

EMBARGO: NOT FOR RELEASE BEFORE 12:00 ON MONDAY, 18 JUNE 2012

WHAT ARE THE OUTCOMES FOR CONSUMERS USING FEE CHARGING DEBT SOLUTIONS – DO THEY BENEFIT AND TO WHAT EXTENT?

THE RESEARCH

- “Market” size study – analysis leading to open source network
- Quantitative “Outcomes” – 601 client telephone interviews
- Qualitative “Outcomes” – 12 client case studies

DEMAND FOR DEBT SOLUTIONS

- Demand estimates vary widely. In submissions to BIS, the number of people stated as currently in a debt management plan varied by over a quarter of a million e.g. BBA: 782,000; DEMSA: 500,000. DRF’s research indicates that the probable figure is 732,000.
- With more than a million adults in a debt solution in the UK today, managed solutions (DAS and DMPs) have grown from 25% of all solutions starting in 2007 to 36% of all those starting in 2011. This mirrors the growth in advice seeking and counters the decline in bankruptcies. DRF believes this proportion will continue to grow.
- A key problem is that the free to client sector tends to measure instances of advice seeking and fee chargers, agreements to repay. Both inform the efficacy of outcomes for consumers.
- Consistent definition is critical because the ratio of advice seeking to the uptake of solutions allows us to track and provide for effective outcomes.
- There is an urgent need to segment and compare new starts against instances of advice seeking and solutions in progress because solutions vary in levels of professional support, and length.
- Typically, bankruptcies last one year, IVAs around five years and DMPs average eight. Without co-operation between free-to-client and fee charging providers, we cannot possibly know the length or outcomes for the assisted and self-help solutions, that encourage many debtors to manage themselves.
- Our research indicates that 71% of debt management plans in progress are provided by the fee-charging sector and 29% by free-to-client providers. This is corroborated by an estimate from a representative of the Debt Buyers and Sellers Group, who say that 77% of the plans they deal with come from fee-charging providers and 23% from free-to-client providers.
- DRF Members give detailed and documented advice to two-thirds of people who contact them. A further set of case studies in progress shows that many consumers perceive this as “free”, so we need to quantify this.
- Just less than one in ten free to client face to face enquiries result in an assisted repayment plan that the consumer perceives as a “solution” (c. 730,000 plans). Our Market Size research is the first to quantify what too many professionals have to date summarised as “advice”.

DRF’s Market Size research has benefitted greatly from cross sector collaboration. To maintain this momentum, we are launching an open-source network to facilitate the transparency of data and its interpretation.

SEEKING DEBT SOLUTIONS

- One in five DRF Clients sought help from a free to client agency first
- More than two in five had sought professional help first (*i.e. including creditors, IFAs, other firms*)
- One in five clients were recommended to a DRF member (*the case studies confirmed this as referrals from free advice agencies as well as other professionals*)
- Clients who had initially sought help from another source, rated DRF members higher for several aspects of service than those who were not active advice seekers.

It is a misconception that clients of fee-charging companies always go to the first result they see at the top of an internet search, or that they are unaware of the availability of free advice. A significant number of clients choose to seek advice from a fee-charging solution provider. We are currently researching active advice seekers to understand this choice.

INITIAL OUTCOMES FOR DEBTORS

- 80% of DRF clients report that creditor “sanctions” stop on entering a plan
- Creditor “sanctions” are more likely to continue in plans agreed by smaller debt solutions companies
- Smaller firms account for approaching 40% of supply so this outcome may be unhelpful to some consumers

DRF is researching the profile of smaller companies’ clients to ensure that vulnerable people are not disadvantaged.

DEBTORS’ IMPRESSIONS OF DRF MEMBER COMPANIES

- Pre-contract service ratings range from good (7.83 out of ten) to very good (8.72 out of ten), other than in connection with “learning about other places to find help”, which was just above the mid-point (5.2).
- Post-contract levels of satisfaction are very high ranging from 7.65 to 9.43 out of ten with exceptional scores for being approachable, contactable and discreet.
- Clients who had previously sought advice from a charity rated DRF members highly for “keeping me up to date with feedback from my creditors” (8.07) and “keeping track of my circumstances and ability to repay (8.72).

DRF clients believe they get good service from members. Clients’ experiences of service levels once a solution is put in place are especially high.

IMPACT OF DRF STANDARDS

- More recently clients are more likely to notice fee examples (22%), overviews of debt solutions (25.6%), contact details (35.4%) etc., when they first came into contact with a DRF member.

Members' shared commitment to DRF standards is helping to improve transparency and support informed decision making.

HOW DEBTORS FEEL

- At least seven out of ten clients feel more financially capable once they are in a solution with a DRF member, and this rises to eight out of ten who feel better about managing their money.
- The longer a client had been in a solution, the more financially capable they felt: almost nine out of ten clients who had been in a solution for five years said they managed their money better now.
- At least three out of four of those who had sought help before working with a DRF member reported improved financial capability.

DEBT SOLUTIONS PROVIDERS – SUGGESTIONS FOR IMPROVEMENT

- Just under a third of clients recall a DRF member making first contact with them. However, outbound calling by DRF members is by informed consent.
- Many debtors find names and terminology confusing, e.g. Greginson Peck for Gregory Pennington, debt consolidation for IVA etc.
- A significant minority of debtors are also confused about the progress of their plan, often because circumstances besides indebtedness are challenging.
- Signposting inbound and outbound debt advice referrals should help to improve transparency and pinpoint under-performance.

DRF is preparing best practice guides to ensure that debtors who approach members have easy access to information about every stage of the advice giving process. From this, we shall be able to develop better communications with clients, helping them to track their progress against their original expectations.

FUTURE PLANS

- June:
 - launch of open source peer-to-peer network for professionals to share and interpret supply and demand data collaboratively
- July:
 - case studies: active advice seekers who chose fee-charging providers
 - detailed analysis of client demographics and financial circumstances
- Late autumn:
 - benchmarking study of free-to-client outcomes
 - exploration of creditor attitudes and working practices in relation to fee-charging debt management companies