FRIEND OR FOE?

Equipping debt advisers to tackle illegal money lending

April 2023




CSJ The Centre for Social Justice

Contents

About the Centre for Social Justice

Established in 2004, the Centre for Social Justice is an independent think-tank that studies the root causes of Britain's social problems and addresses them by recommending practical, workable policy interventions. The CSJ's vision is to give people in the UK who are experiencing the worst multiple disadvantages and injustice every possible opportunity to reach their full potential.

The majority of the CSJ's work is organised around five "pathways to poverty", first identified in our ground-breaking 2007 report, Breakthrough Britain. These are: educational failure; family breakdown; economic dependency and worklessness; addiction to drugs and alcohol; and severe personal debt.

Since its inception, the CSJ has changed the landscape of our political discourse by putting social justice at the heart of British politics. This has led to a transformation in Government thinking and policy. For instance, in March 2013, the CSJ report It Happens Here shone a light on the horrific reality of human trafficking and modern slavery in the UK. As a direct result of this report, the Government passed the Modern Slavery Act 2015, one of the first pieces of legislation in the world to address slavery and trafficking in the 21st century.

Our research is informed by experts including prominent academics, practitioners and policy-makers. We also draw upon our CSJ Alliance, a unique group of charities, social enterprises and other grass-roots organisations that have a proven track-record of reversing social breakdown across the UK.

The social challenges facing Britain remain serious. In 2022 and beyond, we will continue to advance the cause of social justice so that more people can continue to fulfil their potential.

Acknowledgements

The CSJ would like to extend our thanks to the many individuals and organisations who shared their time, expertise, evidence, and feedback in the preparation of this report.

We would like to specially thank the supporters of the Debt Unit, including Freedom Finance, Aryza, Lowell, and Equifax.

We would like to thank the debt advisers who responded to our survey and the members of our debt advice steering board, which was specific to this project. This includes: The Money and Pensions Service, Citizens Advice, StepChange, Christians Against Poverty, the Money Advice Trust, the Institute of Money Advisers, Community Money Advice, and the Illegal Money Lending Team England.

Disclaimer: the views and recommendations in this report are those of the CSJ and do not necessarily represent those of the individuals or organisations mentioned above.

Foreword

Each and every day, the number of clients seeking debt advice goes up. All debt advice agencies are reporting an increase in demand for their services, while the growth of 'negative budgets', where clients simply have more outgoings than income, is making their job the hardest it has ever been. The rapid return of illegal lenders and loan sharks is making it even harder.

Over two thirds of debt advisers say they think illegal money lending is an increasing problem in the UK and over half say that they have been told by a client about a loan shark. This staggering figure speaks to an increased prevalence of people turning to so called "friends" who turn out to be anything but.

And yet this report suggests that advisers may not be identifying all those in need of help. Not only do large numbers of people choose not to seek advice at all but a significant proportion of clients with debts to an illegal lender say that they did not even tell their debt adviser about it – often citing that they weren't asked or didn't know they could help or that they were just too afraid. This is in stark contrast to advisers who say they investigate and ask about illegal lenders.

This is a disconnection that requires a solution.

The evidence set out here shows that while advisers possess a strong awareness and knowledge of the basic concepts of illegal lending, they sometimes lack the right training or toolkit of questions to help them investigate an illegal lender.

For some advisers, confidence, too, can be an issue. Advisers who don't feel self-assured talking about an illegal lender are unlikely to ask about one. I would argue that the increasing lack of face-to-face advice also means that it is now more difficult for advisers to detect the nervousness that many clients say holds them back.

In the midst of a cost-of-living crisis, advisers need to be able to have difficult conversations with clients about their finances and root out illegal lenders where they exist. They cannot work miracles and there will always be clients who feel unable to speak up about the debts that plague them, especially where loan sharks can be found, but every effort must be made to support those who have the courage to present themselves.

The new framework for discussion contained in this report and produced by a steering board of the Illegal Money Lending Team England, major debt advice agencies and the Centre for Social Justice can only serve to help advisers to have more of those necessary but difficult discussions.

Yvonne Fovargue
MP for Makerfield

Executive Summary

On the front lines, Britain's debt advisers are facing an increased demand. Debt advice agencies across the board are witnessing steep rises in the need for debt advice and Citizens Advice, StepChange, and Christians Against Poverty have all reported record requests for help.[1]

At the sharpest edges of the cost-of-living crisis are the up to 1 million vulnerable people forced to borrow from illegal money lenders otherwise known as loan sharks, and debt advisers know it.[2] 7 in 10 debt advisers who responded to our survey told us that illegal lending is a growing problem in the UK and over half have been told about a loan shark by a client.[3]

Yet vulnerable people are still falling through the cracks. New evidence presented in this report using an unpublished dataset of over 700 illegal lending victims shows that over a third of people who seek debt advice and have used a loan shark do not tell their adviser about it – often citing that they didn't ask.

Throughout this report, we have worked with a steering board comprised of the Money and Pensions Service, major debt adviser agencies, and the Illegal Money Lending Team England to survey advisers.

We show that while debt advisers are often knowledgeable about the basic concepts around illegal lending, some lack an arsenal of questions to investigate an illegal lender and the confidence to directly ask a client if they have borrowed from a loan shark. This gap appears to explain why debt advisers say they investigate an illegal lender while some clients say that they don't ask.

We also show that many debt advisers lack training on illegal money lending and this appears to be because training sessions are not part of mandatory introductory training but stand alone sessions. This sees some advisers miss out on much needed information.

If clients are to be effectively supported to report an illegal lender and navigate a path out of problem debt, these issues need to be addressed and standards driven up. Without identification, the victims of illegal lenders cannot reach long-term debt solutions and are instead at risk of finding themselves in a continuous debt and debt advice loop because of an illegal lender.

In this report, we set out six recommendations for the Government, Money and Pensions Service and debt advice agencies to:

- Improve consumer awareness of illegal lending
- Implement training on illegal lending as part of an adviser's introductory training
- Focus on confidence as well as knowledge so advisers can discuss an illegal lender

1 BBC News, *Facing never-ending queues on the debt front line*, 13th February 2023.

2 Centre for Social Justice, *Swimming with Sharks: Tackling Illegal Money Lending in England*, March 2022.

3 For methodology, see page 8.

- Commit to directly transferring clients to the illegal lending teams over signposting
- Add debts to an illegal lender and a seeking support box to the Standard Financial Statement
- Implement a new framework for investigating an illegal lender

These targeted recommendations can improve adviser's ability to identify and support the victims of illegal money lenders who so often struggle to speak out and set out a new best practice.

Introduction

In *Swimming with Sharks*, the Centre for Social Justice laid bare the reality of illegal money lending in England today.[4] We examined who borrows from illegal lenders, what experiences they face, and we estimated that up to a million people in England possess these hidden debts.

In deep financial difficulty, the victims of illegal lenders are some of the most financially vulnerable people in Britain. Their difficult financial positions, often resulting from a combination of legal and illegal debts, means that many need debt advice. Where consistent and open, this advice has the potential to produce good outcomes and support consumers to resolve their legal debts and access support for their illegal debts via reporting them.

However, this advice does not seem to always be consistent and open. In *Uncovering Hidden Debts*, we found no consistent approach adopted by debt advisers to investigate suspected illegal debts and we believe this is contributing to a failure to detect the victims of illegal lenders.[5] We also present new data in this paper from our analysis which further confirms this finding. Without detection, the victims of illegal lenders continue to suffer the financial and non-financial consequences of illegal debts, including increased mental distress, coercion, and occasionally violence.

In response, we have worked alongside the Money and Pensions Service, the Illegal Money Lending Team England, and debt advice organisations including StepChange, the Money Advice Trust, Christians Against Poverty, Citizens Advice, the Institute of Money Advisers, and Community Money Advice to understand the knowledge, perceptions, and practices of debt advisers as they relate to illegal money lending.

In this paper, we present new evidence that shows the need to drive up standards in debt advice support for the victims of illegal lenders, and propose new guidance for implementation across the sector. We also make a number of recommendations to improve existing tools, such as the Standard Financial Statement, to support debt adviser and creditor engagement where an illegal lender is detected.

The report is structured as follows:

- Part One presents new evidence from the CSJ's analysis of 724 victims of illegal lenders which demonstrate our concerns about the lack of consistent outcomes.
- Part Two unveils our analysis of a new survey of 171 debt advisers. We find that while advisers are generally knowledgeable about illegal lending, they do not always possess the training, confidence, and arsenal of questions to investigate a suspected illegal lender.

4 Centre for Social Justice, *Swimming with Sharks: Tackling illegal money lending in England*, March 2022.

5 Centre for Social Justice, *Uncovering Hidden Debt: Focus groups with money advisers about illegal and informal money lending*, June 2021.

