Review into the effectiveness of Debt Solutions

MSD funded debt management programmes

Final Report to MSD
November 2022

SENSE PARTNERS
DATA LOGIC ACTION

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MSD funded debt management programmes

Report prepared by Sense Partners
for the Ministry of Social Development Te Manatū Whakahiato Ora

Wellington, November 2022

Executive summary

In May 2020, the Government announced the Debt Solutions Services programme (DSS) as part of its response to the economic impacts of COVID-19. DSS began as a two-year pilot in November 2020 and was then extended to June 2023.

DSS funds four financial capability providers to help New Zealanders navigate and resolve problems with debt. These providers offer two types of service to people who need them:

- Component 1 — debt solutions specialised services, providing support, counselling, debt management, and debt restructuring
- Component 2 — debt solution loan services, consolidating harmful debts into affordable repayments.

The four DSS providers are:

- Christians Against Poverty (CAP)
- Debtfix
- Good Shepherd New Zealand (Good Shepherd)
- Ngā Tāngata Microfinance (NTM).

We recommend MSD continues to support Debt Solutions Services

The Ministry of Social Development (MSD) asked Sense Partners to review the effectiveness of the DSS pilot in 2022.

We found that DSS provides immense value for people living with problem debt. Problem debt can feel like an unbearable and inescapable situation for those experiencing it, and DSS provides an answer.

We recommend MSD continues to support DSS because it has significant benefits for household budgets. We estimate over 300,000 New Zealanders are in problem debt. The services clearly have potential to reduce hardship and improve wellbeing.

Highlights from our findings

DSS products are highly effective, in terms of both reducing debt servicing costs and improving client experiences.

The average client spends over 20 percent of their annual income on debt costs before getting help from DSS. After working with a DSS provider, the average client recovers ~10-20 percent of annual income.

On average, DSS intervention saw over $3,300 reduced from the debt level of Good Shepherd clients, $14,500 for CAP clients, and $20,750 for Debtfix clients.

DSS also helped reduce the cost of debt as a percentage of income by 20 percent on average for Good Shepherd clients, 10.5 percent for CAP clients, and 8 percent for NTM clients.

We found that providers can meet a range of client needs, and referrals within the DSS are common. Providers show a genuine interest in innovating and collaborating to improve their services and the sector.

However, the lack of financial viability for providers outside of MSD's funding poses a significant risk to sector sustainability. Addressing this will be important when planning for a permanent national DSS function. While capital funding could be a constraint for some providers, they are confident alternative sources are available – if operational funding is secure.

Our research was constrained by information gaps

At times, gaps in monitoring and data have limited the opportunities for MSD to learn from its investment in DSS.

While the programme had a well-developed plan from its beginning, three aspects related to monitoring were not implemented:

- a comprehensive national debt solution approach to address problem debt
- an outcomes measurement tool
- tools and measures to evaluate service user satisfaction.

Patchy data collection and reporting means we relied on additional requests to providers and qualitative interviews to assess the programme's effectiveness.

We found no evidence to contradict our findings: providers appear to operate effectively and provide good outcomes for clients. But better evaluation frameworks connected to a cohesive sector strategy are required in the future.

We've identified opportunities to improve DSS

Most issues we identify can be resolved with strategy development and monitoring, and do not appear to undermine the current client experience. We are confident that if MSD expands DSS, it can benefit many New Zealanders in problem debt. However, the issues we have identified will prevent the sector from growing if MSD expands its investment.

We recommend MSD:

1. Clarify strategic objectives for DSS.
2. At a service level:
    a. strengthen the service guidelines by implementing planned activities, such as an outcomes measurement tool and service user satisfaction tool and measures. This will set clearer expectations and processes for aspects of the client journey, such as triaging, access, and outcomes monitoring.

   b. improve quality assurance mechanisms by standardising core processes and policies across providers, and supporting those providing debt solutions specialised services to develop new service delivery standards for staff working in debt solutions services.

   c. shift its evaluation framework to assess the operational quality of providers' services and business operations. We recommend using approaches adapted from more mature sectors like the UK — such as their Debt Quality Advice Framework — and adding an option for external/independent review.

3. At a strategic level, pursue a national debt solution approach with providers and the wider sector, considering opportunities to:

   a. identify and progress cross-sector activities to meet the strategic objectives

   b. close the sector's knowledge gap and improve financial viability and organisational sustainability

   c. set appropriate progress measures, relative to the New Zealand sector's size and stage of development

   d. assess alternative delivery structures — such as financial mentors either supporting or delivering specialised DSS functions — and the training required for this

   e. find ways to present this work, such as the UK sector's Theory of Change (an adapted example is included in Appendix D).

A full discussion of our conclusions is provided in Section 7 – Synthesis, on page 63.

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Appendices

Section 1 – Background

Scope

MSD asked Sense Partners to review a pilot of Debt Solutions Service (DSS) in early 2022. During the pilot, MSD provided targeted operational funding to four selected providers, anticipating a surge in problem debt at the start of the COVID-19 pandemic.

Our review answers 14 research questions posed by MSD, around the design and delivery of services between 2020 and 2022. We had to account for pandemic-related disruptions, both throughout this research and the two-year pilot.

Our research covers four main areas of the DSS programme:

- its function in the financial spectrum
- access and client experience
- service quality
- data collection and evaluation.

We synthesise our findings and make recommendations for the sector in the final sections.

Context

The government announced DSS on 28 May 2020 as part of its emergency COVID-19 economic response, and the programme began on 1 November 2020. The four selected providers in the microfinance sector were already delivering debt solutions services, and were recognised by MSD as capable of scaling up or operating nationwide.

The pilot was initially commissioned for two years. This was extended for a further year (to 30 June 2023) in Budget 2022.

DSS provides two categories of services

DSS has two categories, designated Component 1, and Component 2 in the service guidelines.

"Specialised services" advise clients on debt solutions to improve their financial wellbeing. They offer tools such as:

- support and debt counselling
- developing negotiated debt options, including insolvency
- managing some or all of a person or whānau's finances
- restructuring debt.

"Debt consolidation services", focus on lending and counselling to support financial wellbeing. Their tools include:

- debt advocacy and debt counselling
- debt consolidation loans that consolidate harmful debts into affordable repayments. [1]

The four DSS providers

The four DSS providers selected by MSD are:

- Christians Against Poverty (CAP)
- Debtfix
- Good Shepherd New Zealand (Good Shepherd)
- Ngā Tāngata Microfinance (NTM)

CAP and Debtfix offer specialist services to manage problem debt. Good Shepherd and Ngā Tāngata Microfinance offer debt consolidation services – effectively providing affordable loan products.

DSS is part of the Building Financial Capability network

Specialised debt solutions to improve clients' financial wellbeing. Provider tools may include no or low interest loans for debt repayment, including loans that enable consolidation of harmful debt(s) into affordable repayments.

The DSS programme is part of a network of MSD-funded services under the collective banner of Building Financial Capability (BFC). BFC services and products — such as financial mentors — help individuals and whānau to improve their financial wellbeing.

BFC takes a strengths-based approach to empower people to get control of their money, set goals and achieve long-term, sustainable change. Anyone who wants advice about their personal or whānau finances can use BFC services and products for free.

Method

We proposed and undertook a qualitative approach to this research. We reviewed MSD's official documents, regular DSS provider reporting, and additional data supplied by providers.

We also spoke to 30 people over May and June 2022 to understand the impact of DSS and identify areas for improvement. The review combines these insights with insights from MSD.

[1] Debt Solution Service guidelines.

Conversational interviews

We interviewed:

- MSD staff
- provider management and frontline staff
- a selection of DSS clients
- independent financial mentors.

The clients we spoke to were affected by problem debt for a broad range of reasons. These included grief, job loss, health, or relationship problems; unforeseen expenses; gaps in financial understanding; and – in some cases – self-described poor decision making. Poverty was a common and dominant theme. Clients often faced highly complex circumstances.

All interviews took place between May and July 2022, in-person and over the phone. Each client received a $100 grocery voucher as a koha for their contribution. A breakdown of our conversational interviewing approach, an iterative qualitative research technique, can be found in Appendix A.

To supplement interviews, we conducted a thorough desk review of all policy documents related to MSD's development of the DSS pilot, which MSD released to our team. We also reviewed provider narrative reports and the DSS service guidelines to develop a framework for assessing the service. This informed our interview protocol, an example of which can be found in Appendix B.

We thank the four DSS providers for generously providing us their time and data to enable this review.

Limitations

Our review was constrained by a number of limitations and obstacles. The various limitations mean this review should be read as a subjective account and a starting point for future work.

Data collected by MSD across this pilot, and in the sector generally, is limited. Later in the report, we have used an evaluation framework used in the UK. However, the UK has a more mature sector, meaning not all dimensions are appropriate for the New Zealand context. This could however provide a more complete and internationally comparable framework for future monitoring and data collection.

We had to rely on a patchwork of data of variable depth, frequency, and quality to inform our conclusions. Where possible, we supplemented our findings with additional data requests, but still encountered data limitations. Generally, investment in data and research is needed to lift this programme to a standard suitable for evaluation.

Limits on the quality of interviews

We conducted this research under tight timelines and during a period of widespread COVID-19 transmission. This meant some interviews could not take place in person, where we can build greater trust and reassure participants about our research aims.

We could have spoken to more people in problem debt if we had a longer research timeframe.

Additionally, our client contacts were made through providers, who nominated clients willing to talk to our team. This may have introduced selection bias, as we were more likely to hear from those who had a warm relationship with their DSS provider.

We acknowledge the koha given to participants may introduce a selection bias into the pool of participants. The intention of this koha was to increase the chances of referrals to other interviewees and build greater trust with participants than a transactional relationship which brings no benefit to the interviewee. There are limitations to this approach, as it does bring a desirability bias to who volunteered to participate and has the potential to introduce a selection bias to the pool of participants. However, the limitations this brings does not outweigh the principle of manaaki in caring for participants.

We spoke to 13 clients (compared with 10-12 in our proposal), which is not a large or representative sample. This means we cannot draw strong conclusions about cultural competency and client experience across demographics, which were among the themes we aimed to investigate.

Privacy note

This report uses paraphrased quotes from field notes made in our interviews with clients and providers throughout May-June 2022. We have changed names to ensure staff and client experiences remain anonymous, and do not use quotes where they could identify individuals.

Where possible, and with permission, we use the name of the service provider for clarity.

Report structure

The rest of the report sets out our findings. In each section, we present MSD's research questions, summarise our key findings in a blue shaded box, and then provide narrative context and discussion.

In answering MSD's questions, we look for evidence of effectiveness, efficiency, and programme adaptation and resilience to make our final evaluation.

Research questions are organised into sections

- Section 2 discusses DSS' function in the financial spectrum.
- Section 3 looks at how the DSS service guidelines and structure work.
- Section 4 explores questions of access and the client experience.
- Section 5 answers service quality questions.
- Section 6 looks at data collection and evaluation.
- Section 7 brings together our findings and conclusions.
- Section 8 presents our recommendations.

As part of our drafting process, we tested our findings with MSD and the providers, and integrated their feedback into this report.

Section 2 – Function in the financial spectrum

1. How does Debt Solutions fit within Building Financial Capability (BFC)?

Within the wider BFC programme, DSS complements the financial mentor service.

Component 1 is similar to other BFC services, but its better suited to people with more complex problem debt, and those who require longer-term intervention. Component 1 shares similarities with some BFC services, which can be a source of friction.

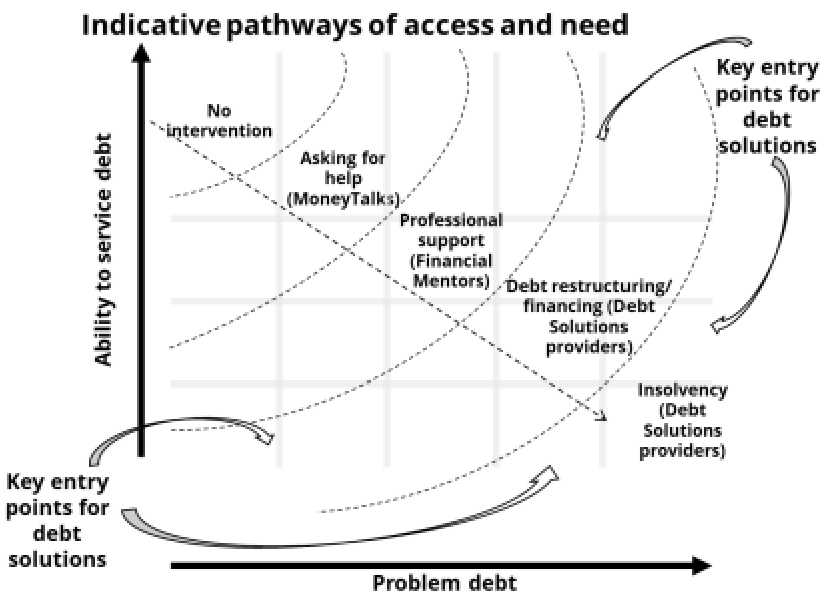
Component 2 is a valuable tool for providing low-cost debt, subject to access criteria. Its service is otherwise unavailable in the marketplace.

In our assessment, DSS and other BFC services operate on a continuum and are complementary. We suggest the functions can work together more seamlessly if MSD creates:

- education and training tools to align approaches to complex debt
- clear pathways and criteria for accessing DSS, in line with the programme's capacity.

Figure 1 summarises DSS' function relative to other BFC services.

FIGURE 1: INDICATIVE PATHWAY OF ACCESS AND NEED



We can think of DSS as a more specialised financial mentoring role (Component 1) or a form of specialised low-cost debt (Component 2). Debt solutions require intensive efforts by Component 1 specialists – sometimes over many months (in contrast to sessional funding for financial mentors) – to make problem debt more manageable. They use a range of tools, including advocacy, to increase entitlements, reduce debts and servicing costs, and access low-cost debt (Component 2). In some cases, they use insolvency (e.g. debt repayment orders, no asset procedures, and bankruptcy).

Component 2 is an additional tool to help mentors create "breathing space" for clients. Low-cost loans can be used to provide debt relief, or as leverage to renegotiate credit.

Component 1 services and BFC financial mentors have overlaps and tensions

Component 1 providers and the BFC's financial mentoring network have overlaps, but they differ in funding models and duration of assistance.

BFC financial mentors we spoke to said they provide many of the same budgeting services, make use of microfinance (for example through NTM), do creditor reports, negotiate with creditors, and assist with insolvency.

The two programmes' funding models are also in tension. Current per-session funding arrangements mean that financial mentors sometimes lack the resources or capacity to support clients in severe and long-term debt.

Where DSS providers are funded for FTEs (full-time equivalent staff), financial mentors are funded for a set number of client sessions. Referring a client to a DSS provider may be seen to risk funding for the BFC service. This can lead to perverse incentives, potentially discouraging financial mentors from making referrals to DSS.

Further, not all financial mentors have debt specialist training, awareness of the available loan products, or understanding of the necessary access criteria to assist those with the most intense debt needs.

Financial mentors can and do refer their clients to DSS, for both Component 1 and Component 2 services. We do not have enough quality data to accurately assess rates of referrals by BFC financial mentors. However, all four providers said they wanted to work more closely with financial mentors to help clients – seeing their services as complementary, rather than in competition.

Component 1 provides a more intensive service, but may compete with financial mentors

For Component 1 providers (Debtfix and CAP), the main difference between financial mentoring and DSS work is the intensity of the service they provide.

How much Component 1 services directly compete with financial mentors is contested. From both providers, we heard:

> *We're here to support the sector. We're not trying to compete.*
>
> *We specialise in long-term debt repayments. We are not competing. We don't do the quick turnaround work, if someone is looking for that we refer them on.*

But financial mentors told us:

> *We can do what [Component 1 provider] does, so I don't understand why they need to be part of the additional funding by MSD. Recently I wrote off $5,700 for a client under the CCCFA. I've done debt consolidation, insolvency etc.*

While this does not reflect widespread capability or readiness across the financial mentor network to deliver the same services, it could be the cause of tension between some financial mentors and DSS providers.

Our interviews suggested the levels of debt solutions expertise and service delivery from financial mentors varied. Whether they have received the best advice is not always known.

BFC programmes have no consistent process for referring clients to DSS (such as thresholds for seeking DSS help, expectations for working together).

Component 2 low-cost debt adds to the BFC toolbox

Component 2 providers said those on the front line are the "hands and feet" of service, whereas their own services tend to be more specialised and at a distance from clients.

NTM explained:

> *The financial mentors are more front line than us, they deal with the client in crisis. We can't help them [with immediate assistance and support]. We love working with financial mentors, we have a good relationship.*

Good Shepherd's free DEBTsolve programme,[2] in their description, supports clients to gain control of unmanageable debt and improve their financial wellbeing through financial mentoring, debt advocacy support, and debt consolidation loans.

Their loans initially address a specific debt to create an immediate "breathing space" and ease financial pressure. They then consolidate debt at lower interest rates, freeing up money to meet basic living costs and allow clients to pay down debt more quickly. Reductions are leveraged to pay out high-interest creditors as part of consolidation, and financial mentors work with clients on longer-term interventions.

Good Shepherd's model means their service can be "wraparound" and holistic, delivering both Component 1 and Component 2 functions to clients:

> *The loan is the additional stuff that we can add, but it's not the whole service. A lot of it is thinking long term. Financial mentors [that Good Shepherd work with] are week to week, we are more wraparound and looking for long-term fundamental changes.*

They described working in a "triangle", between the client, DSS specialist, and financial mentors.

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[2] DebtSolve is the name for Good Shepherd's financial support programme. For more info, see: https://goodshepherd.org.nz/debtsolve/

> *We ask, what is it that you actually need? We make sure they [clients] are getting the right entitlements and teach them how to self-advocate. The financial mentor can handle budgeting and be on the ground. We are more about asking, where are you at, what have you tried, what support do you need, what is the area you need the help in?*

DSS providers can work in partnership with financial mentors

DSS providers work closely with BFC financial mentors. Sometimes this relationship is organised in a formal partnership (for example, between Good Shepherd and the Salvation Army, who employ Good Loans Advisors, and other related networks). But partnership can also be informal, and referrals ad hoc.[3]

The *Debt Solutions Services Guidelines* provide for this partnership.[4] They state that clients can enter DSS via:

1. Referrals by Service Users: All BFC financial mentors, MoneyMates facilitators (another BFC tool), and BFC Plus Kahukura[5] can refer existing or new clients requiring specialist debt solutions to a DSS provider free of charge. Referrers will identify clients with problem debt or complicated financial affairs that require input and solution design from a specialist intervention.

2. Referrals from Service Users outside BFC: Clients who are new to DSS and have no current relationship with BFC services are also eligible to receive assistance free of charge, subject to an initial assessment of their financial situation and the client's ability to meet the provider's own eligibility criteria.

Clients are referred to DSS providers in a range of ways

From provider data requests, Component 1 providers (CAP and Debtfix) appear to get very few of their clients from referrals within BFC. However, they do not report the sources of referrals in a granular or consistent way, and we cannot verify this with the data we have currently.

Good Shepherd receives most of their referrals from partners in their regional Good Loans network. Those partners are more likely to receive referrals from financial mentors directly (and refer internally to the Good Shepherd DSS function).

All NTM enquiries are associated with financial mentors. NTM's website, for example, refers enquiries to a financial mentor who then manages the loan application on NTM's behalf, or financial mentors approach NTM directly with their own clients.

