THE DEBT RESOLUTION FORUM

Promoting Professional Standards

Debt Resolution in the UK

A study into the need for personal debt advice in the UK and the outcomes achieved for clients of fee-charging debt resolution companies.

Research fieldwork, analysis and report by Zero-credit

THE DEBT RESOLUTION FORUM

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Market Size

DRF OUTCOMES RESEARCH: MARKET SIZE

ABOUT THIS REPORT

In December 2011, the Debt Resolution Forum commissioned Zero-credit to complete three parallel research studies to explore the outcomes of fee charging debt solutions. These were an analysis of market size, a survey of members' clients and a series of case studies with members' clients. This report examines the UK Market for Debt Solutions between 2007 and 2011 and was compiled by Emma Bryn-Jones.

Debt Resolution Forum

The Debt Resolution Forum promotes professional standards for resolving debtors' financial problems and focuses on the quality and appropriateness of advice provided to consumers. The DRF represents a membership that offers the full range of debt solutions and is committed to raising standards, irrespective of solution or professional specialism.

DRF members approach debt resolution by identifying the solution and outcome which are the most compatible and appropriate to the financial and personal position of the debtor. This approach also takes into account the interests of creditors and seeks to demonstrate that any proposal made on behalf of the debtor is reasonable in the circumstances and is achievable.

Zero-credit

Zero-credit Members believe that experiences of debt should inform debt prevention and that all borrowers have something of value to share. The co-operative aims to end debt stigma by creating a strong consumer voice for borrowers through:

- helping people to make informed choices about their finances through digital tools and signposts
- promoting a culture of self-advocacy, irrespective of financial circumstance
- encouraging participation in its research, development and decision making
- celebrating best practice and challenging consumer protection issues
- striving to build people's confidence, skills and experience through voluntary and employment opportunities and training

To finance the above and more particularly, to influence the provision and regulation of personal finance, Zero-credit trades in information, gathered through participatory techniques that:

- encourage borrowers to own a share in the business as Members of its co-operative
- ask professionals and organisations to engage with its co-operative as Subscribers
- publish resources that distinguish between best and poor practice from the consumer perspective
- contribute to the forums where financial services design, delivery and regulation are discussed
- conduct research and development for clients who share its co-operative principles and values

1 STRATEGIC OVERVIEW

In July 2011, the Government announced its decision to appoint the Money Advice Service to deliver a National Debt Advice Gateway from April 2012. For the first eighteen months of fulfilling its new role, the Money Advice Service proposes “continuity and transition”, allocating almost £2.2 of its £34.5 million debt advice budget to the development of a longer-term model.

UK debt solutions are notoriously difficult to quantify because there is no requirement to record informal agreements for repaying personal debt. This may seem obvious when it is (quite rightly) possible for an individual to contact his or her creditors to negotiate repayments independently. However, as demand for intermediaries has grown, so too has the need to measure products and services that effect agreements as an outcome of advice sought.

We do not measure the UK market for mortgages according to the number of enquiries made: we use the tangible indicators of product volume and value. Across much of the literature reviewed for this research, there is a considerable tendency to confuse advice with solutions and the distinction between service referral and delivery is often blurred. This report attempts to address the confusion through a comprehensive analysis of the UK market for debt solutions.

Some may baulk at the term “market” to describe products and services that individuals may access free of charge, because the concept of impartial help, without profit motive, is an important one. However, when an array of solutions is on offer to anyone seeking advice, choice dictates that debtors are consumers. One has only to correlate the 400,000 or so enquiries with the 100,000 or so clients recorded by CCCS in 2010 to see that far from every contact results in engagement with the first port of call.

Our research for the Debt Resolution Forum in March 2012 found that just over two-fifths of its members’ clients had sought advice from another agency before selecting a fee-charging provider and that around one in five had sought free to client advice. This is likely to be replicated amongst other agencies committed to transparency and, given the frequent assertion that requests for debt help are a distress call in which the consumer does not shop around, is worthy of further investigation.

It is coming up to four years since the 2008 recession and personal borrowing has continued to stagnate at around £1.5 trillion since a period of dramatic growth from the start of the millennium. Our economy is at the mercy of a range of global factors that no amount of political spin can deny. Changing circumstances mean that demand for debt solutions reaches the mainstream in our society, for whom provision that is sustainable and fair is a pre-requisite. The OFT quite rightly refers to this as informed choice.

It is highly likely that subsequent analyses will improve on the data presented in this report and it is our hope that this research will serve as a catalyst for others to record, analyse and report data consistently in the public interest. Consumers have a right to transparency when credit agreements go wrong and this process begins with robust information about the advice and solutions they may access to address this.

2 EXECUTIVE SUMMARY

More than 463,000 people entered a debt solution in 2011, less than a quarter of those seeking advice. A further 677,000 were in solutions entered in previous years and still in progress in 2011.

The number of debt solutions starting in each year increased by 38% over the five year period 2007-2011, a phenomenon, which can be accounted for by unprecedented supply and demand in 2009.

Other than in Scotland, there was further contraction in the uptake of formal debt solutions, such as bankruptcies and IVAs, although demand for all solutions starting in 2011 grew by just under 3%.

The proportion of formal insolvency procedures to informal solutions fell from a ratio of 30%:70% to 22%:78% in the period 2007-2011.

At the end of 2011, there were some 515 specialist commercial debt adjusting Licence holders and around 2000 licensees trading in debt solutions on an occasional commercial basis.

Taking Group Licence holders into account, there were around 900 organisations eligible to provide debt adjusting on a non-commercial basis at the end of 2011.

There was a significant increase in managed solutions starting in the period 2007-2011, from 25% of all solutions starting in 2007 to 36% in 2011.

The number of bankruptcies across the UK as a whole fell by over 24% from 2010 to 2011 and after a spectacular increase in the uptake of DROs in 2010, growth in new starts within this segment came down to just over 15% from 2010 to 2011.

IVAs starting in 2011 contracted by 3%, whereas Protected Trust Deeds grew by just over 15%.

DMPs accounted for over a third of all debt solutions starting in 2011, up from a quarter of all solutions starting in 2007.

The Debt Arrangement Scheme continued to enjoy buoyant growth with a 73% increase in new starts in 2011.

The uptake of Assisted options continued to fall, accounting for around 8% of debt enquiries at money advice agencies in 2011. More than 80,000 people accessed Self-help resources in 2011.

The demographic profile of clients who paid DMP fees in 2011 tended to be older, more likely to have dependent children and to be a homeowner. These clients were also more likely to have lower middle incomes.

Clients starting IVAs in 2011 tended to fall in the middle age ranges, were less likely to have dependent children, and inclined to be income rich and asset poor.

Almost 40% of people entering debt solutions in 2011 live in the South of England, including Greater London.

Not-for-profit providers accounted for 14% of all IVAs and 33% of all DMPs starting in 2011. Both were an increase on the levels of not-for-profit solutions in progress, that were 12% and 29% respectively.

The total fee value for IVAs starting in 2011 was £65 million and the total fee value of DMPs in progress was £234 million.

More than 80% of Assisted options and Self-help resources are provided by the not-for-profit sector. There are strong indications that many Assisted options will convert to managed DMPs in the near future.

Funding and regulatory change saw larger providers jostling for position in the shake-up of supply at the end of 2011.

Smaller providers are more effective at reaching communities in innovative and personal ways.

A significant number of previously free to client advisers are turning to social enterprise models to secure local service delivery.

The number of solutions starting in each year is expected to have increased by 10% from the end of 2011 to the end of 2014.