- Finally, Part Three outlines our proposed new question framework to help debt advisers discuss an illegal lender with clients. Throughout the report we make a number of recommendations to drive up standards and help debt advisers feel confident dealing with this issue.

A note on methodology:

To understand the debt advice process for the users of illegal money lenders and debt advisers, we have drawn together an evidence base comprised of multiple sources.

As in *Swimming with Sharks*, we have worked with data provided by the Illegal Money Lending Team England to understand how many people they support have accessed debt advice and what their experiences were. In this instance, we have a sample of 724 people who have used an illegal lender.

Following from this, we sought to understand the experience of debt advisers. To do this, we hosted five focus groups with 52 debt advisers. We also compiled a survey of 171 debt advisers that ran from the 6th January to the 9th February 2023.

Chapter One: Inconsistent outcomes

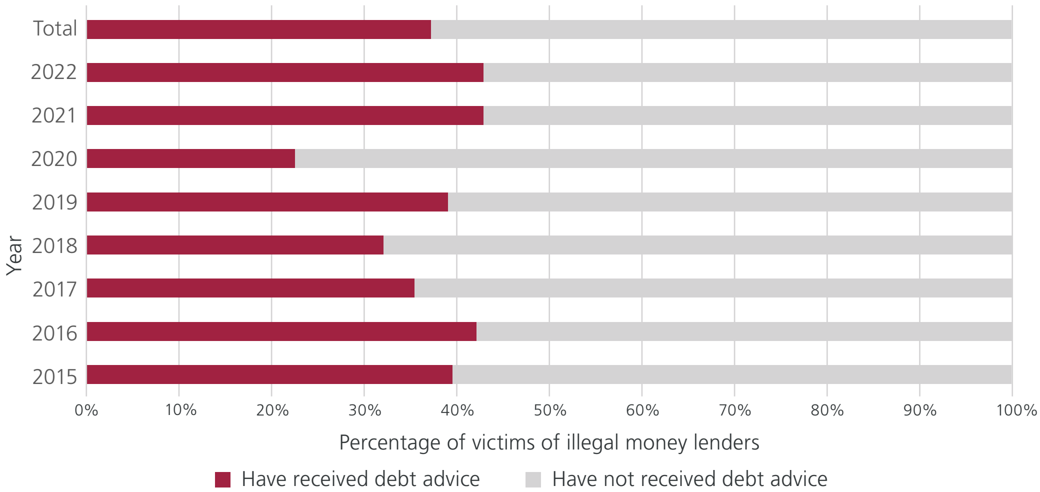
1.1 - Turning up

The victims of illegal money lending are some of the most financially vulnerable people in Britain. As we showed in *Swimming with Sharks*, they are often in deep financial trouble with low incomes, are in debts to legal creditors, and struggle to access the legal credit market when they need it.[6]

It therefore makes sense that many of the people who use an illegal lender need debt advice. However, consistent with the whole population, most do not seek it. The Money and Pensions Service estimates that 16 per cent of the UK population requires full debt advice, well above the 1.7 million people who receive debt advice a year.[7] The Financial Lives Survey 2020 shows that just 3.3per cent of adults used a debt advice or debt management service.[8] A similar story emerges for the victims of illegal money lenders.

Just 37 per cent of the victims of illegal money lending have received debt advice, compared to 63per cent who have never received it.

Figure 1: Proportion of victims of illegal money lenders who have sought debt advice by year.



Source: CSJ Analysis of Illegal Money Lending Team England data (n = 724)

6 Centre for Social Justice, *Swimming with Sharks: Tackling Illegal Money Lending in England*.

7 Money and Pensions Service, *Who needs debt advice in 2022?;* Financial Conduct Authority, *Debt Packagers: Proposals for new rules*, November 2021.

8 Financial Conduct Authority, Financial Lives Survey *2022*

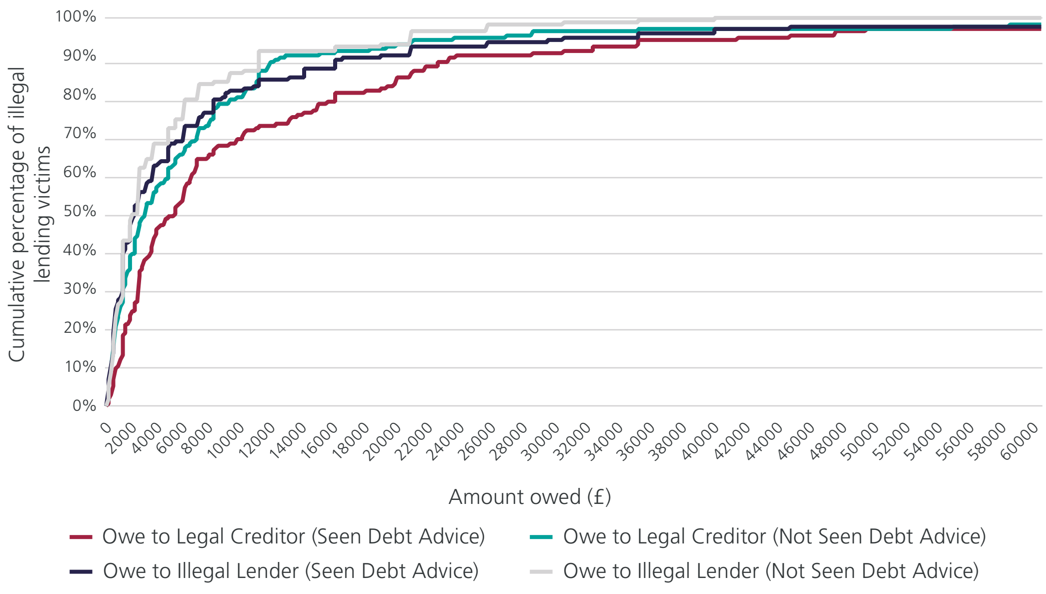
Broadly, most groups show a similar level of having received debt advice, although there are some differences. While employment and gender do not seem to matter, there are noticeable differences in age, with people aged 45-54 being more likely to have received debt advice than other age groups, particularly young people. 45per cent of 45-54 year olds have received debt advice compared to 28per cent of under 25s and 26per cent of over 65s. Income groups on their respective ends of the spectrum also show higher rates of having received debt advice than those on middle incomes. Overall, however, the figures reveal that many people do not seek debt advice.

Consumers who do not seek debt advice when they need it face increased and prolonged indebtedness and lower wellbeing, both of which can stifle their opportunities to engage in wider life.[9] The task of encouraging people to approach free, regulated debt advice remains as important as ever. This is particularly true amongst those in the deepest debt problems – as the victims of illegal money lenders often are.

We know that consumers tend to put off debt advice, even when they are in financial difficulty. Polling shows that 59 per cent of people who have used debt advice sought it because they felt they could no longer cope on their own.[10] Other leading reasons are being told about debt advice by a friend, family, or lender.[11]

This also appears to be true for the victims of illegal money lenders. Figure 2 shows that victims who do not seek debt advice tend to owe less money to legal creditors and illegal lenders than those who do and therefore their financial situations, at least for legal debts, are more controllable and easier to repay. About 50 per cent of those who have seen debt advice owe less than £4,500 to a legal creditor. The same is true for 63 per cent of those who have not seen a debt advisor.

Figure 2: Cumulative percent of illegal lending victims by amount of debt owed and debt advice status.



Source: CSJ Analysis of Illegal Money Lending Team England data (Legal creditors, n = 413) (Illegal creditors, n = 387)

9 Health Foundation, *Debt and health: Preventing 'problem debt' during the pandemic recovery*, January 2022.

10 Yonder, *Borrowers in Financial Difficulty*.

11 *Ibid*.

Yet studies of consumers in financial difficulty show that almost 9 out of 10 who did not immediately seek debt advice said that they could have been persuaded to seek help sooner – with almost all answers relating to the need for information about debt advice. Over half said that having information on what debt advice was and how it could help would have made them seek it sooner and almost a third indicated that knowing how seeking debt advice could affect their credit score would also have helped.[12]

If no longer coping remains the leading reason that people seek debt advice, more must be done to alert consumers of the signs of financial difficulty. This includes signs of financial distress and encouraging action when consumers first worry about missing a payment.

We also propose that an awareness campaign is launched to highlight the presence and dangers of lenders who do not lend legally and the support available from the Iillegal money lending teams. This should highlight the key features associated with illegal lenders, such as not receiving paperwork and arbitrary fees as well as making clear that people who borrow are not criminally responsible.

Recommendation 1: The Government should launch a national advertising campaign to highlight the presence and dangers of loan sharks, as well as the support available from the IMLT.

