An independent review of the fee-charging debt management industry

Executive Summary

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June 2009

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Money Advice Trust

Executive summary

A debt management plan (DMP) provides a means for people to repay their consumer credit debts in full. An affordable payment is calculated, based on an assessment of an individual's income and expenditure. The person in debt makes one monthly payment to a debt management provider, which is then distributed between their creditors on a pro rata basis, either electronically or by cheque. DMPs are provided by fee-charging debt management companies, which generally charge their customers a set-up fee and an ongoing monthly management fee. They are also provided by the Consumer Credit Counselling Service (CCCS) and Payplan, which are funded primarily by the credit industry and offer DMPs free of charge to people in debt.

Almost ten years since the first independent research into fee-charging debt advice and management, the Money Advice Trust commissioned this review to provide an update on the fee-charging debt management industry in the UK. The review included a telephone survey of 53 fee-charging debt management companies, telephone depth interviews with 10 credit industry representatives, and face-to-face depth interviews with 30 customers of fee-charging debt management companies who, between them, had experience of fourteen different fee-charging debt management companies.

The fee-charging debt management industry

An earlier review of the fee-charging debt management industry, published in 1999, identified fewer than 40 companies that provided debt management services to individuals for a fee.[1] In the course of this review, we identified over 150 companies that offered DMPs for a fee. While this is by no means a definitive figure, it provides some indication of the scale of the industry. Around 130 of these companies were direct providers of DMPs, the remainder acted as brokers or introducers to fee-charging debt management companies.

A telephone survey of 53 fee-charging debt management companies found that most provided largely telephone-based services on a UK-wide basis. They generally offered access to other debt remedies besides DMPs (e.g. IVAs, trust deeds), either provided in-house or, more commonly, by referral to another company.

Any organisation that provides DMPs, regardless of whether or not they charge individuals a fee, has to be licensed under the Consumer Credit Act 1974. The OFT Debt Management Guidance sets out minimum standards that have to be met by all debt management providers if they are to be judged fit to hold a consumer credit licence. In addition, there are three industry codes of practice that cover fee-charging debt management companies. The Debt Managers Standards Association's code of practice relates specifically to fee-charging debt management companies. The Debt Resolution Forum code of practice and the Debt Standard Code of Conduct refer to DMPs and other debt remedies that are provided by commercial companies.

[1] C Whyley and S Collard (1999) *Fee or free? The role of fee-charging debt advice companies in money advice provision*. London: Federation of Independent Advice Centres.

Debt management plans

Commercially-provided DMPs are generally marketed at people with debts of less than £15,000, with at least two creditors, and sufficient disposable income to make repayments. It was not uncommon, however, for the customers we interviewed to owe more than £15,000 in consumer credit debts.

Evidence from the telephone survey of fee-charging debt management companies indicated that DMPs were unlikely to run for the projected duration. Most of the companies surveyed stated that, on average, a DMP was projected to run for between 60 and 120 months. The average actual duration of a plan tended to be 36 months or less. The interviews with customers of fee-charging debt management companies highlighted a number of reasons why plans may not run to term: a change of circumstance that makes continued repayments unfeasible for the person in debt; deciding to pursue an alternative debt remedy; deciding to repay their creditors themselves; or the termination of a plan by the person in debt because of poor service.

Credit industry experiences of working with fee-charging debt management companies

Credit industry representatives described a mixed picture of working with the fee-charging debt management industry. They enjoyed good working relationships with companies that were generally larger and longer-established, which had efficient systems, processes and operations and were keen to work closely with the credit industry. While it is difficult to quantify the number of companies in this category, some credit industry representatives talked about having preferential data exchange agreements in place with between 10 and 15 companies.

On the other hand, credit industry representatives expressed concerns about smaller, more recently established firms. They feared that these companies did not always provide best advice to individuals, with the risk that some people might end up with a debt remedy inappropriate to their needs but profitable for the company. Other concerns included the considerable variation in the standard of financial statements received from fee-charging debt management companies and the fees and other charges that they levied.