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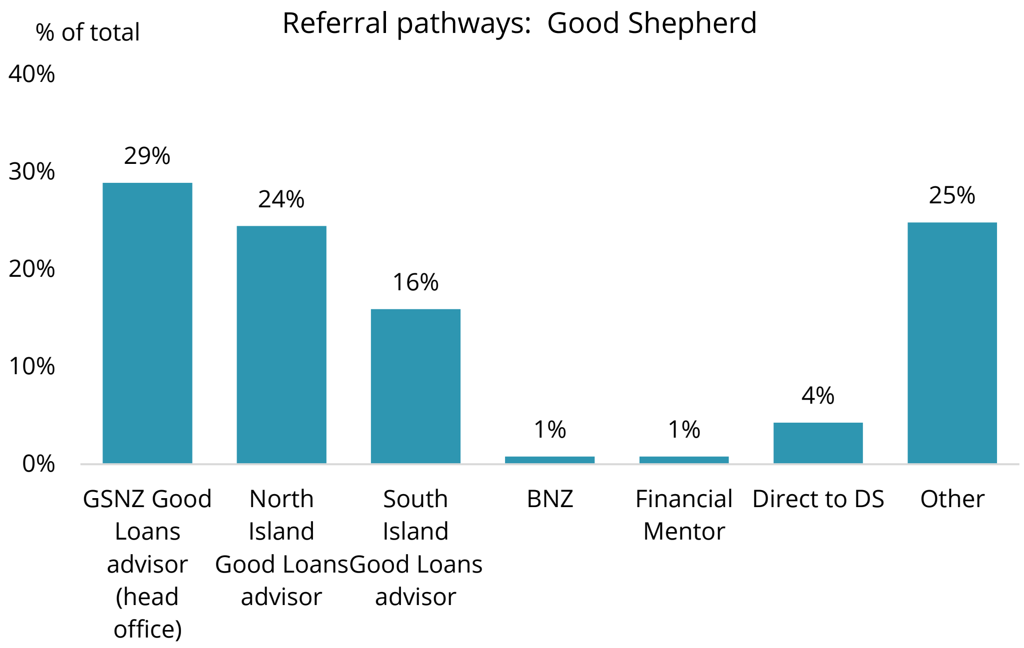
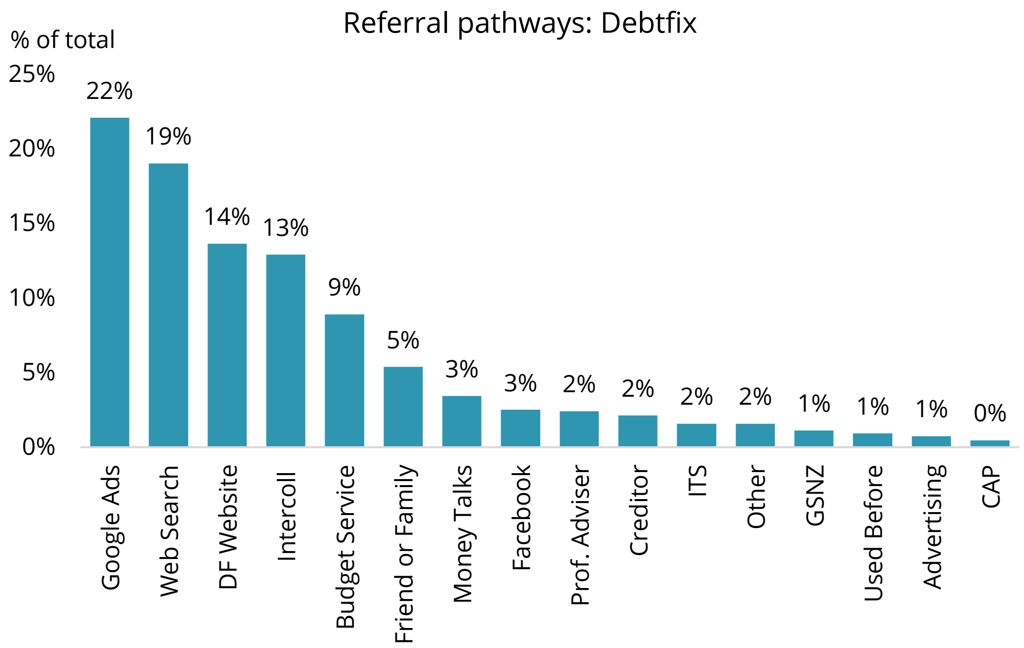
[3] The relationship with The Salvation Army ended in October 2022 but was active at the time of review.
[4] Available at https://www.msd.govt.nz/documents/about-msd-and-our-work/publications-resources/service-guidelines/debt-solution-services-service-guidelines.pdf
[5] The BFC Plus service is an intensive service aimed at helping clients, families and whānau with multiple and complex needs experiencing (or at risk of experiencing) extreme financial hardship. For more info, see: https://www.msd.govt.nz/documents/about-msd-and-our-work/publications-resources/service-guidelines/bfc-plus-service-guidelines.pdf

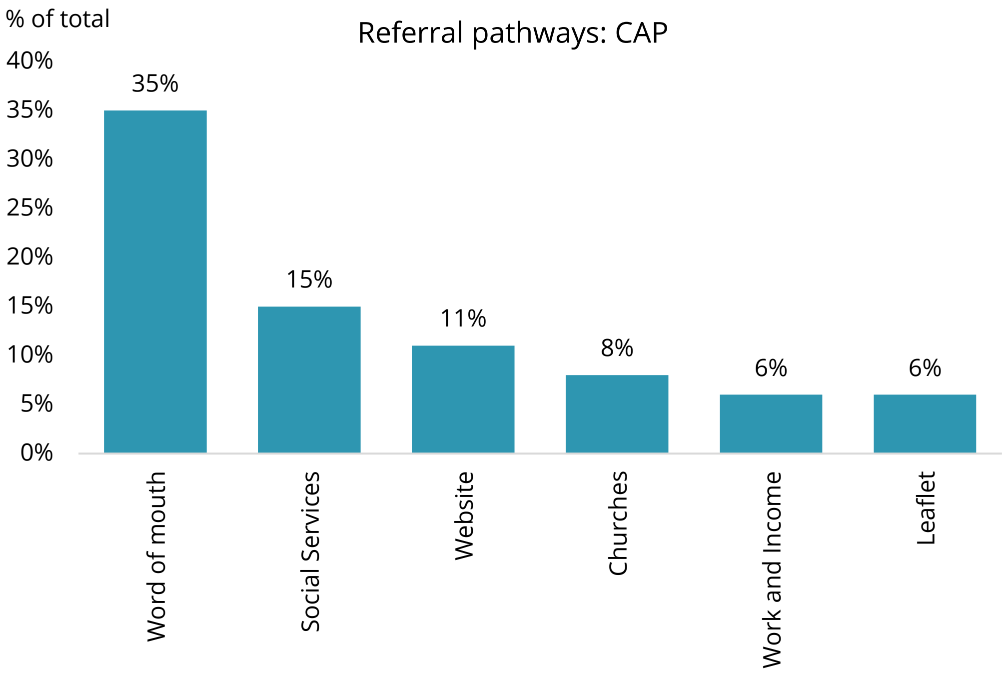
By comparison, Debtfix receives around 15 percent of their referrals from budgeting services, professional advisors, and peers. Most of their clients come through Google ads and the Debtfix website directly. CAP also relies strongly on word of mouth and internet search traffic.

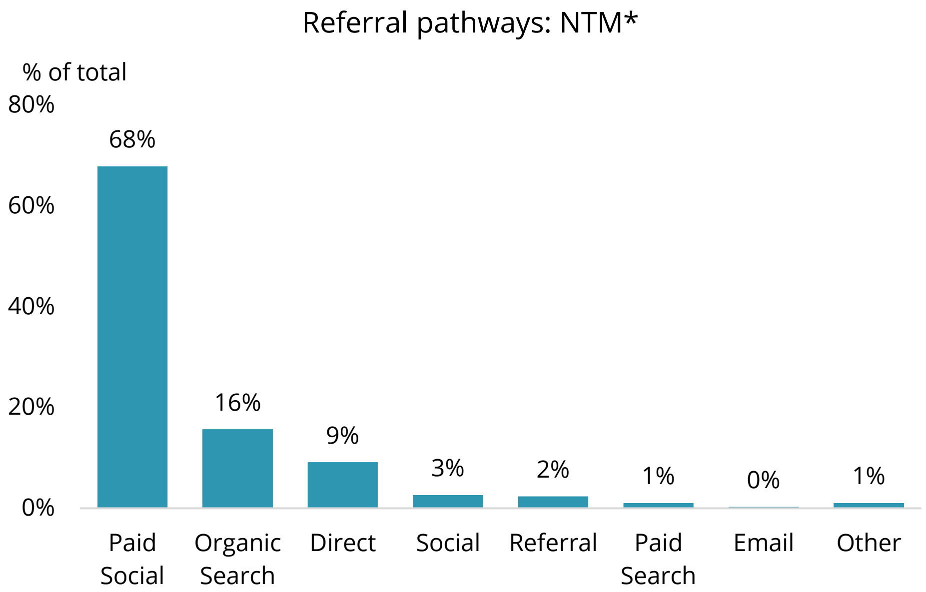
Generally, data to map and track the source of referrals between BFC providers is very limited. They are recorded as the "number of referrals" in performance measures reports, but limited resources to follow up new leads means some providers do not always know where referrals have come from. Figure 2 provides an overview of the referral pathways for each of the four DSS providers.

FIGURE 2: REFERRAL PATHWAYS









* September 2022 statistics

DSS helps those at the severest end of need for longer periods

Clients who engage DSS are generally at the crisis end of the Te Puni Kōkiri Financial Need Spectrum (see Figure 3).[6] Generally, DSS providers focus on those with the most severe need (those in “crisis situation” or “severely struggling”) for a longer duration of service (Figure 4).

Providers report how long they work with clients differently. NTM and CAP reported the whole time to the closure of the relationship. Debtfix and Good Shepherd reported the initial intensive period to put a tailored plan together. This period could be followed by months and even years of work to ensure long term financial resilience (Debtfix and Good Shepherd noted 3–5-year relationships with clients).

By comparison, BFC financial mentors tend to span a range of need (e.g., including those “Poised for Change” or “Struggling but Improving” as defined in the Te Puni Kōkiri Financial Need Spectrum), especially when embedded in specific communities.

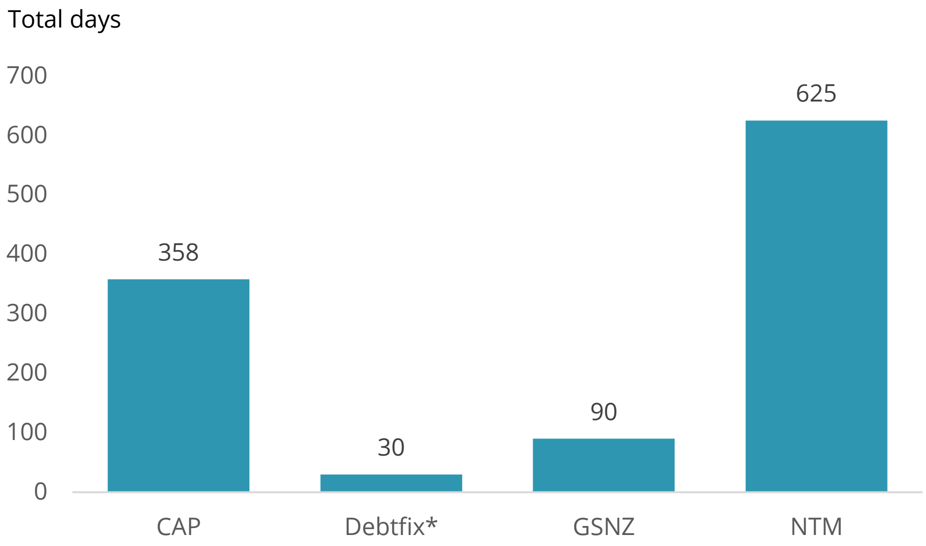
[6] Te Puni Kōkiri. 2019. “Microfinance Research Summary.” Wellington: New Zealand.

FIGURE 3 TE PUNI KŌKIRI FINANCIAL NEED SPECTRUM

Crisis Situation	• Unable to make ends meet. Surviving in extreme hardship without clear future direction • Needs high levels of support and options to start again with clean slate • Intensive supports to avoid repeating past mistakes
Severely Struggling	• Unable to make ends meet. Surviving under severe financial pressure. • Needs more money or lower costs • Needs holisitc supports to improve financial literacy and longer-term planning
Poised for Change	• Only just able to make ends meet. Potential to make a financial shift • Needs intervention to support a moment of potential change • Needs relief from weekly struggles to balancing payments
Struggling but Improving	• Living under continued financial pressure whilst trying to develop and employ better financial habits
Doing mostly ok	• Continue to carefully live within their means • Needs financial products that build on good habits • Needs a simple and relevant savings scheme • Needs the capacity to meet unexpected costs when they arise
Flourishing	• Able to access and navigate mainstream financial services • Unlocks other options for income generation and insurance (i.e. education and health investments)

Source: Adapted from TPK, 2019.

FIGURE 4: AVERAGE DAYS ENGAGED WITH DSS, BY PROVIDER[7]



Clients and providers have concerns about the quality of BFC services

In interviews, DSS providers expressed concerns about the consistency of approach, information, and advice clients receive from the BFC financial mentoring network. Clients raised similar concerns about MoneyTalks and Work and Income representatives.

We could not determine the extent of this tension or see how widespread low-quality support is in the network. Additionally, low awareness of products, perceptions of service overlap, and service capacity issues might also be limiting referrals to DSS.

One BFC interviewee explained that many financial mentors are not aware of the microfinance products available, their eligibility criteria, or how they may best help clients. One had only learned of Good Shepherd's new $15,000 loan product on the day of our interview and suggested that there is a wider knowledge gap among their peers.

The BFC interviewee also explained that capacity limits prevented them from making referrals, particularly to Component 1 providers.

> *We appreciate what [provider] does, but I don't think they could handle the number of clients we'd send if we did.*

All four DSS providers acknowledged capacity constraints, which limited their ability to take on new clients. Good Shepherd do not currently advertise because of these constraints.

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[7] Providers report how long they work with clients differently. For instance, the length of journey for NTM clients also reflects the time required to pay off the consolidation loan. Good Shepherd has a similar length of engagement for clients who take on longer loan terms, but only reports the time spent in the initial stages of loan setup. They note where referrals are made directly from a financial mentor, follow-up support tends to be delivered by them, as they can usually meet with the client face-to-face. This example supports our later discussion around data standardisation.

Component 2 providers are highly integrated in the BFC network

Compared to Component 1 providers, Component 2 (NTM and Good Shepherd) providers developed high-trust relationships with various financial mentor groups throughout the DSS pilot.

Referrals between the groups can go both ways. NTM refers potential clients to financial mentors 2 months ahead of granting loans as a condition of lending. Between January and May 2022 NTM referred 1,335 people to financial mentors, describing their service as a “connection to draw people in” to BFC. This is in part because of how many leads they receive directly via social media and their website.

The experience of financial mentors working with Component 2 providers is generally positive. For instance, discussing NTM, one financial mentor said:

> *NTM is very good to work with. We get referrals from them quite frequently through from their website. Sometimes clients haven’t realised there is a criteria to work with us first. Not all stay for the whole journey, but we try to keep up with them to see if NTM has been helpful. NTM know our products well too. They’re always there for training and questions at hui.*
>
> *Applications are fast, a 5-day turnaround, which is good. We have weekly meetings with clients and if we make an application, it’s approved by the next meeting. We’ll consider a NTM product with every client, but if their debt is too high, we might not go there. Though we might be able to use it to consolidate parts of it. NTM are very accessible.*

Good Shepherd has a more vertically integrated model than NTM (i.e. they have direct ownership of various stages of their lending process) partly because of their incubation pathway. This is changing as more financial mentors (with the capability to deliver debt coaching) are starting to deliver Good Shepherd’s free DEBTsolve product.

Good Shepherd initially wanted to develop an in-house service to support other financial mentors with (1) a quality microfinance product and (2) specialist debt advice, and scale those up. However, in practice, through the pilot phase of DEBTsolve (since October 2019) Good Shepherd chose to deliver both parts of the service themselves.

They took this approach to test delivery of debt consolidation loans alongside specialist debt coaching. They also note that FinCap – a large NGO that supports services providing free financial advice – could not identify at a large scale which financial mentors had the capability to deliver these services.

However, a small group of 13 financial mentors were able to refer to DEBTsolve directly, taking on debt coaching responsibilities where they could. This number has been growing organically as new financial mentors have approached Good Shepherd since its DEBTsolve pilot began.

Good Shepherd has also been highly integrated in partner networks throughout this time (such as The Salvation Army, Presbyterian Support Otago, Aviva and BudgetFirst) to deliver what they call “Good Loans services” via “Good Loans Advisors” employed by the partner organisations. This has enabled greater volume and efficiency in processing applications.

We heard of other financial mentors who want to work with Good Shepherd products, but are not sure how to. Closer integration with the wider BFC network could likely resolve this, although Good Shepherd currently has limited capacity for growth.

2. Are the current providers suitable to deliver Debt Solutions?

Soon after the COVID-19 pandemic began, MSD provided additional operational funding to the four DSS providers to stabilise their operations and meet anticipated increases in demand.

The four providers were already delivering debt solutions in various capacities before the pandemic. Each provider has their own objectives, approach, strengths, and weaknesses, which we discuss in more detail in Section 6. Each has invested MSD's funding in growing their capacity, but their underlying service models have not significantly changed.

We assessed providers' capacity to improve client outcomes by delivering efficient and effective services which meet the heterogeneous, complex and cultural needs of clients.

Our analysis found significant improvements for qualifying clients, both financial (roughly halving interest payments, as detailed in Figure 12) and non-financial (reducing stress, improving mental health and wellbeing). A sample of cases we discussed with providers and clients showed DSS helped avert more extreme outcomes, such as bankruptcy, and, in some cases, suicide.

While they are suitable to deliver debt solutions, the four DSS providers cannot easily scale up their services from current levels — an aim they all share. This is because the providers are still at an early development stage. Growing will require them to adapt their operating, funding and service delivery models.

All four provided clear-eyed assessments of where they need to change for the next stage of growth. However, this reflects their own ambitions of growing to meet unmet need, and rather than a cohesive "NZ Inc" approach. We discuss this in Section 6. Designing secure funding options, and a comprehensive national approach to problem debt would help.

We have identified two key functions that enable optimal service delivery in DSS, although DSS providers do not have to be deliver both of them. These two functions are:

- Long-term support: supporting clients effectively and appropriately over a long period of time, including periods of backsliding (where their financial situation worsens again). Services must have high contact time, be flexible to client needs, and be available to clients over a long duration.
- Speed of response: creating "breathing space" for clients by delivering affordable loans or debt restructuring products/services quickly. Accurate assessment and diagnosis of a client's situation and quick remedy/credible plans are important features of service delivery. Speed is important to reduce the number of clients who instead turn to predatory lenders in a crisis.

Component 1 services deliver both functions through collaboration

CAP works primarily through their Debt Help programme, which offers long-term support, while collaborating with Component 2 providers (specifically NTM) to deliver loan support to clients who need it. The intensive approach takes time to establish rapport, create budgets, develop a plan and implement it. CAP does not currently offer immediate assistance.

Debtfix also tends to work on longer-term solutions, providing advice on how to consolidate debt. They follow up with clients periodically to ensure support is consistent throughout a client's pathway out of debt. This includes contact throughout service and 6 months before clients become debt-free.

Through partnerships and horizontal integration, Component 1 providers offer both long-term and immediate support. They are able to deliver long-term programmes to become financially resilient, as well as providing specialist debt products or access to loans to create breathing space for clients.

For long-term support to be effective, DSS providers need to meet different needs, overcome cultural barriers, and develop strong relationships with Component 2 services to access loans or specialised debt advice efficiently. We already see this in the way CAP works with NTM to approve loans quickly, having developed specific knowledge of each other's products.

More permanent interventions, such as insolvency, must only be taken when few other options are available, and clients fully understand the consequences (such as being listed on the public insolvency register and impacts on future rental agreements).

Component 2 services focus on immediate breathing space

Component 2 services have a narrower scope, delivering breathing space and debt cost reduction in DSS.

Clear lending criteria are important so that financial mentors elsewhere in the ecosystem can access products reliably. Because lending services are more technical and less relationship-based, they can be offered by relatively few providers with a large lending capacity or concentrated expertise. For instance, approving loans does not require direct contact with clients and can be managed indirectly via financial mentors.

Opportunities to improve long-term and immediate support

Client outcomes and experiences (addressed in Section 4) suggest the four current providers are suitable for delivering long-term and immediate DSS functions.

Areas to improve delivery of these key functions include:

- improving the diversity of Component 1 services by adding other DSS providers, especially those who work in under-served communities and specialise in longer-term interventions
- exploring pathways for people who need longer-term support, but who don't fit with CAP's programme for philosophical reasons or because the service is too intensive
- communicating product eligibility for Component 2 products more clearly, and raising awareness of these within the BFC (for example, clarifying capability criteria for financial mentors to deliver debt coaching in partnership with Good Shepherd)

- exploring options to reduce stand-down periods for accessing affordable loans to reduce clients dropping out or resorting to predatory lenders.

3. Funding Model – how do the private sector, other organisations and other BFC providers fit in to DSS?

Operational funding is a key constraint for DSS providers. The private sector contributes the majority of capital funding for Good Shepherd and NTM (Bank of New Zealand and Kiwibank respectively). MSD is the key operational funder of debt solutions. Charitable giving (from individuals and community trusts) also provides some operational funding.

CAP has diversified revenues, making it the most resilient provider, but others largely rely on MSD funding.

We recommend exploring sustainable operational funding options. International examples include levies on some financial products which are directed to debt solutions providers.

The funding models for DSS providers are not secure. Providers told us:

> *Sustainable operational funding is the problem. We think we can scale up, but we need that funding security.*

Providers operate with a mix of MSD funding (which covers operations only) and private funding. Good Shepherd and NTM have additional lending capital arrangements with Bank of New Zealand (BNZ) and Kiwibank respectively.