Illegal money lending can no longer remain a hidden crime, and a national advertising campaign would both shine a light on the issue and encourage victims to speak up and get support from the IMLT.

As we have seen, illegal money lending is an activity that takes many forms but operates primarily through psychological and coercive means. It is important that any national campaign is reflective of the state of illegal lending in the UK today and accurately depicts the mixed profile of illegal lenders.

1.2 - Telling the debt adviser

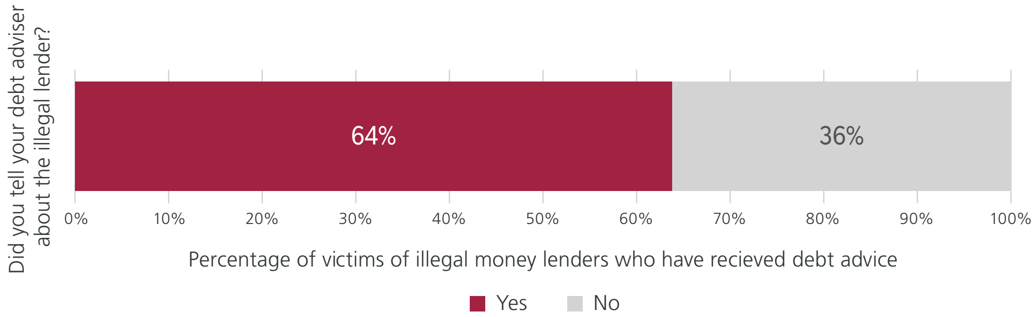
Presenting to debt advice is just the first hurdle to overcoming financial struggles. A client and debt adviser need to arrive at a detailed understanding of the client's finances, and arrive at a debt solution. All of these present challenges. For the victims of illegal money lenders – the task is even harder.

Where people present to debt advice, it is important that they engage with advisers and receive a consistent and thorough service. This helps ensure suitable solutions and outcomes are reached. Yet our new analysis of data from the Illegal Money Lending Team England shows that good outcomes are not always reached. About a third of people who had sought debt advice did not tell the adviser about an illegal lender and debt.

12 *Ibid*.

This naturally poses significant barriers to supporting clients. A consistent outlay to an illegal lender will complicate drawing up a client's income and expenditure via the Standard Financial Statement – the universal statement for understanding a client's financial position – and make reaching an agreement with creditors difficult.[13] Therefore, it is important for us to understand why clients do not talk about their illegal lender.

Figure 3: Percentage of victims of illegal money lenders who tell their debt adviser about the illegal lender



Source: CSJ Analysis of Illegal Money Lending Team England Data (n = 194)

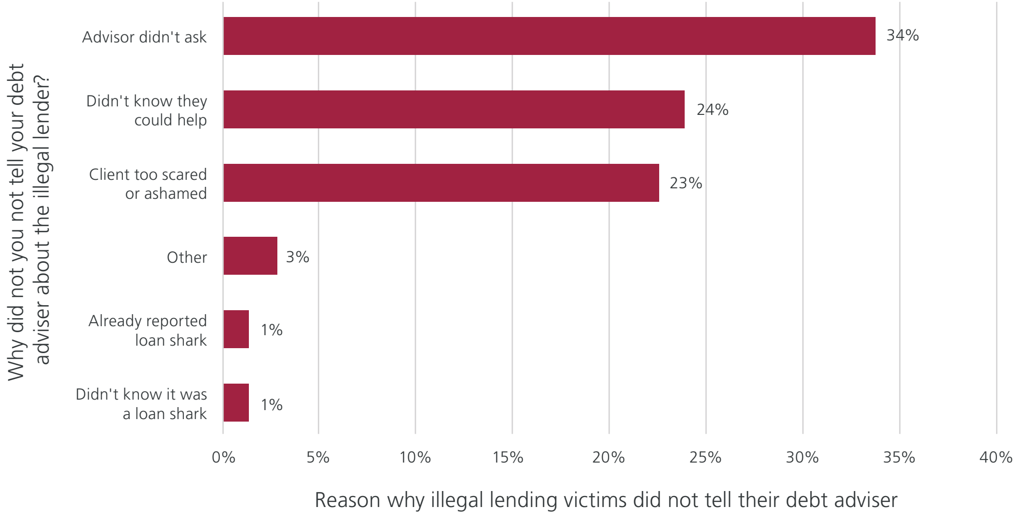
When asked, three reasons explain why clients do not tell their adviser. Over a third of those who do not tell their adviser about an illegal lender say that the adviser did not ask. Not only is talking about an illegal lender exceptionally difficult for both client and adviser, but how people understand an illegal lender is contested. As we showed in *Swimming with Sharks*, over half of people who use an illegal lender say that they considered them to be a friend when they first borrowed.[14] This means that even where an adviser explicitly asks about an illegal lender, they may be told one does not exist. It is therefore important that a thorough investigation of unaccounted outlays is undertaken. Where an illegal lender is suspected, an adviser may need to explain what one is.

Secondly, almost a quarter – or 24 per cent – of victims who did not tell their debt adviser said that they did not know that they could help. This likely relates to the status of the debt as either an illegal debt, and therefore not something that an adviser might be deemed able to deal with, or as a debt to a 'friend' and therefore perceived to be outside of the consumer credit regime. It may also suggest that debt advisers do not make clear that they can provide support here.

13 Standard Financial Statement, *What is the standard financial statement?*

14 Centre for Social Justice, *Swimming with Sharks: Tackling Illegal Money Lending in England*

Figure 4: Reasons why victims of illegal money lenders do not tell their debt adviser about the illegal lender



Source: CSJ Analysis of Illegal Money Lending Team England Data (n = 71)[15]

Finally, just over a fifth of victims said that they were too scared or ashamed to tell their debt adviser. Given all we know about the pervasive nature of an illegal lender and the methods they use to enforce repayment – from pester power to extreme violence – this will almost always be the hardest barrier to overcome.

An environment in which over a third of victims do not tell their debt adviser about an illegal lender suggests there is clear room for improvement. Resolving debts requires open and consistent communication that thoroughly investigates a client's debts before arriving at a reasonable solution. Our evidence suggests that this is not happening.

In the next section, we use our evidence from a survey of 171 debt advisers and our focus groups with 52 debt advisers to explore where improvements to existing support can be made. We will explore the knowledge, practice, and perception of debt advisers before offering guidance and questions to equip debt advisers to support clients.

15 Clients are able to give more than one answer.

Chapter Two: Understanding advisers' knowledge base

Given the sizeable number of victims who do not inform a debt adviser about their use of an illegal lender, we wanted to explore the experience of debt advisers. We investigated their knowledge base, the questions they ask, if they are come into contact with clients who have borrowed from illegal money lenders, and how they can identify and support clients. We have also attempted to set out a series of potential solutions, including a framework for debt advisers to use in their discussions with clients.

To do this, we compiled a unique evidence base comprised of 5 focus groups with debt advisers and a survey of debt advisers.

In the next few chapters, what we find is that while aggregate figures are broadly positive, two variables often stand out. These are gender, and full time/part time. In order to discuss an illegal lender or potential illegal lender with clients, advisers must feel comfortable doing so. Those who are less comfortable, as we intend to show, are generally less likely to directly ask about an illegal lender. We also find that those who feel less comfortable are more likely to be women and those who work part time. This may be the result of a correlation effect that can be explained by a lack of training.

These findings should give cause for concern. If debt advisers do not feel comfortable discussing an illegal lender, they may not be able to support clients who need support. Equally, being unable to ask about an illegal lender may lead to a cycle whereby those debt advisers who do not talk about an illegal lender with a client remain less likely to ask in future.

2.1 - Contact, Awareness, Knowledge, and Training

Our findings show that many advisers have suspected or been told that their client has borrowed from an illegal lender. Over half of advisers – 55 per cent – tell us that they have supported a client who borrowed from an illegal lender and three fifths tell us they have suspected them. Common arousing suspicions include being told about a debt to a 'friend' or an unexplained outlay.

These figures speak to the prevalence of illegal lending, but they do not mean that all clients who have used an illegal lender are being identified. Indeed, the previous evidence presented in figure 3 shows that they aren't.

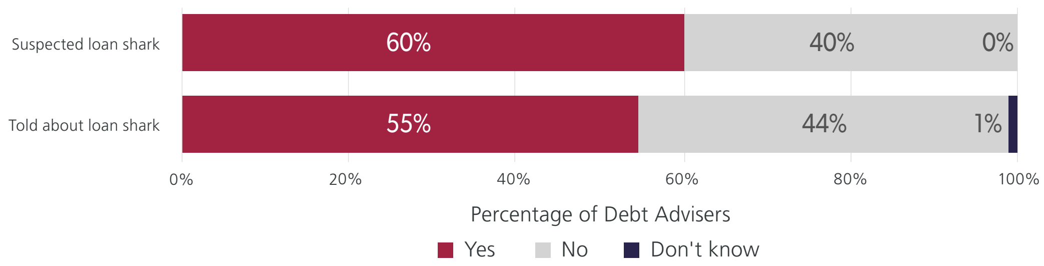
Awareness: Unsurprisingly, given this prevalence, most advisers are aware of illegal money lending as well as the illegal money lending teams. Over 90 per cent of debt advisers we surveyed said that they were fully aware or aware of illegal money lending compared to just 1.2 per cent who were not aware.

