Debt Solutions in the UK

Recommendations for change

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the Money Advice Service

Foreword

This report sets out final recommendations resulting from an in-depth review into the effectiveness of debt solutions in the UK.

These recommendations are the result of an in-depth programme of work that involved extensive collaboration and consultation with many individuals and organisations, including respondents from the financial services industry; the not-for-profit advice sector; the commercial debt management industry; the personal insolvency industry; and the energy industry. The stakeholders consulted had a diverse (and sometimes divergent) range of views and priorities; these were all considered and analysed when selecting the final set of recommendations set out in this report.

We are happy to note that several programmes of work (such as Peter Wyman's independent review of debt advice funding) are already underway, illustrating the partnership working and collaboration that have been at the heart of this work.

The recommendations and the changes already underway provide a roadmap to improve the UK debt solutions landscape and bring benefits to people in debt through better access, better protection, better support, better choices and better processes. Creditors and the debt advice sector also stand to benefit from a more efficient and effective system of dealing with problem debt.

We are grateful to Professor Sharon Collard (Personal Finance Research Centre, University of Bristol) for leading the work; as well as the stakeholders who participated in and responded to the consultation; the research agencies (Revealing Reality and ICF International) who produced the evidence on which the recommendations draw; and the stakeholders and people in debt who were interviewed for the research.

This programme of work will now be incorporated into the Debt Advice Sector Strategy, which is being taken forward by MAS, supported by the Debt Advice Steering Group. The recommendations in this document will largely be progressed or supported by MAS, in line with its statutory remit. Should any of the recommendations not be completed by the time the new Single Financial Guidance Body is established, MAS advocates that the new body takes on this work.

Sheila Wheeler
Debt Advice Director

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Executive Summary

Background and objectives

The Money Advice Service (MAS) and the University of Bristol have conducted a review of the formal and informal solutions available to people with problem debt, to understand the extent to which the available options meet their needs, and identify ways in which the current system could be improved, particularly from the perspective of people in debt.

The review incorporated a comprehensive study of the available literature and primary qualitative research with individuals who have used the myriad solutions. It also included sector-wide engagement through expert workshops, interviews and group discussions.

MAS published Debt Solutions: Draft Opportunities for Change in February 2017. This document set out 24 draft opportunities for change - an initial long-list of changes that the research and sector engagement suggested could help people manage their problem debt more effectively.

Approximately 60 individuals and organisations from across the sector responded to the consultation. This included respondents from the financial services industry; the not-for-profit advice sector; the commercial debt management industry; the personal insolvency industry; and the energy industry.

Following this, MAS undertook a comprehensive analysis and prioritisation exercise in order to agree a final short-list of recommendations.

Opportunities and recommendations

Following the consultation and detailed prioritisation exercise, MAS and the University of Bristol concluded that there are seven opportunities for change where there is work already underway, nine opportunities that are lower priority and eight areas where recommendations for additional action can still be made.

When considered together, these opportunities and recommendations will benefit people in debt, creditors and the advice sector by delivering better access, better protection, better support, better choices and better processes.

The final recommendations for additional action are:

1. A review into fees for debtor-application bankruptcy in England, Wales and Northern Ireland
2. The re-introduction of fee remission for low-income applicants, which could be included in the remit of the review
3. Better online information about help with bankruptcy fees on the GOV.UK website and online bankruptcy portal
4. More prominent and easy-to-understand information and tools on the online bankruptcy application portal
5. Further exploration of debt ‘rehabilitation’ including better recognition of debt repayment
6. The introduction of a statutory debt management scheme for England, Wales and Northern Ireland
7. Innovation in the equity release market for people in debt who are ‘asset rich, cash poor’
8. The development of one online income-and-expenditure portal

Next steps

This programme of work will now be incorporated into the Debt Advice Sector Strategy, which is being taken forward by MAS, supported by the Debt Advice Steering Group.

We conclude this document by detailing the eight recommendations where additional work is needed to bring about positive change for the future. For each recommendation, we suggest an organisational owner and next steps.

Most of the recommendations will be progressed or supported by MAS, in line with its statutory remit. Should any of the recommendations not be completed by the time the new Single Financial Guidance Body is established, MAS advocates that the new body takes on this work.

1. Introduction

The Money Advice Service (MAS) has a statutory obligation to improve the availability, quality and consistency of debt advice across the UK. To help achieve this objective, MAS has undertaken an in-depth review of the formal and informal courses of action available to people who have problem debt, to understand the extent to which the available options meet their needs and to identify ways in which the current system could be improved, particularly from the perspective of people in debt.

The review incorporated several different research projects, as well as sector-wide engagement through Expert Workshops, Expert Interviews and Group Discussions. From this review, we produced a set of 24 draft opportunities for change, which were an initial long-list of changes that the research and consultation suggested could help people manage their problem debt more effectively.

The draft opportunities for change were published for consultation in February 2017.[1] Approximately 60 individuals and organisations from across the sector responded to the consultation. They included respondents from the financial services industry; the not-for-profit advice sector; the commercial debt management industry; the personal insolvency industry; and the energy industry. Full details of the review and the consultation are provided in the Appendix.

In this final report, we set out five areas where we think changes can be made that would benefit people in debt, creditors and the advice sector: better access, better protection, better support, better choices, and better processes. Across these areas, there are **opportunities for change** created by work that is already in train that can be built on immediately. There are also areas where we believe new work is needed – in these areas we make **recommendations** for additional action.

We have taken the needs of people on fixed, variable and flexible incomes into account throughout this work and recognise that in implementing the recommendations particular attention will need to be given to the growing proportion of people on variable and flexible incomes.

There were other, more complex, challenges that we were not able to consider in detail in the scope of this study. For example, we have not explored more radical ways to simplify and streamline the debt solutions landscape, which would require a review of the legislation and regulations. These areas will be explored further within the Sector Strategy.

Some of the opportunities already underway (such as the independent review of debt advice funding) and recommendations pave the way for future work on these fundamental questions. They will also be considered in the Debt Advice Sector Strategy due to be published next year.