Here is how each provider manages its funding arrangements.

Christians Against Poverty

CAP funds their operations with donations from their national church and through various trust applications. MSD funding makes up 8.1 percent of CAP's revenue. As an explicit condition of the DSS guidelines, clients engaged via DSS cannot be asked to donate. To put this in place, CAP discontinued the option for all clients when the pilot started.

Debtfix

Debtfix charges clients directly as part of their specialist debt service, but relies on MSD funding for the bulk of their operations.[8] Clients' fees are offset by interest savings and debt reductions elsewhere. Debtfix operate under the Debt Relief Foundation, a charitable trust. Most of the fees they charge are set by the Insolvency Act and the courts and solicitors. Debtfix cannot continue to grow without additional operational funding.

Good Shepherd New Zealand

Good Shepherd and NTM operate as charitable organisations. They have partnerships with mainstream banks for lending capital. Good Shepherd has capital financial arrangements in

[8] The DSS service guidelines allow statutory charges. Statutory fees are calculated in accordance with the Insolvency (Personal Insolvency) Regulations 2007.

place with BNZ and reported that they are not constrained for lending capacity. They receive wider funding from corporate partners and charities.

Ngā Tāngata Microfinance

NTM has capital financing arrangements in place with Kiwibank, but strong loan demand means they will need to access more capital.

NTM's contracts allow them to source lending capital from elsewhere if required. However, stable operational funding is often a prerequisite for capital funders. Iwi funding is a possible avenue but is contingent on providing custom products (such as tailored loans to iwi members for healthy housing) rather than general lending. NTM is confident other potential capital providers are available, but there is low appetite for operational funding. This is a common issue in the NGO and non-profit sector, where donors want funding delivered to the cause rather than the operations.

How MSD funding was distributed to DSS providers

Government's 2020 Budget provided the initial funding for DSS as a MSD-funded pilot. Figure 5 shows the relative size of funding to each provider. Good Shepherd received the largest additional sum.

The pilot was extended in Budget 2022, providing MSD funding at the 2020 level for a further year, to 30 June 2023.

FIGURE 5 MSD FUNDING ROUNDS ACROSS THE PILOT

	Provider	MSD funding	
Affordable credit providers	Good Shepherd	$681,000	$681,000
	Nga Tangata Microfinance	$300,000	$312,000
Specialist advisory services	Christians Against Poverty	$490,000	$490,000
	Debtfix	$490,000	$490,000

Funding uncertainty is a key risk for the DSS providers

Ahead of the 2022 Budget, providers experienced uncertainty around their future funding as DSS providers. MSD could not guarantee that DSS funding would continue.

Although funding was eventually extended, uncertainty remains around its long-term viability. It is unclear how providers would continue to source operational funding to provide their debt solutions services to those most at need if government funding ceases.

In practice, providers told us funding uncertainty made them cautious about hiring staff and expanding their services. One provider did not replace a departing staff member, but instead invested in systems and processes, which yielded efficiency gains to maintain service levels.

Of the providers, Debtfix is most exposed to operational funding risk, as it lacks multiple funding sources. However, its move to the Debt Relief Foundation will give it easier access to a wider range of funding sources, from donations to charitable trusts.

The other providers could likely continue without MSD funding, but at a reduced level of service.

Providers discussed options to generate new funding streams in our interviews. However, these options are generally in the early stages of development and may still require government intervention and planning to be successful.

A sector funding plan could assess alternative models for funding. These could include, as one provider suggested, a levy on mainstream financial services, or exploring UK approaches to funding affordable credit services using dormant deposit accounts.

Section 3 – Service guidelines for DSS providers

4. Are the DSS guidelines and structure fit for purpose?

We found that the MSD service guidelines did not change the way the service providers operated, but rather formalised existing processes.

They function as intended at a high operational level, but aspects of the guidelines – such as activities relating to the Service Design & Analysis Phase – were not executed. This created analytical and data gaps around plans, which made formal evaluation challenging.

Although a comprehensive National Debt Solution approach was deprioritised during the pandemic, renewing progress towards this goal should be a future priority and supported in the service guidelines.

At a high level, the guidelines have their expected effect

MSD chose the four DSS providers soon after the COVID-19 pandemic began. MSD created the service guidelines to:

- establish the principles guiding service delivery
- define the service and practice
- ensure consistency of services
- outline intended service outcomes.

The October 2020 guidelines specify the aim of DSS is to:

> *Meet the increasing demand from people with problem debt, by supporting clients with expanded specialist debt support and debt consolidation services. These services can benefit creditors and debtors, and the wider economy, by maximising the flow of potential payments to creditors while sheltering indebted individuals and whānau from the financial, health and social impacts of overwhelming debt.*

The service guidelines distinguish between client outcomes and the service outcomes MSD needs for accountability. As standard guidelines, they set a “minimum” expectation for providers, allowing providers to develop services that reflect their philosophical base, local needs, and culture.

MSD wanted flexible and responsive guidelines that would enable the providers to operate as they saw fit throughout COVID-19 disruption. The guidelines do not include well-developed and specific targets, as a phase of learning was required.

The providers had an opportunity to provide feedback on the service guidelines, which MSD incorporated. Providers told us the service guidelines did not alter their operations in practice, but rather formalised their existing approaches.

A comprehensive National Debt Solution approach was not developed

The guidelines also state:

> *Government seeks to enable rapid scale-up of existing specialist Debt Solution services in the short-term while a comprehensive National Debt Solution approach is being developed.*

Similar intentions were raised in the September 2020 Opt-Out memo as part of the commissioning process:

> *Funding is… to also enable loan providers' participation in design and a process of working together to consider a longer-term national approach to address problem debt.*

All four providers met the specific goals of:

- helping people with problem debt
- expanding specialist debt support and debt consolidation services.

Additionally, our analysis of reported data and additional provider data confirmed that the providers balanced enabling debt repayments to creditors with financial sustainability for indebted clients.

However, the second aim – to develop a comprehensive National Debt Solution approach – was not delivered. Sector participants and our analysis confirmed a comprehensive approach would add clarity and focus, and support a national effort to address problem debt. Providers want to see this developed as a priority.

The guidelines clearly identified problems, approaches, and outcomes, but left execution gaps

The guidelines outline the DSS programme and set expectations for service delivery. A benefits map in the guideline identifies the outcomes MSD expects from the programme, recreated in Table 1 below.

Problems related to interest are clearly articulated. We saw evidence of reduced problem debt, but it was too soon to see improvements in access to more mainstream lending.

However, the planned service design and analysis phase did not take place alongside the pilot, which would have improved the reporting and data framework (an intended outcome of the pilot).

The service guidelines should define an agreed and consistent data collection approach, to enable high quality quantitative analysis. Clear gaps remain in reporting and the sector's data framework.

TABLE 1: MSD BENEFIT MAP OF DEBT SOLUTIONS SERVICES

<table>
<tr><th rowspan="2">Problem</th><th colspan="2">Solution</th><th rowspan="2">Benefit</th></tr>
<tr><th>Outputs</th><th>Outcomes</th></tr>
<tr><td>People families and whānau in financial hardship and supporting household spending with:
• High interest debt services
• KiwiSaver savings withdrawals</td><td rowspan="2">Funding debt solutions services that will provide:
• Repayment plans
• Debt repayment/ consolidation loans
• Debt advice and payment agreements that avert or limit insolvency
• Negotiation of loan repayments</td><td rowspan="2">Problem debt reduced/repaid and additional high cost debt avoided
KiwiSaver distress withdrawals reduced
Improved access to Tier 1 and Tier 2 lenders</td><td rowspan="4">People, families and whānau are sheltered from the financial, health and social impacts of problem debt
Retirement savings maintained
Increased financial inclusion and wellbeing
Increased effectiveness of Building Financial Capability support</td></tr>
<tr><td>Risk of increased insolvencies</td></tr>
<tr><td>Debt solutions services are currently unable to compete easily with accessible high-cost lenders</td><td rowspan="2">Service design and analysis phase that will:
• Analyse current debt solution providers service delivery practice
• Listen to the voice of people, family and whānau in financial hardship
• Analyse what reporting is needed to better understand household debt</td><td rowspan="2">Better understanding of current market environment
Understanding the needs of people, families and whānau in financial hardship
Improved reporting and data framework</td></tr>
<tr><td>Lack of reliable data on households' real income/debt impairs informed policy decisions</td></tr>
</table>

Monitoring gaps make it difficult to assess if outcomes were achieved

Although the guidelines identify intended outcomes, they do not clearly link outcomes with the programme's monitoring framework.

Monitoring targets were lightly incorporated into reporting requirements, for example in tracking the number of FTEs working on DSS. But targets were not included in the programme's contracts, as MSD wanted to avoid rigidity at an early stage of experimentation.

Narrative reports inform us about many of these aspects. But the answers we gathered in interviews are open-ended and varied in length and content between providers, limiting our ability to make fair comparisons between them.

Flexibility in the guidelines was helpful during COVID-19 disruptions, both because demand was low during lockdowns, and because providers had to pivot to remote working and were affected by COVID-19 absences.

However, this means some of the expectations placed on providers were subjective and not monitored by external quality control measures. For instance, the guidelines include limited mechanisms to monitor whether providers meet these outcomes sought by MSD:

- “Use formal feedback processes for reporting purposes and ensure clients are aware how information will be used.”
- “Provide relevant training, professional development and (where appropriate) supervision, utilising appropriate resources and support.”
- “Use current good practice taking into account the local context, knowledge, and skills relevant to the purpose and focus of this service.”
- Be “client focused and involve service users appropriate in decisions about delivery.”
- “Recognise the importance of cultural responsiveness in service delivery/fulfil Te Tiriti obligations.”
- “Design services and physical facilities in a way that supports accessibility to services for Clients.”
- “Employ and support competent staff capable of delivering a quality service.”
- “Provide opportunities for on-going training and professional development/participate in training and up-skilling activities to keep up to date with financial capability information.”
- “Regularly review, reflect and monitor of the effectiveness of the service, including Service Users and Clients, staff and external feedback, and changing and modifying practice in response.”

A lack of aims, specific activities, and targets also makes it difficult for MSD to quantifiably monitor how DSS principles are put into practice. The principles in the guidelines require providers to:

> *…act honestly and in good faith, communicate openly and in a timely manner, work in a collaborative and constructive manner, recognise each other’s responsibilities, and encourage quality and innovation to achieve positive outcomes.*

Recognising each other’s responsibilities, for example, is a difficult principle to achieve when sharing service development makes the responsibility of individual providers ambiguous.

These principles are still evident in elements of the pilot but cannot be consistently assessed.

For instance, the four operators worked collaboratively via regular open meetings with the sector, as required in the guidelines. We also saw a collaborative approach across services and agencies in meeting minutes, attitudes towards this review, and regular contact between service providers and MSD throughout the pilot.

The lack of a service design made it difficult for providers to meet some objectives or consolidate learning

The guidelines state:

> *[The DSS] initiative will support a service design with the sector of ongoing debt solutions for all New Zealanders, informed by the economic impact of COVID-19 and the operation of the interim Debt Solution services over the two years to 30 June 2022. Providers are required to participate in service design hui, meetings, and consultations as part of the service design.*

They also state:

> *We will use hui, online collaboration, and the informal interactions that come about as Providers deliver the Debt Solution services to deliver practical learnings that can be fed back into the service development.*

The guidelines were intended to be a "living document", as provider learnings were identified and incorporated. MSD identified areas of the pilot where providers sharing their experiences would support this objective:

- collaborating across the financial services sector (leveraging the Safer Credit and Financial Inclusion strategy)
- recording client outcomes and user satisfaction measures
- clarifying referrals and tracking client pathways to assistance
- smoothing out processes
- convening practical 'this is what we found' workshops
- agreeing definitions.

Although the pilot's learning opportunity was a feature of early documents, significant aspects of this process did not occur. This has made it difficult for us to quantifiably answer some of the questions posed for this review, such as tracking client pathways to assistance.

Providers understand that because they were seen to be working well together and were meeting independently of MSD monthly, a service design process was considered necessary by the end of 2021. Minutes from the MSD-sector meeting in November 2021 note:

> *co-design of national debt approach not needed as MSD happy with the way we are all working together.*

In interviews, providers expressed confusion about why MSD deprioritised co-designing a National Debt Solution approach. Although providers have a monthly forum to address operational challenges, the conversations at the forum were not of a forward-looking strategic nature.

One provider explained:

> *When we got the contracts, we wanted to devise a national strategy. We had come out of national strategy for financial capability, so we got the money and wanted to do the national strategy for debt next. But we're not actually funded to do that, and MSD just said, "you're all working together, so that's fine". They have been pretty hands off.*

The gap in strategy work means some issues identified in meetings were not resolved, as it was unclear who was responsible for addressing them.

For instance, progress on resolving "a lack of reliable data on households' real income/debt" – first identified in the service guidelines – has been limited. This is an area that would benefit from coordination. It could be addressed by asking the providers to collect and report household incomes and debt. They already collect this information for debt assessment budgets, but it is not always held in their systems in a way that allows easy capture, analysis or dissemination.

A strategic service design was not the only planned element of the pilot that did not materialise.

Other activities the guidelines suggested, such as developing of an Outcome Measurement Tool, were pursued at a provider rather than a programme level. For example, NTM worked with ImpactLab to apply the "Good Measure" framework to their loan book. Although the Outcome Measurement Tool is mentioned in meeting minutes in May 2021, work has not been completed.

Finally, the providers we spoke to were not sure what the role of FinCap (National Building Financial Capability Charitable Trust) had been throughout the Pilot. The guidelines stated FinCap would:

> *assist connection with BFC services via the MoneyTalks helpline and assist Providers' participation in the service design.*

However, in practice, providers had limited connection with MoneyTalks, and the service design did not occur. This may be an area to clarify, and potentially prioritise as service guidelines are updated.

The guidelines require some technical adjustments

Minor changes could improve the guidelines and better reflect the operational reality and challenges of the DSS programme.

Separating objectives into programme-level and provider-level streams might improve the guidelines, similar to how the UK market developed its theory of change and organised its policy work in 2020. We have adapted an example and included this in Appendix D.

We also suggest reviewing and adding to the guideline's aims for DSS. For example, developing funding sustainability could be added to the aims, to better organise provider activities.

Further technical adjustments include:

- **Eligibility for Component 2 services should be clarified in the service guidelines.** The current guidelines specify: "The only entry criterion is the presence of self-identified problem debt (personal consumer debt) and potential insolvency." However, in practice, debt consolidation loans are only available to those on low incomes, meaning this eligibility requirement applies to Component 1 services, but not Component 2.
- **The requirement to keep BFC financial mentors informed should be loosened.** The guidelines state, "when a BFC service has made the referral, Providers should keep them informed of the Client's progress and any issues." But we heard from providers that some financial mentors do not want to engage, as they have very limited spare capacity. The expectations in the service guidelines could be adjusted to reflect this.

We have addressed the guideline's approach to monitoring frameworks in Section 6 of this report.

Section 4 – Access and client experience

This section looks at how clients access and experience DSS, as reported to us in interviews. We answer three questions below and supply additional context in the following pages.

We found that, while demand for debt solutions is high, few people who need it progress to accessing the service. Anecdotally, this is because some people are not ready, some are looking for a short-term fix or a short-term loan, and others do not meet eligibility criteria.

However, this is not verified with quantitative data. Providers currently do not collect that data, and do not always have capacity to follow up with people who do not access their services. They are also cognisant of pressuring people who have complex needs (although all providers have low-pressure systems in place to follow up, usually with one phone call and two emails).

Of those who access the service, the average client receives significant financial assistance (average debt servicing costs fell from 27 percent of income to 13 percent after intervention) and non-financial benefits (reduced stress, increased agency, and improved skills).

5. Are the current hours of operation optimal?

Hours of operation were not an issue that our sample of clients identified. Online presence, call backs, and flexible meeting times mean that communication is usually established rapidly after initial contact. However, as noted earlier, not all those who contact the providers go through with the debt solutions process. The reasons are not quantifiably understood, meaning we do not know if this is related to the hours that providers are available.

Some providers noted that online interactions often happen late at night. One noted that website activity peaks after midnight. They described how many clients stressed about their unmanageable debt are unable to sleep and look for help online – especially when the rest of the family is asleep (clients often reported feelings of shame).

We found no evidence that hours of operation were a barrier to clients accessing DSS. However, we did not speak to anyone who had stopped using a DSS service after initial contact, nor did we find data from providers recording why some people chose not to follow through with debt solutions.

Most people who initially approach DSS do not complete the intervention.

The barriers are significant and complex for clients seeking help.

The high intensity of DSS services is likely a barrier in itself for some people, who are overwhelmed by the extent of the interventions (e.g., partial money management or insolvency).

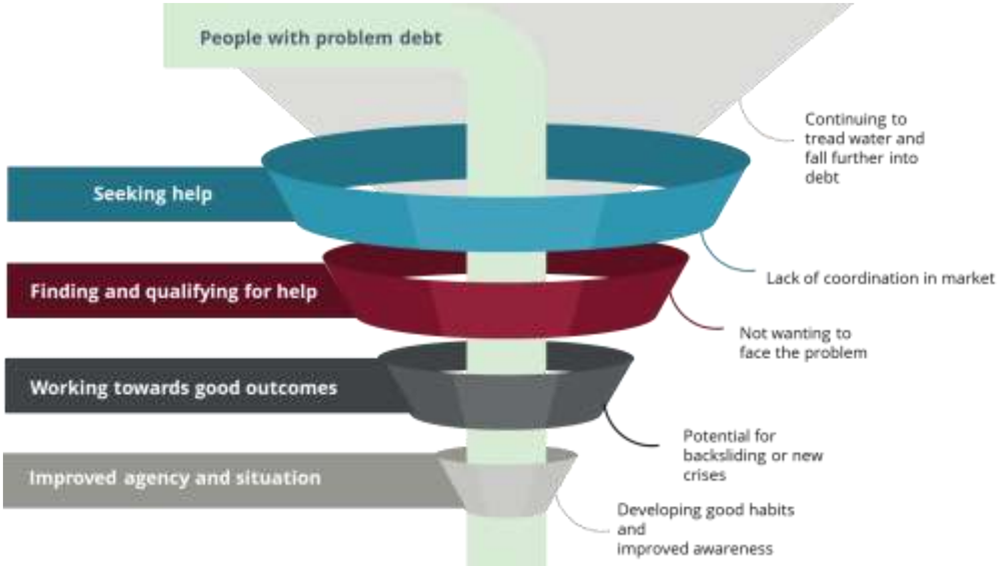
One provider estimates 90 percent of those who seek help do not continue to access support (they "drop out of the funnel").[9]

For resourcing and sensitivity reasons, providers typically do not follow up more than once with people who have approached them. We heard from some providers that, during periods of high stress, it is important for clients not to feel pressured but to know their options and engage DSS when they are ready.

NTM has a longer follow up process. People who have self-referred to a financial mentor through NTM's website are contacted up to three times by the mentor. If they do not respond, the enquiry reverts back to NTM, who try more than once to make contact.

FIGURE 6 visualises how clients can backslide during their journey out of debt, and shows some of the possible reasons.

FIGURE 6: CLIENT PATHWAY OUT OF DEBT IS LONG AND PRONE TO BACKSLIDING



Delays to support and modes of access vary significantly

We also heard from clients about other obstacles. These include digital versus in-person access, and the time it takes to get help when people need it urgently.

The majority of DSS services take place over weeks or months. Many of the breathing space functions are delivered remotely, rather than in-person, so opening hours are not as relevant.

For CAP, access is initially very important to establish trust with clients. But, as its (paid and unpaid) debt coach network delivers frontline services, hours of operation become a less relevant constraint.

[9] The rates of those unable to qualify for loans or who fall out of the funnel appears similar to experiences in affordable credit sectors abroad. In a recent article, a chief executive for a not-for-profit loans provider in the UK estimated 90 percent of their applicants are declined for loans. See Financial Times, 2022: "Credit crunch: how the cost of living crisis is pushing households to breaking point".

For financial mentors, face to face contact remains important. We heard:

> *People aren't confident on the phone, and email, they can get harassed.*

> *We've seen a few more young people lately, but not many more. They have a bit more resilience because they are working. But we also aren't available for them. We're trying to have better hours, but funding is a challenge.*

This suggests integrating financial mentor services-with loan and specialist advice functions is still an important aspect of service delivery. This is especially important for those with limited digital skills.

For those with strong digital skills, the current programme appears to be effective.

> *I emailed in a time of desperation and literally in two hours they had called me.*

> *Overall, it was a good experience with all parties involved. I knew about the loan from Sallies from getting food parcels. Sarah, she went over my budget and income, then Hemi contacted me. It was really fast and all online.*[10]

But challenges remain for those without digital literacy or access.