3 MARKET DEFINITION

Formal solutions:	Bankruptcy Debt Relief Order (DRO) Individual Voluntary Arrangement (IVA) Protected Trust Deed (PTD)
Informal solutions:	Debt Arrangement Scheme (DAS) Debt Management Plan (DMP) Assisted Options Self-help Resources

This report analyses the UK market for debt solutions, which we define as delivered on either a commercial or non-commercial basis, as set out above. Sources used during the research include:

Official:	The Insolvency Service	The Office of Fair Trading
Associations:	ACCA Advice UK APDSI Debt Resolution Forum DEMSA	ICAEW ICAS Legal Centres Federation National Enterprise Network R3
Providers:	A1 Debt Advisory Solutions Abacus Access Finance Management Action for Debt Action Today Group Ashley Park Blue Financial Management Bright Oak Bristol Debt Advice Centre CCCS Carefree Cleardebt Community Money Advice Debt Advice Link Debt Correct Debt Simply Matters Debt Stop Direct Debt Support Trust Debtology	Debtwizard Dissolve Debt Express Debt Solutions First Step Finance Hastings & Co IVA Debtline MB Debt Counselling Money Matcher Payplan Personal Touch Debt Solutions Peter Pollock RSM Tenon Release Money Group Simply Debt Solutions Smooth Financial The Debt Advisor Varden Nuttall Wellbeing Services X-debt

Press:	Credit Today Insolvency Today Debt Management Today
Publications:	**Accenture**: A new model for dealing with personal debt, 2010 **Advice UK**: Sustainable Debt Advice Project briefings, September / October 2011 **BIS**: Helping Over-indebted Consumers, National Audit, February 2010 Debt Management - Fourteenth Report of Session 2010-12, March 2012 **CCCS**: Statistical Yearbooks 2006-2011 **Christians Against Poverty:** Annual Reports 2006-2011 **Citizens' Advice:** A life in debt, 2009 Quarterly Advice Trends 2009-2011 **Friends Provident Foundation**: Funding Money Advice Services, 2009 **Money Advice Service**: Debt Advice in the UK, February 2012 User Needs from Debt Advice: Individual and Stakeholder Views, February 2012 Debt Advice Business Plan, March 2012 **Money Advice Trust:** Annual reports 2006-2011 An Independent Review of the Fee Charging Debt Management Industry, 2009 Demand, Capacity and Need for Debt Advice in the United Kingdom, 2011 & 2012 **Oxera**: IVAs: Cashing in on Consumer Debt, 2007 **Parliamentary Debates:** Debt Advice and Debt Management, Backbench Business, December 2011 **R3**: Debt Management Plans, February 2010 The Value of the Insolvency Industry, March 2010 Debt and Insolvency: the full picture, April 2010 Afraid to take advice, February 2012 **Zero-credit**: Mystery Shopping series, November 2010 to date Debt Advice Trends to 2010, February 2011 The Welfare Costs of Personal Debt, August 2011

4 MARKET SIZE

One of the key distinctions to make in measuring the UK market for debt solutions is that of new starts compared to solutions that are already in progress. Indeed, it is impossible to understand demand for services without separating these data. Despite the considerable efforts of Credit Action to raise awareness of the extent of indebtedness in the UK, interest in debt statistics has remained relatively ad hoc and agenda driven in recent years. Several organisations have published research using a range of methodologies, but these have tended to capture an uncorroborated picture, with which neither the fee chargers nor the free providers can agree. This lack of data consistency is apparent in a number of submissions to the BIS Debt Management Committee held in December 2011 and published in March 2012.

For instance, the written evidence (Ev 69) of the British Bankers Association states at paragraph 4:

> *4. Nevertheless, the fee-charging debt advice sector has grown rapidly in the last decade and by the end of 2010 there may have been as many as 562,000 fee-charging plans in operation (compared to around 220,000 in the free advice sector) with fees paid for debt management services reaching within the region of £250 million.*

whilst at paragraph 15 the BBA asserts:

> *15. At least 75% of all DMPs are set up and run by commercial debt management companies who will usually charge both upfront fees and an ongoing management fee for the plan.*

At 72% of the total 782 debt management plans suggested, 562 is not more than 75%. In contrast, and reflecting R3's estimates from 2010, in paragraph 2.2 of its written submission (Ev 98), DEMSA suggests entirely different numbers for debt management plans:

> *2.2 Debt Management / IVA market size and structure:*

Estimated total DMPs in the UK	*500,000*
Estimated total DMPs managed for clients by private sector	*250,000*
Total number of DMPs managed by DEMSA members	*205,000*

It is equally disconcerting that the Money Advice Trust (Ev 129 Appendix A) should refer to the research it commissioned from Dr John Gathergood, which models free to client advice at more than four times that given by fee charging solution providers, should either of the above estimates be correct. Moreover, "Demand, Capacity and Need for Debt Advice in the United Kingdom" gives entirely different advice seeking figures for National Debtline to those submitted in the charity's Annual Reports and Accounts to the Charity Commission (2006-2010) and omits the 300,000 or so debt enquiries received by Advice UK Members each year.

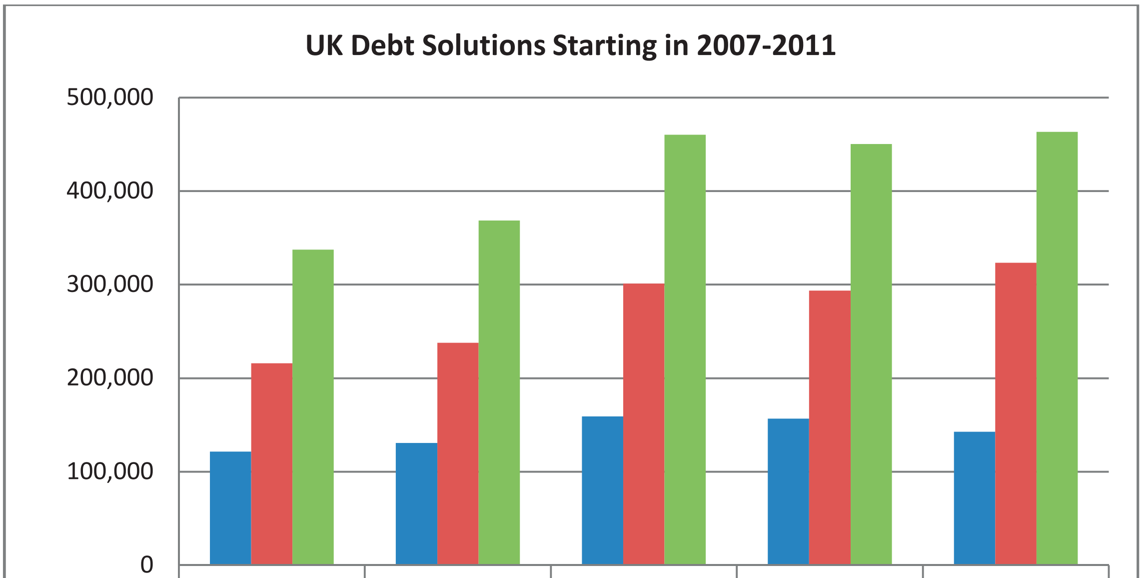
It is simply not acceptable for individuals and organisations of this calibre to submit estimates to parliament that differ by more than a quarter of a million people in any year.

FORMAL		INFORMAL	
Solution	*Av. Length*	*Solution*	*Av. Length*
Bankruptcy	1 year	Debt Management Plan	8 years
Debt Relief Order	1 year	Debt Arrangement Scheme	8 years
Individual Voluntary Arrangement	5 years	Assisted Options	unknown
Protected Trust Deed	3 years	Self-help Resources	unknown

To understand the number of debt solutions that consumers are using in the UK, it is imperative to differentiate the length of each. As the above table illustrates, it is essential to compare the new starts for each type of solution in each year, and not simply the total number of people in a debt solution during each year. For this report, we have extrapolated estimates for informal solutions from a combination of published data, together with privately submitted records and estimates from the sources listed at Section 3, together with original research conducted with DRF members' clients.

There is a range of indicators, which suggest that demand for debt help and the uptake of solutions spiked in 2009. Most notably, these include a 123% increase in new applications for Category D Consumer Credit Licences (contracting by 28.9% in 2010), a 53.5% increase in the uptake of Debt Arrangement Schemes and significant evidence of increased advice seeking across the not-for-profit sector. By contrast, demand for solutions dampened in 2010, but reverted to a gradual increase in 2011. Between 2007 and 2011, the number of new debt solutions in the UK starting in each year had increased by 38.1%

