Low Contribution Individual Voluntary Arrangements- Key points from DRF Research studies

THE REPORTS

- DRF has provided two studies:
    - "*The True costs of an individual voluntary arrangement*" – Review by Michelle Butler of processes, time and costs in 14 IVA providers. This note principally relates to this study, which was commissioned by DRF but conducted independently.
    - "*Low Contribution Individual Voluntary Arrangements – Are these affordable, achievable and do they represent debtors' best efforts*?" – Review by Andrew Smith of around 6,500 IVAs from three firms. Additional data provided since the IVA SC meeting in November has altered none of the conclusions of this report which are that IVAs are affordable, achievable, represent debtors best efforts and provide a reasonable return to creditors, whatever the debtors' income.

BACKGROUND POINTS

- Since the IVA Protocol came in:
    - Nominees fees have decreased from around £2,500 to between £1,500 - £1,000.
    - IPs say there is no more leeway on cost and further reduction will reduce supply
    - IVAs have been the most common personal insolvency procedure for 12 quarters and (last quarter) accounted for more than half of all personal insolvency procedures (*Insolvency Service figures*)
    - IVAs deliver rehabilitated debtors who have learnt to manage their money and who can re-join financial life. Most common alternative to rejected IVA would be bankruptcy, which does not achieve this.
    - Around 60% of IVAs now have monthly contributions below the level *TIX* defined as "low value" (£175-£180 per month?). So reducing nominee's fee is likely to severely impact on availability of IVAs and either reduce number of people dealing with their debt or increase number in ore socially damaging and less rehabilitative solutions (e.g. bankruptcy, Debt Management).

MB STUDY – THE SAMPLE

- Sample has doubled in size from seven to 14 firms between versions.
- Sample is highly likely to represent providers of around 60% of all IVAs

- Sample has sufficient small (3) and medium (4) providers to detect differences and similarities between them and large IVA suppliers (7).
- Twelve provided breakdowns of staff time spent – sample likely to be representative.

TIME SPENT

- Nine of the 14 firms interviewed spent more than 10 hours on nominee work on “simple” cases.
- Six of the 14 firms interviewed spent more than 20 hours on nominee work on “complex” cases.
- Economies of scale appear to operate for firms that do more than 500 cases/year. But seven of the 11 firms that arrange more than 500 cases pa spend more than 10 hours on work relating to “simple” IVAs
- Homeowner cases typically require between 0.25 hours and two hours extra work. 36% of the sample in DRF’s analysis were homeowners. 11% of the first income quartile were homeowners and 26% of the second quartile were homeowners. So Restriction of nominees fee would severely restrict access to IVAs by people with low incomes who are home owners and who, typically, will return more to creditors from an equity contribution.
- Key factor in time spent is debtor’s financial capability. More work is required for lower capability debtors who will tend to cluster in lower income/contribution groups.
- A debtor that has more than the usual number of creditors incurs extra work (between 20 minutes and 2 hours. Debtors in different income quartiles have the following mean number of creditors:
    - Bottom quartile: 7.9
    - Second quartile: 8.4
    - Third quartile: 6.9
    - Top quartile: 7.5
- Therefore, if anything, dealing with creditors is a more complex task in IVAs arranged for lower income groups.

TASKS

- The two areas of activity that consume most time across all providers appear to be liaising with the debtor and preparing the proposal. The proportions of time spent by various firms in these activities seem more closely clustered and have fewer outliers than other areas. Therefore, there is probably little possibility of further reductions in activity in these areas.
- Large and medium firms appear to spend relatively little time liaising with creditors (probably because they have agreements and systems. Creditors can therefore do little to alter time costs by simplifying procedures in most cases.

TIME COSTS

- It is clear that there is little potential to reduce staff costs as IPs and managers spend very little time on cases, especially in larger firms. The vast majority of work on IVA nominees stage work is done by "other senior" staff – the third least expensive category.
- For Nominees fees in typical simple IVAs, staff charge-outs (taken from Kempson report)
    - Using minimum hourly rates would exceed £1,000 in more than a third of firms surveyed
    - Using average charge out rates would exceed £1,000 for ALL firms surveyed and only 14% would recover more than half of their staff charge-out rate.
    - At maximum charge-out rates no firm would recover more than a third of staff charge-out totals
    - NB: This is based on a minimum nominees fee of £1,000 being chargeable. Under the LBG proposal of 5 times monthly contribution it is clear losses would be far worse and, therefore, many thousands of IVAs would be impossible to propose.