This report

Chapter Two summarises the opportunities for change created by work that is already in train and our recommendations for additional action.

Chapter Three considers how the opportunities for change already underway and our recommendations for additional action have the potential to impact positively on debtors, advice providers and creditors.

Chapter Four describes the draft opportunities for change (from the original 24 draft opportunities for change) that we considered to be lower priority and that we do not recommend taking forward at the present time.

Chapter Five sets out next steps in the process.

[1] See Sharon Collard, Colin Kinloch, Sarah Little, *Debt Solutions in the UK. Draft opportunities for change* (2017). Available at: https://masassets.blob.core.windows.net/cms/files/000/000/645/original/Debt_solutions_opportunities_for_change_FINAL.docx

2. Our response to the consultation

Our review considered some of the key challenges relating to debt solutions and the debt advice sector, from the perspective of advisers, creditors and people in debt. In this chapter, we summarise the opportunities for change that are already in train as well as our recommendations for additional action. We arrived at our response through a combination of:

- analysis of the consultation responses, taking into account the breadth and depth of support for the 24 draft opportunities for change;
- bilateral discussions with external stakeholders;
- internal discussions with MAS colleagues; and
- revisiting the research commissioned by MAS and the material collected in the earlier review.

The opportunities for change that are already underway and our recommendations for additional action require different types of action – changes to policy, changes to practice, and in some cases further investigation and consultation. All require continued cross-sector collaboration to make change happen.

Opportunities for change already in train and recommendations for additional action

Figure 2.1 sets out seven opportunities for change where there is work already in train plus our eight recommendations for additional action. These changes offer five main benefits for people in debt, with knock-on impacts for creditors and debt advisers:

1. better access,
2. better protection,
3. better support,
4. better choices, and
5. better processes.

Chapter Three explores these five benefits in detail.

Figure 2.1 Opportunities for change already in train and our recommendations for additional action

Opportunities for change in train			Benefits	Our recommendations		
	Independent review of debt advice funding…	…including funders paying bankruptcy fees as a last resort	BETTER ACCESS	Better info about help with bankruptcy fees	Review of bankruptcy fees…	…including possible re-introduction of fee remission
More consistent and progressive practice in government debt collection	More consistent approach to IP regulation	Regulation of lead generators	BETTER PROTECTION			
		Active management of non-statutory courses of action particularly token payment plans	BETTER SUPPORT	More info on E&W bankruptcy portal	Debt 'rehabilitation' including better recognition of debt repayment	
			BETTER CHOICES	UK-wide access to statutory debt management	Innovation in equity release market	
		Sharing arrears management/ debt collection good practice	BETTER PROCESSES	One online I&E portal		

3. What benefits could these changes bring?

Here we set out in more detail the opportunities for change already in train and our recommendations for additional action. We also consider the main benefits they could bring, in terms of better access, protection, support, choices and processes.

Better access

Opportunities for change in train		Our recommendations		
Independent review of debt advice funding…	…including funders paying bankruptcy fees as a last resort	Better info about help with bankruptcy fees	Review of bankruptcy fees…	…including possible reintroduction of fee remission

Better access to debt advice, and through debt advice to debt solutions, means that more people in debt could receive professional help, potentially at an earlier stage, and benefit from its positive financial and non-financial impacts. This could deliver knock-on benefits for creditors and society.

"I was in such a blind panic at that point that as soon as I heard there was a solution [a Trust Deed] it was like a massive weight lifted off my chest… seeing that there might be a light at the end of the tunnel again."

(Qualitative research respondent)

In terms of access, our review and consultation centred on funding for debt advice and access to bankruptcy. Both came through strongly from the research and stakeholder engagement as key challenges and high priorities.

Other ongoing activity to improve access includes MAS's recently published five-year strategy for the commissioning of debt advice. Among other things, this sets out an ambition to deliver debt advice and money guidance in line with need; establish a workforce strategy for MAS-funded advisers; and build services that make best possible use of technology.[2]

Debt advice funding

The evidence review commissioned by MAS showed that demand for debt advice outstrips supply; and access to face-to-face debt advice services is geographically patchy. Where debt advisers act as authorised intermediaries for debt solutions (such as Debt Relief Orders), barriers to getting debt advice also restrict access to debt solutions. While there is online information about dealing with debt and debt solutions, online searches typically promote commercial websites over free-to-client ones or point to websites that do not have enough information for people to make an informed choice.[3] Anecdotally, fears of stimulating demand that cannot be met has deterred free-to-client advice services from any large-scale advertising.

Stakeholder engagement in the review and consultation showed strong support for **an independent review of debt advice funding** as an opportunity for change.[4] This is now underway, following the appointment by the DASG of Peter Wyman as independent reviewer in July 2017. The terms of reference for the independent review are provided in Box 2.1.

[2] Money Advice Service, *A strategic approach to debt advice commissioning 2018-2023.* (December 2017). Available at: https://www.moneyadviceservice.org.uk/en/corporate/new-five-year-strategy-to-greater-target-those-most-in-need-of-debt-advice

[3] ICF, *Review of the Literature concerning the Effectiveness of Current Debt Solutions. Final Report for the Money Advice Service* (2017).

[4] Draft opportunity for change number 4.

Box 2.1 Independent review of debt advice funding

The review will consider:

- How much debt advice is needed as well as how much it will cost, now and in the future
- How debt advice should be funded and by whom
- The benefits of the current debt funding model, as well as where this could be improved, based on people's needs
- If changes are required, how the sector should transition to the new model.

Peter Wyman is expected to present his findings within 12 months of his appointment to lead the review in July 2017.[5]

As suggested in the draft opportunities for change, the funding review should consider **direct assistance with bankruptcy (and DRO) fees from debt advice funders,**[6] if clients are applying through an authorised advice provider and if other possible ways to raise the fees have been exhausted. There was support for this idea in the consultation, although consultees had questions about how it would work in practice.

