Responsible collections:
the guide to protecting customers during the cost-of-living crisis

Why is it so important to support your customers right now?

The cost-of-living crisis has seen a sharp, nationwide increase in people struggling financially - so right now it's more important than ever for businesses to uphold their ethical responsibility. With so many people facing financial precarity, it's essential to know how to provide sufficient support to customers and understand the best ways to protect them during the collections process.

The impact of the cost-of-living crisis

In October 2023:

- Gas prices were **60% higher** than two years previously.
- The price of electricity was **40% higher.**
- The UK annual private rental price growth rose to **6.1%** in the 12 months to October 2023.
- UK consumer prices were **6.7%** higher than a year before.

These pressures have had a significant impact on customers' behaviour toward borrowing money and paying debts. **For example:**

- The Bank of England's Money and Credit Overview showed that consumers borrowed an extra £1.4 billion (excluding mortgages) in February 2023.
- Short-term loan application volumes in the UK almost doubled between April and June 2022 (directly following the energy price cap rise in April 2022).
- Rising debt levels mean that customers are more likely to prioritise certain bills over others and ignore some payments completely.
- Customers already in debt are at an even higher risk of becoming trapped into longer repayment periods.

What's even more worrying is that this economic uncertainty has been directly linked to an uptick in mental health conditions like anxiety and depression - with **1 in 8 people who are behind on a bill having attempted suicide during the cost-of-living crisis.**

Inflation levels are not expected to return to their 2021/22 level until 2027/28. In this period and beyond, many people will be vulnerable to financial difficulty, and your business must know how to best protect these customers.

In this guide, we will explore **how to recognise vulnerable customers,** and **what your business can do to support them as they move through the collections cycle.**

Difficult life circumstances and common challenges in debt collection

The aftermath of the pandemic paired with the cost-of-living crisis has left virtually all customers with a history of debt at risk of becoming vulnerable. These customers are much more likely to become unable to pay their bills or manage their debts.

While some potentially vulnerable customers might seem easy to spot - elderly customers, customers with disabilities or health problems, or those from a lower socio-economic background – using limited identification criteria can mean that many of those struggling to pay can slip through the cracks.

Introducing personalised assessments of individual customers' circumstances can help create a much clearer picture of those at risk. In some cases, service teams can pre-empt problems by using customer data to pinpoint individuals in potentially vulnerable situations and establish communication measures to ensure these individuals receive the necessary support before it's too late.

Successfully identifying vulnerable customers is of paramount importance because it allows the right support to be offered **early** to those who need it.

What makes identification difficult?

Customers who are struggling are often disengaged, distrustful of their supplier companies, and unlikely to open up about their issues. Sometimes customers don't voice the problems they're facing out of shame, fear, or because they are unaware that they're vulnerable in the first place.

This disengagement is damaging for both parties. It means that customers aren't aware of the support that may be available to them and that they can be reluctant to engage with or participate in correspondence from the company. Any stress or hardship they are feeling related to their finances is unlikely to be relieved - in fact, it's likely to be perpetuated.

Identifying and supporting these customers in the **right ways** will reduce the strain on them and on your business – because companies that genuinely address people's difficulties with empathy can not only collect more payments, but also build long-term customer loyalty.

You're not just dealing with money; you're often dealing with people in complex situations. Mishandling these situations can lead to fewer payments, distressed customers, and customers at behavioural risk. This is why relying on expert organisations, such as Sigma Connected, is paramount to ensuring both the fair treatment of vulnerable customers and to successful collections. Organisations like Sigma Connected have specialist advisors who are trained in spotting and supporting vulnerable customers, acting in a way that keeps them feeling safe and comfortable throughout every interaction.

Identifying vulnerable customers:

Self-disclosure

Ensuring that every customer has the opportunity to self-disclose is the easiest method of identification.

Look out for limitations

Identify customers who experience trouble with their memory, understanding, or communication during your interactions.

Look out for red flags

Identify any verbal or behavioural indicators of distress, drops in income or significant life events that could point to an underlying vulnerable situation.

Third-party disclosure

From a carer, GP, hospital, or debt advice administrator.

> ***"37% of people who have experienced a mental health problem exhibit significant levels of anxiety when dealing with essential service providers. If a provider delivers poor service or creates unnecessary difficulties for vulnerable customers, this could make their situation worse."***
>
> – OFCOM

What are the rules, regulations and guidelines?

Protecting your customers is not only a moral obligation but, in many industries, a regulatory one too.

Energy

Read OFGEM's Consumer Vulnerability Strategy 2025.

Recent changes:

- From 8 November 2023, energy suppliers must follow new stricter rules before a prepayment meter can be involuntarily installed in a household.
- From 14 December 2023, energy suppliers will have to publish the Citizens Advice star ratings based on how good their customer service is.
- From January 2024, the energy price cap will be increased from an annual household bill of £1,834 to £1,928 - a rise of £94 or 5%.

Water

Read OFWAT's Paying Fair Guidelines.

OFWAT'S Paying Fair guidelines were last reviewed in May 2022, but they are currently consulting on a new customer-focused licence condition that will require companies to provide excellent customer services for their customers.

Telecommunications - OFCOM

Read OFCOM's Fairness to Customers programme (last reviewed May 2021)

Financial Services

Read FCA's Guidance for firms on the fair treatment of vulnerable customers.

Recent changes:

- New Consumer Duty from July 2023.
- Those with closed products and services should check they are on track to meet the 31 July 2024 implementation deadline.