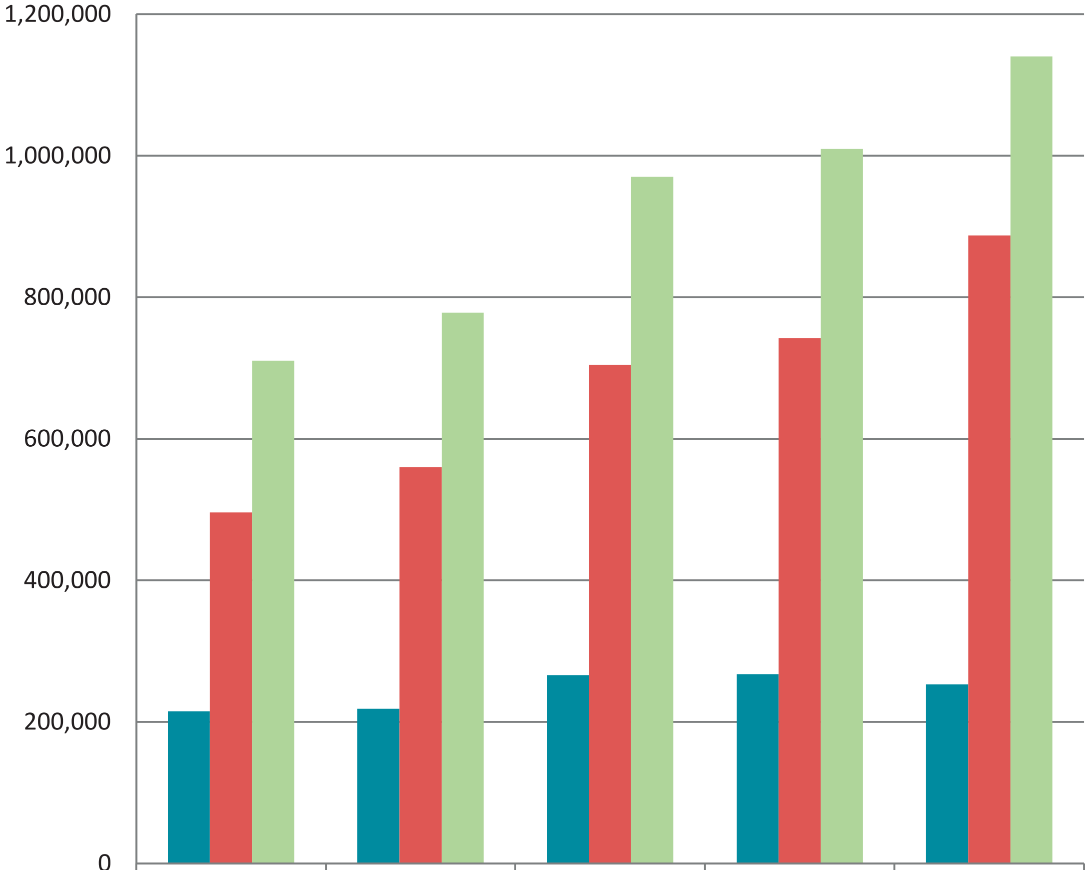
Changes to insolvency regulations led to a downturn in the uptake of formal solutions in 2011, and this trend has been widely reported as a sign of recovery. However, the contrasting increase in demand for informal solutions indicates that more consumers are managing debt through agreements to repay, rather than to write off. The tension between creditor and consumer interests is an important dynamic to recognise in the context of funding for debt advice and solutions.



	2007	2008	2009	2010	2011
formal	121,650	130,592	159,098	156,791	142,870
informal	215,959	237,982	301,281	293,512	323,479
total	337,609	368,564	460,379	450,303	463,349

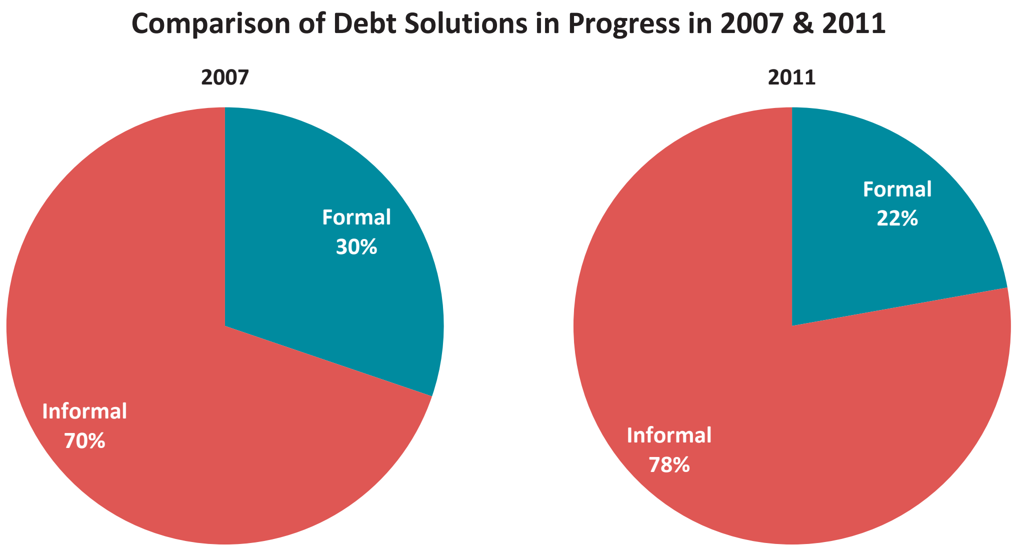
Our calculations to establish the number of debt solutions in progress combine the compromise that Bankruptcies and DROs complete within the year when they started, with an assumption that Assisted and Self-help solutions do similarly. This is a broad generalisation to enable comparison and requires further input, particularly from the Insolvency Service and creditors as well as from advice agencies that do not deliver solutions. From records and estimates submitted to Zero-credit, the relationship between new starts and existing solutions appears to be that across all sectors, around 35% of an IVA book is new, compared to around 23% for DMPs.

UK Debt Solutions in Progress 2007-2011



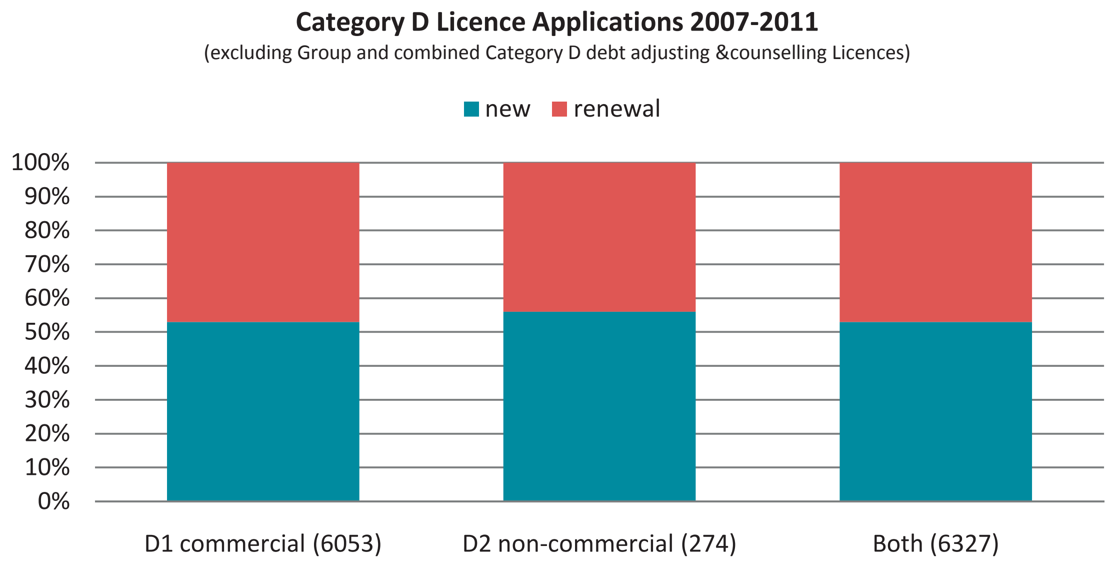
	2007	2008	2009	2010	2011
formal	214,719	218,450	265,978	267,616	253,047
informal	495,777	559,775	704,383	742,057	887,283
total	710,496	778,225	970,361	1,009,673	1,140,330

Between 2007 and 2011, the number of debt solutions in progress had increased by 60.5%. The ratio of formal to informal solutions that were in progress had also altered drastically between 2007 and 2011. This is particularly significant in the context of changes made to the over-indebtedness indicators since 2004 that place increased emphasis on an objective measure of the ability to repay above the consumer's subjective perception of debt difficulty.



5 SOURCES OF SUPPLY

Other than formal insolvency procedures, the provision of debt solutions is a relatively new concept that has emerged over the last twenty years. Growth in the relevant Consumer Credit Licence registrations has been particularly dynamic over the past five years, with more than half of all Category D applications (excluding Group Licences) being new.



To provide debt solutions, suppliers must hold a Consumer Credit Licence that includes Category D for debt adjusting. Most of those registering for Category D include Category E for debt counselling, and few Licence holders register for Category D without Category E. To some extent, registering for both categories is historic, because until quite recently Category D combined debt adjusting & counselling, with no distinction between commercial and non-commercial activity. Originally, all Consumer Credit Licences were generic, meaning that any organisation offering credit was licensed to provide debt adjusting & counselling.