Access to bankruptcy

In the stakeholder engagement and consultation, fees were seen as a major barrier that stopped people from going bankrupt (or applying for a Debt Relief Order in England and Wales), where this was a suitable course of action.[7] This is supported by the evidence review and qualitative research commissioned by MAS.[8,9] Where fees do prevent access to a suitable or preferred course of action, people may delay taking any action or choose a less suitable course of action.[10]

"I'd done all the paperwork for the DRO but I couldn't come up with the [£90] fee."

(Qualitative research respondent)

New work is required to improve future access to bankruptcy. As a short-term response to this access problem for people applying for bankruptcy in England and Wales, **we recommend that better information is provided about help with bankruptcy fees.**[11] This requires the GOV.UK website and online bankruptcy portals to be updated to provide further information and more signposting to sources of financial help that can specifically be used to pay bankruptcy fees (rather than a general source of information).

There is a link on the GOV.UK website to the Turn2Us website,[12] which has information about grants that can be used to pay bankruptcy (or DRO) fees. However, not all grants on the website can be used for this purpose and not all are open to everyone. MAS is in discussion with Turn2Us about ways to make it easier for people to find sources of help to pay bankruptcy fees.

In addition, through the debt advice services it funds, MAS works to maximise the income of people in debt, which may help them afford bankruptcy (and DRO) fees. In its debt advice commissioning strategy,[13] MAS also intends to embed debt advice within a network of holistic support, which could include income maximisation services.

Bankruptcy fees 2017		
E&W	£680	(£90 for Debt Relief Order)
N. Ireland	£647	(£90 for Debt Relief Order)
Scotland	£200	(£90 for Minimal Assets Process)

A longer-term response to the cost of bankruptcy would be a reduction in the fees, which was a high priority in many consultation responses in order to improve access to bankruptcy where it is a suitable option. To this end, **we recommend a review into fees for debtor-application bankruptcy in England, Wales and Northern Ireland.**[14] We also recommend **the re-introduction of fee remission for low-income bankruptcy applicants** which could be included in the remit of this review.[15]

[5] Money Advice Service Press Release, *Peter Wyman to head independent review of debt advice funding* (20 July 2017). Available at: https://www.moneyadviceservice.org.uk/en/corporate/peter-wyman-to-head-independent-review-of-debt-advice-funding
[6] Draft opportunity for change number 8.
[7] Including in Scotland applying for a Minimal Assets Process Bankruptcy (MAP bankruptcy) which currently costs £90. This is aimed at people in debt with low income and few or no assets.
[8] ICF, *Review of the Literature concerning the Effectiveness of Current Debt Solutions. Final Report for the Money Advice Service* (2018).
[9] Revealing Reality, *Debt Solutions qualitative research debrief* (2018).
[10] University of Bristol, *The over-indebtedness of European households* (2014), cited in ICF, 2017.
[11] Draft opportunity for change number 7.
[12] Turn2Us is a national charity that helps people in financial hardship gain access to welfare benefits, charitable grants and support services. For more information visit www.turn2us.org.uk
[13] Money Advice Service, *A strategic approach to debt advice commissioning 2018-2023.* (December 2017).
[14] Draft opportunity for change number 4.
[15] Draft opportunity for change number 5.

The original opportunity for change in the consultation only covered England and Wales. There were calls in the consultation responses to include Northern Ireland in any review of bankruptcy fees, including the ability to pay fees by instalment in cash as well as electronically. We have expanded the scope in this final recommendation to include Northern Ireland.

Better protection

Opportunities for change in train		
More consistent and progressive practice in government debt collection	More consistent approach to IP regulation	Regulation of lead generators

Better protection means, firstly, that people in debt receive fair and broadly consistent treatment from FCA-regulated financial services firms and non-financial services creditors such as government, utilities and telecoms.

Secondly, it means that people in debt receive professional help from well-regulated providers who advise courses of action that are in the individual's best interests (which may not necessarily be in the providers' interest).[16] Both of these approaches increase the chances that people can sort out their debts, in ways that are fair to creditors too.

In terms of protection, our review and consultation focused on government debt collection and the regulation of insolvency practitioners and lead generators. While neither topic featured in the research commissioned by MAS, they were high priorities in our stakeholder engagement and consultation. In both areas, there is work in progress already and we have not made any further recommendations.

Government debt collection

In the review and consultation, stakeholders from across the sector reported issues with local and central government creditors, which could undermine or derail efforts to manage problem debts. Problems included poor communication, inconsistent collection practices and lack of engagement with work to improve standards. In the response to our consultation, there was strong cross-sector support to address these issues.

More consistent and progressive practice in government debt collection[17] is already a Debt Advice Steering Group priority and included in a MAS-led programme of work to influence more consistent creditor practices.[18] As part of this work MAS is currently working with the government and debt advice agencies to support increased collaborative working.

MAS has already published an operational toolkit to encourage all creditors to examine their debt collection strategies and better support customers in financial difficulty through collaboration with the debt advice sector.[19] Among other things, the toolkit encourages creditors to apply the Standard Financial Statement (or equivalent industry guidance) when agreeing affordable repayment and to align to MAS's 'supportive creditor standards'. In 2018 MAS aims to produce similar resources to specifically support central and local government debt collection practices.

Regulation of insolvency practitioners and lead generators

Our stakeholder engagement highlighted concerns about poor practices in personal insolvency that tighter regulation might address, to prevent people in debt ending up with an IVA or Trust Deed that was not in their best interests.

There was a good deal of support from consultation respondents for changes to the regulation of insolvency professionals and lead generators. On the whole, respondents from the insolvency industry did not support the removal of current exclusions from FCA regulation for insolvency practitioners, instead preferring closer collaboration and common standards between the Recognised Professional Bodies (RPBs).