However, advisers displayed less knowledge of the illegal money lending teams. While a similar number of advisers – 30 per cent – were fully aware of the teams, general awareness was considerably lower. Indeed, just over 1 in 10 advisers said that they were not aware of the illegal money lending teams.

This poses an issue because the illegal money lending teams are responsible for the prosecution of offenders across England, Scotland, and Wales in this area. Poor knowledge about the illegal money lending teams may mean that an adviser is not equipped to refer a client to the teams. Some may instead refer a client to the Police, who have a limited ability to act in these cases.

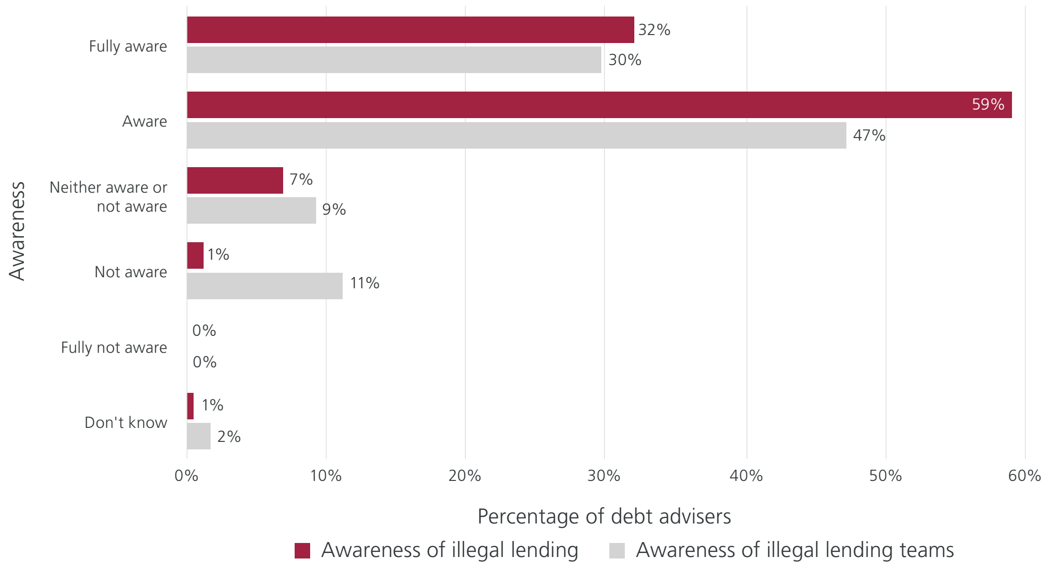
Limited knowledge of the teams may also suggest that advisers are not able to inform clients of how the teams can help them. We found that those who had less awareness of the illegal money lending teams were also less likely to correctly answer two knowledge questions about the team’s engagement with clients, including if a client can report an illegal lender anonymously and if a victim needs to appear in court, and were more likely to say that they didn’t know. Not knowing the answers to these questions poses a risk that clients may not seek support even when they are identified.

Figure 5: Over half of debt advisers have both suspected and been told by clients that they have borrowed from an illegal lender.



Source: CSJ Analysis of Debt Adviser Survey Data (n = 171)

Figure 6: Debt advisers are generally more aware of illegal money lending than they are about the illegal money lending teams



Source: CSJ Analysis of Debt Adviser Survey Data (n = 171)

Knowledge: In order to understand the knowledge base that advisers currently have, we tested their knowledge on six aspects of illegal money lending. Firstly, we asked if something was a common feature associated with illegal money lending and secondly, we asked the two true or false questions that we mentioned earlier. These can be found in table 1 below.

Table 1: Knowledge Questions we asked debt advisers (n = 171)

Which of these, if any, is a common feature associated with illegal money lending? • Being referred to a lender by a friend • Having no paperwork for a loan • Being quoted an APR rate • Knowing the lender before borrowing
Is this statement true or false? Clients can report an illegal lender to the Illegal Money Lending Team anonymously
Is this statement true or false? A victim of an illegal money lender does not have to appear in court if they do not wish to give a statement

Overall, advisers generally describe themselves as having a reasonable amount of knowledge about illegal money lending. Over half of advisers rated their knowledge as "very good" or "good", and a further 30 per cent rated themselves as "acceptable".

Indeed, we do find that debt advisers have a reasonable grasp of some of the basic concepts of illegal money lending. As figure 7 shows below, just over two thirds of advisers achieved 83 per cent – equivalent to answering at least five of our six questions. Only 3 per cent got one or less questions correct. We also find minimal differences between gender.

Training: This is despite very limited adviser knowledge on if their provider has a policy or guide on illegal money lending. Significant numbers of advisers, totaling some 53.8 per cent of advisers said that they did not know or that their provider did not have a policy or guide. Figure 8 overleaf also shows that just over a quarter of advisers reported that they had not received any training on illegal lending. Naturally, and as expected, this is higher in those who have worked in debt advice for shorter periods of time, but still up to three years. Part time advisers are also less likely to have received training.

This may be explained by when the training that does take place occurs. Of those debt advisers who had received training *(n = 124)*, 69 per cent told us that they had received a specific training session on the issue compared to just 23 per cent who mentioned that they had received a training session as part of their introductory training.[16]

This may be due to our specific sample of debt advisers, but while training on illegal money lending is not incorporated into introductory training, some advisers will remain unequipped to deal with the issue. Given the low levels of knowledge about specific policies or guides, we recommend that advice firms include training on illegal lending as part of their introductory training.

Recommendation 2: Illegal money lending should feature as part of a debt adviser's introductory training.

Over half of advisers tell us that their firm does not or they don't not know if their adviser has an illegal money lending policy or guide. In addition, just over a quarter of advisers reported that they have not received any training, and this was higher for those who had been a debt adviser for less time.

Given the importance of tackling illegal lending for arriving at a debt solution, we suggest that debt advice agencies include illegal lending in their introductory training.

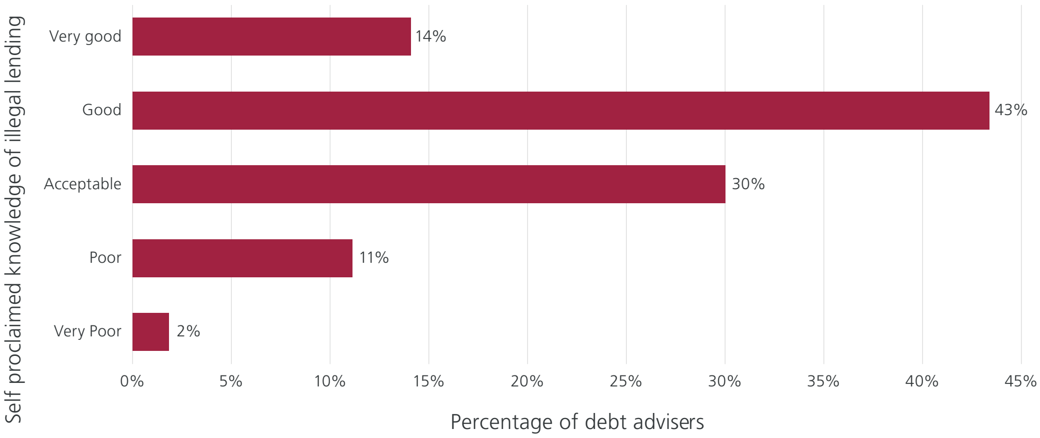
Put together, these figures suggest that despite some gaps in training, debt advisers are generally knowledgeable about the basic features of illegal money lending. Where gaps in training do occur, it seems to be because training is not a routine part of introductory training, but individual sessions.

In light of how prevalent illegal money lending is, evidenced by the number of advisers who report having been told by a client, we therefore suggest that training on illegal money lending should be incorporated into introductory training.

Given that adviser knowledge appears not to offer a reasonable explanation for why advisers do not identify a cohort of clients using an illegal lender, another issue may exist. To assess this, we will now review adviser action and practice.