Licence applicants often register a range of Categories that complement Categories D and E. For instance, many banks, building societies, communications, utilities and social housing providers register Categories D and E because it is effective and responsible for creditors to help resolve customers' debts. If fees are paid (by the consumer or a third party), applicants must register these Categories as commercial. Only services where no fee is paid may register as non-commercial. Fees always apply to formal solutions.

COURT FEES	PROFESSIONAL FEES
Bankruptcies	Debt Arrangement Schemes
Debt Relief Orders	Individual Voluntary Arrangements
Sequestration	Trust Deeds

At the end of 2011, there were more than 6000 Category D debt adjusting Licences registered with the OFT. This analysis excludes combined debt adjusting & counselling Licences (yet to be renewed) because by comparison to this total population, very few of their holders provide debt adjusting. Even with this constraint, the number of Licences does not reflect the number of holders because some agencies have more than one Licence: for instance, those approved by a Group Licence are increasingly registering independently to reflect activities beyond the remit of the Group (and particularly since Insolvency

Practice became subject to the revised Debt Management Guidance). Licences can transfer between holders that merge or acquire others also and some organisations simply prefer to register independent Licences for individual cost centres.

To some extent, this combination of approaches coupled with the significant numbers of providers registered on Group Licences explains why there are significantly more commercial Licences than non-commercial Licences. The range of organisations registering for Categories D and E can also make it difficult to isolate specialist debt solutions providers in both the commercial and non-commercial sectors. Not only do many creditors register to support consumers in debt, advice agencies such as CABx or Advice UK members often handle and manage a wide range of enquiries in addition to debt relief. Similarly, independent financial advisers may be the first source of help for their clients, so registration can often anticipate demand rather than reflect it. Around 2500 sole traders have Category D Licences.

The range of individuals and organisations registering for Category D is clear indication that a significant proportion of applicants err on the side of caution. If there is any possibility that advisers will help clients beyond debt counselling to assist or manage some level of debt adjusting, applicants will register for Category D as well as Category E. It is a premise of professional service to help clients irrespective of private, public or third sector activity, so smaller and generalist providers across all sectors may combine the delivery and referral of debt solutions because this ensures their capacity to provide a consistent service. This level of flexibility is both essential to customer service and problematic in defining sources of supply.

Irrespective of whether a Licence holder refers or delivers debt solutions, some form of finance usually funds this activity. Even agencies like CABx that are reliant on the goodwill of volunteers may have localised contracts with service level agreements and grant funded posts, projects and resources. Until April 2012, there were five main sources of revenue for any individual or organisation delivering debt solutions in the UK and most of the non-commercial agencies had been receiving funds from more than one source for some time. For instance, Christians Against Poverty receives fair-share contributions from creditors in addition to supporters' donations. This report considers changes relating to the April 2012 inception of the Money Advice Service debt gateway in Section 7, Key Trends and Developments.

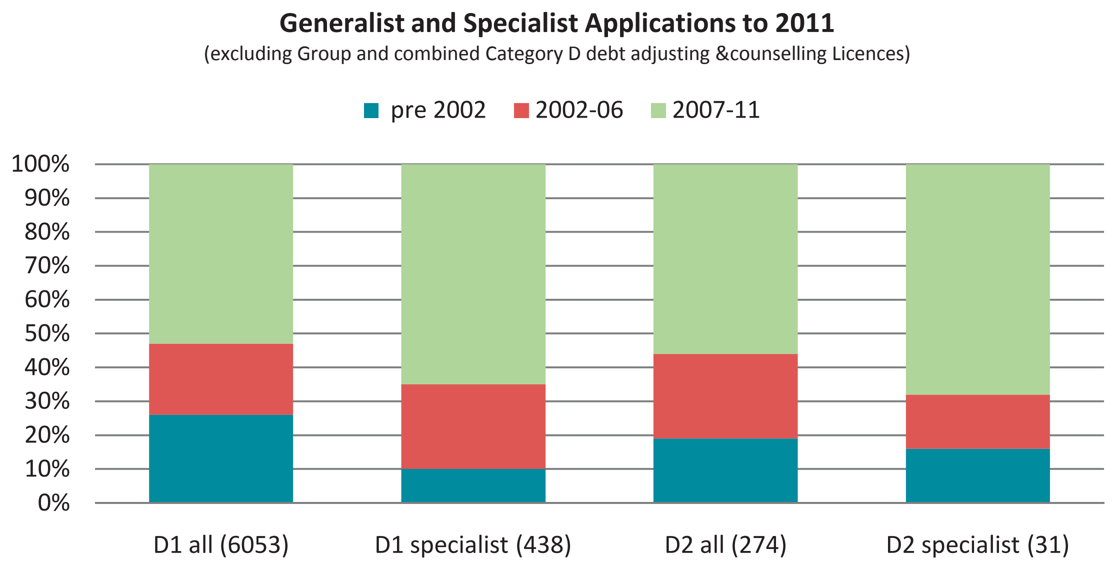
SOURCE	FUNDS	RECIPIENT EXAMPLES
Creditors	Fair-share contribution or levy	CCCS
Service Providers	Professional fees reapplied	Debt Support Trust
Government	Budget from over-indebtedness strategy	FIF face to face projects
Grants / donations	Charitable or philanthropic gifts and awards	Christians Against Poverty
Service Users	Fees charged to the individual debtor	Baines & Ernst

In the revised Debt Management Guidance (March 2012), the OFT placed significant emphasis on consumers' informed choice, demanding absolute transparency for all commercial activity. In the immediate term, this does not solve the mismatch of not-for-profit activity that requires commercial registration, but it does take the lead for an increasingly consumer centric agenda. The OFT, Money Advice Service, Insolvency Service, and soon to be formed Financial Conduct Authority are all charged with working towards systems and regulation that enhance the user experience and transparency.

Currently, the Consumer Credit Licence Register includes businesses that offer debt adjusting simply to liaise with existing customers and there is no easy way to isolate the identities of those included on a Group Licence. Many of the latter have indistinguishable names that are easy to exploit because they do not have a significant digital presence. The recent explosion in online directories is a real adversary to the standards of certified professionals and the goodwill of volunteers and communities. Since the Personal Finance Research Centre completed "An Independent Review of the Fee Charging Debt Management Industry" for the Money Advice Trust in 2009, estimating provision from business directories has become an almost impossible task.

Consumers seeking debt help are confounded by unlicensed and non-complaint rogues. Even in branded directories such as Yell, Thompson Local and The Sun, business listings for debt advice or debt management include credit brokers, debt collection agencies, claims management firms and self-styled experts with little more than a catchy name, PO box and an 08 number. We estimate that around 40% of digital presence is opportunistic and that around a quarter of this is consistently shifting and active. Recent enforcement by the OFT has seen a great many rogue traders closed down both directly and indirectly, for fear of repercussions, and new guidance on Licensed names should also help to eradicate scams. However, the extent of fraudulent activity remains a very real issue when estimating market value.

This analysis therefore begins with the patterns in registration for Category D1 and D2 applications and renewals between 2007 and 2011. The hypothesis for identifying specialist providers is that these are most likely to identify themselves through the inclusion of the word debt in the Current Licensee Name or in any of the Current Trading Names. Occasionally, this process includes irrelevant Licensees or omits relevant providers, and the tendency for not-for-profit advice agencies to derive names from the phrase "Money Advice" also creates some anomalies. The following chart compares the growth in Category D Licence applications between all D1 and D2 applicants and specialist applicants (defined as those including the word debt in a licensed name).



The 438 D1 Licences above account for around 85% of currently licensed specialist providers of debt adjusting services. A remaining 15% have not yet renewed combined Category D Licences. On this basis, the total number of commercial Licences held by parties specialising in debt adjusting is in the region of 515. It is estimated that in addition to these around one-third of all D1 holders practice commercial debt adjusting on an occasional basis, bringing the total number of commercial providers to somewhere in the region of 2500.

Research by the Scottish Poverty Information Unit for the Friends Provident Foundation (Funding Money Advice Services) and by Dr Gathergood for the Money Advice Trust (Demand, Capacity and Need for Debt Advice in the United Kingdom), together with cross referencing to relevant associations and providers support the extrapolation of statistics for the not-for-profit sector. The principal holders of Group Licences in the not-for-profit sector are Citizens Advice and Advice UK, each with approximately 500 and

400 centres handling debt inquiries across the UK respectively.

After deducting agencies that hold both Group and individual Licences and including D2 licensed money advice centres, around 900 not-for-profit agencies hold Licences to provide debt adjusting on a non-commercial basis in the UK. However, it is important to recognise that by far the vast majority of these help consumers with a wide range of issues and that, on average, debt help accounts for around one third of the support given. The ratio of commercial to non-commercial solutions is a far more accurate measure of market share between for-profit and not-for-profit providers.