> *Our conversion to loans is 2 percent of referrals. Which we know is low. There's a lot of reasons, but digital access is a problem. They* [prospective clients] *might just be gone by the time the financial mentor reaches out.*

> *The only limitation for me through the whole process was I'm not very good with tech, at times I just took papers in instead of emailing.*

The time it took to work with financial mentors (2 months for clients taking NTM loans) or to assess applications before clients can access loans can add stress for people in urgent situations:

> *There are a lot of barriers to entry. People searching are like - how long is that going to take? I'm stressed now!*

> *The people who come to us are just thinking I need help. And that's often right now. These processes can take a long time and affect the dropout rate.*

This is a partly unavoidable aspect of making appropriate loans. But it also underlines the importance of directing clients to the suite of emergency response tools available (such as food banks, advance benefit payments, or KiwiSaver hardship withdrawals). This emergency support is needed so clients in crisis are not diverted to payday lenders while their application for affordable credit loans is being processed.

DSS services can improve these outcomes by strengthening their integration with the MoneyTalks service. They should also better communicate eligibility criteria for loan support to the BFC network to support client access.

[10] Names have been changed.

6. Does Debt Solutions work for different cultures? (Māori, Pacific, Youth, Cultural and Linguistic Diversity [CALD], Asian, Other)

DSS clients come from diverse backgrounds. We spoke to people from minority ethnicities in our client interviews and did not find any particular barriers to interviewees accessing or receiving debt solutions services (at the overall service level or with specific providers).

We found that providers prioritise hiring people with empathetic personalities from diverse backgrounds and representative communities, supported by training and culturally sensitive practices.

Among the DSS providers, 29–43 percent of clients are Māori and 12–27 percent Pasifika. Their clients are 78–82 percent women, except for Debtfix which has a larger male client base at 42 percent male and 58 percent female.

Providers demonstrated understanding when discussing clients' situations and their cultural competencies

Frontline staff told us about the intensity of the support they provide to clients, and how this intersects with cultural competency.

> *It is quite intensive; people are truly overwhelmed. You knock on the door and they hide behind the couch.*

> *Cultural approaches to money are very different. We have to be cognisant and appreciative of this.*

> *Not everyone can approach an iwi provider. Help from iwi is often very wraparound which can be a strong deterrent for people [interviewee speaking of financial mentors generally].*

Providers generally consider cultural competency to be a basic feature of induction and on-the-job training across the financial capability sector. Providers gave us examples of how they had adjusted services for cultural expectations:

> *We deal with the creditors in some cases, where it's culturally easier for our clients. Sometimes, we enable people to deal with creditors themselves.*

> *The cause of the hardship matters. Choice is freedom. One client who could never buy her daughter hair ties, in her testimonial told us her daughters had hair ties now. It's a small thing but a big one to her. She could get the non-essential essentials.*

Approaches to cultural competency tend to be implicit in organisational attitudes and hiring, combined with training.

CAP explained that its approach stems from promoting client agency. An example is supporting remittances where sending money home is a cultural value. CAP's approach to cultural competency is to try to hire from representative communities. It has also used external organisations to develop its capability, and employed an internal 'Te Ao Māori champion' involved in service delivery strategy and cultural competency training.

Debtfix and Good Shepherd have training processes in place in line with their MSD accreditation requirements. Their approaches include hiring for empathetic traits. Good Shepherd explained that, where possible, it tries to align the cultural backgrounds of its team with those of their clients.

NTM also meets accreditation standards for training. However, it also explained that – because its service model means it deals with financial mentors, rather than directly with clients – it is less likely to contribute to unsafe cultural interactions than frontline services.

Nonetheless, NTM builds a relationship with clients once they have an active loan. NTM has engaged an external provider to improve cultural competency within its team and is developing a cultural plan. NTM recently amended its Trust Deed to commit to improving cultural capability throughout its operations.

Clients remain vulnerable throughout the service, some of which are highly intensive experiences.

Our interviews with clients did not uncover many cultural barriers to service. Clients from a range of backgrounds described positive experiences with DSS.

However, some accounts show how conflicts could occur if cultural contexts were poorly managed. For instance, one client told us:

> *I was a bit mortified, when they had to send out letters to all creditors including casual borrowing from my [family], which I didn't really class as a formal debt – but they did, and it was tough for me.*

We heard of an isolated situation where a client was initially given a fuel budget much lower than their circumstances required. The client told us they were confused as to how the budget was determined, but that it was reviewed, and the amount increased, and they felt supported throughout.

Quality assurance mechanisms are managed internally, which raises a potential risk. Providers reported that, currently, no external assurance process is in place to review the policies their accreditation standards require, e.g., periodic audits of sample cases.

DSS could develop mechanisms to follow up with clients after their experience with a provider. These would look at the decisions clients made following providers' advice, whether they were culturally appropriate, and whether they caused the client any regret or remorse.

CAP faces natural limits to its compatibility with some groups

CAP – Christians Against Poverty – has a theological foundation which is reflected in its service delivery. For instance, CAP's frontline services are delivered by volunteers from church communities, and sometimes at churches. Advisors ask clients if they are interested in prayer or karakia when discussing their financial situations. Although CAP's service continues either way, this inevitably shapes a client's experience.

The CAP clients we interviewed did not report widespread discomfort with this. One client's experience of the service was highly positive, although they raised hesitations around the religious aspect:

> *I was struggling financially. I had seen the pamphlets for CAP before, but I had a friend who recommended CAP. I wasn't really into the Christian aspect, my fear was – are they trying to convert? But I needed help.*
>
> *The encouragement and phone calls you get makes all the difference. They do a shop with you. I called them up when I was at a low point, they asked me if I wanted them to pray for me. I'm not religious but it was what I needed at the time.*

While still being highly effective for many clients, CAP's service will not be appropriate for everyone, which creates a natural limit to its overall client experience and accessibility.

Longer term, MSD may need to expand the number of DSS Component 1 providers to meet the needs of different demographics. Feedback from one financial mentor echoed this sentiment, explaining that the current range of DSS providers does not work for their local demographic of Pasifika communities.

Providers need cultural diversity to compete with payday lenders

Lacking strong cultural diversity in their teams can pose a particular challenge for DSS providers when competing with payday lenders who are embedded in at-risk communities.

> *People say, 'Oh I don't like the [financial mentors/DSS]. They say I can't go to my payday loans provider anymore.' People place a high value on those accessible lines of credit.*

This gives providers a strong incentive to invest in and hire for cultural competency.

Technology and the relatively long-term nature of DSS solutions can also make payday lenders attractive.

> *One of the biggest challenges, how do we use the same tech as predatory lenders, but not lose the pastoral care. How do we make more effective and efficient?*

7. How do we know if the client experience has been beneficial to them?

Analysis of clients' budgets before and after intervention shows significant financial improvement, namely in reduced debt and higher debt repayment levels. Qualitative client interviews confirmed financial gains and non-financial gains, such as reduced stress and depression, feelings of relief and renewed optimism. Consistent quantitative and qualitative data collection is also needed to monitor client outcomes more closely.

Other themes emerged in our interviews with DSS clients, and we capture these below.

Interviews highlighted clients' complex and often desperate personal situations

Problem debt had a significant impact on the finances and personal lives of the clients we interviewed. A small selection of comments highlights the extreme stress interviewees experienced:

> *Debilitating pressure at times, everything is on a bit of a downer.*
>
> *I was just in survival mode.*
>
> *I was overwhelmed. I had gotten into a situation that was unsustainable.*
>
> *I was in dire circumstances, I had lumped debts on myself.*
>
> *[It] was a dark period.*
>
> *I was thinking of suicide.*

The situations described to our team were often desperate. A quarter of the clients we spoke to described suicidal thoughts or mental health crises prior to receiving help. Many also described this easing while they received support and gained financial stability.

Previous experience with predatory lenders, often over long periods of time, contributed to a sense of relief for those who received help.

> *When you're at the bottom, you literately can't get ahead on anything. It takes time and effort and energy. You get hit every which way.*
>
> *It was almost luck that I spoke with the right people at the right times to get the help needed and didn't just go back to the loan sharks.*
>
> *The trouble is the internet scams. It's hard to find the good people. I went through a few websites and then felt like this is wrong and got out of there. Until I found [DSS].*

Clients tended not to distinguish between BFC services. However, they could describe a clear difference between the benefits of debt solutions and the negative impacts of predatory lenders.

A key insight from our interviews was how important it is for clients to know that – in getting help from DSS – they are not going to be further scammed or diverted by predatory lenders.

Psychological barriers to support are significant

Considerable fear and confusion affects clients' search for help.

Clients told us about overcoming shame, fear, administrative hurdles, distrust, and desperation in their own debt journey, as well as difficulty thinking clearly or fully understanding their options during times of stress.

Common themes in our interviews included stigma, and not understanding how to get help:

> *... the stigma is quite pervasive. My [family] doesn't know about the troubles. People don't understand and just think you're stupid.*

> *... if you didn't have some backup, you just don't know what to do.*

Figure 7 summarises the main themes in client's accounts of their experiences and fears when asking for help. Figure 8 overleaf summarises trends in their experiences of searching for help.

FIGURE 7: CLIENT ACCOUNTS OF APPROACHING BUILDING FINANCIAL CAPABILITY PROVIDERS

Whakamā/ shame	**Knowledge**	**Trust**	**Preparedness**
I hadn't asked for significant help before, couldn't believe that there are people that can help. I have always just tried to sort things out on my own.	I had no idea about all of this. I thought it was just in doom and gloom	I wouldn't even bother going to WINZ. They look down their nose at me. I've had a bad relationship with MSD from an early age.	You won't change unless you are brave. It's very confrontational.
	I would have accessed it straight away if I knew about it two years ago. They need to advertise.		
Me being me, probably wouldn't have reached out to anyone else earlier than my redundancy. But if I had gotten into it earlier it might not have been so bad.	The info needs to be out there. Who are the good people?	Got to the service through an internet search, I thought it might be another scammer, but they answered	I was just in survival mode, don't think there was anything that would have made me reach out sooner.

FIGURE 8: CLIENT ACCOUNTS OF SEARCHING FOR HELP

Desperation

- Debilitating pressure at times, everything is on a bit of a downer.
- Gambled a lot of money one night. I found Debtfix in a moment of desperation, googled help gambling.
- I emailed in a time of desperation.
- It was demoralising and depressing time in debt.
- Redundancy and the stress of not being able to pay debts triggered looking for/accepting debt help. I knew what was happening and what was coming.

Treading water

- Felt like we were treading water, constantly paying and not getting anywhere.
- I was overwhelmed. I had gotten into a situation that was unsustainable. I'd pushed it under the rug for too long.

Referrals from others

- I found out about the service through my grandson's wife. She was getting help. I contacted them from there. I had never heard of it before.
- A friend of mine who was going to the service. I started talking to her and took off from there.
- It was the repetition in hearing about the service that made me end up just going there.

Searching for help alone

- Came across an article in *Stuff*, article on a woman about how she got into debt which resonated with me.
- Did a search on insolvency. I was getting desperate, that's how I found it.
- I went to my bank to see if they could help, but they weren't helpful. Then found Good Shepherd on my own soon after.

Providers are highly effective at delivering Debt Solutions.

Although DSS providers are not suitable for all demographics, and many people drop out of DSS services early in their pathway, the services overall are highly effective.

Providers do not collect data consistently or with standardised definitions and categories. So, to determine the effectiveness of debt solutions, we asked each provider about the typical incomes, debts, and debt servicing costs of their clients.

Good Shepherd and CAP supplied all the metrics for before and after intervention. NTM and Debtfix were not able to supply all the metrics we requested, so they are not captured in this data analysis. However, our qualitative interviews of their clients and some supplementary data indicated similar positive impacts in reducing debts.

The average debt servicing costs for those approaching DSS is over 20 percent of their annual income (Figure 9). At the high end of spending, one provider reported a client who was spending 70 percent of their income servicing their debt.

Prior to accessing DSS, clients of one provider faced average interest rates of 25 percent. For another provider, this figure was 71 percent. One provider reported that the highest annualised interest rate a client faced was 621 percent.

The cost of client debt ranges between $24–$50 per day (although interest rate data is not collected by all providers, and very high rates were recorded before Credit Contracts and Consumer Finance Act [CCCFA] changes came into effect).

Average client incomes range between $34,000 and $70,000 across providers (see 10. But the overall range is much wider. Outliers include clients with very low income ($11,000) through to those with a high income ($140,000 for a family unit). Average debt levels across the providers lie between $13,000 and $43,750.

Data from CAP and Good Shepherd shows how debt is reduced following intervention. The average client reduces the sum of their debt by between $3,300 and $14,500, depending on the provider. This can be between 25 and 50 percent of total debt levels for clients.

Over a year, DSS interventions reduce debt costs by between $7,000 and $8,000 on average, or around $20 per day. This amounts to a saving of around 10-20 percent of an average client's annual income. At the lower end of reporting, clients save around $1,500 in avoided costs, or between $3-$5 per day.

Considering the mental stress of clients accessing DSS, how much DSS reduces debt servicing costs and overall debt, and the statistical value of a life, we believe DSS likely has a high positive impact on the clients who access it.

The long-term outcomes of problem debt reduction are still unknown, and do not fall under an active measurement process (such as the Outcome Measurement Tool), which records data immediately following service delivery.

There is significant debt repayment relief for households after using DSS. The wide range shows the heterogeneity of circumstances and the tailored solutions DSS provided. We received this data from CAP, Good Shepherd and NTM.

Prior to intervention, average client debt by provider is:

- $15,000 (Good Shepherd)
- $27,795 (CAP)
- $13,500 (NTM)
- $43,750 (Debtfix).

After intervention, average client debt is reduced by around:

- $3,300 (Good Shepherd)
- $3,000 (NTM)
- $14,500 (CAP)
- $20,750 (Debtfix).

The cost of debt as a percentage of clients’ income falls by an average:

- 20 percent (Good Shepherd)
- 10.5 percent (CAP)
- 8 percent (NTM).

FIGURE 9: CLIENTS' DEBT SERVICING COSTS AS % OF ANNUAL INCOME PRIOR TO INTERVENTION

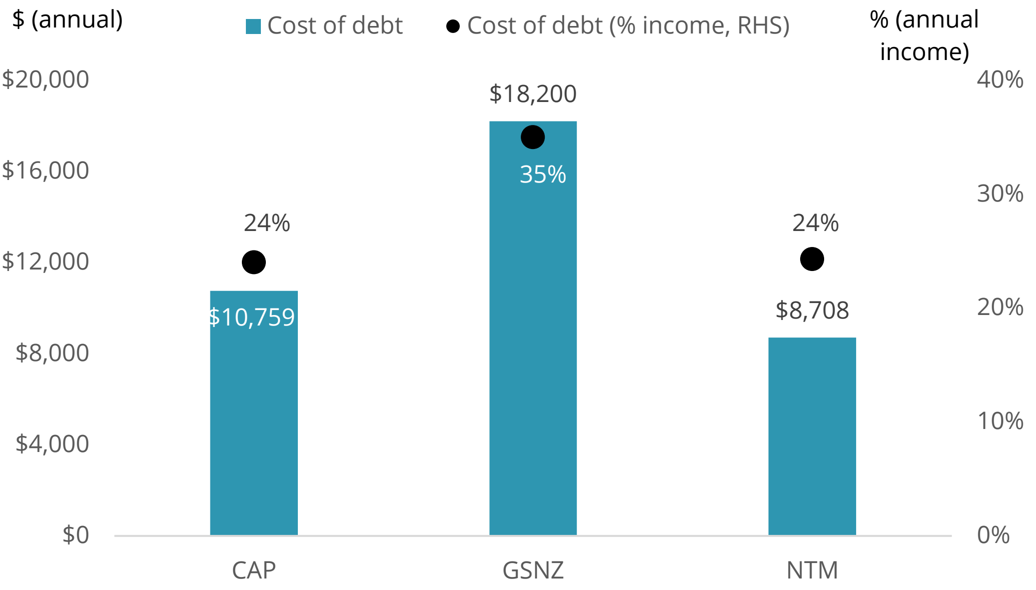
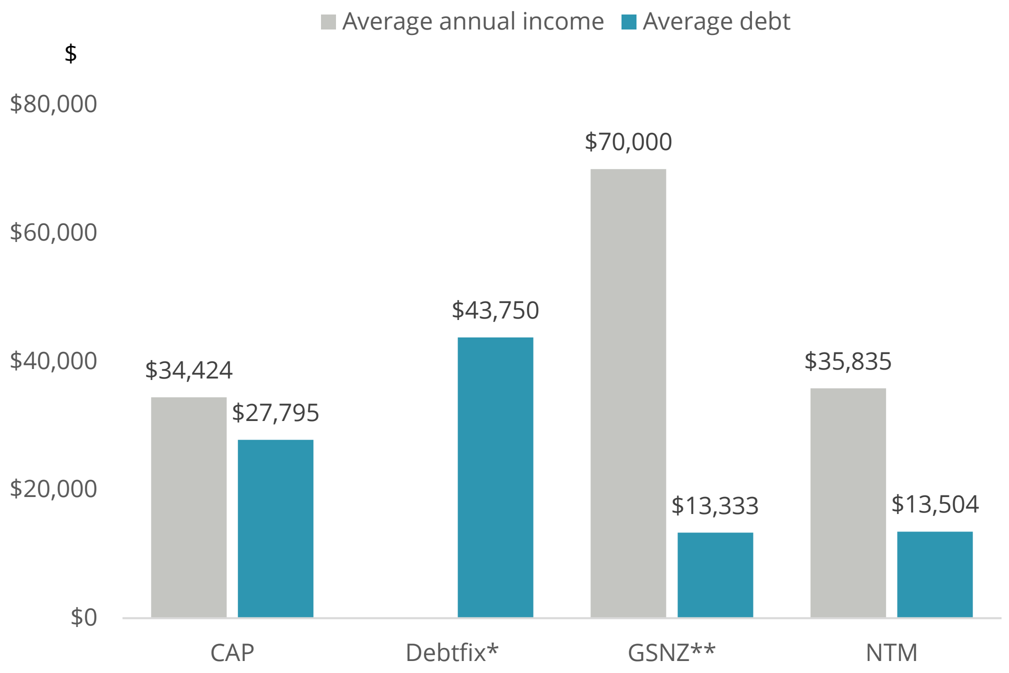


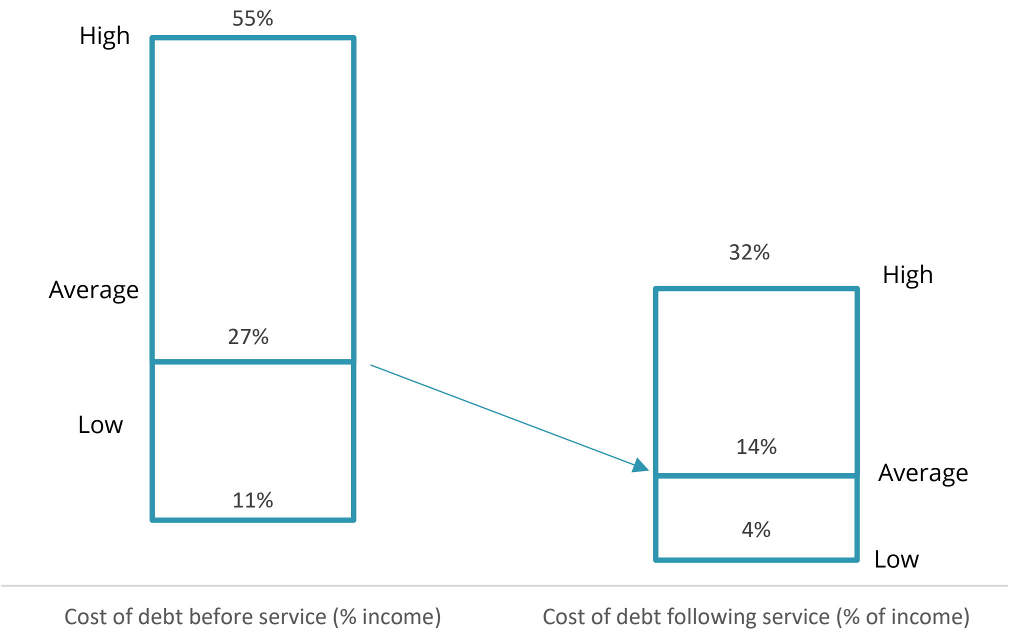
FIGURE 10: CLIENTS' AVERAGE ANNUAL INCOME AND DEBT PRIOR TO INTERVENTION[11]



* Debt numbers based off reporting to MSD, income data is unavailable
** Average income is based on a single parent with two dependents, receiving sole parent benefit with supplements/allowances, the most typical client of GSNZ. Although we note that GSNZ's entry

[11] CAP uses a simple average which captures debt levels for both couples and individuals.