There is already work underway to encourage a more consistent approach to insolvency practitioner and lead generator regulation. The Insolvency Service is carrying out a review into how the RPBs carry out the monitoring and regulation of their insolvency practitioners. The review is considering:

[16] The evidence review commissioned by MAS (ICF, 2017) for example identified poor practices in the debt advice market including false advertising, opaque fees, pressure selling, product bundling, poor assessment of people's financial situation and providers encouraging people to lie or manipulate their personal information. The source of this evidence was the FCA's report *Quality of debt management advice,* published in 2015.

[17] Draft opportunity for change number 23.

[18] The Debt Advice Steering Group is responsible for co-ordinating work to support people in financial difficulties. It is chaired by the Money Advice Service and its members are senior staff of the UK's major advice sector and creditor organisations. Source: https://www.fincap.org.uk/debt-advice-steering-group

[19] MAS, *Working collaboratively with debt advice agencies. A strategic toolkit for creditors* (July 2017). Available at: https://masassets.blob.core.windows.net/cms/files/000/000/780/original/MAS0003_Collaborative_working_Final_W.pdf

- the process and risk assessment of the RPBs' monitoring processes,
- the monitoring of volume IVA providers,
- consistency of outcomes including publicity of sanctions and regulatory action,
- the extent to which independence is maintained between membership and regulatory functions, and
- the financial capability of the RPBs.

The report should be published by the end of the year and MAS will review the results as part of the Sector Strategy.

Better support

Opportunities for change in train	Our recommendations	
Active management of non-statutory courses of action particularly token payment plans	More info on E&W bankruptcy portal	Debt 'rehabilitation' including better recognition of debt repayment

Better support means helping people across the debt-cycle, from selecting a suitable course of action; to making progress managing their debt; and reintegrating safely back into financial services post-debt. Where debt repayment is possible, better support for people in debt may benefit creditors in the form of sustained payments. For advisers, the benefit may come from fewer 'revolving door' cases, smoother client journeys and better outcomes for clients.

In terms of support, we focus on non-statutory courses of action, and in particular token payment plans, where there is work in progress already that can be built on. Our recommendations for additional changes that require further action relate to supporting people who apply for bankruptcy online; and debt 'rehabilitation' including better recognition of debt repayment.

Non-statutory courses of action

While advisers and people in debt value the flexibility and relative anonymity of non-statutory courses of action, our review raised concerns about the inconsistent ways creditors approach informal arrangements, and the worry that people can be left to languish on informal payment arrangements (particularly token payments) for long periods of time.

"I really wish I had started the Trust Deed 10 years ago… I feel like I wasted my life on minimum payments."

(Qualitative research respondent)

There was support in the consultation responses for more **active management of non-statutory courses of action,**[20] particularly token payment plans. This might include signposting to employment support, income maximisation, or help to make an insurance claim; and undertaking regular reviews to ensure that the solution selected remains appropriate.

Some of this work is already progressing and can be built on. One of the intentions of the MAS commissioning strategy is that clients of its services "*… are able to access, or are signposted to, services complementary to debt advice to help them address the root causes of their debt problem.*"[21]

Future commissioning will also look at the support that people receive post-advice from their advice provider, including whether there should be regular reviews of other informal soutions (as there are already for DMPs), and if so the content and frequency of these reviews.

With support from MAS, the Money Advice Trust also commissioned qualitative research about the experiences of people who self-negotiate with their creditors to come to a debt payment arrangement – an area that MAS's evidence review highlighted as a research gap. Due to be published in autumn 2017, the research looks at ways to reduce friction and manage disruption in the self-negotiation process; and opportunities to create better feedback loops between people in debt, advisers and creditors.

In the longer term, better choices for managing debt (section 3.4) may also benefit people who would otherwise opt for informal courses of action such as token payment plans.

Support for online bankruptcy applicants in England & Wales

While our stakeholder engagement found general support for the quicker and more efficient service offered by online-only applications for bankruptcy in England & Wales (since 6 April 2016),[22] there were concerns about debtors being able to apply for bankruptcy themselves without taking any advice and with no 'cooling off' period once an application is submitted.

[20] Draft opportunity for change number 20.

[21] Money Advice Service, *A strategic approach to debt advice commissioning 2018-2023.* (December 2017, page 4).

[22] Since 6 April 2016, applications must be submitted online via the central UK Government website https://www.gov.uk/ to an Adjudicator within the Insolvency Service.

We recommend that action is taken **to modify the online bankruptcy application portal to include prominent and easy-to-understand information** about implications and alternatives to bankruptcy;[23] as well as more signposting to advice services and online tools to help with more complex issues such as home valuation. Among consultation respondents, this was viewed as a potential 'quick win' for people in debt because it does not require any policy change. To implement this recommendation involves MAS working with the Insolvency Service (which is responsible for the portal) and the Government Digital Service (which owns the portal content) where necessary.

Debt 'rehabilitation'

The qualitative research commissioned by MAS showed that some people coming out of debt were keen to access credit in the future, while others were equally keen to avoid borrowing if they could help it.

"I want to get my credit score back up. I need to buy a new couch."

(Qualitative research respondent)

"Fingers burned, lesson learned! And never getting a credit card again!"

(Qualitative research respondent)

Debt 'rehabilitation' and the idea that credit files could better reflect a good debt repayment record have been the subject of much discussion. On the one hand, this could help repair someone's credit file and reintegrate them into financial services post-debt.[24] On the other, the provision of credit post-debt must be responsibly lent (and responsibly borrowed) to avoid further problems.[25]

We recommend that **cross-sector representatives continue to explore debt 'rehabilitation' (mindful of the risks and benefits) including better recognition of debt repayment**.[26] UK Finance[27] plans to present a paper to the Steering Committee on Reciprocity (SCOR),[28] exploring whether adherence to debt repayment arrangements could be included on credit files in a more consistent way, in a manner that enables creditors to recognise and reward individuals' efforts to reduce their problem debts.

There is also an opportunity for MAS to work with the Insolvency Service to pilot targeting people with appropriate support as they come to the end of a formal debt solution; and to discuss with creditors and CRAs ways to improve the data that is recorded about non-statutory debt options.