6 SEGMENTS

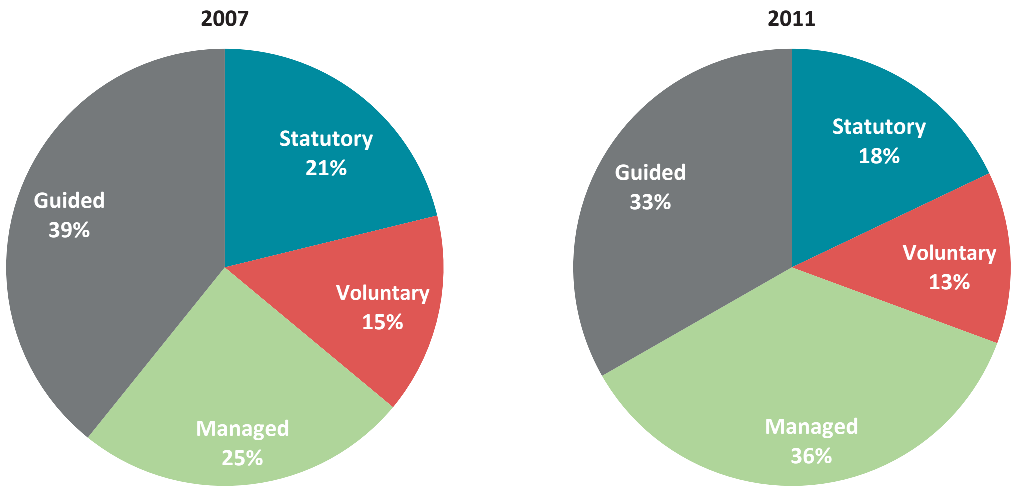
This research segments the formal and informal solutions outlined in Section 3 Market Definition, as statutory, voluntary, managed and guided as set out below.

FORMAL		INFORMAL	
Statutory	*Voluntary*	*Managed*	*Guided*
Bankruptcy	Individual Voluntary Arrangement	Debt Arrangement Scheme	Assisted options
Debt Relief Order	Protected Trust Deed	Debt Management Plan	Self-help resources

Whilst there are significant records for formal solutions that address insolvency, few data exist for informal agreements designed to tackle and resolve lower levels of indebtedness. In April 2010, R3 reported that around 30% of individuals in formal procedures had previously been in a Debt Management Plan - a statistic that had already started to question the levels of appropriate recommendation for informal solutions, before contractions in the numbers of formal solutions took place.

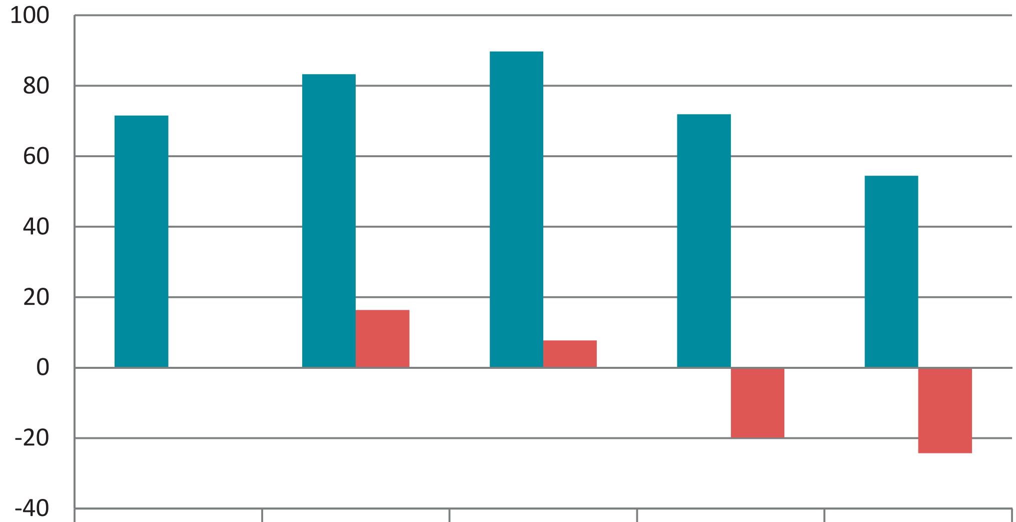
Of particular note when segmenting debt solutions is the significant contribution of independent advice agencies in delivering Assisted options and Self-help resources. The principle of consumers managing a plan after an intervention to negotiate repayments is an important one, because it is fundamental to the concepts of rehabilitation and independent money management. These are, of course, integral to embedding financial capability within our society. There are some in the free advice sector, who do not welcome the funding changes that the Money Advice Service proposes because a creditor-funded levy is not perceived as impartial. Fear of converting supply from Assisted to Managed plans is common and demands some reassurance that consumer interests are maintained. For instance, it is entirely contrary to Equalities Law for any provider or intermediary to assume that a debtor is incapable of accessing or maintaining an agreement from a particular provider or through a particular channel. Definitions of vulnerability should not be prejudicial.

Segmented Comparison of Debt Solutions starting in 2007 & 2011



Consumers are currently at liberty to reject an adviser's recommendation, and professional opinion tends to concur that formal procedures, in particular bankruptcy, remain heavily stigmatised. However, the cultural phenomenon that is debt stigma, questions even more pertinently, the rationale for insolvency figures that are falling, when experiences of over-indebtedness are not. There is a strong argument for consulting all consumers about the restrictions and entitlements accorded to debtors in different solutions, as this would ensure impartiality, removed from the anxiety of over-indebtedness.

Bankruptcies starting between 2007 and 2011



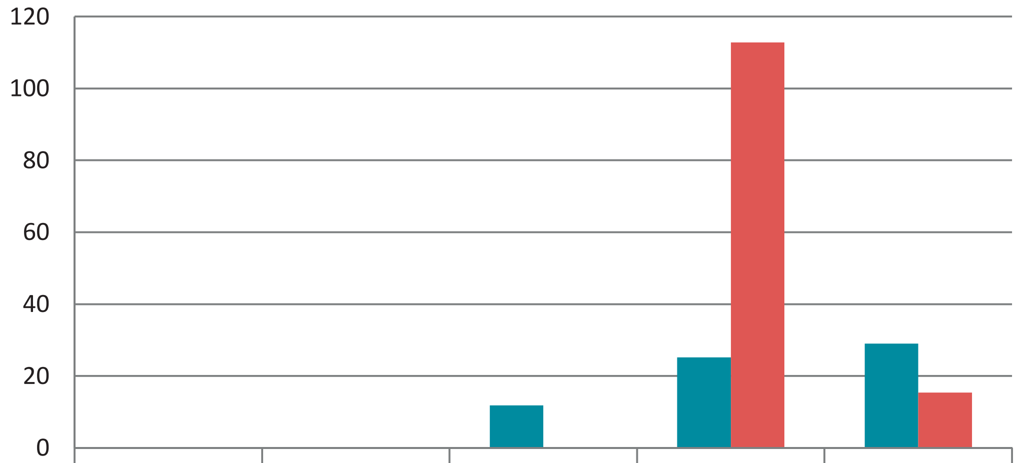
	2007	2008	2009	2010	2011
000s	71.536	83.284	89.716	71.937	54.483
% change	0	16.4	7.7	-19.8	-24.3

Bankruptcy is an insolvency procedure for which either the creditor or the debtor may petition. Most personal insolvencies in the UK are debtor petitioned, some with the help of a professional. Since June 2011, the Bankruptcy fee has been £700, comprising £175 in Court fees and £525 paid to the Insolvency Service to cover the costs of the Official Receiver. These are statutory fees and do not vary.

When a third party assists the debtor in completing a petition, fees may be charged and these are typically in the region of £500 per case, with levels of support ranging from help to complete forms to companionship at court. Some debtors are aware that these fees are discretionary, but not all. There is limited information about the extent of fee charging for assisting bankruptcy petitions and there is now evidence of this practice in both the for-profit and not-for-profit sectors, particularly since the implementation of cuts to public and third sector debt advice. The revised Debt Management Guidance requires the transparency of all fees charged, so it should be possible to identify the commercial value of assisting bankruptcy petitions in the not too distant future.

In addition to increasing the bankruptcy petition fees in June 2011, the Insolvency Service introduced significant changes to the restrictions and entitlements of debtors. These include the Bankruptcy Restriction Undertaking to address any negligence and / or recklessness, and the Income Payment Agreement requiring 100% of disposable income above £20 per month to be paid to creditors for a period of up to three years. The stringency of these changes may in some part account for the significant contraction in bankruptcies in 2011, and this trend is expected to continue into 2012.