FIGURE 11: SUMMARY HIGH, AVERAGE AND LOWER BOUND COST OF DEBT



Note: This figure shows clients cost of debt as a percentage of income before and after the service. We asked the providers for cost of debt of their clients from their budgeting data on average as well as high and low observations. The numbers in the chart are averages of the responses.

FIGURE 72: BEFORE AND AFTER DEBT AND DEBT COSTS BY PROVIDER

Before

	CAP	Debtfix*	GSNZ	NTM	Average
Average annual income	$34,424		$39,808	$35,835	
Average debt	$27,795	$43,750	$15,001	$13,504	
Income to debt	1	-	3	3	
Cost of debt (% income, RHS)	22%	22%	35%	24%	
Cost of debt	$10,766		$18,200	$8,708	
Implied average interest rate	38.7%		121.3%	64.5%	
Number of debts					
	$29.50		$49.86	$23.86	

After

	CAP	Debtfix*	GSNZ	NTM
Average annual income	$34,424		$39,808	$35,835
Average debt	$13,248	$23,000	$11,668	
Income to debt	3		3	
Cost of debt (% income)	10.5%		15%	16%
Cost of debt	$3,615		$5,971	$5,734
Reduction in debt cost	$7,151		$12,229	$2,974
Debt reduction	14547.00		3333.00	

** income data unavailable*

Client accounts of their experience are generally very positive

In interviews, client accounts of their experiences were generally very positive.

The accounts below are from clients who have warm relationships with their providers – they do not represent the majority, who drop out prior to engaging with support. It would also be useful to understand the journeys of those who drop out of DSS.

> *The whole process has been such a great experience, I was anxious, there was no judgement. It is really intensive; it is really strict, and we've got a really tight budget. But I'm seeing it happening, my credit card is below limit for the first time I can remember. Nothing worked badly. The process did take some time, part of that was Christmas, and our situation was complicated.*
>
> *Debtfix was awesome. They questioned the creditors on how they let me get into that much debt. They took over and helped. I tried to negotiate before but they showed no flexibility. When Debtfix supported me, the creditors took a second look.*
>
> *It took four weeks to get the loan, four bills turned into two. I'm very happy! Quite exciting experience for me. It had a lot of meaning. My journey was a success, I'm paying $100 less per week. I really enjoyed the staff member. She had a very positive energy. She helped me every step of the way, a lot. The staff were on the ball. I would definitely recommend it to others.*
>
> *I can't speak highly enough of programmes like this. I'm lucky that I've got a good job and can keep my head above water, but what about others who can't? I know a lot of people like that. I feel 80 percent less stressed since finding them. Where I am now, from where I was only a few months ago. I can see a path forward, see options…*
> *…I had a very good relationship with [staff member]. I've told them quite some full-on stuff, they just take it in their stride. I got the courage to fight some of the debt that was irresponsible lending. I felt ashamed, but they point out the positive points. I've managed to keep my home. They made me feel better than feeling crap all the time.*
>
> *It was simple for me, all I had to do was pay them what they said each fortnight. That wasn't too bad for me, I can make do. I knew what I had left was mine…*
> *…once I reached out and met them, I felt really safe. I'm thankful for them. Anyone mentions problem debt, I recommend CAP. Nothing could have been better. What's been done for me, you couldn't do any better."*
>
> *What they are doing is amazing, after the service I am so relaxed. I'm so happy. I feel financially free, following all the stress.*

Those using DSS wish they had found the service sooner

A common theme in our interviews with clients related to advertising, and clients wishing they had heard about DSS sooner.

From their perspective, this should be a priority area for further work. Many clients saw DSS as the reason they hadn't fallen further into high-cost problem debt or turned to loan sharks.

We heard:

> *"The knowledge that there was someone out there to help was big. I didn't know about them before. I would have gone to them earlier if I knew. But I hadn't heard of anyone before that. If I talked to other people outside of my usual, I might have known more.*
>
> *"I had no idea it existed. Main thing that could be better is knowing that it's there."*
>
> *"I would have accessed it straight away if I knew about it two years ago. They need to advertise."*

This may be a high impact area of future work for the sector, although providers would also need to increase their service capacity to meet demand.

Section 5 – Service quality

8. How effective is the current training offered to Loan Officers delivering the service?

Loan officers and specialist debt coaches receive financial mentor training, internal training on delivering debt solutions and other key competency training (for example, cultural awareness and dealing with suicide). While financial mentors develop budgets, they are not the same as budgets suitable for lending decisions.

Our interviews with the providers and frontline staff showed a strong awareness of the need for highly capable people with strong skills to deliver DSS. As well as having intensive training programmes in place for service delivery, providers undertake regular monitoring and support continual improvement.

They all reported hiring on personality type and competency, and generally needing to upskill new staff in technical areas (either budgeting, debt advice, or lending).

While the current in-house training appears to offer a high quality of service delivery, it is not clear that the training is consistent, replicable and scalable across the sector.

Developing an agreed training module for loan officers and debt coaches would create consistency across the sector, reduce internal resource requirements, and could upskill a wider group of financial mentors in the BFC network.

Training is linked to MSD accreditation standards, but is mostly provider-led and additional to MSD requirements

Providers rely heavily on culture, ongoing training, and skilled hires to deliver consistent services. Like others in the BFC network, DSS providers are subject to MSD's accreditation standards. These require staff to complete FinCap training in financial mentoring, as well as requiring other operating policies and processes.

Debt solutions also require strong technical skills. Providers deliver internal training while staff also benefit from on-the-job training. Depending on the provider's function, training focus on either debt or lending areas, or other areas of client support.

CAP requires head office caseworkers to complete 6 months of supervised training before being assessed and "signed off" for independent work. Their frontline debt coaches complete a one-week induction programme and a 6-month review, and all staff have ongoing training and reviews.

Debtfix takes a similar on-the-job approach, building on FinCap training, including budget creation and cultural awareness. Staff also complete specialist training in dealing with suicide themes. Staff undergo regular training with internal follow ups.

Good Shepherd's training approach is similar again. They recruit using a skills matrix but usually need to train staff in either financial mentoring or lending practices, depending on their previous work experience.

NTM primarily deals in loan disbursements through financial mentors, meaning they do not have the same customer-facing requirements as other DSS providers. They recruit using a skills matrix, maintain ongoing professional development, and undertake performance reviews with staff. Staff in community outreach functions receive regular targeted training.

Overall, we heard from some providers that finding good staff is an ongoing challenge, despite being able to attract skilled staff from the financial mentoring network. NTM do not experience this same challenge, noting that they are able to recruit good staff reliably.

Many of the DSS staff we spoke to had previous experience in the financial mentor network, and internal training with the provider employing them had built on this experience. The roles tend to require independence, particularly in a COVID-driven work-from-home environment. Providers appeared to be largely working in the office again in 2022.

Providers want standardised training and accreditation to improve consistency

We did not hear many examples of poor interactions with staff from clients, and the lack of formal feedback systems or standardised exit surveys makes it difficult to evaluate the effectiveness of the existing training approach.

Training quality is also self-audited and not subject to external review – with the exception of FinCap training for financial mentors. The additional training is not a requirement for accreditation.

Component 1 providers have recognised a gap here, and are working on bespoke accreditation processes for their own staff to improve service consistency. CAP told us:

> *"Standards and accreditations in the current form might not be the best option for us. For our services, we need to do more than a financial mentor role. Just even for a budget, there's a range of skills, and we frontload a lot of the background work when on-boarding a new client."*

Debtfix added*:*

> *"We are working with CAP to get standard qualifications for our teams, excluding NTM and Good Shepherd because they offer loan products."*

This work is not currently underway, but providers raised it as something to be explored further in the future.

To standardise training quality in the sector – and improve the consistency of services – providers should pay greater attention to quality assurance frameworks (such as feedback systems and exit surveys), and MSD should support Component 1 providers to establish staff service delivery standards.

9. Is the Quality Control process effective? If not, what is required to increase effectiveness of quality control processes?

DSS providers largely self-audit the quality of their services.

MSD's Social Services Accreditation process, Te Kāhui Kāhu, ensures business policies and processes are in good order. The accreditation process highlighted gaps, which providers addressed. However, providers are not externally monitored against their policies and processes. Instead, monitoring is done internally by management and reported to the providers' respective boards.

While MSD accreditation focuses on business processes, each provider closely monitors the quality of service provided to their clients. Some assessed sample of cases more deeply to ensure the client received the best support.

An ability to independently review quality control, using agreed quality measures, would create consistency of service quality and monitoring across the sector.

Current quality control mechanisms are mostly internal and varied

Standard MSD accreditation processes provide a baseline for quality assurance. But providers told us these are essentially self-regulated, and no clear mechanisms are in place to ensure policies are put into practice. This means providers manage quality control internally.

Good Shepherd explained that, while they conduct internal audits on service quality, their primary means of oversight comes from their partnership with BNZ. This provides routine professional scrutiny of their lending and service practice, in the form of monthly meetings with BNZ staff. The joint governance model means Good Shepherd, along with the BNZ team, regularly review their results, coach reviews, compliance, lending and repayment analysis, and client outcomes.

The other providers have fewer formal mechanisms for quality assurance, and compliance tends to be organised elsewhere in the financial sector and self-managed. For instance, Debtfix explained they follow the compliance requirements through their Financial Service Provider, Insolvency Practitioner and Financial Markets Authority registration requirements.

Quality assurance can be improved with the development of standards and guidance

Quality assurance specific to DSS could be developed further. This would support the training standards proposed by CAP and Debtfix, mentioned in the previous section.

Quality assurance could also be improved by taking a consistent approach to individual and business competencies at a sector level. Self-reporting with options to audit are likely to be the most appropriate mechanisms to support this. External supervision would be resource-intensive and disproportionate to the sector's small size.

The UK's approach could be adapted to the New Zealand context to help define and assure good quality service and operations. This approach involves self-reporting on individual staff competencies and good practice business operations.

Any standards or changes to training expectations will need to consider the different ways providers are organised and interrelated, and the range of skills required to deliver DSS functions.

Many DSS services are delivered from outside of the funded providers

Many aspects of DSS service delivery are being delivered with the involvement of third parties or staff outside of the DSS-funded roles. Quality assurance mechanisms should examine not just DSS-funded roles, but the wider system of debts solutions delivery across this network. This will likely require further attention to the training financial mentors receive, to improve their understanding around referring and delivering DSS services.

Table 2 shows how DSS providers deliver the range of individual practice areas identified in the UK's Debt Quality Advice Framework for Individuals. These practices are categorised according to whether the provider delivers them directly or indirectly (via horizontal integration with external financial mentors, or vertical integration with partners or non-DSS staff).

Of the providers, NTM delivers the fewest services directly and has a relatively narrow scope of function. It relies heavily on partnering with financial mentoring organisations to deliver frontline support and contact. By comparison, Debtfix delivers most of the identified practice areas directly.

CAP and Good Shepherd's DSS functions are concentrated in back-office and head-office activities, and client support via phone and email. Staff work with a wider network of debt coaches or financial mentors (via the church network or the Good Loan officers' network respectively).

Good Loan officers tend to be the primary entry point for Good Shepherd's DEBTsolve clients. However, head office debt coaches will work directly with clients after initial contact. Both organisations give the same levels of training to frontline staff, even those in a volunteer capacity.

TABLE 2 DELIVERY OF PRACTICE AREA BY PROVIDER

	CAP	Debtfix	Good Shepherd	NTM
Initial contact				
Support clients to make use of advice and guidance service	Yellow	Dark Grey	Yellow	Blue
Provide information to clients	Yellow	Dark Grey	Yellow	Blue
Support work				
Develop and manage interviews with clients	Yellow	Dark Grey	Dark Grey	Blue
Enable clients to access referral opportunities	Yellow	Dark Grey	Dark Grey	Blue
Advice work				
Provide and receive referrals on behalf of clients	Dark Grey	Dark Grey	Dark Grey	Dark Grey
Enable clients to act on their own behalf	Dark Grey	Dark Grey	Dark Grey	Blue
Front line money and debt legal advice	Dark Grey	Dark Grey	Grey	Grey
Supports clients to plan, implement, and review action	Dark Grey	Dark Grey	Dark Grey	Blue
Negotiate on behalf of clients	Dark Grey	Dark Grey	Dark Grey	Grey
Casework/Specialist advisory				
Provide specialist money and debt legal advice (can include loans)	Dark Grey	Dark Grey	Dark Grey	Dark Grey
Manage personal caseload	Dark Grey	Dark Grey	Dark Grey	Dark Grey
Provide continuing support to clients	Dark Grey	Dark Grey	Dark Grey	Grey
Manage legal advice cases	Dark Grey	Dark Grey	Grey	Grey
Advocacy				
Prepare cases for representation in formal proceedings	Dark Grey	Dark Grey	Grey	Grey
Represent clients in formal proceedings	Dark Grey	Dark Grey	Grey	Grey
Supervision				
Provide support for other practitioners	Dark Grey	Dark Grey	Dark Grey	Dark Grey

Key:

Dark Grey = Delivered directly by DSS staff
Blue = Service delivered by external financial mentors (horizontal integration)
Yellow = Service delivered by partners or non-DSS staff (e.g., Good Loans staff) (vertical integration)
Grey = Standard not relevant to this component or provider

Section 6 – Data collection and evaluation

10. Collate and evaluate data of client engagements and outcomes – aggregated level only (are we collecting the right data?)

Data collection to date has been at a high level, and two key reporting measures were not developed or implemented. We recommend putting an outcomes measurement tool and service user satisfaction tool in place is a priority action for DSS.

High-level discussion of these initiatives occurred in the May and September 2021 sector meeting minutes, and reporting requirements remained activity-focused. We believe these tools would have provided valuable information on client engagement and outcomes for this review – if they had been in place.

The data collection MSD proposed in the initial stages of the service development were based on high-level service targets in provider contracts. These gave providers flexibility during the COVID-19 pandemic, given the rapidly changing circumstances and anticipated demand.

These initial reporting measures provided good monitoring of DSS resourcing (FTEs), and the volume of services delivered. These were on target, although some were achieved with minor delays due to pandemic disruptions.

Only high-level programme data is currently reported

The current service guidelines ask providers to report on narrative and performance measures. These tend to focus on volume-focused metrics or open-ended questions to support MSD's learning throughout the pilot.

In Figure 13, the first three boxes list data collected for Component 1 and 2 services and via narrative reports. The fourth box summarises other types of data we requested for this review, noting this was often unavailable or inconsistently recorded.

FIGURE 13: DATA COLLECTED IN THE DSS PROGRAMME OR REQUESTED IN THIS EVALUATION

Component 1

- Number of FTEs directly employed
- Total referrals of Clients into this service
- Total clients (open files)
- Total client debt
- Total client debt paid or retired
- Number of insolvency agreements commenced (debt repayment orders, no asset procedures, bankruptcy, alternative solutions).
- Number of client cases under advice but without an agreement
- Number of cases closed without an agreement (including clients who disengage without an agreement).
- **Proposed but not developed:**
- Outcomes Measurement Tool
- Service User Satisfaction feedback tool and measures

Component 2

- Number of FTEs directly employed
- Number of debt consolidation loan interviews completed
- Number of debt consolidation loans written off
- Number of debt consolidation loans paid off
- Number of debt consolidation loans approved

Proposed but not developed:

- Outcomes Measurement Tool
- Service User Satisfaction feedback tool and measures

Narrative reports

- What internal factors or barriers relating to your service delivery effect results for Service Users and Clients?
- What activities are you engaging in to address these barriers and issues relating to service delivery to achieve better results for Service Users and Clients?
- What adjustments could be made / did you make through the service design to address these barriers and issues?
- What external factors or barriers relating to Service Users and their Clients' situations effect Debt Solutions results?
- What activities are you engaging in to address barriers relating to the Clients' situations to achieve better results for clients?
- What adjustments could be made / did you make through the service design to address these barriers and issues?
- Provide an explanation of the variances (if any) between volumes contracted and volumes delivered

Sense Partners' data requests

Measured by some providers:

- Demographic data (age, gender, ethnicity)
- Interest paid before and after intervention as % of income
- Average duration of support
- Household income and main income type
- Household characteristics (relationship status, dependents, tenure type, etc)

- **Not consistently measured:**
  - Referral sources
  - Average debt before and after intervention by service/product type
  - Client outcomes 3, 6, and 12 months after intervention
  - Avoided insolvencies

Programme data allows us to analyse basic progress over the pilot

The service guidelines did not set rigid targets for the programme, and MSD established soft targets at a contract level. Again, this was by design, to allow for flexibility in provider responses during the pandemic. Component 1 providers were funded to employ more FTEs (Figure 84). Component 2 providers were required to increase the number of initial loan interviews with new clients (Figure 95).

Both targets were met, as can be seen in the performance measures.

FIGURE 8: PROGRESS TOWARDS FTE TARGETS

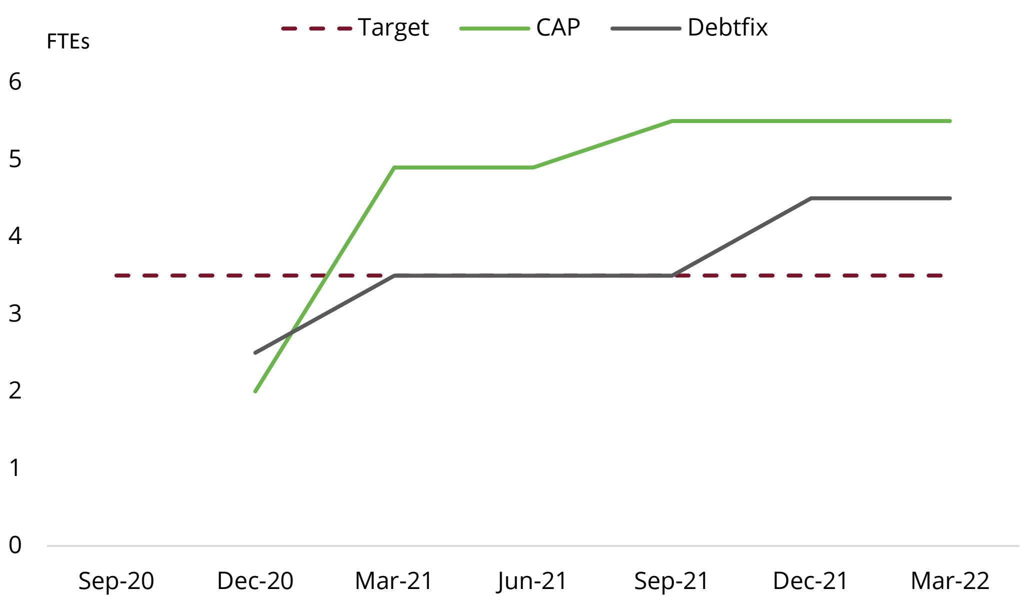
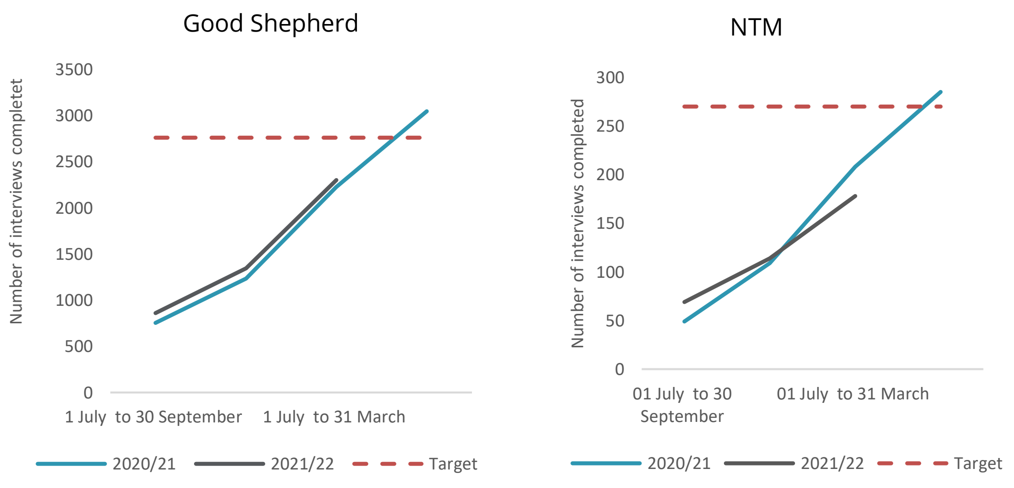


FIGURE 9: PROGRESS TOWARDS LOAN INTERVIEW TARGETS



NTM data reflects applications received rather than interivews.

Provider data can tell a richer story about client access, but collection is ad hoc

The widely varying sizes of the DSS providers makes it difficult to interpret provider data meaningfully in the aggregate, or make comparisons between operating models.