[23] Draft opportunity for change number 10.
[24] This includes access to credit contracts to spread the payments of insurance policies and for mobile phone contracts. It is also common for employers and landlords to check credit files before issuing contracts.
[25] The qualitative research commissioned by MAS for this review (Rowe et al, 2017) found evidence of people taking out consumer credit (often 'lifestyle debt') while following a course of action to sort out previous debt problems.
[26] Draft opportunity for change number 22.
[27] UK Finance is a new trade association representing the finance and banking industry. For more information visit www.ukfinance.org.uk
[28] SCOR is a cross industry forum made up of representatives from credit industry trade associations, credit industry bodies and credit reference agencies. It is responsible for the administration and development of the data sharing rules known as the Principles of Reciprocity. http://www.scoronline.co.uk/about-us

Better choices

Our recommendations	
UK-wide access to statutory debt management	Innovation in equity release market

Better choices means filling gaps in provision that exist for people in debt with negligible disposable income (even though they may have assets) and the growing number of people who have insecure and fluctuating income from flexible employment, such as workers in the 'gig economy'.

It also means ensuring people on non-statutory debt repayment plans also have the option to enter a solution that would give them some protection from creditor action and charges, should this be more suitable for them.

Better choices can enhance the debt advice process, and improve the chances that people manage debt effectively, with greater debt collection for creditors where debt repayment is pursued.

In terms of choices, we believe new work is needed to address these challenges. We recommend action to bring about UK-wide access to statutory debt management that should incorporate flexibility to help people in debt who have variable incomes; and that the advice sector works with financial services firms and the regulator to stimulate innovation in the equity release market for people in debt who are 'asset rich, cash poor'.

MAS will continue to focus on understanding and meeting the needs of people in debt who have variable incomes in its Commissioning and Sector strategies.

In its debt advice commissioning strategy, for example, specific commissioning intentions may benefit people in debt with insecure and fluctuating income – such as the focus on end-to-end support and holistic services. The commissioning strategy also highlights people with variable incomes from employment as a target group for the services it funds. It is likely that many people in the other target groups will also be on fluctuating incomes and so this group will be an important focus of the commissioning work more broadly.

In addition, Advice UK and Fair Money Advice[29] are at the early stage of a programme to develop practical solutions to help people with fluctuating incomes better manage their finances.

UK-wide access to statutory debt management

For people who repay debt through a debt management plan or a repayment arrangement they make with their creditors themselves, there is currently no statutory requirement for creditors to cease enforcement action or to cease to charge fees or interest.

The Government launched a call for evidence on 'breathing space' late last year, which closes in mid-January.[30] This included questions on a series of issues relevant to this section of the report including on the design of a statutory debt management scheme. After the informal consultation closes we expect a period of policy development work to begin at HM Treasury.

In our response to the call for evidence[31] we noted our long-term support for a statutory debt management scheme for England, Wales and NI as this remains a significant gap in provision. We believe it would give debtors who can afford to make repayments the protections called for by the Children's Society and others.[32]

We also noted that any new scheme should allow some flexibility in debt repayment, to better meet the needs of people with insecure and fluctuating income. The design, implementation and execution of such a scheme should also build on the successes and learn from the challenges of the Debt Arrangement Scheme in Scotland. Finally, we noted that all debts, including those owed to the public sector, should be within the scope of a statutory debt management scheme, in line with the approach taken currently in Scotland.

The Financial Guidance and Claims Bill[33] provides for the establishment of a new organisation, the Single Financial Guidance Body (SFGB), which has been given a function to provide guidance to the Secretary of State on the establishment of a 'debt respite scheme'.

The SFGB will need to provide this guidance within a year of its establishment - the date of establishment will depend on

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29 AdviceUK is the UK's largest support network for free, independent advice centres. Fair Money Advice is an AdviceUK member that provides free, confidential and impartial advice to anyone living and working in London.
30 https://www.gov.uk/government/consultations/breathing-space-call-for-evidence
31 The response to the call for the evidence from the Money Advice Service will be found here https://www.moneyadviceservice.org.uk/en/corporate/consultations-and-responses
32 http://www.childrenssociety.org.uk/what-you-can-do/campaign-for-change/breathing-space
33 The latest version can be found here https://services.parliament.uk/bills/2017-19/financialguidanceandclaims.html

the passage of the bill however we would encourage the SFGB to build on the policy development work at HM Treasury on breathing space in the intervening period.

When it is established many of the functions of the Money Advice Service will transfer to the SFGB.

Innovation in equity release

For people who have assets (such as homeowners) but little or no disposable income, there are few options to deal with debt other than bankruptcy (which is generally unattractive as assets would usually be liquidated) or token payments.

Equity release is a relatively uncommon way to deal with problem debt – often because people want to preserve their housing assets at all costs. StepChange Debt Charity's equity release subsidiary, for example, generated income of £0.9 million in 2015/16, compared with £39.8 million of income for debt management generated by its parent organisation.[34]

In the stakeholder engagement and consultation responses there was support to explore options for equity release for 'asset rich, income poor' households, provided that products are well-designed, have appropriate protections and safeguards, and are offered appropriately to people who might benefit from them.

We therefore recommend that financial services firms **engage in innovation within the equity release market to create products suitable for people in debt who are 'asset rich, cash poor'.**[35] There may also be an opportunity to innovate and create other products that use illiquid assets to meet the needs of this group.

[34] StepChange Debt Charity/Foundation for Credit Counselling, *Tackling problem debt. Annual report and accounts 2016* (2017). Available at: https://www.stepchange.org/Portals/0/documents/Reports/Annual-review-and-accounts-2016.pdf

[35] This is adapted from draft opportunity for change number 12 'We suggest that options are explored to help homeowners who are 'asset rich and cash poor' unlock equity in their property in order to deal with their problem debt while, for example, allowing them to stay in their home on reasonable and fair terms.'