Debt Relief Orders starting between 2007 and 2011



	2007	2008	2009	2010	2011
000s	0	0	11.831	25.179	29.061
% change				112.8	15.4

Introduced in 2009, demand for Debt Relief Orders rocketed in 2010, followed by smaller growth that has yet to settle, although demand is likely to remain buoyant for some time. Designed as a statutory procedure for people of low net worth, in many ways, DROs reflect some aspects of the Low Income Low Assets approach to Bankruptcy in Scotland. Applicants must have unsecured debts of less than £15,000, disposable income of less than £50 per month and assets valued at less than £300. Until April 2011, around one in eight people who met these criteria were unable to access the solution due to pension funds in excess of £300. Changes to this requirement should see strong and continued growth in DRO applications throughout 2012.

IVAs starting between 2007 and 2011

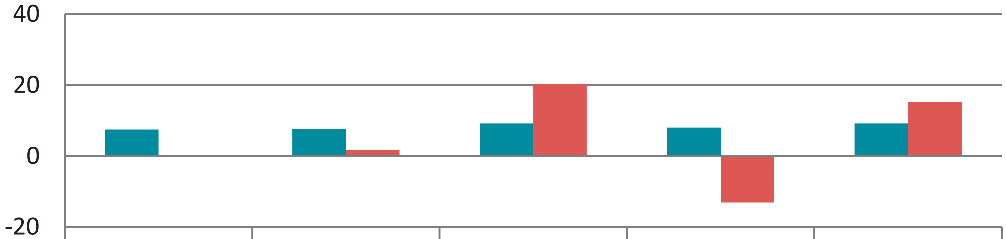
	2007	2008	2009	2010	2011
000s	42.605	39.675	48.363	51.695	50.132
% change		-6.9	21.9	6.9	-3.0

IVAs are a formal yet voluntary procedure, brought into effect by the Insolvency Act of 1986 as an alternative to bankruptcy. They were originally envisioned as a formal solution for the self-employed, whose livelihoods depend on a capacity to continue working. Their basic premise is that there are circumstances when comprehensive debt write-off is not appropriate and that through the intermediary services of an insolvency practitioner, individuals should have an option to negotiate a level of relief, sanctioned by their creditors. In many ways, this legislation set the precedent of a consumer market for debt resolution through an intermediary and so too, the conflict between debtors', creditors' and solution providers' interests.

As was the case for many debt solutions, the rise in personal borrowing drove increased supply and demand for IVAs. Thus, throughout most of the noughties, advertisements to write off personal debts became common, as did charges of flipping consumers between formal and informal solutions to optimise fees. To some extent, these criticisms remain (debt write-off may be a more alluring pitch than repayment), as indeed do questions as to the ratio of formal to informal solutions recommended by free to client providers.

In 2008, an IVA protocol came into force to ensure greater transparency for the procedure and to address the irregularities between some providers in this market. Now, only a minority of providers do not adhere to the IVA protocol. Considerable increases in the cost of living and uncertainties in employment make IVAs a tough commitment in the current climate and for this reason, their use is likely to remain on the negative side of stagnant in the near future.

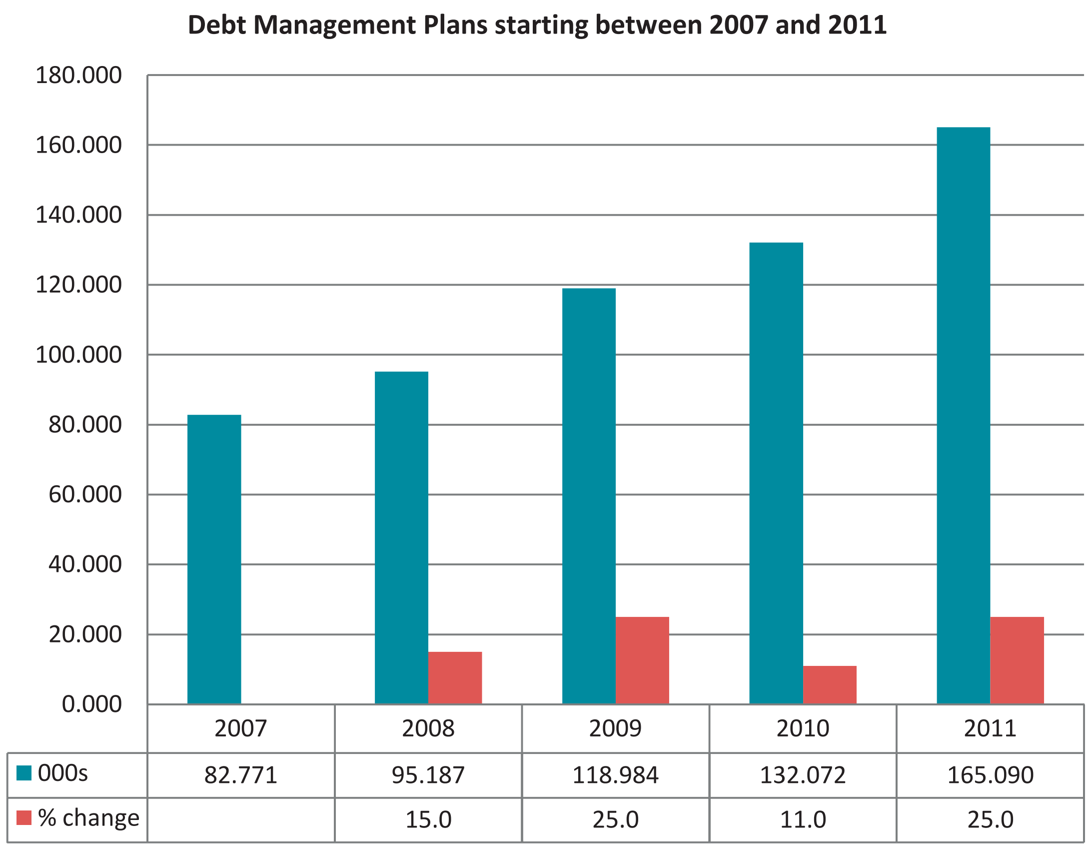
Protected Trust Deeds starting between 2007 and 2011



	2007	2008	2009	2010	2011
000s	7.509	7.633	9.188	7.980	9.194
% change		1.7	20.4	-13.1	15.2

Protected Trust Deeds are often compared to IVAs because they are a formal yet voluntary procedure to address insolvency in Scotland. However, there is a significant cultural difference between the two because some form of trust deed has existed in Scotland for almost 200 years. In this context, it is easy to see why the uptake of Protected Trust Deeds is high in comparison to other solutions in Scotland and continues to grow when the number of IVAs fell slightly in 2011.

In 2008, the Protected Trust Deed process was significantly formalised with the Bankruptcy & Diligence Act, leading to centralised monitoring and review by the Accountant in Bankruptcy. Additional consultation to effect procedures that strike a better balance between creditors' and debtors' interests was instigated at the request of the Scottish Parliament in 2010 and this solution is now one of a suite of measures for which the consumer has the assurance of consensual development and regulation. The consultation explains the drop in uptake during the period of regulatory uncertainty in 2010, and a return to demand that reflects the extent of over-indebtedness in the population as a whole in 2011. Small but steady growth is anticipated.



Throughout 2007 to 2011 Debt Management Plans remained the largest segment within the range of debt solutions available to UK consumers, growing from a quarter of all supply starting in 2007 to over a third in 2011. The growth and consequent revenue potential of this segment is one of the main reasons for conflict between free-to-client and fee charging providers and it is important to recognise the profit motive of repayment as well as fees, particularly when considering current insolvency trends in England and Wales.

Recognising the dynamic of conflicting interests is entirely different to criticising any particular sector or provider, not least because there are merits in almost all models. Both creditor and debtor may have reason to dispute repayments, so the origin of funding to administer a solution is extremely pertinent. The fact that the Money Advice Service has started to levy funds from secured lenders to provide advice and solutions to handle predominantly unsecured debt automatically removes the accountability of debtors to SMEs and local traders, for instance. The Government may wish to reflect on this when considering its requests for banks to invest in smaller businesses.