Customers of fee-charging debt management companies

We estimate that somewhere in the region of 300,000 to 375,000 people are on a commercially-provided debt management plan. This is between two and three times as many as are repaying their debts through a debt management plan administered by a free-to-client provider such as CCCS or Payplan.

The customers we interviewed in depth had typically come into contact with a fee-charging debt management company by responding to a television or newspaper advert or by coming across the company on the internet. Some had been ‘introduced’ to a debt management company via a loan company after they had made an online loan application. Customers were attracted primarily by the fact that companies would reduce their debt repayments to an affordable, single monthly payment and handle all contact with their creditors on their behalf. Good customer service (at least initially) cemented their decision to sign an agreement with the company.

On the whole, customers reported that repayment arrangements were set up fairly quickly after their initial contact with a fee-charging debt management company. Most were aware from the outset that they would have to pay a fee for debt management, and felt they were given adequate information about this. Others were unhappy because they received information about the fees relatively late in the process. The customers we interviewed were generally paying between 15 and 18 per cent of their monthly repayment in fees. Most were happy with the level of charges they paid, although some who had completed a DMP queried whether the charges still represented value for money as time went on.

Customer outcomes

The customers we interviewed were not a representative sample of people who had used fee-charging debt management companies and therefore we cannot say what proportion overall was satisfied or dissatisfied. There were three main outcomes of using a fee-charging debt management company among the customers we interviewed: (1) those who were currently repaying debts through a DMP; (2) those who had terminated their plan due to poor service; and (3) those who had repaid their consumer credit debts.

The first group was currently repaying their consumer credit debts via a commercially-provided DMP. They generally felt their financial situation had improved since contacting a fee-charging company, and were keeping up with their plan payments and other commitments, although it was sometimes a struggle. As a result, they tended to be satisfied with the service they had received from the company they used.

Most of the customers in the second group had cancelled their agreement with a fee-charging debt management company because their creditors had not been paid or had received payments late. All of them had made at least three payments to the company, and a few had been on a DMP for several years. As a result, they were very dissatisfied with the service they had received. These customers were struggling to manage and felt themselves to be in a worse financial situation than before they contacted the company. In addition, a few customers in this group had either let their plan lapse because they could no longer afford to pay, or had switched to another debt remedy which proved unaffordable. They described themselves as having serious financial difficulties, and had fallen behind with household bills.

The third group comprised people who were no longer on a DMP because they had paid off all (or almost all) their consumer credit debts. This was achieved in one of three ways: repaying their unsecured debts in full through a DMP; repaying most of their unsecured debts by means of a DMP and then arranging to make the final payments direct to their remaining creditors; or paying via a DMP before reaching a full and final settlement agreement with their creditors. Most of the customers in this group felt they were significantly better off now than when they first contacted a fee-charging debt management company, were managing well financially and were optimistic about their financial future. They tended to be among the most satisfied of the customers we interviewed.

Policy considerations and recommendations

Fee-charging debt management industry

Although the customers we interviewed reported positive experiences of their initial contact with a fee-charging debt management company, there was evidence of poor service being provided to fee-paying customers by some companies. This centred on the non-payment or late payment of creditors well beyond the initial phase of a DMP, which exacerbated rather than alleviated people's debt problems. Some customers said they were only informed about fees and other charges once they had already committed to using a company, and credit industry representatives were also concerned about the amounts of money that customers paid in fees and charges and the way in which these were levied by some companies.