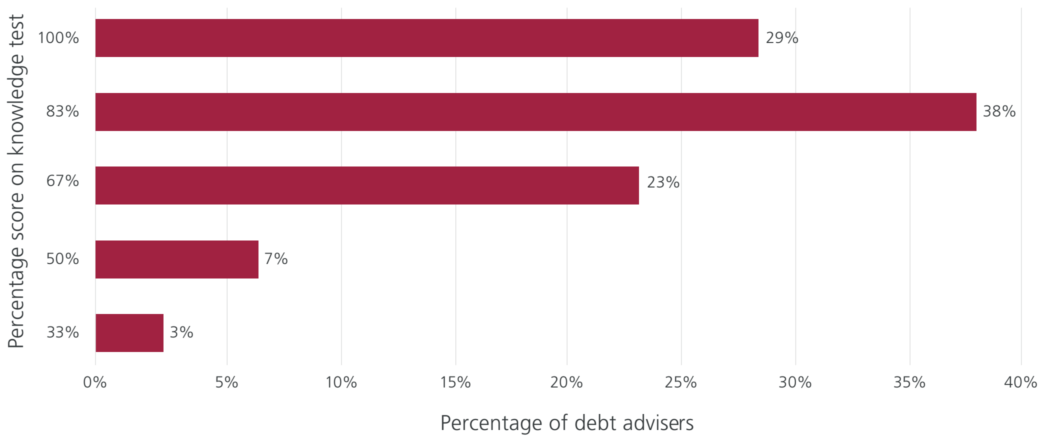
16 Respondents could select multiple options.

Figure 7: Debt advisers generally regard themselves as having a good or very good knowledge of illegal money lending.



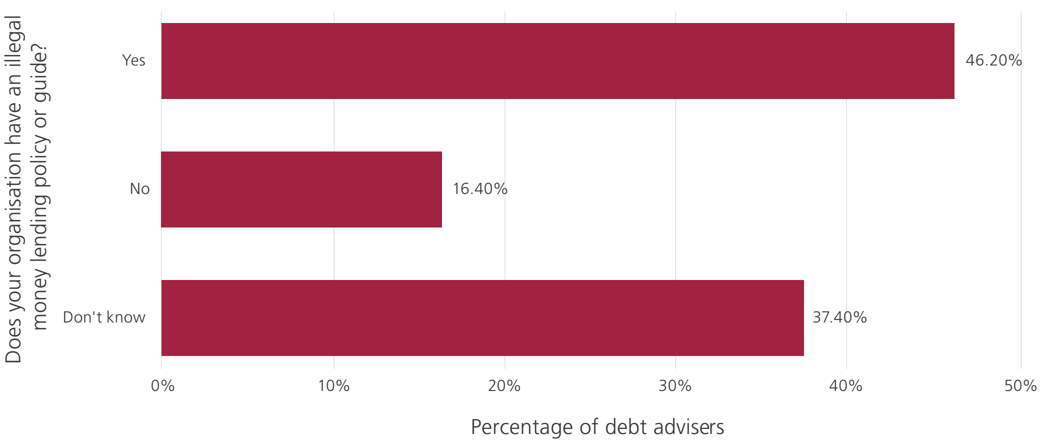
Source: CSJ Analysis of Debt Adviser Survey Data (n = 171)

Figure 8: Over two thirds of debt advisers achieved very high scores on a test of basic illegal lending questions



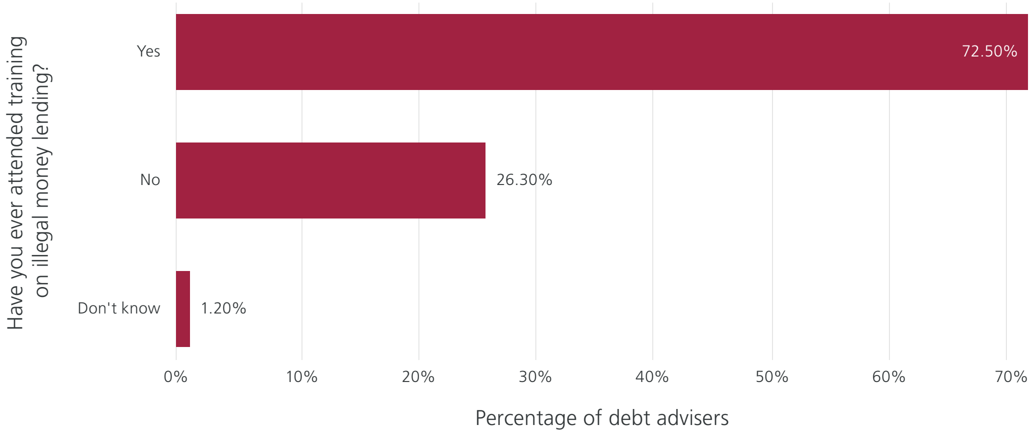
Source: CSJ Analysis of Debt Adviser Survey Data (n = 171)

Figure 9: Significant proportions of debt advisers don't know or say their agency does not have an illegal lending policy or guide.



Source: CSJ Analysis of Debt Adviser Survey Data (n = 171)

Figure 10: Over a quarter of debt advisers say they have not attended training on illegal money lending.



Source: CSJ Analysis of Debt Adviser Survey Data (n = 171)

Chapter Three: Investigating an illegal lender

Investigating a potential illegal lender can be a challenging task for advisers. Previous evidence suggests that not all clients will perceive their lender as an "illegal money lender" or "loan shark". Indeed, we found that over half of borrowers considered their lender to be a friend when they first borrowed.

Even if advisers possess a reasonable degree of knowledge, they must have an arsenal of questions to delve deeper into the relationship underpinning an unauthorized loan between a client and illegal lender. Once explored, advisers then must be able to ask the client directly if their loan is from a loan shark or be able to explain to them that the loan is not enforceable.

This requires both the questions themselves, but also the comfort and confidence to ask them. Indeed, given all we know about the insidious and sometimes dangerous nature of illegal money lenders, advisers may be in need of support to have confidence and comfort when discussing these debts with clients.

3.1 - Initial Investigations

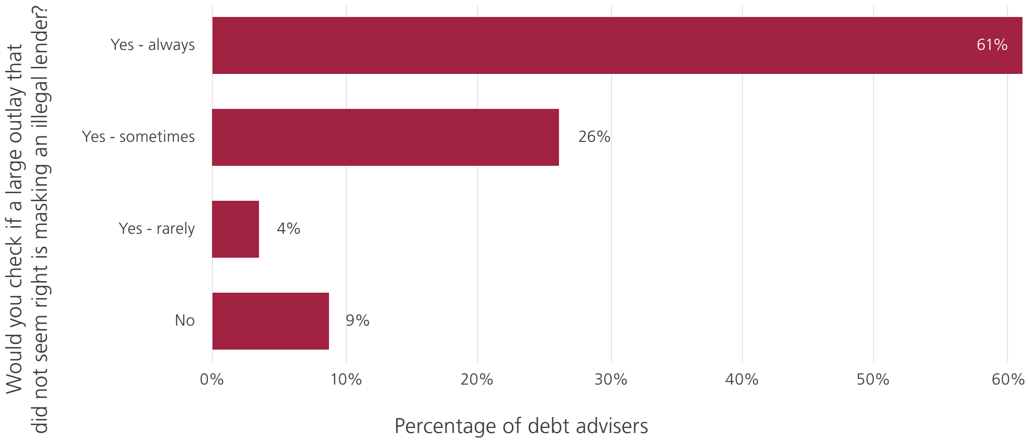
Throughout our focus groups, advisers consistently informed us that they would investigate large outlays that seemed to be unexplained or unaccounted for.

Advisers often noted that clients are sometimes unwilling to give details about specific outgoings, insist that a payment to a specific figure that is not a legitimate lender be made a priority debt, or that they had been paying one specific figure for a long period of time. In some cases, client's finances appear to be reasonably fine were such an outlay not to exist.

A common trigger for a discussion about a potential lender is when a client mentions that they have borrowed from "family" or particularly from a "friend". Advisers noted that some clients adopt a different tone when talking about a loan from their "friend" and sometimes even express worry about what might happen if they are unable to pay their friend back. As we showed in *Swimming with Sharks*, these are all common signs that a client has borrowed from an illegal money lender.

Unsurprisingly, therefore, the overwhelming majority of debt advisers said that they would either "always" or "sometimes" check to see if a large outlay that did not seem right was masking an illegal lender, as shown in figure 11 below.

Figure 11: Debt advisers overwhelmingly say that they would investigate a large and unexplained outlay to see if it masked an illegal lender



Source: CSJ Analysis of Debt Adviser Survey Data (n = 171)

But what advisers ask is just as important as the investigation itself. Given the common triggerpoint, namely the mention of family or friends lending, we decided to ask advisers which, if any, questions they might ask from a list. A list of these questions can be found in table 2 below.