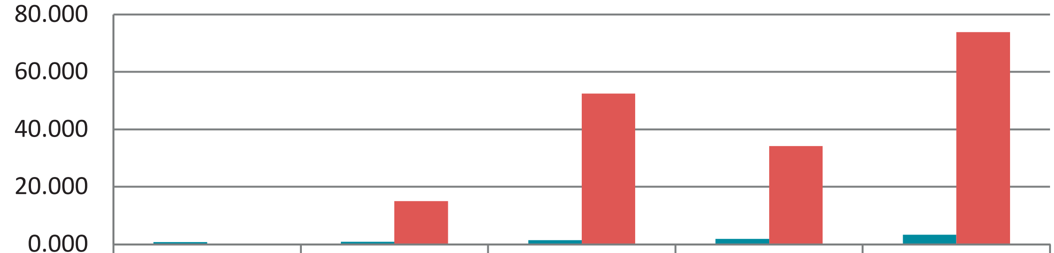
Whereas Scotland monitors and reviews the uptake of all debt solutions, the rest of the UK is subject to substantially variable estimates and considerable lobbying to claim the largest share of informal solutions supplied. Quite simply, this is nonsense because debt management is a relatively young consumer market that derives from the introduction of an intermediary, made possible by the 1986 Insolvency Act and the introduction of the IVA. Accordingly, supply is characterised by a diversity of providers and models, and evidence of this is apparent in the hugely opportunistic response to recession that led to 1141 new D1 Licence applications in 2009, up 128% on the previous year.

Considerable regulatory work by the OFT has secured a drop in new market entrants to around 800 commercial applicants per annum (including businesses requiring a D1 licence as a matter of course) and there is little doubt that recent Guidance as to Licensee and trading names will assist in the ongoing removal of unethical supply. However, while provider numbers will continue to fall, the number of Debt Management Plans starting in each year will not.

Another key driver for growth in the debt management segment is the shift in advice funding from the public purse to a model that promotes creditor accountability. Projects previously operating under the Financial Inclusion Fund now receive their budget from the Money Advice Service, and many have been required to increase caseloads. This means caseworkers who might previously have negotiated a solution and assisted in the early months of repayment are more likely to refer the client to a third party to administer the solution. Indeed, there is further evidence of this trend in the invitations to tender for case referrals from Citizens Advice and Advice UK during 2011.

Debt Arrangement Schemes starting between 2007 and 2011

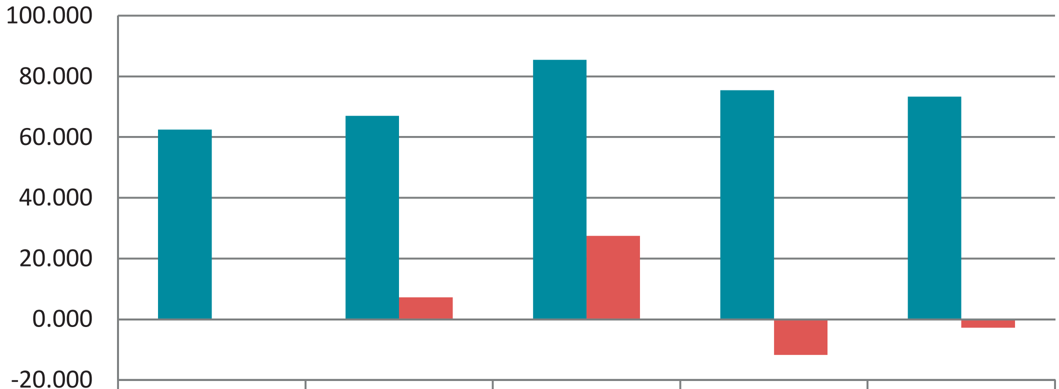
(2007 = relevant solutions estimate)



	2007	2008	2009	2010	2011
000s	0.811	0.933	1.423	1.909	3.319
% change		15.0	52.5	34.2	73.9

In 2008, the Scottish Government started to include informal solutions in the range of debt management procedures that it monitors. There was a dip in the growth rate of demand for Debt Arrangement Schemes in 2010 that corresponds to the review of how all debt solutions balance the rights of creditors against the needs of debtors. Growth was therefore unusually buoyant in 2011, but is likely to remain significant for so long as difficult economic circumstances prevail.

Assisted Options starting between 2007 and 2011



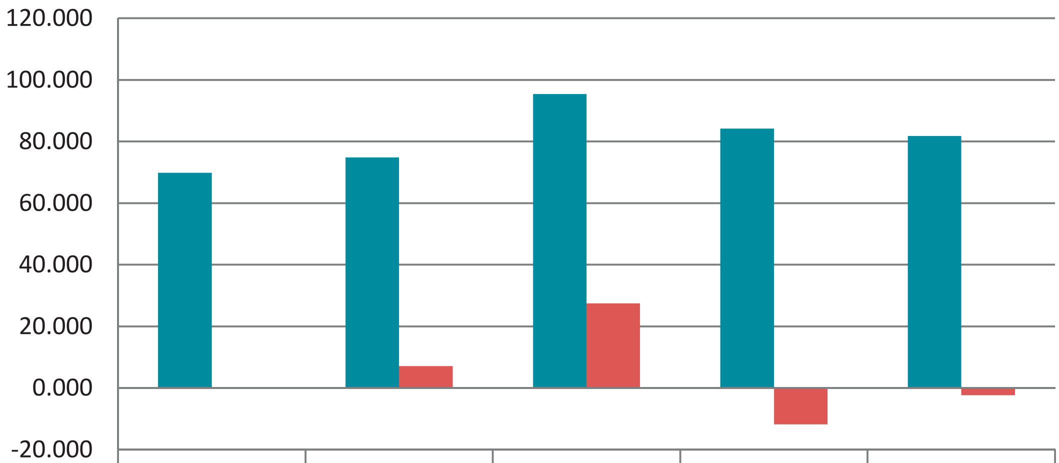
	2007	2008	2009	2010	2011
000s	62.508	67.032	85.466	75.381	73.270
% change		7.2	27.5	-11.8	-2.8

It is rare for commentators to refer to Assisted Options as a debt solution in their own right because they are very much a feature of the money advice sector, where volunteering prevails and the unit costs of commerce are a relatively new concept. Often delivered as part of a holistic approach, it can be difficult to distinguish when autonomy occurs in an Assisted Option. However, that a service may be too complex to measure easily should not undermine its value. Assisted Options may range from a few phone calls to agree some breathing space between jobs, to regular appointments to support budgeting and repayments. Some clients may repay debts at a level commensurate with a managed plan, others may find only token payments affordable.

The advice client profile of both Citizens Advice and Advice UK is considerably more vulnerable than that of others in the not-for-profit sector, and between them, these agencies assisted some 800,000 people with debt problems in 2011. It is therefore reasonable to extrapolate from the 10% of people living below the poverty line in the UK an uptake of Assisted Options in the region of 9% of all debt advice clients. Whereas Bureaux enjoy branding that is recognised by almost all consumers and will help those whom some believe can afford to help themselves, Advice UK Members reach into the very fabric of our society, with a localism that passes under the radar.

Assisted Options are in decline because they do not comply with an efficiency model that economizes on the delivery channel. Their currency is people: volunteers, benefactors, donors, personal recommendation and the reassurance of face-to-face communications. Those who can afford or become able to pay for this level of service invariably contribute to it also, which is why these agencies penetrate every aspect of our consciousness of help. Funding changes will effect a rapid decline in Assisted Options from 2012 and this may have a significant bearing on debtors' motivation to repay creditors. Assisted Options may not achieve the fastest return on investment, but their effectiveness in engaging people to resolve problems has the long-term benefits of sustainability and resilience.