A lack of baseline information also makes it impossible to know if service volumes change for seasonal reasons, or due to changes in service operations and scale. This aspect will improve as more data is collected over time, but in the current form, the data only tells a very limited story.

Showing that a service was delivered is useful, but does little to illuminate service quality, quantify trends in access and responsiveness, or describe client outcomes.

Providers collect additional data, which could inform MSD's DSS service design. But collection is provider-dependent, and not linked to strategic objectives in the wider sector, and definitions can be inconsistent between providers.

Data requests enabled us to determine differences in client demographics

We found that Māori, Pasifika, and women make up a high proportion of clients for all four providers (Figure 16 and Figure 17). This suggests that the services are meeting the needs of the communities who most commonly face hardship, and that DSS providers are culturally responsive. As discussed in Section 4, our interviews found no cultural barriers.

Age data is one case where inconsistent definitions undermine analysis. Age profiles vary across providers, and they do not use consistent age buckets (Figure 18). Still, the data shows that the providers support different age groups. For example, NTM and CAP served older clients who, according to the providers, often preferred face-to-face interactions.

Standardising the collection of this data could immediately improve MSD's understanding of the DSS pilot.

FIGURE 106: CLIENT ETHNIC PROFILE BY PROVIDER

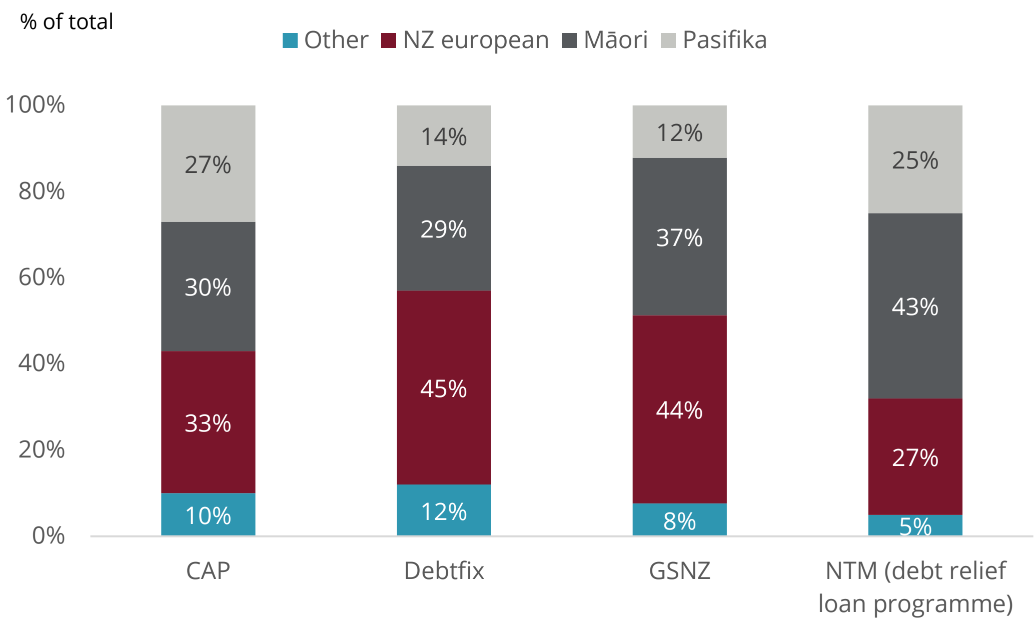


FIGURE 117: CLIENT GENDER PROFILE BY PROVIDER

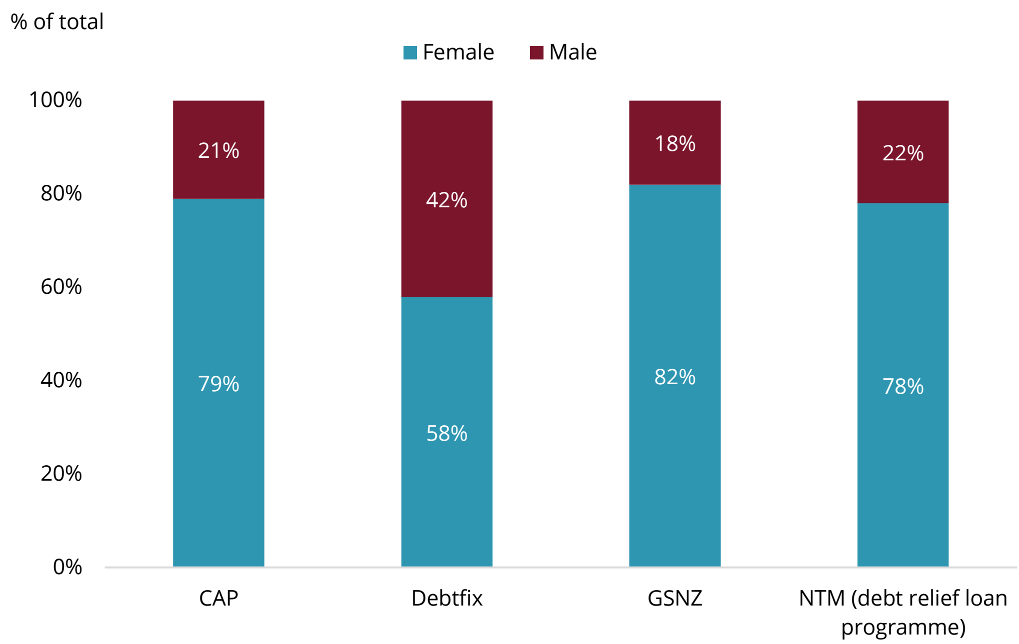
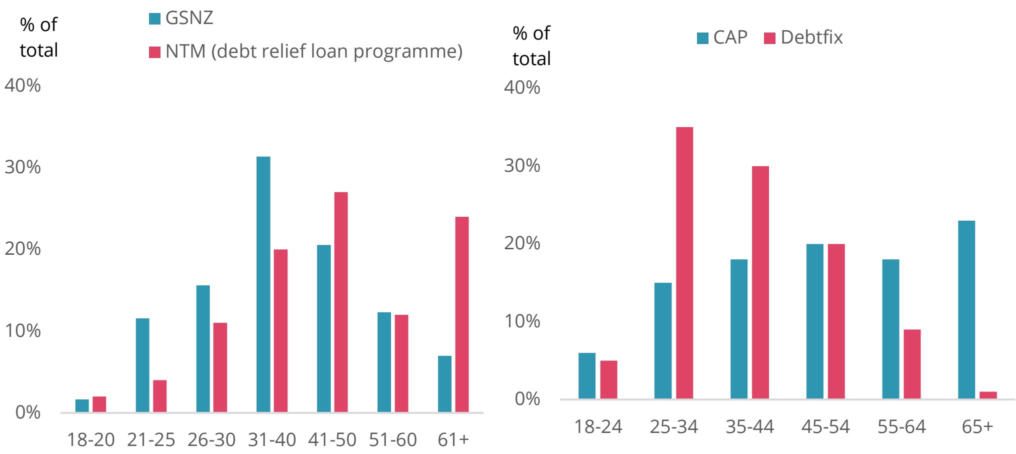


FIGURE 128: CLIENT AGE PROFILE BY PROVIDER



Data constraints mean we cannot conclusively evaluate the public value of MSD's DSS investment

From additional data provided to us and discussed in Section 4, it is clear the DSS contributes significantly to the wellbeing of those who receive help. However, without a robust evaluation framework and better data collection, we cannot quantitively assess the public value of this investment, the quality of service, or how it is improving over time.

MSD should focus on linking data collection to a monitoring framework at both service and business operation levels

Balancing data requirements with their operational burden is important, and not all areas of the service require the same amount of data.

Data collection requirements should be guided by MSD's priorities for the sector. Data formats should also be considered carefully, as current report formats are often inappropriate for analysis – for instance, PDF or Word files. Ideally, reporting will be consistent across Component 1 and 2 providers, with different subsections for lending and advice functions.

Narrative reporting should also move towards reporting on specific processes, policies, and examples of best practice.

In the absence of other frameworks, we adapt the UK's Debt Advice Quality Framework (Table 3) at a business and client level throughout the rest of this report, to identify gaps in current monitoring and potential areas for further development. Again, the degree of monitoring intensity is a strategic question which MSD can answer as it refines its objectives for DSS.

TABLE 3: ADAPTED UK DEBT ADVICE QUALITY FRAMEWORK

	Purpose	Quality measure	Possible types of performance indicators
Service level monitoring	**Access**		
	Reach of service is maximised	Options are culturally, geographically, and technologically accessible	e.g., up to date client profiles, hours of service, outreach, delivery channels, range of service formats/languages
	Develops awareness and encourages service use	Effectively communicates and promotes services to potential clients	e.g., client focused communication strategy and activities, dedicated marketing investment, defined process for referrals and clear eligibility criteria.
	Facilitates effective and timely referrals	Triaging resource is effective and consistent	e.g., proactive seeking, building, and utilising referral routes, evidence of effective process for engaging with creditors, maintained records of referrals (in and out of the service), and well understood referral routes.
	Responsiveness		
	Client needs are met with the right tools and resources in a timely way	Provides appropriate information and support	e.g., consistency of advice across frontline staff/adherence to good practice, reduced insolvencies, efficient process. Clients feel supported and informed.
	Services are targeted, designed, and promoted appropriately	Client needs are defined and understood	e.g., client input into service design, systems in place for recording client information and feedback, records identify client needs
	Client experience and trust		
	Building and maintaining trust	Act and be seen to act with impartiality and integrity at all times	e.g., effective and appropriate policies for confidentiality, protection of client data, process around authority to approach creditors, and conflicts of interest, etc. A clear client charter and/or well communicated service expectations.
	Client outcomes are well facilitated, and journeys are cohesive	Delivers appropriate client outcomes through effective advice. Service manages variations in client journey and refers onwards if needed	e.g., client journey can be articulated by all levels of staff, client outcomes are measured and captured (even when referred), client outcomes are used to functionally improve the client experience.
Business operations monitoring	**Compliance**		
	Compliant with appropriate legislation and accreditation standards	MSD accreditation standards	e.g., assurance via MSD accreditation process
	Organisational sustainability		
	Clarity of vision and purpose	Well led and governed	e.g., clear strategic aims and operational objectives, strong induction processes and supervision
	Organisational sustainability	Risk management	e.g., up to date risk register and management plan
	Financial viability	Consistent and sustainable service to clients	e.g., evidence of financial sustainability and strategy to access operational and lending capital for growth
	Effectiveness		
	Assesses service performance against aims and objectives and drives for continuous improvement	Gathers, challenges, and scrutinises monitoring data	e.g., clear outcomes for the service are defined and success is measured against them, maintains a consistent set of client data, evidence of service improvements or reviews
	Delivery of high quality and appropriate services	Staffed by competent people who are appropriately trained	e.g., appropriate training and staff feedback loops, strong supervision processes, evidence cases are dealt with by trained advisers
	Maximises efficiency and effectiveness of service	Manages resources well	e.g., process to reduce non-attendance, record client access routes, standardise/systemise resource-intensive processes (e.g., assessment processes), evidence of financial prudence within the organisation
	Maintains and improves quality of advice	Demonstrable internal quality assurance process including appropriate/ effective centralised systems and controls	e.g., engages in reviews of service (internal and external)
	Develops transparency, accountability, and longevity of the service	Clear plans and timescales	e.g., clear service delivery aims, timelines for service development and finances
	Reflecting		
	Identifies opportunities to develop the organisation and service	Conducts self-evaluation, evidence of product/process innovation	e.g., plans to pilot new products/services/processes, identifies new and future trends, updates service strategy
	Improves the quality of advice and delivery across the sector	Shares evidence with peers in sector, reaches out to other providers to learn	e.g., engages in external forums to share knowledge and best practice, has systems to document and update good practice
	Improves the quality of advice and the skills levels of advisers.	Facilitates learning and development	e.g., staff appraisals, supervision, and training, experienced support to staff (either external or internal), training plans and professional development, learning activities (e.g., shadowing, etc.)
	Actioning		
	Responsive and adaptable	Innovates and improves service internally	e.g., evidence-based changes to service plans
	Improves service delivery and improves client focus	Gathers and responds to client feedback	e.g., evidence of actively engaging with and responding to client feedback, processes for client complaints, evidence of process to make appropriate assessments of need and service varied accordingly.
	Maintains appropriate service delivery and staff skills	Identify environmental changes and responds effectively	e.g., evidence of external engagement in the sector (e.g. sector strategy development, participation in forums/training/hui, submissions on relevant legislation etc).

Section 7 – Synthesis

11. Undertake a full analysis of all four provider delivery models, identifying the strengths and weaknesses and areas for improvement

In this section, we describe each DSS provider's service model and (to the extent possible) evaluate the providers against an adapted version of the UK's Debt Advice Quality Framework for organisations.

We have adjusted our evaluation to account for the relatively small size and low maturity of the New Zealand debt solutions sector. Several of the four providers are in self-described 'start up' mode, and the sector is still establishing aspects of service design – such as procedures for referrals and types of service – as previous sections have explored.

MSD told us they want the debt solutions sector to deliver services that are:

- client and whānau-centred, easy to access and trusted
- culturally responsive and safe
- coordinated and linking people to other social services when appropriate
- sustainably funded
- delivered by a workforce that is appropriately trained, qualified, and has professional development opportunities
- collaborative, with shared knowledge and resources.

We have linked these goals to the UK's Debt Advice Quality Framework to support our analysis.

We assess strengths, weaknesses, opportunities and neutral areas, where our research has not uncovered firm evidence either way. We combine this analysis in a holistic summary of the sector below.

<table>
<tr><th>Quality measure</th><th>CAP</th><th>Debtfix</th><th>Good Shepherd</th><th>NTM</th></tr>
<tr><td>Options are culturally, geographically, and technologically accessible</td><td rowspan="3">Opportunity to expand more into less intensive services widening its client base</td><td rowspan="3">Strength</td><td rowspan="3">Opportunity to clarify and clearly communicate loan products across BFC</td><td rowspan="3">Strength</td></tr>
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<tr><td>Triaging resource is effective and consistent</td></tr>
<tr><td>Provides appropriate information and support</td><td colspan="4" rowspan="2">Unable to be assessed</td></tr>
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<tr><td>Well led and governed</td><td colspan="4">Strength</td></tr>
<tr><td>Risk management</td><td colspan="4">Neutral</td></tr>
<tr><td>Consistent and sustainable service to clients</td><td>Strength</td><td>Weakness</td><td>Neutral</td><td>Weakness</td></tr>
<tr><td>Gathers, challenges, and scrutinises monitoring data</td><td colspan="4">Weakness</td></tr>
<tr><td>Staffed by competent people who are appropriately trained</td><td colspan="4">Strength</td></tr>
<tr><td>Manages resources well</td><td colspan="4">Unable to be assessed</td></tr>
<tr><td>Demonstrable internal quality assurance process including appropriate/ effective centralised systems and controls</td><td colspan="4">Opportunity to share QA responsibilities with sector by setting common standards and expectations for practice areas</td></tr>
<tr><td>Clear plans and timescales</td><td colspan="4">Opportunity to strengthen planning and ensure cohesion of sector activities by setting objectives for the sector and addressing funding sustainability</td></tr>
<tr><td>Conducts self-evaluation, evidence of product/process innovation</td><td rowspan="3">Opportunity to develop less intensive products</td><td colspan="3" rowspan="3">Strength</td></tr>
<tr><td>Shares evidence with peers in sector, reaches out to other providers to learn</td></tr>
<tr><td>Facilitates learning and development</td></tr>
<tr><td>Innovates and improves service internally</td><td>Strength</td><td>Strength</td><td colspan="2">Opportunity for NTM and Good Shepherd to work closer together, leveraging Good Shepherd's capital and NTM's strong relationships with financial mentor networks</td></tr>
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Key:			
Dark Grey = Strength	Pink = Weakness	Green = Opportunity	Blue grey = Neutral

Table 4, on page 66, summarises the provider models and their strengths, weaknesses and opportunities.

Key findings from our assessment include:

- Debtfix and NTM are strong in areas related to access. Debtfix largely operates from its head office and can scale up through network referrals. NTM works with the wider BFC network, although its ability to scale with demand may be limited by available capital. While CAP meets the general criteria, it has an opportunity to continue to expand into less intensive services, widening its client pool.
- Good Shepherd could communicate its products more widely through the BFC community to make itself easier for clients to access.

- All providers meet the standard for client experience, as well as acting and being seen to always act with impartiality and integrity. This finding is supported by our client interviews.
- All services are well-led and governed. However, Good Shepherd and NTM face weaknesses in financial viability due to their dependence on lending from commercial banks – they may not be able to continue to operate sustainably if this funding was ever withdrawn.
- While each provider audits its own data and performance, a common weakness across the providers is that data collection and analysis is not standardised. An opportunity exists to standardise this data, which would improve communication, quality assurance and cohesion for the DSS overall.
- Staff across all providers are well-trained and equipped to deal with the challenges they face.
- Good Shepherd and NTM have an opportunity to work more closely together, leveraging Good Shepherd's larger capital pool and NTM's strong relationships with financial mentor networks.
- One weakness we found across providers is that they do not routinely seek client feedback and situation updates at longer intervals after completing their service.

Based on our interactions with the providers and our analysis of the pilot we see the following opportunities:

- **Christians Against Poverty** has an opportunity to provide a wider range of services, rather than its very intensive debt solution model: not every client needs all aspects of its service. CAP could also work more closely with the wider BFC network to overcome possible constraints in using only church-based community-facing coaches.
- **Debtfix** is ambitious and has a strategy to grow to a national service. It is strongly placed to become a specialist service for use by BFC and clients directly, but it needs to develop a sustainable funding model.
- **Good Shepherd New Zealand** is well-placed with significant lending capital, but it has limited operational capacity, and its BFC networks could be developed further. To achieve greater security in its operational funding and growth, Good Shepherd could partner with a select group of financial mentors. These partners would need time to understand the organisation's criteria, systems and process. The partnership between CAP and NTM could be a model for future growth, or even leveraging NTM's strong financial mentor network.
- **Ngā Tāngata Microfinance** has established a strong financial mentor network and reliable loan disbursement. It faces capital constraints, and needs to secure operational funding to lock in new sources of capital for lending. NTM's partnership with CAP and its network of financial mentors could offer a blueprint for working more closely with Good Shepherd on the lending side – for example, it might be worth exploring whether some Good Shepherd loans could be delivered through NTM.

TABLE 4: SUMMARY OF DSS PROVIDERS' STRENGTHS, WEAKNESSES, AND OPPORTUNITIES

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<tr><th>Quality measure</th><th>CAP</th><th>Debtfix</th><th>Good Shepherd</th><th>NTM</th></tr>
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Christians Against Poverty

Service

CAP operates an intensive and long-term relationship-based service. Clients ”pay-in” to either a partial or full money management model, with CAP managing debts and dealing with creditors on their behalf. CAP sets budgets with clients and aims to help clients become debt-free after a 2–3-year period.

CAP's budgets tend to be highly structured – for instance, allowing $25 per week for discretionary spending. Clients described feeling less stressed after sharing the responsibility of bills management, and enjoyed seeing progress towards eliminating their debt.

CAP's service overlaps with financial mentoring services to the extent that its work involves setting budgets and debt repayment plans for clients. However, the large scale of CAP's back-office services means these more technical aspects of DSS delivery do not need to be one-to-one services. Most of the support work CAP provides as part of a client's journey is delivered in person by CAP's frontline coaching network.

Operating model and processes

CAP's model is vertically integrated, with MSD funding used to fund technically skilled, back-office full-time staff. These staff are primarily based in the Auckland head office and liaise with the frontline debt coaches remotely to support clients. Head office staff are available to talk to clients via phone or email.

CAP currently has 68 head office staff, and 6 business-as-usual contractors. Of these roles, 36 at head office relate to delivering CAP's Debt Help product. Outside of head office, 83 frontline debt coaches and centre managers are spread around New Zealand. A centre manager may oversee a few debt coaches in larger areas. CAP employed an additional 5.5 FTEs for the DSS pilot with MSD funding.

CAP uses a bespoke technology platform to organise support, benefitting from relationships with CAP organisations overseas. CAP clients pay into a dedicated bank account each week. The service is delivered in three key interactions initially:

- a first home visit to build the relationship
- a second fact-finding or discovery meeting, to identify the extent of the client's debt
- a third phase, where the centralised DSS team builds a client's budget and negotiates with creditors.

Fifty percent of clients drop off between the first meeting and second. At the assessment stage, CAP also has the option to work directly with creditors, with the client's permission.

These first three phases can take a long time to complete and are very resource-intensive. Completing the discovery phase can take up to 70 days. On average, clients work with CAP towards becoming debt-free for 358 days.

