before the client needs to suffer through a period of living with the consequences of their choices will be a kinder way to support clients through financial hardship.

5. Educating and encouraging clients to save for a rainy day

As a result of the analysis of the survey results, we can conclude that those with sufficient reserves to meet two weeks worth of expenses (i.e. above \$1,000) experience lower stress to their mental wellbeing. This means that having a financial buffer can provide some reprieve in an otherwise stressful situation. Continuously educating clients on the importance of savings is a great way to reduce financial hardship in the future.

6. Hardship is not a characteristic of an individual, but a reflection of their current life experience

Circumstances will change over time and people who experience financial difficulty can emerge better on the other side with the right support from their lenders. Instead of labelling people in financial hardship, financial institutions can work to empower them with the tools to get back on their feet as fast as possible – and manage their finances with confidence for the long term.



How does Way Forward work with clients?

When someone calls us, we ask a few simple questions to understand the full situation, including questions around one's personal circumstances and challenges, debts and repayments, income and expenses. From this we can work through options to make the final decision to help the client get out of debt.

In addition to the support we offer and depending on who is best able to assist, we can also connect the person with a financial counsellor, other community organisations or a creditor's hardship team. Ultimately, the choice is completely the client's!

Why should someone choose Way Forward?

We are a not-for-profit organisation, which means our service is free. Our focus is assisting the client in their specific circumstance and we will always act in our client's best interest.

We also work with other community organisations such as financial counsellors. This means that if we can't assist, we make sure the client gets the support they need by introducing them to someone who can help.

While we are completely independent, we are supported by the Australian Banking Association and the largest banks and creditors in Australia. That means we can negotiate with all creditors with confidence on a solution that looks at the whole situation with all creditors, which means a better arrangement for the client.



Get in touch to see if Way Forward can help.

Do you have money left after covering all your living expenses to repay some of your debt? Further, are your circumstances unlikely to change? If the answer to both these questions is yes, then we can help.

Contact us via our website, or give us a call on 1300 045 502 and speak to one of our helpful financial hardship advocates today.

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