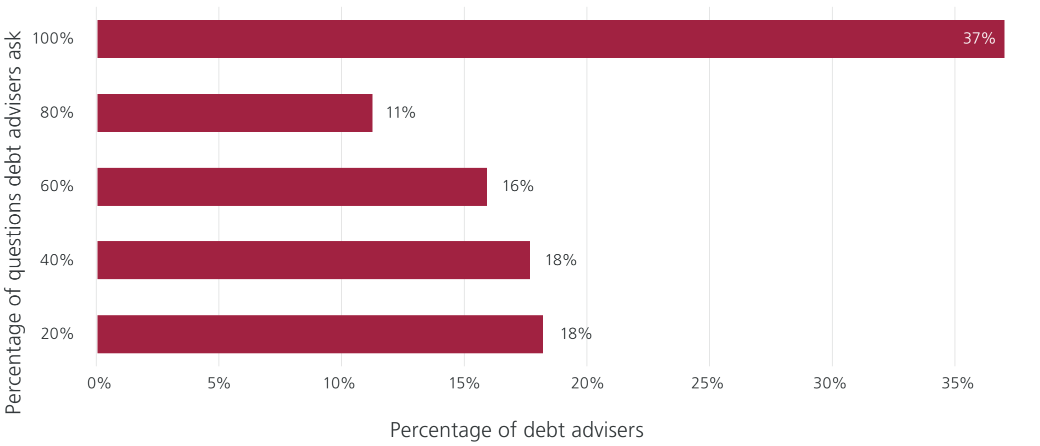
We found that advisers tend to have a good knowledge of illegal lending concepts, but they don't ask the questions we expected they might. While a greater number of advisers achieved the highest score (37 per cent compared to 29 per cent), there was a greater degree of bunching at the lower levels. Some 52 per cent of advisers got a score at or below 60 per cent compared to 10 per cent on knowledge.

Importantly, 18 per cent of advisers say that they would only ask one question about an illegal loan and this question is typically *what happens if they don't pay?* In theses cases, advisers may be seeking to understand the negative concequences of non-repayment for a client, but this is only one aspect of illegal lending. Many illegal lenders do not use force but intimidation, particularly with vulnerable users. It is therefore important to recognise that just because a client may not face extreme negative repercusions it does not mean their lender is not a loan shark.

Table 2: Which questions debt advisers say they ask (n = 171)

QUESTION	% OF DEBT ADVISERS WHO SAY THEY WOULD ASK
What happens if they don't pay?	87%
If interest is being charged on the loan?	70%
How well they know this family member or friend?	68%
How many times they have borrowed from this family member or friend?	58%
If the person is lending to other people?	49%

Figure 12: Only 2 in 5 debt advisers say they would ask all five questions about an illegal lender



Source: CSJ Analysis of Debt Adviser Survey Data (n = 171)

Lower levels of asking two questions, how many times they have borrowed and if the person is lending to other people miss out two fundamental aspects of illegal lending: frequency and function. While a client may not always know if a lender has multiple clients, previous evidence suggests that they might. In Swimming with Sharks, we were able to show that 84 per cent of victims knew their lender because they had been introduced by a friend or a family member or because they lived in the local area. A report by the Department for Business, Innovation, and Skills in 2010 also suggested similar.[17]

3.2 - Directly Asking

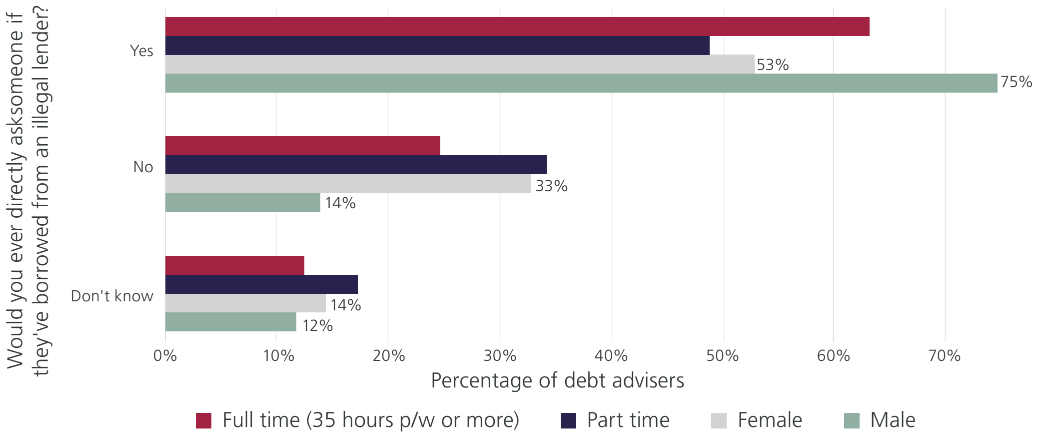
Where an adviser suspects an illegal lender, it is important that they have confidence to directly ask the client about it. In some instances, this will involve asking outright or explaining to the client that the lender is operating without authorisation and therefore the loan is unenforceable. Only by having these difficult conversations will advisers be able to support their clients to stop repaying costly loans.

17 Department for Business, Innovation, and Skills, *Interim Evaluation of the National Illegal Money Lending Projects*, October 2010.

When asked, 60 per cent of advisers in our survey said that they would directly ask a client if they have borrowed from an illegal money lender or loan shark, compared to just 27 per cent who said they would not and 13 per cent who said they didn't know.

While the overall aggregate figures are strong, some large differences occurred between asking and gender. This is also the case for hours worked. We found that men were much more likely to say that they would directly ask a client about an illegal lender. As figure 13 below shows, 75 per cent of male debt advisers told us that they would directly ask about an illegal lender compared to 53 per cent of female debt advisers. Equally, only 14 per cent of male advisers told us that they would would not ask about an illegal lender compared to 33 per cent of female advisers. There are also differences between those advisers who work full time and those who work part time, as shown below.

Figure 13: Female debt advisers and those who work part time are less likely to directly ask about an illegal lender



Source: CSJ Analysis of Debt Adviser Survey Data (n = 171)

These differences appear to be explained by two factors: training and comfort. While both male and female advisers are roughly equally likely to say that they have attended training, the same is not true for those who work full and part time. Those who work part time are more likely to say that they have not had any training.

This training issue also helps to explain the difference between male and female advisers. As previously noted, advisers need to feel confident and comfortable to be able to directly ask about an illegal lender, and this is shown in figure 14 overleaf. While advisers generally tend to report feeling comfortable – 61 per cent rate themselves between 7 and 10 on a 10 point scale – some advisers feel less confident than others. Our evidence suggests that female and part time advisers feel slightly less confident and this is likely to go some way in explaining why they are less likely to ask about an illegal lender.

This may be a product of part time advisers being less likely to have received training. Indeed, those advisers who said that they would not ask were less likely to have received training and those who said they didn't know if they would ask were considerably less likely not to have received training. Given that female advisers in our sample were more likely to be part time than male advisers, and therefore less likely to have received training, there may be a correlation effect here which explains the differences we see.

The difficulty advisers face, therefore, may not be one of knowledge, but implementation. This is concerning for a number of reasons. Without the confidence to ask clients about an illegal lender directly, advisers may miss an important issue they need to resolve for any potential debt solution to work.

Secondly, a lack in confidence may be self-perpetuating. Our survey suggested that both female and part time debt advisers were less likely to have suspected or been told by a client that they had borrowed from an illegal lender than their male and full time counterparts. If advisers do not feel comfortable discussing an illegal lender, they may not ask about one, and, in turn, they may therefore be less likely to suspect or have been told about one because they do not feel as comfortable asking about an illegal lender. This cycle may therefore perpetuate itself.

This evidence suggests that debt advice providers need to do more to ensure that advisers feel confident discussing illegal lenders and how they can support clients.