Most client interactions take place in person (promoting the te ao Māori value of communicating kanohi ki te kanohi, or face to face). On-the-ground service may involve, for example, coordinating wraparound support, contacting food banks or providing tenancy tribunal support.

When appropriate, CAP accesses the NTM loan product for clients. NTM and CAP have streamlined applications by merging back-office operations since 2020, reducing cost and improving data collection for the two organisations. CAP reports a near 100 percent loan application success rate due to this close relationship and their understanding of NTM's criteria.

CAP less commonly refers clients to financial mentors in BFC, as these services can overlap with their own support.

Access, responsiveness, and client experience

CAP has broad service coverage in over 50 communities through its church networks.

Clients come to CAP via a range of channels. Word of mouth is a common source for referrals. Less often, creditors refer clients directly to CAP. CAP is also highly active on Facebook. Its digital channels are modern, approachable and frequently use te reo Māori. CAP has experimented widely with advertising channels, including Spotify advertising, website blogs, *Stuff* articles, partner debt help websites, and Instagram. It has also placed physical materials (such as business cards) in common community locations, like supermarkets, laundromats, bar restrooms, and GP clinics.

Clients who work with CAP tend to be low-income, but this is not a requirement for service. CAP clients have an average annual income of around $34,000, and an average debt close to $28,000.

Clients need to have an income and a home address to work with CAP. They cannot be self-employed. The website emphasises that clients do not need to be of Christian faith.

Compliance and organisational sustainability

CAP self-regulates compliance and aligns to MSD's accreditation standards. Accreditations are renewed every 2 years. Internally, CAP's senior management team evaluates samples of casework as a form of regular quality assurance.

CAP has a strong growth plan. It could likely continue to operate without MSD funding, though its growth plans would take longer while it finds other funding sources. CAP funds operations primarily via donations through its national church network. A large portion of CAP's donations come from wealthy individual donors. CAP is also eligible for other trust and grant funding, and uses legacy systems from CAP organisations overseas.

Around a third of the debt coaches delivering frontline support are paid, although these staff are employed by the local churches rather than CAP's head office. The remaining two thirds are unpaid volunteers. CAP identifies a challenge in this structure, noting "there's a limit of what we can push our workers to do." CAP will need to innovate on its resourcing model to grow its services in future.

Effectiveness

CAP's aggregate outcomes appear highly effective. CAP helps its average client to reduce their debt by $14,500 and recover around 20 percent of their income by reducing or avoiding interest charges.

Clients described feeling generally safe and supported by CAP. Some expressed that they may have used an alternate non-religious service if this was available. CAP offers flexibility through adjustments to a client's weekly payments to allow for changing circumstances or for important purchases aligned with the client's values.

As its service capacity has grown, CAP has changed its approach to reopening cases for clients who have previously dropped out of the Debt Help programme. These are now assessed on a case-by-case basis – for example, if a client's previous barriers to engaging have been resolved. In some instances, CAP will decline to reopen a case (for instance, if a client has been abusive towards staff in the past).

Reflections

In recent years, CAP has explored options for less intensive products to sit alongside its Debt Help money management product. These could include advocacy services, following recent changes to CCCFA regulations.

During the DSS pilot CAP established a full-time role dedicated to advocacy work. This has had excellent results through renegotiated or cancelled debts.

CAP has also been experimenting with its internal processes around the second meeting with clients, where paperwork is discussed, sorted, and submitted for assessment. This phase often involves physical receipts and letters in a client's home, and can be time-intensive. Its processes aim to limit drop-offs at the second meeting. This is where most clients drop out of the service, and it is where service intensity and client commitment ramps up.

CAP is an active participant in the debt solutions sector. Its service delivery continued and expanded throughout COVID-19 disruption. CAP has a strong managerial focus on training, which is particularly important for its integrated frontline roles. CAP is working with Debtfix to develop suitable accreditation standards for staff delivering a Component 1 service function.

Debtfix

Service

Debtfix operates as a full-service centre for people with problem debt. Debtfix works with clients to reach the best outcome for them. The solutions Debtfix provides include:

- budgeting and advocacy
- debt management plans, creditor proposals
- debt repayment orders, no asset procedures and bankruptcy proceedings.

Debtfix emphasises longer term objectives through high-intensity interventions. The service also provides more immediate breathing space by reducing debt levels and interest repayments. Debtfix markets itself online as:

> *“Confidential, non-judgemental and no obligation.*
>
> *All our advice is provided free of charge.*
>
> *We fix your debt problems to help you, and your family, get on with your lives.”*

Operating model and processes

Debtfix is located in Warkworth, north of Auckland, and works primarily by phone or email with clients across New Zealand. It aims to keep clients with the same assigned staff, recognising the value of service consistency.

Debtfix works with financial mentors who refer clients, although many clients start out working directly with Debtfix. A remote concierge team greets clients to gather initial information on their debt and situation. The client completes an induction form, including sending a budget and bank statements to Debtfix. Debtfix reviews this and gives feedback to the client. Debtfix will then assess the client’s debts and develop a debt solution.

Clients work with coaches intensively for around one month, but their debt solution plans could extend out as far as 2–5 years. Debtfix explained

> *every client is different… we don’t put a timeline on it. Often the biggest time component can be the creditors, there are often many creditors, and because we try to manage the relationship for the client, it can be very stressful.*

Debtfix follows up with clients 6 and 12 months after a plan is put in place to assess their experience. It also conducts wellbeing surveys and contact clients 6 months before they are debt-free to ensure they are prepared for the increased income.

Access, responsiveness, and client experience

Debtfix's hours of operation are listed as 9am to 4pm. It also has an 0800 number and enables online enquiries using a web form or email.

Debtfix responds to enquiries by following up over phone or email. Its typical approach is to make one phone call and two emails one week apart to people who do not respond. When someone enquires with Debtfix, they join an e-newsletter mailing list. This provides an avenue for remarketing to potential clients who drop off after their initial contact.

Debtfix uses LinkedIn and is active on Facebook. It also has an Instagram page, though this channel is not active. It has successfully trialled advertising on Google, targeting keywords related to bankruptcy and insolvency. Recently, Debtfix has moved to an organic search engine promotion approach (meaning it optimises its visibility in search results without paying for advertising) after hiring a dedicated social media specialist.

The pathways clients take to reach Debtfix are described by the provider as "broad-based" (e.g., from Work and Income and a range of digital channels). Most of Debtfix's clients come directly through internet searches. Around 50 percent of those who enquire drop off without engaging further.

Debtfix describes its approach to eligibility as "never turn anybody down". Relative to other providers, Debtfix tends to work with people with very severe levels of personal debt. In practice, this can also mean it works with clients who are considered "too hard" by other financial mentors. Debtfix estimates 90 percent of its clients have car loans, 5 percent have mortgages, 65 percent are employed, and most are low-to-middle income.

At the outset of the DSS pilot, the average debt of Debtfix clients was around $70,000. Over the course of 2020-2022, Debtfix estimates the debt level of its average client decreased to around $43,000 (in the year to June 2021, in data received from Debtfix). This reflects a shift in Debtfix's strategy to reach more people on lower incomes (and with lower debt levels). Reporting to MSD indicates that this trend has continued into the start of 2022.

Compliance and organisational sustainability

Debtfix collects some income by charging fees to clients directly as part of its debt service (set by the Insolvency Act or by courts/solicitors). Clients agree to incur fees and expenses once they have officially engaged in the process and Debtfix has prepared a bespoke service for them.[12] Fees are offset by greater interest savings or debt reductions elsewhere.

Fees do not fully cover Debtfix's operational costs. The provider currently relies on operational funding from MSD under its existing model. Since July 2022, it has operated under the Debt Relief Foundation, a charitable trust.

[12] See, https://www.debtfix.co.nz/terms-conditions.

The organisation expects future growth to be based on skills and talent. Working more closely with financial mentors is a key operational goal for Debtfix, noting that training is required so referred clients come to Debtfix with tidy budgets, rather than Debtfix replicating this work.

Effectiveness

Debtfix's aggregate outcomes appear effective. We did not receive additional data on client cases, so we cannot reach meaningful conclusions on its effectiveness.

Debtfix reported that, on average, its client's debt levels reduce by $20,750 – down from $43,750 – as a result of its interventions. Debtfix did not report debt costs and its clients' incomes.

Clients in interviews described feeling generally safe and supported by Debtfix. Clients reported the provider's advocacy functions helping their situation.

Reflections

Debtfix has significant in-house skill to develop and innovate their service. Its chief executive has considerable experience in developing curriculums for financial mentoring and navigating debt solutions. Debtfix is taking a proactive role in sector development. This includes developing accreditation standards for Component 1 providers, and advocating for the development of a national debt strategy, described as "an important part of the way forward" for the sector.

Good Shepherd New Zealand

Service

Good Shepherd offers both advisory services and affordable credit loans. However, its DSS funding is only used to operate DEBTsolve. This service provides specialist loans for debt consolidation and specialised debt coaching. Good Shepherd's general loan services are covered by its baseline funding.

Good Shepherd offers up to $2,000 interest free loans and up to $5,000 low interest loans (fixed at 6.99 percent for the life of the loan) through its Good Loans product.

Prior to the DSS pilot, it added DEBTsolve to its product line, which extended the low interest loan amounts up to $15,000 for debt consolidation purposes. From 3 October 2022, it increased Good Loans to purchase goods or services, which now range from $2,000 to $7,000.

Additionally, all Good Shepherd loans became interest-free from 3 October 2022.

Good Shepherd provides financial mentoring services to clients as part of DEBTsolve, which is delivered by in-house specialist Financial Wellbeing Coaches. Financial mentoring covers budgeting, advocacy and general debt and financial management support. Good Shepherd sees its loan product as a support to this service arm, to be used when it can improve outcomes for clients in debt hardship.

Operating model and processes

Good Shepherd's model has DSS advisors operating from a head office in partnership with the Good Loans network.

BNZ provides loans on a not-for-profit basis as bank loans, with $60m in lending capital available for this purpose.

On average, clients work intensively with Good Shepherd for approximately 40 days – though this reflects the Good Loans process specifically, and the duration is likely to be longer for those using DEBTsolve. Good Shepherd explained that while it follows up periodically throughout the term of the loan (which can be over 5 years), support is delivered by financial mentors locally where possible. Wraparound support throughout the client journey can include initial help with the loan application, through to budgeting and advocacy.

The previous process saw applications sent to BNZ's team, who could take up to 2 hours to review a loan application depending on the case complexity. Good Shepherd has been approving loans in-house since 3 October 2022, when BNZ stopped issuing StepUP loans through the Good Loans network. Good Shepherd now offers Good Loans with no interest up to $7,000 (for purchases) and $15,000 (for debt consolidation) utilising loan capital from BNZ.

Access, responsiveness, and client experience

Access to Good Shepherd's loans depends on applicants' income. Eligibility broadly aligns with eligibility for a Community Services Card, but with an adjustment for people not in a relationship, aligned to the living wage. Good Shepherd moved towards using the living wage as a threshold for service because many single people on very low incomes had been excluded from access to Good Loans.

Good Shepherd notes it is approached regularly by clients who are not eligible for loans based on their application purposes, such as those looking for cash loans. The provider stressed its loan products are not a substitute for emergency grants and the loans must be affordable. Good Shepherd estimates more than 50 percent of people it interviews cannot afford loan repayments for the purchase they want to make. Of those who progress to filling in an application, 60–80 percent are approved.

Given staffing constraints which limit service capacity, Good Shepherd does not actively advertise DEBTsolve. When it does advertise Good Loans, this usually results in very high levels of initial enquiries. Good Shepherd usually has to pause advertising again to ensure it can reach applicants in a timely and efficient manner.

Compliance and organisational sustainability

Good Shepherd operates as a charitable organisation, supported by donations and MSD funding.

MSD is a primary funder of Good Shepherd operations, across all service functions. BNZ continues fund Good Shepherd operations, matching the MSD baseline funding for Good Loan services (not including specific DSS pilot funding). BNZ also provides lending capital and other forms of specialist support to Good Shepherd, such as regular meetings with staff. BNZ and

Good Shepherd jointly conduct routine reviews of the Good Loan's lending portfolio and policies. These are Good Shepherd's primary mechanism for quality assurance, beyond basic MSD accreditation.

Good Shepherd describes operational funding as its biggest constraint. Other funding models are possible. These could include relationships with organisations – such as a large employer of low-wage workers – where Good Shepherd provides no-interest lending, financial coaching and other benefits to their employees in return for operational funding or loan underwriting.

Additional funding would allow for product innovation, enabling Good Shepherd to develop a digital tool for clients, as well as ongoing service growth.

Effectiveness

Good Shepherd's aggregate outcomes appear highly effective. The average client reduces debt by $3,300 (from an average starting total of $13,300). This increases the average client's weekly available income by $20-$30, while the average debt cost as a percentage of income improves from 35 percent to 15 percent.

Clients in interviews described feeling generally safe and supported by Good Shepherd, with one expressing that the staff were "very nice, and not like loan providers". The full-service model seems to maximise impact for clients. One client told us, "Good Shepherd organised 3 months of no payments for me on my Q card. They also got some debts halved for me."

Reflections

Good Shepherd has a more mature operational model than other providers, and it benefits from the organisational experience of sister organisations overseas.

The most significant constraint for Good Shepherd is service capacity. This has prevented the model from developing into a wider support function for financial mentors outside of the Good Shepherd network. Increasing internal resourcing, or utilising an alternative model such as NTM (which largely relies on the BFC network) are options for Good Shepherd to consider.

However, Good Shepherd also faces challenges in increasing its engagement with the financial mentors in the wider BFC network. A key challenge is the specialist role of lending. Good Shepherd noted that many aspects of its service are highly specialist, and beyond the scope of many financial mentors.

Good Shepherd told us:

> *A lending conversation with a budget is quite different from a standard budget conversation. Then there is specialist knowledge about loan criteria, credit policy, completing the application with all the additional checks and balances required including:*
>
> - *client identification,*
> - *credit reports,*
> - *credit sense for bank statements,*
> - *using the Good Shepherd loan management system,*

- *setting up lending documentation and loan drawdowns,*
- *payment of suppliers,*
- *ongoing payment care, and*
- *legal disclosures.*

All of this is very time consuming and requires full time attention as well as doing it consistently to become adept and efficient i.e., it's not really something you can just pick up every now and then and do well. Also, if done properly it would take up a lot of time that financial mentors couldn't spend on their everyday clients and would add to the already long wait list to see financial mentors.[13]

Ngā Tāngata Microfinance

Service

NTM issues microfinance loans for asset building and debt consolidation. All loans are interest free. NTM offers:

- "GetControl" debt relief loans of up to $3,000
- "GetAhead" asset building loans of up to $2,000
- "GetSet" loans of up to $3,000, which can be a mix of asset building and debt relief loans.

The debt relief loan is available to clients once, but those who fully pay off an asset building loan are eligible to take out further loans in the future if they are still eligible.

Operating model and processes

Of the providers, NTM has the narrowest service model. It has very strong relationships with the financial mentor network. To qualify for a microfinance loan from NTM, a potential client must work with a financial mentor for 2 months before a loan is issued. This is not actively monitored, but NTM follows the advice of the financial mentor when deciding to approve a loan.

Clients complete a self-assessment form online and are referred to a financial mentor, who works with them directly and organises the loan if eligible. On average, clients work with NTM for almost 2 years, although most of the interaction with the client is through a financial mentor and delivered early in the relationship. The lengthier client support journey reflects the average time it takes to repay an NTM loan.

NTM use Good Shepherd's loan management system to process applications.

[13] MSD explained the BFC waiting list for financial mentor access is not currently long.

Access, responsiveness, and client experience

Clients must be eligible for a Community Services Card to be accepted for a loan. The average client debt is $13,504, and the average client income is $35,800. NTM's clients tend to be older, reflecting partnerships with financial mentors who deliver services in person. Nearly a quarter of clients are over the age of 61.

NTM receives and makes referrals directly to and from the other providers and financial mentors. It referred 1,335 people to other BFC services through enquiries to its website between January and May 2022. NTM uses Facebook marketing actively to attract clients and to interact in online discussions about predatory lenders.

Compliance and organisational sustainability

NTM meets MSD's accreditation Level 4 standards, per the DSS service guidelines. Its quality assurance beyond this is limited.

NTM operates as a charitable organisation. Its biggest constraint is access to capital, beyond its existing partnership with Kiwibank. Kiwibank underwrite NTM's loans and have made $900,000 available in lending capital.[14]

Effectiveness

NTM aggregate outcomes appear highly effective. Disposable income for NTM clients increases by an average of around $50 per week after receiving a loan and associated financial support. We did not interview clients of NTM for this review.

NTM also reports a 95 percent repayment rate on its loans. It has a 'no debt collection' policy – instead, NTM will send a text or email if payments are missed and leave open the option to reengage, which most clients do.

Reflections

NTM has a narrower focus than the other providers and is much smaller in scale. This limits how much NTM innovates at a loan product level. However, it is pursuing partnerships in a way that is unique from other DSS providers, to make its lending successful and create a more cohesive client journey for both clients and financial mentors.

NTM's partnership with CAP and its strong relationships with financial mentor organisations are strong examples of this. Its horizontal integration model is similar to what Good Shepherd envisaged when starting its internal DSS service, albeit at a much smaller scale.

NTM has a smaller capital base than other providers, and its effective access pathways mean that it needs to add more capital. Several options are available for it to access additional capital, but these options first require sustainable operational funding, which appears to be more difficult to secure.

[14] NTM recycled an initial $500,000 in start-up loan capital from Kiwibank into a portfolio of $2.5 million. Its lending capital recently increased to $900,000.

12. Is the current structure optimal? If not, what is required to achieve an optimal outcome

As above, MSD's goals for the four DSS partners are for them to deliver services that are:

- client and whānau-centred, easy to access and trusted
- culturally responsive and safe
- coordinated and linking people to other social services when appropriate
- sustainably funded
- delivered by a workforce that is appropriately trained, qualified, and has professional development opportunities
- collaborative, with shared knowledge and resources.

We have linked these to the UK's Debt Advice Quality Framework to support our analysis in this section.

Below, we summarise our findings for these goals. We find that DSS has natural strengths in delivering positive client experiences, which – at a high-level – appear culturally responsive, safe, and easy to access. Clients' accounts support this.

Organisations are also regularly engaging in forums to improve the debt solutions sector and their own services. But we are not able to determine the true effectiveness of DSS without better data and monitoring frameworks. This lack of information, and the absence of clear planning for sector sustainability, are the main weaknesses of the current DSS structure.

Access, responsiveness, and client experience are sector strengths – but subject to capacity constraints

The four providers have broad geographic and service coverage.

Service eligibility for Component 2 services is narrow and income-dependent, while Component 1 services have more flexible access pathways. In practice, narrow eligibility criteria for loan products has an inherent triage function.

Good Shepherd lacks the service capacity to meet additional demand if referral pathways from BFC are improved. NTM has operational capacity, but its loan product is very specific, and it needs to secure more lending capital.

The two Component 2 organisations have complementary skills that could be leveraged. Good Shepherd has plenty of lending capital but is operationally constrained, while NTM has strong financial mentor networks and service capacity.

Except for Good Shepherd (due to capacity reasons), providers are experimenting with digital channels to attract clients. Additional funding for social media and search engine marketing could increase reach and awareness of DSS support, and was strongly supported by clients in interviews. However, this needs to be accompanied with additional service capacity across the sector.

Triaging inside the DSS and between providers and their partner networks (e.g., Good Shepherd and their NGO partners) is generally very effective, with regular meetings between providers to address issues. Despite this, referrals could still be significantly improved (both inside and out of DSS) to and from BFC financial mentors. Focus is needed on:

- improving the quality and consistency of service from financial mentors and MoneyTalks staff
- addressing disincentives in the financial mentor funding model to refer clients to DSS
- improving communication of service eligibility criteria to BFC organisations (again, noting service capacity constraints).

The four DSS providers received highly positive client testimonies. Clients tended to have high trust and many expressed feeling “safe” in their debt journey. Continuing to maintain high trust could be an operational objective for the sector, supported by quality assurance mechanisms and professional development.

Audits of client cases can show if referrals between DSS providers are being made appropriately and clients are being assessed for the right products.

The four providers show a strong capacity and inclination towards reflection and improvement

Providers engage regularly with each other in monthly operational meetings. We heard many examples of collective learning and providers identifying areas for further development and piloting. This likely reflects the ”start-up” mentality of the DSS providers.

However, their learnings and innovations are not strategically focused, or coordinated in a sector action plan. We see evidence of a high-trust (and hands-off) relationship between MSD staff and the sector, but insights from the sector still need to be coordinated in a logical and strategic framework.

We also see an opportunity to formalise the way client feedback loops work in the service guidelines. Although providers use client testimonials in narrative reporting, this does not appear to be standardised, nor does it feed into formal mechanisms for evaluating service quality.