Better processes

Opportunities for change in train	Our recommendations
Sharing arrears management/debt collection good practice	One online I&E portal

Better processes means removing friction from debt advice to make it more consistent, efficient and transparent. For people in debt, advisers and creditors, the benefits are a quicker, smoother route to managing debt and a more effective use of resources.

In terms of processes, there are already opportunities underway to share good practice in arrears management and debt collection. In addition, we recommend the development of one online income-and-expenditure portal. In its debt advice commissioning strategy, MAS also has an ambition to build debt advice services that make best use of technology and have streamlined processes.

Arrears management and debt collection

As we saw in section 3.2.1, lack of consistency and poor practice on the part of government creditors can frustrate efforts to sort out problem debt. As identified in our draft opportunities for change, **sharing and promoting good practice in arrears management and debt collection** across financial services firms and other creditors is one way to address this issue.[36]

As noted above, MAS has already published an operational toolkit to encourage creditors to examine their debt collection strategies and better support customers in financial difficulty through collaboration with the debt advice sector.[37] Other organisations are working to improve Council Tax debt collection through encouraging and sharing good practice.[38] There is also a recently published guide for the debt collection industry on dealing with vulnerable customers.[39]

Ideally, there should be ongoing monitoring to check the implementation of good practice, and some evaluation of the impact of changes in practice (good and bad) on people in debt. For financial services firms, the responsibility for this lies with the FCA.[40] For other creditors not regulated by the FCA, there is no equivalent system.

One income and expenditure portal

The implementation of a Standard Financial Statement (SFS) means that major debt advice providers and creditors use the same format to consistently assess income and expenditure.[41] This is a big step forward, but the issue remains that people in debt are asked for the same income-and-expenditure information multiple times.

While some organisations are already looking to develop online income-and-expenditure systems, there was support in the stakeholder engagement and consultation responses (particularly from the advice sector) for **one** portal rather than multiple portals. For people with fluctuating incomes, an online income-and-expenditure portal could provide a way for debt repayment to be flexible in response to the ups and downs of their earnings (for example, repayment as a proportion of income, rather than a fixed monetary amount). Open Banking, which aims to stimulate greater transactional data sharing, may help enable this when it starts to come on-stream in 2018.

Progress towards this goal would have to address some big questions on data protection, as well as how it would be funded and who would run it. These challenges notwithstanding, we recommend that **the sector explores the development of one online income-and-expenditure portal.**[42] A single portal is under consideration by the Standard Financial Statement (SFS) Governance Group as part of the future development of the SFS. A subgroup of technical stakeholders is currently being formed to investigate this further.

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[36] Draft opportunity for change number 24.

[37] MAS, *Working collaboratively with debt advice agencies. A strategic toolkit for creditors* (July 2017). Available at: https://masassets.blob.core.windows.net/cms/files/000/000/780/original/MAS0003_Collaborative_working_Final_W.pdf

[38] These include the Citizens Advice/LGA council tax protocol https://www.citizensadvice.org.uk/about-us/campaigns/current_campaigns/council-tax-protocol/ and The Debt Counsellors Charitable Trust, *Supporting local authorities to achieve best practice in the collection of council tax arrears* (June 2017).

[39] Chris Fitch, Jamie Evans, Colin Trend, *21 questions, 21 steps – Vulnerability: A guide for debt collection* (2017). University of Bristol. Available at: http://www.bristol.ac.uk/media-library/sites/geography/pfrc/pfrc1701-21-steps-vulnerability-and-debt-collection-(web).pdf

[40] See for example its thematic review of early arrears management in unsecured consumer credit: https://www.fca.org.uk/publications/thematic-reviews/early-arrears-management-unsecured-lending-tr16-10

[41] https://sfs.moneyadviceservice.org.uk/en/news/standard-financial-statement-launches-1-march

[42] Draft opportunity for change number 15.

4. Lower-priority draft opportunities for change

Here we look at the draft opportunities for change that we have assessed as being lower priority, and the reasons behind this assessment. They are summarised in Table 4.1.

Generally speaking, these draft opportunities for change received less support in the stakeholder engagement and consultation responses than the rest.

Table 4.1 Lower-priority draft opportunities for change

Bankruptcy	6. To allow debtors to submit their bankruptcy application once 50% of the fee has been paid (UK) 9. In line with the DRO scheme, introduce intermediation of online bankruptcy applications by an approved adviser (E&W) 11. For the online bankruptcy application tool to send automated notifications to creditors so they become aware of the application sooner and cease debt recovery (E&W)
Gaps in provision	14. To abolish Administration Orders
Processes & procedures	16. In collaboration with the FCA, for debt management providers and relevant trade and advice sector bodies to share examples of good practice in executing annual reviews
Informal courses of action	17. To ensure that debtors who use a self-help process are treated in the same way as those who choose to use a third party 18. To establish a DMP register 19. If debtors move from an informal repayment arrangement to a DRO, to allow the period of time spent informally making repayments to count towards the DRO's 12-month 'moratorium period'
Credit data and debt 'rehabilitation'	21. To make information about the impact on someone's credit file of different courses of action as clear as it can be, with signposting to advice where the debtor may require further guidance on their own situation.

Bankruptcy

There were three draft opportunities for change in relation to bankruptcy that we do not recommend taking forward.

To allow debtors to submit their bankruptcy application once 50% of the fee has been paid (opportunity 6)

The draft opportunity for change was originally suggested as a way to address bankruptcy fees as a barrier to access. There was little support for the idea in the consultation. Respondents felt it was not workable and risked moral hazard (e.g. would/could people pay the remaining 50% of the fee?). For applicants who pay the fee in instalments, one respondent suggested that bankruptcy protections could be put in place once the first instalment was paid.[43]

In line with the DRO scheme, introduce intermediation of online bankruptcy applications by an approved adviser (opportunity 9)

The draft opportunity for change (for England & Wales) was originally suggested as a way to address concerns that people may apply for bankruptcy online without fully understanding the implications of their application or alternative courses of action.