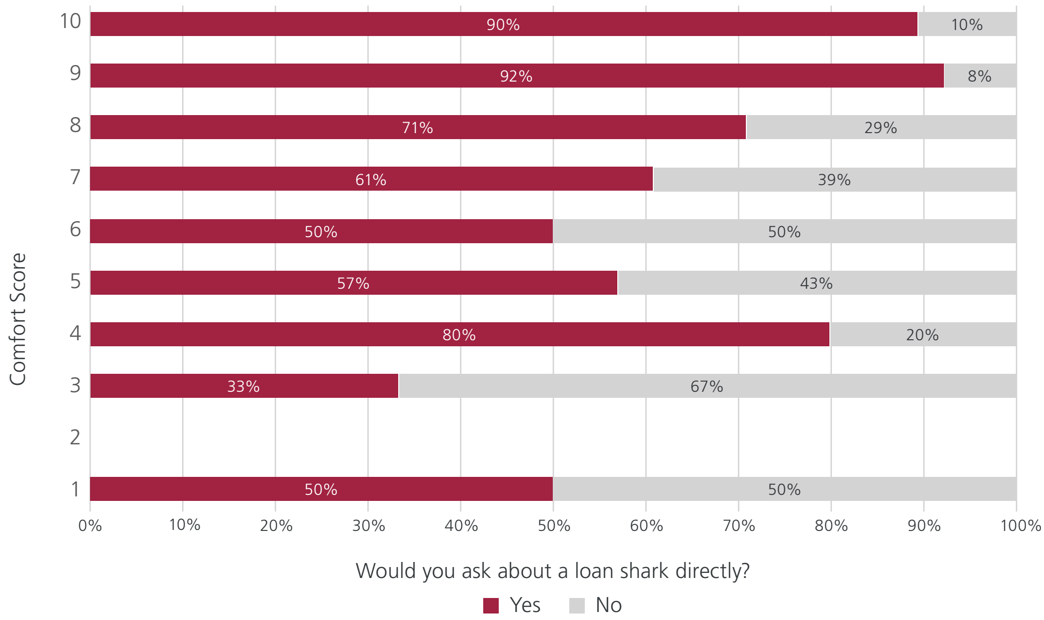
Recommendation 3: Additional training for debt advisers should be focussed on the confidence to directly ask about illegal lenders.

To uncover an illegal lender, it is important that debt advisers feel confident to ask their clients directly. Indeed, we have shown that debt advisers who feel less comfortable advising a client about an illegal lender are less likely to directly ask and some advisers feel less confident than others.

A lack in confidence may be self-perpetuating. Advisers who do not ask about an illegal lender are also likely to be less likely to suspect or be told by a client that they have borrowed from an illegal lender. If advisers do not feel comfortable discussing an illegal lender, they may not ask about one, and, in turn, they may be less likely to suspect or have been told about one because they are do not feel as comfortable asking about an illegal lender. This cycle may therefore perpetuate itself.

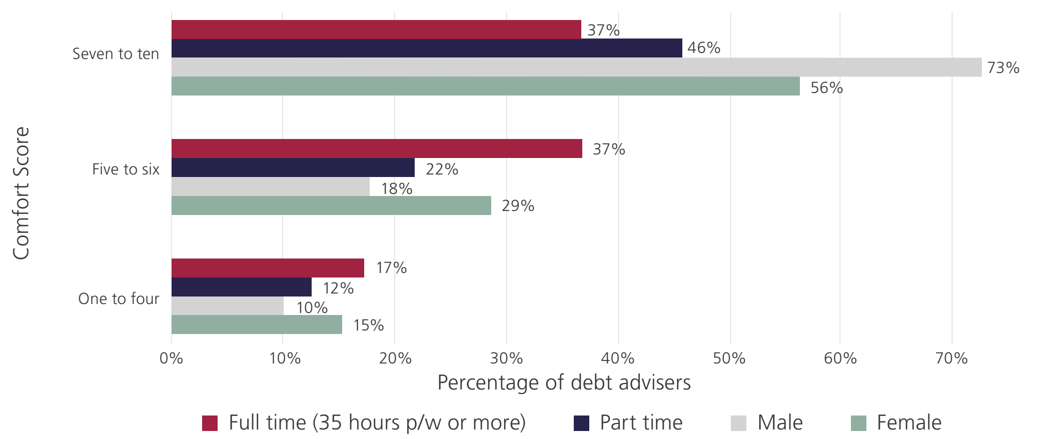
Advisers generally show a reasonable degree of knowledge about the basic concepts of illegal lending and therefore we recommend that further training on illegal lending be focussed on building adviser confidence.

Figure 14: Generally, the less comfortable you feel talking about an illegal lender the less likely you are to directly ask



Source: CSJ Analysis of Debt Adviser Survey Data (n = 171)[18]

Figure 15: Some advisers generally say they feel more confident than others



Source: CSJ Analysis of Debt Adviser Survey Data (n = 171)

18 No adviser rated themselves as 2

3.3 - Arriving at a Solution

Once a debt adviser has identfied a client who has used an illegal lender, they need to be able to offer the right support so that the issue can be resolved. An unauthorisied loan with a large outlay can have a large potential to disrupt a debt solution, such as a debt management plan or debt relief order because creditors cannot reasonably agree a solution where an illegal loan takes precident over contractually binding agreements. It is, therefore, important that advisers know who and where they should refer to a client to.

As we have already seen, some advisers do not always know the standard process for reporting and prosecuting an illegal lender, evidenced by the fact that over a third of debt advisers said they didn't know if a user of an illegal money lender has to appear in court if they do not wish to give a statement. Knowing this information is vital if advisers are to successfully support their client's journey from the disclosure of an illegal lender to the support offered by the illegal money lending teams.

To understand how an adviser might react, we asked debt advisers what they would do if a client mentioned that they had borrowed from an illegal money lender.

In response to this question:

- Over four in five (84.2 per cent) of advisers told us that they would signpost the client to the illegal money lending teams,
- Three in five (60.2 per cent) of advisers told us that they would offer to contact the illegal money lending teams on their behalf,
- Just over half (53.2 per cent) told us that they would contact the illegal money lending teams with the client,
- Under a fifth (14 per cent) told us that they would contact the Police.

Signposting to the illegal lending teams is a good first step, but client uptake of this offer may be limited. As we have already seen, few people who appear in our sample from the Illegal Money Lending Team England have received debt advice. We also know that few people who reach the illegal lending teams are referred to them by debt advice organisations. If clients do not take up support, then their illegal and legal debts may persist because the logjam preventing a debt solution cannot be breached. Warm referrals are therefore a better intervention than signposting alone.

The best intervention, warmly introducing the client to the illegal money lending teams was selected by just 53.2 per cent of advisers, significantly lower than the amount who said they would signpost. While this may be the most time intensive, it is likely to be the best way of ensuring the client reaches support.

Despite significant increases in funding from the Money and Pensions Services, debt advice services remain under considerable strain.[19] However, if debt advisers are unable to take the time to transfer a client to the illegal lending teams, they may become a repeat client who cannot be helped due to the unresolved issue, namely the illegal lender. We therefore recommend that debt advice organizations take the extra time required to ensure their most vulnerable clients are transferred to the illegal money lending teams.

Recommendation 4: Debt advisers should commit to directly transferring clients to the illegal money lending teams where they report an illegal lender.

Signposting to the illegal lending teams is a good first step, but client uptake of this offer may be limited. However, if clients do not take up support, then their illegal and legal debts may persist because the logjam preventing a debt solution cannot be breached. Signposting alone may not be the best intervention.

The best intervention, warmly introducing the client to the illegal money lending teams was selected by just 53.2 per cent of advisers, significantly lower than the amount who said they would signpost. While this may be the most time intensive, it is the best way of ensuring the client reaches support.

19 It is estimated that there is capacity for about 1.7 million people to receive debt advice a year. Financial Conduct Authority, *Consultation Paper CP23/5: Debt packagers: feedback on CP21/30 and further consultation on new rules and perimeter guidance*, Stratford (2023)

Chapter Four: A new best practice

Having assessed the evidence available to us, it is clear that some of the ways debt advisers support clients needs to change. While many debt advisers find themselves to be knowledgeable, not all are confident. Additionally, there is still work required to assemble an arsenal of questions that advisers can use to support those they suspect have borrowed from an illegal lender.

In this chapter, we will explore the barriers debt advisers say exist to supporting a client who they suspect of using an illegal lender. We will also provide a new framework – based on the word and common trigger FRIEND – to support advisers to understand multiple aspects of their client's relationship with an unexplained loan.

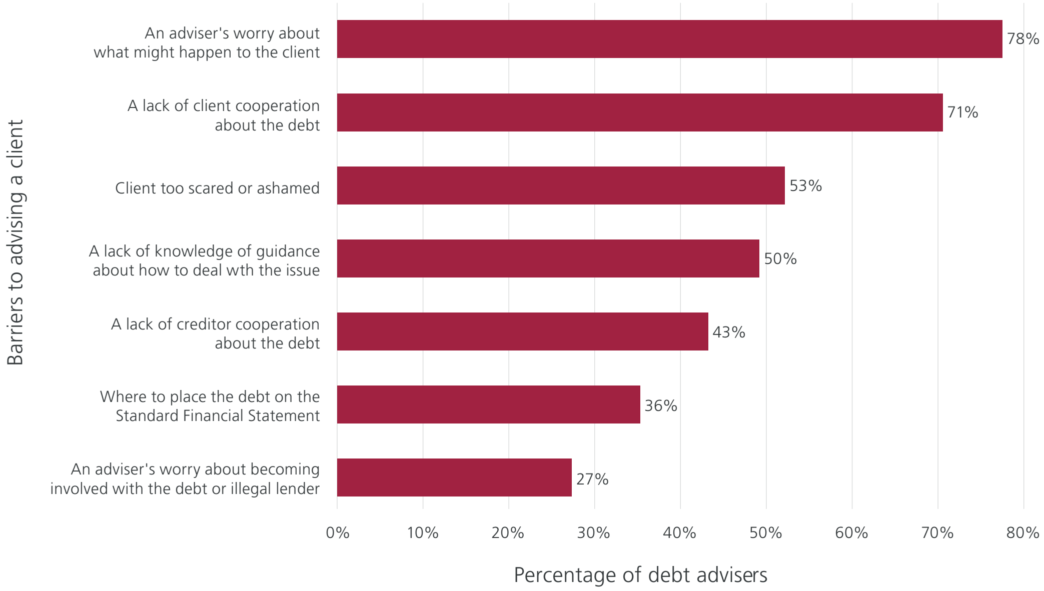
4.1 - Tackling Existing Barriers

As part of our survey, we wanted to understand what, if anything, advisers thought was a barrier to advising a client whom they suspected or were told had borrowed from an illegal lender. The results can be found in figure 16 below.