These issues give rise to questions about the regulation and quality standards that apply to the fee-charging debt management industry. Among the customers we interviewed who had terminated their DMP due to poor service, most had used a fee-charging debt management company that was not a member of any of the three industry codes of practice. The credit industry representatives that we interviewed, while welcoming the introduction of industry codes of practice, were keen to see initiatives such as an industry-wide kitemark. A need for comprehensive and robust compliance monitoring was also identified. Since the time of the research, the OFT has announced a further compliance review against its Debt Management Guidance, which is due to start in mid-2009.[2]

MAT recommendations:

- We welcome the OFT's forthcoming compliance review against its Debt Management Guidance, since it is six years since the OFT investigated the industry in depth, which has grown very significantly in that time. We also recommend that any future version of the Guidance should include a specific expectation that, in any form of promotion, fee-charging debt management companies are explicit that, beyond initial contact, their services are provided at a cost.
- Trade/membership bodies representing the fee-charging debt management sector should continue to actively promote the role and value of industry quality assurance standards and seek wherever possible to move towards greater convergence/commonality of content of individual quality frameworks.
- Given creditors' reports of variations in the quality of financial statements supplied by fee-charging debt management companies, the Money Advice Trust should extend its promotion of the Common Financial Statement further into the commercial debt management sector.

[2] OFT (2009) *Financial Services Strategy: A consultation document.* OFT1077con

Credit industry
It was common among the lenders we interviewed for this research to have a specialist unit to deal with people in debt who may be working through a third party to try and resolve their financial difficulties. These units routinely referred people to free-to-client advice providers, including CCCS and Payplan which provide DMPs free of charge to people in debt.

The interviews with customers indicated that information about free-to-client services was not always provided at a sufficiently early stage in the collections and debt recovery process. Several customers reported that they were only told about free-to-client services after they had committed to using a fee-charging company, by which stage they were reluctant to switch to a free service despite the cost saving.

One way of prompting creditors to make people in debt aware of free-to-client services would be to strengthen existing codes of practice, such as the Finance and Leasing Association's Lending Code and the Banking Code, to ensure that code members or subscribers proactively tell customers about free-to-client advice services at the earliest possible and appropriate opportunity. The customer interviews we conducted indicate that this should take place before the customer is referred to a lender's in-house money advice unit.

MAT recommendation:
- Creditors' staff training programmes should build on best practice to promote the role of and provide contact information relating to free-to-client services. MAT would welcome the opportunity to build on existing initiatives with creditors in this area.

Free-to-client advice sector
The interviews with customers indicate that CCCS and Payplan have a low visibility among debtors in the general public, relative to fee-charging companies that offer debt management and other debt remedies. One means of promoting awareness of CCCS and Payplan might be to encourage greater numbers of referrals from other free-to-client advice services (such as citizens advice bureaux which enjoy strong brand awareness), where this was considered appropriate for the person in debt.

People were attracted to use a fee-charging company for two main reasons, which might be used to inform the marketing and delivery of free-to-client debt advice services. First, these companies were highly visible to the general public through television, newspaper and internet advertising. Secondly, they delivered direct and simple marketing messages, namely that they could help people manage their debt problems, take away the anxiety of dealing with their unsecured creditors, and reduce their debt repayments to an affordable amount.

Once they had made initial contact with a fee-charging debt management company, the customers we interviewed were unlikely to speak to any other companies. They were attracted by the reassuring and sympathetic approach of company representatives and the fact that the company offered to 'deal with everything' for them. The idea that they might have to deal with their creditors themselves (albeit with advice, guidance and support) was generally off-putting.

MAT recommendations:

- Government should build on existing initiatives such as the money, tax, and benefits pages of the Directgov web portal, to further promote public awareness of free-to-client money advice services. By way of a good practice example, a recent Scottish government-sponsored television promotion of National Debtline led to a significant upturn in numbers of calls from Scotland-based clients.

A further recommendation to government

MAT makes a further general recommendation to all departments and non-departmental public bodies that have a formal role in the development and regulation of the commercial debt management sector.

MAT recommendation:

All relevant public bodies should work in partnership wherever possible to ensure that any debt management-related initiatives are designed and maintained with the needs of consumers as a central focus. For example, the statutory debt repayment scheme provided for by the Tribunals, Courts and Enforcement Act 2007 has the potential to provide an additional debt remedy to those who need it. However, the extent to which the needs of people in debt are met by the scheme will depend on the detail of how such a scheme is agreed and implemented. MAT would welcome the opportunity to work with government departments and others in designing initiatives that will assist the resolution of consumers' debt-related problems.