There were mixed views in the consultation about this opportunity. While some respondents were strongly in favour, others questioned its value, in the absence of evidence about any specific problems or consumer detriment with the online system. The online portal does already signpost applicants to debt advice (although we have recommended in section 3.3.2 that this could be improved) and there were concerns about how bankruptcy intermediation would be adequately funded so as not to create delays in the system.[44]

[43] In Scotland's Debt Arrangement Scheme, once someone's intention to apply for a debt payment programme is recorded on the DAS register (called an 'intimation'), they are protected for six weeks against any creditor action to allow time for an application to be submitted.

[44] The evidence review commissioned by MAS (ICF 2017) found that delays in the application process can prevent people accessing

Some consultation responses suggested alternative safeguards in online bankruptcy, such as a cooling off period after applications have been submitted.

For the online bankruptcy application tool to send automated notifications to creditors so they become aware of the application sooner and cease debt recovery (opportunity 11)

In our review and stakeholder engagement, it was noted that creditors do not always receive timely information about bankruptcy applications, meaning they continue collections activities when they should have ceased. The draft opportunity was originally suggested to address this issue, and so provide better protection for people who apply for bankruptcy.

While the idea received support in the consultation, there were questions about its workability given the many thousands of creditors that would have to be notified. Consultation respondents were also concerned about unintended consequences, for example that notification might prompt an increase in some creditors' enforcement action rather than cause it to cease (although the introduction of a statutory 'breathing space' scheme could prevent this happening).

Informal courses of action

There were also three draft opportunities for change in relation to informal (non-statutory) courses of action that we do not recommend taking forward.

To ensure that debtors who use a self-help process are treated in the same way as those who choose to use a third party (opportunity 17)

The draft opportunity for change was originally suggested in response to concerns about the inconsistent way different creditors approach informal arrangements, which in turn creates uncertainty for advisers and people in debt.

There was some support for this idea in the consultation responses, but for others it was a low priority, for example because it was already considered to fit within the FCA's remit or, in some cases, because respondents questioned the efficacy of self-help. The creditor toolkit published by MAS (which provides some guidance on this issue), and work by others to improve debt collection practices (described in sections 3.2.1 and 3.5.1) go some way towards putting this opportunity into practice.

To establish a central DMP register (opportunity 18)

It is likely that many more people manage their problem debt in informal ways than through a formal course of action. While lenders can add a 'special instruction flag' on a credit file to show there is an informal repayment arrangement in place, in practice creditors vary in terms of what they report to credit reference agencies.

The draft opportunity for change was originally suggested as a way to record DMPs and potentially other informal courses of action in one place, in a standard and consistent way – without comprising the flexibility valued by advisers and people in debt and without it being on public record.

There were mixed views about this idea in the consultation responses. These broadly split between non-profits who were concerned about its value to people in debt and risks of abuse; and others who were in favour on the grounds of transparency.

While we do not recommend this opportunity is taken forward, our recommendation on debt 'rehabilitation' (section 3.3.3) does offer the prospect for creditors, CRAs and the advice sector to explore ways to improve the data that is recorded about non-statutory debt options.

If debtors move from an informal repayment arrangement to a DRO, to allow the period of time spent informally making repayments to count towards the DRO's 12-month 'moratorium period' (opportunity 19)

The draft opportunity for change was originally suggested in recognition that getting debt under control is not always a linear or smooth process; and people can 'churn' from one course of action to another, for example due to a change in circumstances. 'Passporting' from an informal payment arrangement to a DRO may also help keep people on track to sort out their debt.

There were mixed views about this idea in the consultation responses. While some supported it, others questioned its value given that it would be complex to implement and may require legislation. As an alternative, a few respondents suggested increasing (or removing altogether) the current DRO thresholds so that more people in debt could apply – changes that would require the Insolvency Service and the Northern Ireland Insolvency Service to make new rules.

the help they need, for example where the amount of debt has increased beyond the threshold for a debt solution (such as DAS or MAP bankruptcy in Scotland or a DRO in England, Wales and Northern Ireland).

Gaps in provision: abolish the Administration Order (opportunity 14)

To simplify the debt landscape, we suggested **abolishing the Administration Order** (opportunity 14). Its relatively low debt threshold (the debt must be less than £5,000) means it is largely redundant nowadays - with only 194 Administration Orders granted in 2014.[45]

We received a low number of responses to this idea, and most did not support the idea because it was a low priority relative to other opportunities and would require legislative change for little benefit.

Processes and procedures: share good practice in executing regular reviews (opportunity 16)

All authorised debt management providers are required to regularly review a client's financial situation and, where appropriate increase or decrease their payments. Regular reviews can potentially play an important part in the 'debtor journey' but providers can find it difficult and resource-intensive to meaningfully engage clients in the process.

One of our draft opportunities was that **debt management providers and relevant trade and advice sector bodies (in collaboration with the FCA) share examples of good practice in executing annual reviews and consider ways to frame reviews so that debtors are more likely to participate** (opportunity 16).

While a few consultation responses supported this idea, others felt it was unnecessary given the FCA's focus on regular reviews as part of its thematic work on debt management.

Creditor data and debt 'rehabilitation': provide clear information about the impact on someone's credit file of different courses of action (opportunity 21)

The draft opportunity for change was originally suggested because people in debt may be confused about how their credit rating is affected by problem debt. In particular, it is not always clear (or easy to find out) what the impact of a debt management plan is on someone's ability to access credit, as different creditors may treat these plans in different ways.

There were mixed views in the consultation responses about the value of this idea. While we do not recommend this opportunity is taken forward, our recommendation on debt 'rehabilitation' (section 3.3.3) does offer the prospect for creditors, CRAs and the advice sector to explore ways to improve the data that is recorded about non-statutory debt options, which could include a standard method of recording across creditors.

[45] ICF, *Review of the Literature concerning the Effectiveness of Current Debt Solutions. Final Report for the Money Advice Service* (2017).

5. Next steps

This programme of work will now be incorporated into the Debt Advice Sector Strategy, which is being taken forward by MAS, supported by the Debt Advice Steering Group.