Generally, providers demonstrated good flexibility and adjustments to disruption. All providers adjusted their approaches to COVID-19 restrictions – enabled by MSD’s swift action to stabilise programme funding in mid-2020.

Compliance and organisational sustainability could be improved

Self-regulation is appropriate for the size of the sector, but we see opportunities for this to be bolstered with additional quality assurance mechanisms, as discussed above.

The sector has skilled operators. DSS organisations are generally small with capable leadership, who all engaged with this review thoroughly. Interviews did not reveal significant issues with legal compliance, although this was largely out of our scope.

Financial viability, due to the difficulty of attracting operational funding, remains a key risk. A plan to ensure sustainable sector funding should be developed and prioritised to support growth.

Overall effectiveness is likely to be a sector strength, but we cannot verify this with confidence

It is difficult to assess client outcomes due to shortcomings in the current monitoring and data framework.

At a provider level, we found that clients who engage with DSS tend to see highly beneficial outcomes – in terms of debt reduction, increased household budgets and reduced stress following service.

However, we cannot interpret service quality for those who drop out of a DSS programme, nor can we determine whether providers are effectively managing and learning from bad outcomes.

All providers could improve their processes for recording client feedback and outcomes. Ideally, this would be standardised across DSS. Some forms of supervision or audit could also be introduced, with a greater focus on recording and responding to client outcomes and feedback.

Data systems generally do not indicate a strength in data management among the providers – though some are working on improvements in this regard. Data collection generally suffers from a lack of clear objectives.

Without better data, we also cannot assess the efficiency and effectiveness of services, or whether resources are managed well between various activities. Anecdotally, providers gave examples of establishing new roles when demand shifted.

Overall, improved quality assurance processes will strengthen confidence about the effectiveness of DSS and help guide changes to service design.

13. What are the other options available to MSD?

To develop towards a nationwide service, we recommend MSD addresses strategic and information gaps

Setting strategic objectives and better understanding DSS demand will enable MSD to evaluate alternative service delivery models.

The current scale of DSS does not reflect the demand in New Zealand for help with problem debt. Providers face significant capacity constraints. Appendix C contains data we retrieved from Centrix, with which we estimate 300,000 low-income New Zealanders are living with problem (consumer) debt.

Providers recognise they are not able to meet demand of this scale.

> *33,000 people talked to a financial mentor in 2019. We stepped in 800-1000 homes. Others could have benefited from our help.*
>
> *It should be a better system where everyone is not at 100 percent all the time.*
>
> *The demand is definitely not being met in South Auckland and other pockets. In Lower Hutt we can keep up, but other areas Wainui and Masterton, there's just no demand. We advertise as much as we can but can't seem to get the word out.*
>
> *Certainly, I think there is excess demand. We don't want to over promise. We haven't even really tested demand fully.*

We recommend a focus on understanding the optimal service level for DSS, investing in research to understand demand, and working with providers to co-design New Zealand-specific versions of existing tools, such as the UK's Debt Advice Quality Framework.

This work could also explore options to meet future demand, such as an expanded role for financial mentors to support DSS delivery. Financial mentors told us they would like to do more to expand their own services, but that they need additional training.

Component 2 providers also wanted to see a greater role for financial mentors.

> *Access to financial mentors is the biggest problem currently. We need accreditation and more oversight and access to the financial mentors... Aligning skills with demand is difficult and not all financial mentors are equal.*
>
> *We do a good job, but it could be smoother. We can do a [Component 1 provider] type role but we need expertise and more FTEs for that, because of the complexity of the debts. It's not that our services aren't coping, it would just be a much smoother journey for the client.*

Strategic work may also reveal other opportunities to improve coordination in the sector. For instance, providers discussed the need to align regulation with the objectives of DSS. In interviews, providers gave feedback on a range of issues with collecting problem debt data, refining consumer protection laws, and seeking exemptions from financial regulations to operate as charitable services. A strategy to coordinate the regulatory environment with the MSD's goals and the objectives of DSS could also be considered.

Section 8 – Recommendations

14. Identify service gaps and recommendations for changes, improvements, or alternative models for service delivery.

In our assessment, DSS currently comprises a range of standalone initiatives that could be better coordinated, with clearer strategic objectives at a sector level.

Operations are effective at a provider level, with evidence of collaboration and partnership within the DSS, and to some extent with financial mentors in the BFC.

However, outcomes are not being understood in a cohesive or consistent way. The sector's development is ad hoc, and significant knowledge gaps – while identified as a challenge in the service guidelines – are not being addressed as a result.

We make a number of recommendations in this section to address these gaps and give more strategic direction to the sector.

Extending DSS will benefit many people experiencing problem debt

Overall, the significant reductions in debt servicing costs and client accounts of improved mental health indicate a service that is high impact when delivered by a skilled workforce.

The small scale of the existing DSS programme, when compared to estimates of unmet need in New Zealand, suggests that expanding MSD's investment in these services will result in a net benefit. Considering the value of any human life, and the value to clients of reducing mental stress, we believe the return on government investment in this sector is likely to be high.

The UK has developed a "Theory of Change" for its affordable credit sector, which could be a useful starting point for discussing the New Zealand sector.[15] Right-sizing the approach for New Zealand's will be a necessary first step, given this country's small market and low sector maturity compared to the UK.

Our key recommendations to improve the performance and sustainability of DSS

Our recommendations are that MSD:

1. Clarify strategic objectives for DSS.
2. At a service level:
    a. strengthen the service guidelines by implementing planned activities, such as an outcomes measurement tool and service user satisfaction tool and

[15] The UK's Fair4All strategy aims to see a significant and material increase in the use of fair and affordable credit from a well-functioning market.

measures. This will set clearer expectations and processes for aspects of the client journey, such as triaging, access, and outcomes monitoring.

b. improve quality assurance mechanisms by standardising core processes and policies across providers, and supporting those providing debt solutions specialised services to develop new service delivery standards for staff working in the sector.

c. shift its evaluation framework to assess the operational quality of providers' services and business operations. We recommend using approaches adapted from more mature sectors like the UK — such as their Debt Quality Advice Framework — and adding an option for external/independent review.

3. At a strategic level, pursue a national debt solution approach with providers and the wider sector, considering opportunities to:

   a. identify and progress cross-sector activities to meet the strategic objectives

   b. close the sector's knowledge gap and improve financial viability and organisational sustainability

   c. set appropriate progress measures, relative to the New Zealand sector's size and stage of development

   d. assess alternative delivery structures — such as financial mentors either supporting or delivering specialised DSS functions — and the training required for this

   e. find ways to present this work, such as the UK sector's Theory of Change (an adapted example is included in Appendix D).

Appendix A: Methodology – selecting and conducting interviews

Conversational interviewing technique

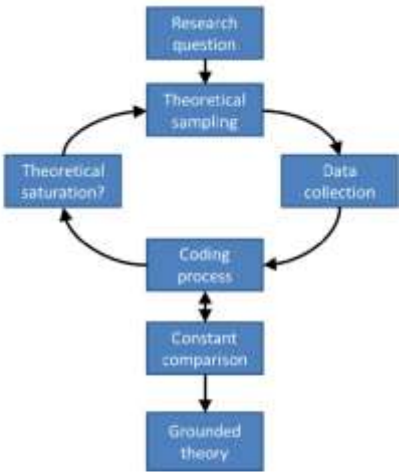
We used a conversational interviewing technique for this review.

A conversational interview technique is the most respectful and sensitive way to discuss issues that are often private and difficult.

In this approach, we present the broad issues we are interested in and allow the participants to share as much as they are comfortable sharing.

One drawback of this approach is that we do not receive comparable answers from all respondents. But it has the benefit of creating a high trust and safe environment to elicit the best answers from interviewees within personal boundaries. We chose conversational interviews because this benefit outweighs the drawback.

We conducted interviews with multiple subjects to achieve theoretical saturation (where existing themes come up repeatedly and no new themes are being generated). This approach means there is less pressure on any individual respondent to give a complete picture. Interviews are relaxed, guided mainly by following the individual's interests and allowing them to steer the conversation. These interviews were guided by and analysed using a process of grounded theory.



We paired these interviews with our understanding of financial inclusion and service reviews to collate our insights and identify key areas for improvement in DSS.

Addressing cross-cultural barriers

Studies of this nature require a conscious approach to navigating cross-cultural barriers. Again, centring participants' comfort is more important than eliciting tidy, comparable results.

We use a series of techniques to overcome cross-cultural barriers,[16] including:

Maintaining transparency – Being clear with the intent of the project and how the interviews will assist MSD, and giving people opportunities to answer questions or raise concerns.

Involving key people and trusted leaders in a community – For instance, finding interviewees through provider relationships and asking for referrals (asking, "who else do you think we should interview?").

Incorporating choice – Giving interviewees choice creates opportunities to build comfort and trust before the interview happens. Conducting interviews over multiple phone calls may be less intimidating, for instance, as well as offering a greater chance to build deeper connections. Choice can be incorporated in other ways – for instance, interviews do not have be recorded.

In-interview care – Such as carefully ordering personal questions, emphasising confidentiality, proactively acknowledging differences, drawing on similarities, and opening space for pain and storytelling.

We also believe compensation for an individual's time is appropriate. We gave participants $100 grocery vouchers to acknowledge their gift of insight and time.

Recruitment approach

We used a snowballing approach to build an interviewee list. This involved:

- starting with a small group of core stakeholders who have high trust with MSD. Our first interviews were with MSD staff and senior staff at the four DSS providers, and aimed to gather an overall assessment of the service's design and operational landscape.
- then asking for referrals to interview clients. We sought warm introductions to address cross-cultural barriers and make the most of existing channels. We supplemented these referrals with our own networks, to gather insight from other areas of the financial system.

Ethics

This research was assessed and reviewed in accordance with the Ministry of Social Development's ethics process. Consideration was made for the privacy of participants, and the potentially sensitive nature of the topic of debt. These risks were mitigated through a robust methodology to ensure that participants felt comfortable and had the right to withdraw themselves from the research at any point.

[16] Sands, Bourjolly & Roer-Strier, 2007, 'Crossing cultural barriers in research interviewing', *Qualitative Social Work*, Volume 6, Issue 3, September 2007, pages 353-372.

Appendix B: Example of interview protocol

For providers:

Introduction (5 minutes). Focus is trust setting and background to research/understanding operational set up.

What is your role? What products does your service offer? How are you funded? What is your organisational structure?

Open discussion (20 minutes).
Focus is understanding service need and the wider system and implementation (barriers to service delivery and barriers to client uptake).

Context: the market and success: *What is the market/problem being addressed? What's your view of success? How do you think about or evaluate outcomes for clients?*

Organisation: *How are you finding attracting and retaining staff? What do you do for training?*

How do you handle training for cultural competency? Do you notice different results between loan officers with more or less in common with their clients culturally?

Network: *How do you find working within the wider BFC network?*

How do you find your relationship with MSD? What's changed since Debt Solutions started? What's the operation of the partnership, with other BFC providers and with MSD?

Clients: *What is a typical client's profile? What are you noticing in this post-COVID phase re demand for your service? How much demand do you think there is for a service like this?*

Clean up (10 minutes).
Focus is Future State. Explain we want to understand how DSS can improve.

Are there areas of future research or evaluation that would help you improve your service?

Are there areas of legislation that could be changed to help service delivery?

What resourcing or people do you need to continue service delivery or expand your service?

How else can efficiency be improved? What advice would you have for a new provider on how to deliver this service?

Wrap-up: Focus on feedback for MSD.

Is there anything you would want to add that we might not have covered already?

Are there any lessons for MSD you'd give from your own experience?

Who should we speak to? What data can you give us to support this review?

Appendix C: Estimating problem debt in New Zealand

Data suggests around 300,000 New Zealanders are in debt, and the scale of the problem far outstrips DSS' current capacity

There is no universally accepted estimate of the scale of problem debt in New Zealand, but a range of data sources and estimates indicate the problem is significant – particularly for people on low incomes.

No institution is solely responsible for measuring or driving progress for those affected. Responsibilities are split between the Reserve Bank of New Zealand, Financial Markets Authority (FMA), Commerce Commission, Ministry of Business, Innovation and Employment, and MSD.

Industry sources and our estimates suggest 300,000–360,000 people are at risk of being in problem debt. BNZ estimates that 300,000 New Zealanders use third and fourth tier predatory lenders,[17] and ASB has estimated that 40 percent of New Zealanders have less than $1,000 available, and are therefore vulnerable to predatory lenders.[18]

The FMA's 2022 report, "Consumer Experience with the Financial Sector", found between 32 and 41 percent of people across age groups feel they are "just treading water" financially. Further, 12–15 percent feel themselves to be "sinking a bit" or "sinking badly".

These findings are consistent with international trends. In the UK, 13 percent of consumer debt holders reported debt to be a "heavy burden", and a further 30 percent considered it "somewhat of a burden".[19] In total, 13–43 percent of UK consumer debt holders are in the spectrum of problem debt – similar to New Zealand industry estimates.

What the data tells us about problem debt in New Zealand

We purchased data from Centrix, a credit reporting bureau, to test against industry estimates.

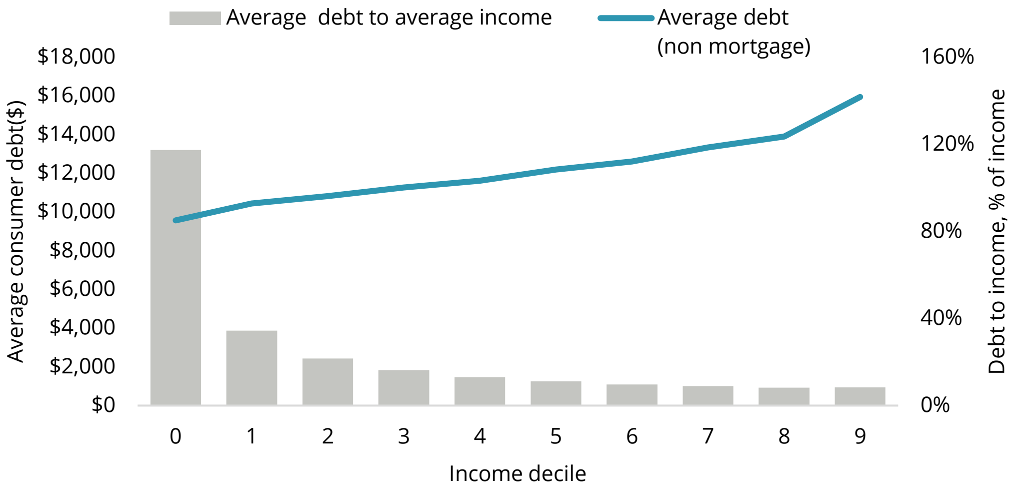
This showed that, while average consumer debts tend to rise with income, New Zealanders with low incomes tend to hold a lot more consumer debt as a multiple of their income (Figure 19).

Consumer debt includes Buy Now Pay Later (BNPL), personal credit and auto loans. This creates a more complete picture of consumer credit than official statistics, which do not count

[17] BNZ, 2019, "BNZ commits to help kiwis escape loan sharks"
[18] ASB, 2021, "ASB data shows financial wellbeing improving".https://www.asb.co.nz/documents/media-centre/media-releases/asb-data-shows-financial-wellbeing-improving.html
[19] ONS. 2018. Household debt in Great Britain: April 2016 to March 2018.
https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/householddebtingreatbritain/april2016tomarch2018

BNPL debt. When these debts are high cost, they can make up a very large share of an individual or family's weekly expenses. We do not have access to high quality data on average outgoings, but we sourced the costs for those using DSS.

FIGURE 13: AVERAGE DEBT TO INCOME RATIOS FALL WITH INCOME GROWTH



Source: Sense Partners estimates from Centrix and IRD

Centrix reports 975,000 active credit consumers in the lowest 30 percent of income suburbs. For simplicity, we exclude mortgage borrowers, who usually (but not always) have access to other avenues for debt consolidation. This leaves 725,000 people holding over $7 billion in consumer debt.

If half of this group have some problem debt, that comes to around 360,000 people (consistent with BNZ estimates). Assuming this group holds higher levels of debt than those without problem debt (we assume this group holds two thirds of total debt), we estimate people with problem debt hold around $4.6 billion in non-mortgage debt in New Zealand.

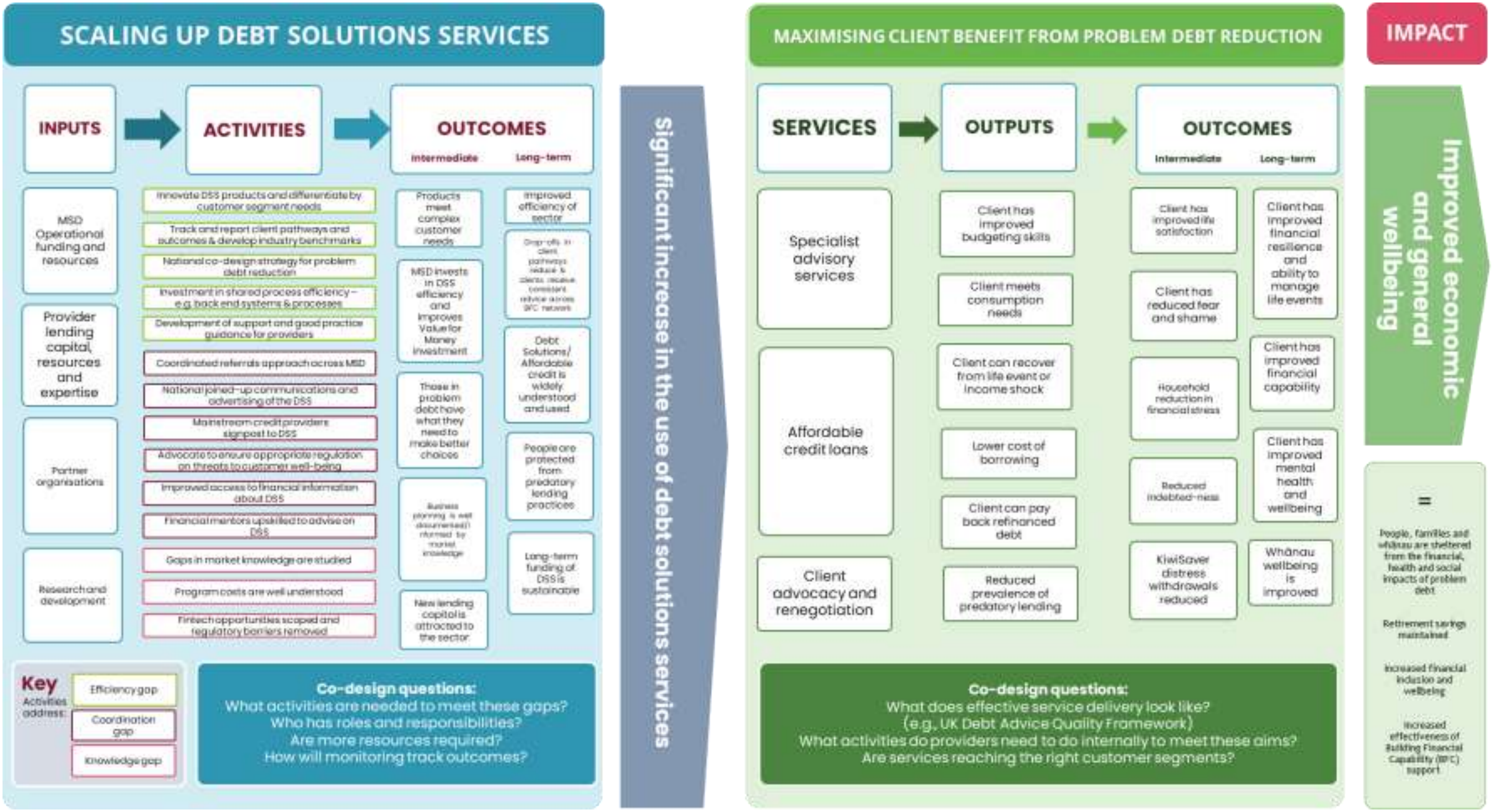
This is close to $13,000 of debt per person, which is consistent with the profile of average clients served by DSS.

If interest rates and fees being charged on the debt average around 25 percent – as reported by DSS clients we spoke to – the total cost of problem debt each comes to $1.2 billion per year. At an individual level, this represents about 11 percent of the annual average income for low-income people. If debt is high cost (approximately 50 percent), those numbers would double to $2.3 billion in total per year, or 22 percent of income.

These measures are not exact, but they indicate that the likely scale of the problem is large.

A variety of data sources suggest around 300,000 people are in problem debt, and the demand for affordable credit and DSS outstrips supply by a considerable margin.

Appendix D: (Example) Adapted theory of change



Notes

SENSE PARTNERS

DATA LOGIC ACTION