Our findings show that advisers think there are multiple barriers to advising someone they suspect or are told have used an illegal lender. Almost half of advisers – 46 per cent – tell us of at least four barriers. Percentages can be found in table 3 below.

The most common reason advisers gave was their worry about what might happen to a client, followed by a lack of client cooperation about the debt. The potential for an illegal lender to disrupt a debt solution and a lack of knowledge and guidance also command a majority of debt advisers.

Figure 16: Debt advisers say there are a number of barriers to advising about an illegal lender



Source: CSJ Analysis of Debt Adviser Survey Data (n = 171)

Table 3: Percentage of Advisers by the number of barriers to advisers they say exist to advising a debt adviser.

NUMBER OF BARRIERS	PERCENTAGE OF ADVISERS
One	15%
Two	14%
Three	25%
Four	16%
Five	12%
Six	9%
Seven	9%

Some of the barriers advisers note have already been addressed in this paper. We have spoken about the need for training, and this is reinforced by the fact that over half of advisers say 9 or 10 – on a 10-point scale – when asked how useful they would find it to access further training on illegal money lending. We have also addressed the need to support advisers feel confident advising a client who has used an illegal lender.

Below, we will look at a number of the other issues that advisers say act as barriers.

4.2 - The Standard Financial Statement and Creditor Cooperation.

Some advisers say that where to put the debt on the Standard Financial Statement (SFS) and a lack of creditor cooperation are two barriers to advising a client about an illegal lender. Over half of those who say that the SFS may be a barrier also say that creditor co-operation is also a barrier.

The Standard Financial Statement is a tool used to summarise a person's income and outgoings, along with any debts they owe. It provides a single format for financial statements, allowing debt advisers and creditors to work together to achieve good outcomes.[20]

In *Swimming with Sharks*, we recommended that debts to illegal money lenders should be added to the Standard Financial Statement.[21] We continue to recommend this. As it currently stands, the Standard Financial Statement only splits debts between priority and non-priority debts. As a result, debt advisers can find themselves unsure of where to place an illegal lender.

Is the debt placed as a priority because of the potential to endanger the client if payment ceases or is it placed in the non-priority category because the debt is not to an authorized creditor? Additionally, each debt must have an offer and some legal debts may receive minimal offers if an illegal lender is prioritised. It may be possible for the adviser to note an illegal lender in the section for additional notes (which includes reasons for debt, circumstances, and temporary situations), but this does not contend with the need to pay the debt temporarily while a client seeks support from the illegal lending teams.

We therefore suggest that debts to an illegal money lender be added to the Standard Financial Statement and that a confirmation that the client is seeking support is also added. This would allow debt advisers to place the debt to an illegal lender in its own section and confirm to creditors that the debt is being resolved, which will later free up disposable income to repay legal creditors.

Recommendation 5: Debts to an illegal money lender should be added to the Standard Financial Statement.

The Standard Financial Statement is a tool used to summarize a person's income and outgoings, along with any debts they owe. It provides a single format for financial statements, allowing debt advisers and creditors to work together to achieve good outcomes.

Currently, the Standard Financial Statement does not have a specific space to allow advisers to note an illegal lender, and just over a third of advisers deem this to be a barrier to advising a client about an illegal lender.

Illegal lenders can disrupt debt solutions and creditors need to be confident that an illegal loan is being dealt with, so that they can agree a debt solution. We therefore propose debts to an illegal money lender be added to the SFS as well as a box that confirms the client is seeking support. We also recommend that the Money and Pensions Service release guidance to support debt advices use the Standard Financial Statement to record an illegal lender

This would allow debt advisers to place the debt to an illegal lender in its own section and confirm to creditors that the debt is being resolved, which will later free up disposable income to repay legal creditors.

20 Standard Financial Statement, *Introducing the Standard Financial Statement*.

21 Centre for Social Justice, *Swimming with Sharks: Tackling Illegal Money Lending In England*.

4.3 - A New Framework for Debt Advisers

As we have shown in this work, while most debt advisers possess good knowledge of the basic concepts behind illegal lending, they do not always ask clients all of the questions we might expect them to. A significant minority of debt advisers also say they would not directly ask a client if they have borrowed from an illegal lender. This may prevent them from offering clients support where they need it.

Working in partnership with a steering board, we have put together a new framework for debt advisers to discuss a potential illegal lender and loan with clients. This framework takes the form of the word FRIEND, a common trigger which advisers say makes them think of an illegal money lender.

The questions below are not exhaustive but are designed to test six common features of an illegal lender. As the law and previous case law makes clear, the function of an illegal money lender is to act as a consumer credit business without a license, contrary to the Consumer Credit Act or the Financial Services and Markets Act. [22] In previous cases, the Crown has referred to:

- A carrying out of a consumer credit business;
- A use of interest charges;
- A lack of documentation;
- A lack of payment records;
- A use of penalty charges;
- A use of top up loans or repeat lending.[23]

In our framework, we have covered all of these primary features associated with illegal money lending. As such, were an adviser to find considerable overlap between a client's experience of borrowing from a lender whom an adviser suspects to be an illegal money lender – they should be able to ask the client and offer support, including introducing them to the illegal money lending teams.

22 Legislation.gov.uk, *The Financial Services and Markets Act 2000 (Regulated Activities) Order 2001*.

23 Court of Appeal (Criminal Division), *Regina v Adrian Dowse and Kevin White*, 3 May 2017.

Table 4: A new framework for debt advisers to discuss illegal money lenders.

F	**Friend** – Is the lender really a friend? What happens if the client does not pay?
R	**Repeat** – Does this lender lend to more than one person. Has the client borrowed from them before?
I	**Interest** – Does the lender charge interest or extra charges? Do these charges change?
E	**Evidence** – Has the lender provided any evidence of the loan?
N	**Nervous** – Does the lender or talking about the lender make the client nervous?
D	**Disruptive** – Is the lender a disruptive figure in a client's life. Do they represent a danger to the client?

Recommendation 6: Debt advice agencies should implement a new framework for investigating an illegal money lender.

While most debt advisers possess good knowledge of the basic concepts behind illegal lending, they do not always ask clients all of the questions we might expect them to. A significant minority of debt advisers also say they would not directly ask a client if they have borrowed from an illegal lender. This may prevent them from offering clients support where they need it.

Working in partnership with a steering board, we have put together a new framework for debt advisers to discuss a potential illegal lender and loan with clients. This framework takes the form of the word FRIEND, a common trigger which advisers say makes them think of an illegal money lender. We encourage debt advice agencies to implement this framework in their practice.

Conclusion

Illegal money lending is a blight on Britain – and one likely made worse by the current cost of living crisis. Where the users of illegal lenders engage with debt advisers, they need to be able to access help for all of their debts. As it stands, that is not always delivered in practice and we have showed both confidence and having the appropriate questions to be a barrier to support.

To drive up standards, debt advisers need to be given more timely training and encouraged to feel confident when discussing what they suspect may be an illegal lender with a client. To support this, we have provided a new framework for discussion – and we hope advisers take it up.

List of recommendations

- **Recommendation 1:** The Government should launch a national advertising campaign to highlight the presence and dangers of loan sharks, as well as the support available from the IMLT.
- **Recommendation 2:** Illegal money lending should feature as part of a debt adviser's introductory training.
- **Recommendation 3:** Additional training for debt advisers should be focussed on the confidence to directly ask about illegal lenders.
- **Recommendation 4:** Debt advisers should commit to directly transferring clients to the illegal money lending teams where they report an illegal lender.
- **Recommendation 5:** Debts to an illegal money lender should be added to the Standard Financial Statement.
- **Recommendation 6:** Debt advice agencies should implement a new framework for investigating an illegal money lender.

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