As well as industry regulations and codes of practice, your organisation needs to fulfil its legal responsibility to comply with broader laws that uphold ethical standards. These encompass:

- The Data Protection Act (1998)
- The Mental Capacity Act (England & Wales, 2005)
- Adults with Incapacity Act (Scotland, 2000)
- Mental Capacity Act (Northern Ireland, 2016)
- The Equality Act (2010)

How you can support vulnerable customers in early arrears collections

Traditional method of collections

Previously, collections involved hiring a 3rd party collections agency, whose primary motivation was to track down customers who weren't responsive. This service tends to be impersonal, focusing solely on collection without considering customer well-being, discussing extenuating circumstances, or understanding the reasons for loss of contact.

This process is particularly detrimental to vulnerable customers facing financial difficulties and it reinforces the perception that the business is solely interested in extracting money without regard for their circumstances. This negative experience erodes trust and leaves the customer without any opportunity to address the underlying issues causing financial strain.

An alternative approach: empathetic collections

Implementing a newer, ethical approach to collections can improve your business' relationship with its customers – but what does it involve?

1

Personalise your approach

By collecting customer data, your business can create a more effective, personalised collections strategy to understand your customer's:

- Online behaviours.
- Shopping habits.
- Purchasing patterns.
- Timings and reasons for their interactions with your company.
- Most predominantly used communication channels.

This can make it easier to recognise a specific customer's typical journey, so you can determine common themes across financial issues and predict late payments **before they happen**.

2 Early intervention

It's crucial to offer help early to customers before debts and payments become unmanageable. Reaching out to customers as soon as their payment fails – if not before - means that support can be provided before the customer falls into the collections cycle. Use early intervention tactics like:

- Predictive modelling techniques (outlined in section 1).
- Frequent reminders and proactive communication.

Reaching out to a customer early leads to both an improved likelihood of debt recovery and preserves positive, trusting customer relationships.

3 Open, empathetic communication

In instances where a customer fails to make a payment or is struggling to meet costs, customer service teams should encourage open communication.

- Avoid aggressive, pressurising language – this is only likely to drive customers to disengage.
- Start conversations to understand why a customer might be struggling.
- Keep communications focused on support options – if your company offers payment holidays, grants, or other financial support, make sure the customer is aware.
- An omnichannel approach allows a customer to engage using their preferred method of contact. This makes their life easier, which in turn drives positive engagement with their debt.

During the pandemic, water companies in England and Wales offered types of financial support during lockdown...only 15% of their customers were aware of these options.

4 Outsource your collections service

Your customer service advisors need to be armed with the expertise to tackle intricate issues with care and be empowered to find solutions for customers. One way to ensure that payments are collected with empathy is by outsourcing your collections to expert organisations like Sigma Connected. This will give you:

- Access to qualified professionals who have the necessary training and skills to deal with the early-stage collections process.
- Advisors that are trained in customer engagement, questioning and probing skills with strong adherence to process.
- A scalable workforce that has the right capacity to deal with varying volumes of customer support and collections.

5 Extra support

It is important that your business aims to re-engage potentially vulnerable customers if earlier contact has been ignored – disengaged customers need to know that there is support and help available to them.

Services like Sigma Connected's ReachOut scheme, which focuses on re-engaging customers who the service provider has lost contact with and making them aware of the support that is available to them, can assist customers in resolving issues and regaining financial stability.

Sigma Connected's ReachOut

reachout
BY SIGMA CONNECTED

What is it?

- ReachOut is a unique service that is implemented when a customer disengages with a supplier.
- It reconnects with the customer to make them aware of the support that is available to them and attempts to reconnect them with the supplier.
- A confidential service that doesn't collect payments but creates a safe environment to get to the root cause of the customer's debt.

The results

- This service has a 15-25% customer engagement rate.
- Out of those re-engaged, 2 in 3 customers reconnect with the supplier.
- Outreach over escalation is usually the beneficial course of action for all parties.
- Customers are more educated about support systems and are better equipped to get the help they need.

Why choose Sigma Connected?

At Sigma Connected, we approach the collections cycle differently. Our Collections Ecosystem is designed to engage your customer throughout the collections journey to ensure that they are taken care of and have a positive experience with your brand whilst still delivering you the best collections rates in the UK.

The steps in this system are easy to identify, and your organisation can rely on us to manage the whole cycle, or just the areas you need help with:

- **Predelinquency**
- **Early arrears**
- **ReachOut**
- **Late stage collections**

Our goal is to provide a human touch in everything we do – in early arrears collections and every other step of the way. We specialise in delivering an empathetic service that goes the extra mile to support customer well-being.

At Sigma Connected:

- **We always have a compassionate, knowledgeable team member on hand.**
- **Our collections solutions are tailored to your business and customers.**
- **Our dialler team excel at finding the right strategies to continuously improve collections rates.**
- **Our advisors are skilled and fully trained in customer engagement, questioning and probing skills, with strong adherence to process.**
- **We offer our award-winning ReachOut service which won Vulnerable Customer Strategy of the Year at the 2023 Credit Awards.**
- **90% of our work is done in regulated industries.**
- **We are FCA authorised.**
- **We take an omnichannel approach to collections.**
- **Our approach works, we are the UK's market leader at collections, and we have plenty of case studies to prove it.**

Connect with Sigma Connected

At Sigma Connected, we believe that customer service based on **open outreach** is the best way to strike the balance between supporting customer well-being and protecting your business. And, by outsourcing your payment collections to the Sigma Connected team, you ensure that your business' collections service is in safe, expert hands.

We offer our services to businesses operating in the energy, water, telecommunications, financial services, or retail sectors. If your company needs support with empathetic collections, don't hesitate to get in touch.

Connect with us today

sigmaconnected.com