We conclude this document by detailing the eight recommendations where additional work is needed to bring about positive change for the future. For each recommendation, we suggest an organisational owner and next steps.

Most of the recommendations will be progressed or supported by MAS, in line with its statutory remit. Should any of the recommendations not be completed by the time the new Single Financial Guidance Body is established, MAS advocates that the new body takes on this work.

Review of bankruptcy fees, including the possible re-introduction of fee remission for people on low incomes

Suggested recommendation owner: MAS

Following the completion of Peter Wyman's independent review of debt advice funding, MAS plans to commission an independent review to understand the extent to which bankruptcy fees present a barrier to access. The review will consider options for reducing the fees charged to debtors; whether reducing fees would be desirable (or could have unintended consequences); and explore models other than petitioner contributions for meeting the costs of personal insolvency.

As part of its future commissioning programme, MAS will consider implementing a pilot to understand the impact on clients and advice providers if funders were to allow their funding to cover bankruptcy and DRO fees for clients in particular circumstances.

Better information about help with bankruptcy fees

Suggested recommendation owner: MAS and Turn2Us

MAS will work with Turn2Us to ensure that its grants search web tool (where people are directed from the GOV.UK bankruptcy webpage) is as user-friendly as possible for people looking for help with bankruptcy fees.

Better information on the E&W bankruptcy portal

Suggested recommendation owner: MAS and Insolvency Service

MAS and the Insolvency Service will work together (with the Government Digital Service where necessary) to update the content on the bankruptcy portal, so that people in England and Wales who apply for bankruptcy online can access easy-to-understand information and web tools, including information about advice services that can help them.

Better recognition of debt repayment

Suggested recommendation owner: UK Finance and the Steering Committee on Reciprocity (SCOR)

UK Finance plans to present a paper to the Steering Committee on Reciprocity (SCOR), exploring whether adherence to debt repayment arrangements could be included on credit files in a more consistent way, in a manner that enables creditors to recognise and rewards individuals' efforts to reduce their problem debts. MAS will support UK Finance with this.

A statutory debt management scheme for England, Wales and Northern Ireland

Suggested recommendation owner: SFGB

In light of the provisions on a debt respite scheme in the Financial Guidance and Claims bill we expect that shortly after its establishment the SFGB will begin to put together its advice to the Secretary of State on a statutory debt management scheme. This should build on the inputs to HM Treasury's informal consultation on breathing space and their subsequent policy development work. The SFGB should also give due regard to the experience with DAS in Scotland in the formulation of its advice.

Innovation in equity release

Suggested recommendation owner: Financial services firms

We recommend that financial services firms engage in innovation to create equity release products suitable for people in debt who are 'asset rich, cash poor', or other products that meet the needs of this group. If required, MAS can facilitate sector coordination on this.

One online income and expenditure portal

Suggested recommendation owner: MAS and SFS Governance Group

A single portal is under consideration by the Standard Financial Statement (SFS) Governance Group as part of the future development of the SFS. A subgroup of technical stakeholders is currently being formed to investigate this further.

Appendix

About the debt solutions review

The review was wide-ranging and incorporated several different research projects, as well as consultations with around 40 organisations:

- A comprehensive review of the literature concerning the effectiveness of current options for people to deal with problem debt, carried out for MAS by the research agency ICF International. This work references 80 sources of information as well as data from stakeholder interviews.
- Qualitative in-depth interviews with people who had experience of dealing with problem debt by means of a formal course of action or a Debt Management Plan.[46] The research was carried out for MAS by the research agency Revealing Reality.
- Expert Workshops in Glasgow and London, facilitated by MAS, to obtain the views of advice sector and industry representatives.
- Expert Interviews to follow up issues raised in the earlier stages of the review. These were conducted by Professor Sharon Collard, who was commissioned by MAS to help develop a set of draft opportunities for change designed to improve the current system.
- Group discussions with insolvency professionals operating in England & Wales (kindly arranged by R3) and insolvency professionals operating in Scotland (kindly arranged by ICAS).

From this review, we produced a set of 24 draft opportunities for change, which were published for consultation in February 2017.[47]

About the debt solutions consultation

The consultation ran from 10 February to 31 March 2017.[48] Respondents were asked to consider four questions:

- Are the opportunities suggested practicable and workable (either in their current form, or a revised form)?
- Should revisions be made to any of the opportunities?
- Of the 24 opportunities set out, which should be prioritised?
- Are there other opportunities to improve the current system that are not included within this document?

Twenty-one consultation responses were received as follows:

Advice NI
British Bankers Association
Building Societies Association
Citizens Advice
Citizens Advice NI
Citizens Advice Scotland
Christians Against Poverty
Clear Debt
Debt Resolution Forum[49]
Energy UK
Finance and Leasing Association member
Gregory Pennington
ICAEW
Insolvency Practitioners Association
Money Advice Trust
PayPlan
Personal Insolvency Working Group[50]
R3
Shelter
StepChange Debt Charity
The Money Charity

The consultation responses were reviewed and analysed by Sharon Collard, Colin Kinloch, Sarah Little, Craig Simmons and Kevin Shaw.

[46] Interviews were conducted with 48 individuals who had experience of bankruptcy/sequestration; Debt Relief Order (England); Individual Voluntary Arrangement; Trust Deed (Scotland); Debt Arrangement Scheme (Scotland); Debt Management Plan.

[47] See Sharon Collard, Colin Kinloch, Sarah Little, *Debt Solutions in the UK. Draft opportunities for change* (2017). Available at: https://masassets.blob.core.windows.net/cms/files/000/000/645/original/Debt_solutions_opportunities_for_change_FINAL.docx

[48] https://www.moneyadviceservice.org.uk/en/corporate/draft-opportunities-for-change-debt-solutions

[49] The Debt Resolution Forum's response comprised the findings from a survey of its members based on the consultation questions, to which 10 members responded.

[50] The Personal Insolvency Working Group's response comprised the findings from a survey of its members based on the consultation questions, to which 26 members responded.