Self-help Resources starting between 2007 and 2011



	2007	2008	2009	2010	2011
000s	69.869	74.830	95.408	84.150	81.800
% change		7.1	27.5	-11.8	-2.3

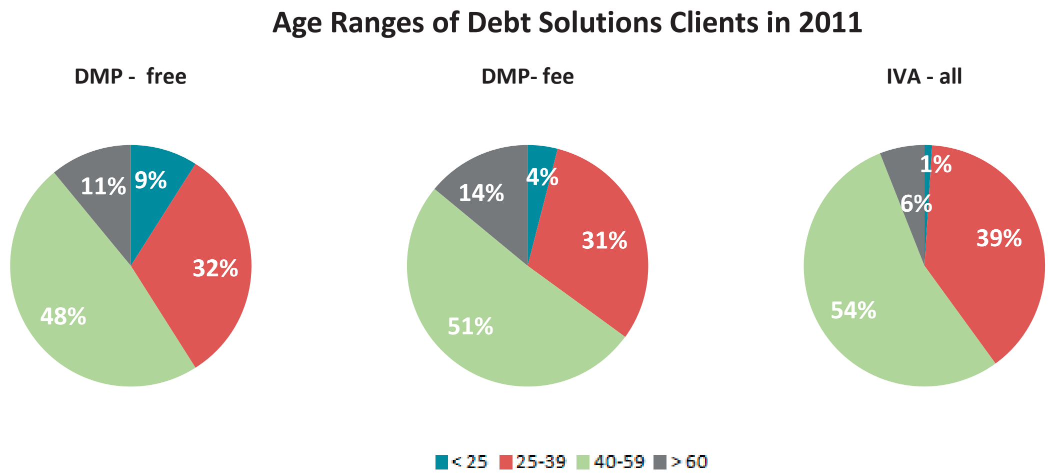
Innovation in the development of Self-help Resources is relatively recent, ranging from diagnostic tools to digital repayment systems. These are not to be confused with lead generation gimmicks that claim to assess a debtors' situation within seconds. Until 2008, money advice agencies dominated the Self-help segment, with paper-based guides to preparing a statement of accounts and letters to creditors. It is, of course, far harder to assess the outcomes from these than for a system where the client logs on. However, a significant proportion of consumers attempt some degree of negotiation before seeking an intermediary, especially when debt levels are low. Of consumers who start a repayment plan that they have negotiated themselves, around two in five continue with it to completion.

Technological advances have seen new product development in the Self-help segment from the free to client and fee-charging sectors. Lesser-known models are Debtology, a smart phone application that has informed decision making in mind and Debt-Line, which charges consumers to pay into a digital plan without ever speaking to an account manager. The anonymity and accessibility of such services may be particularly appealing to Generation Y and they most certainly have potential for resolving lower debt levels. The next two to three years is likely to see the range of Self-help Resources diversify significantly, and most particularly into distinct advice giving and solution handling applications. Resources that lead the user into a managed solution may not satisfy the principles of fair business practice. In the immediate term, the uptake of Self-help Resources will remain relatively unchanged, before increasing to significantly higher levels.

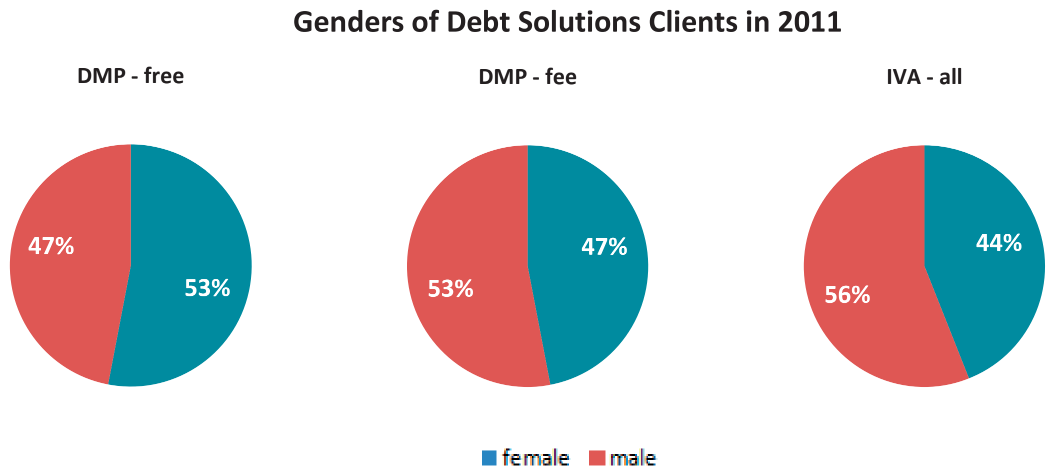
7 CONSUMER DEMAND

Recent years have witnessed a significant change in the profile of debt advice seekers, reflected in the demography of those using debt solutions. For some time, CCCS has led the way in publishing comprehensive client statistics. However, these by no means provide the fullest picture: agencies like CABx and Advice UK members tend to serve a less affluent clientele, whilst IVA firms attract people with higher debt levels and commercial DMP clients tend to owe less money than those seeking free solutions. It is worth noting that due to the considerable opportunism of 2009 there are still significant numbers of consumers who are simply the victims of an incompetent or unethical response to recession and about whom little is known.

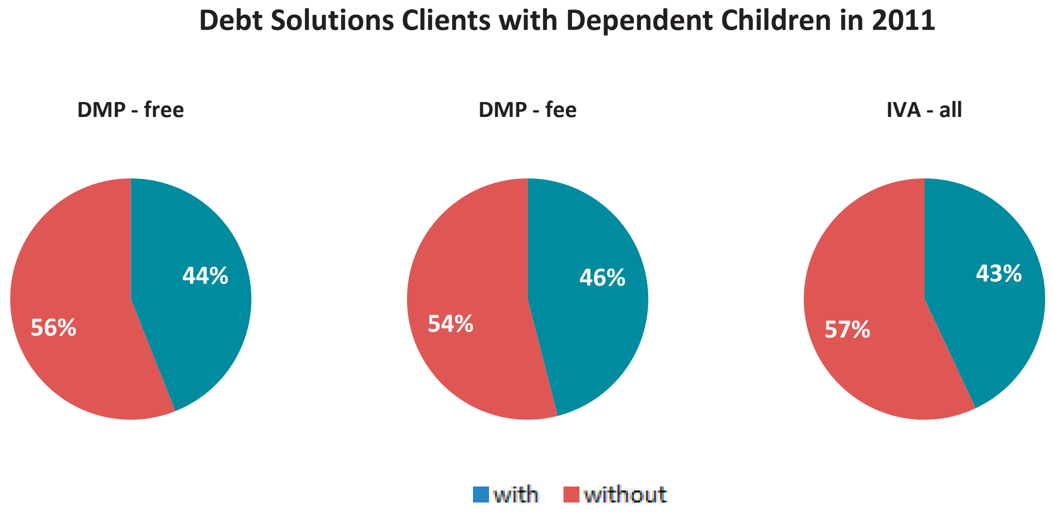
Few providers besides CCCS record client data consistently, so the following estimates draw on extensive consultation and extrapolation from information shared by free to client and fee charging providers. This research has captured the imagination of many who are committed to transparency and Zero-credit welcomes an open culture of discussion and contribution. The differentiation of client profiles by free and fee charging providers is only possible for DMPs at this stage, whereas IVA client profiles combine all providers because fees are always charged. The emergence of solutions at lower fee levels, from previously free providers that have established a social enterprise, may create a need to break these analyses down further in future.



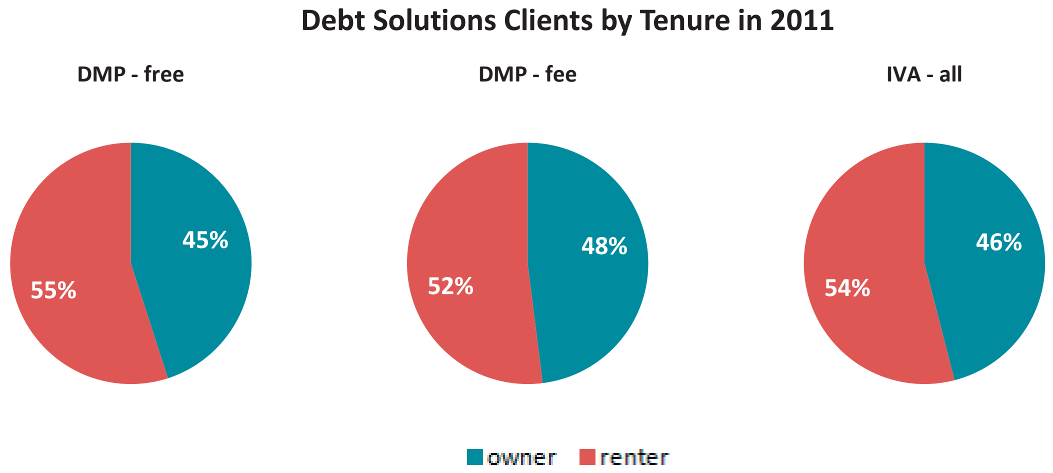
Free to client DMP providers tend to serve a younger client base than fee charging providers. IVA clients tend to dominate the middle age bands, when employment and lifestyle commitments are most likely.



The issue of whether to record indebtedness as an individual or household experience creates some question over the reliability of providers' gender datasets. The tendency of professionals to come from a formal insolvency background does mean that in the commercial sector, couples are often recorded with the male partner as head of the household. This would tend to indicate that free to client providers may experience more applications from single women than fee chargers do, although further investigation of this hypothesis is necessary.

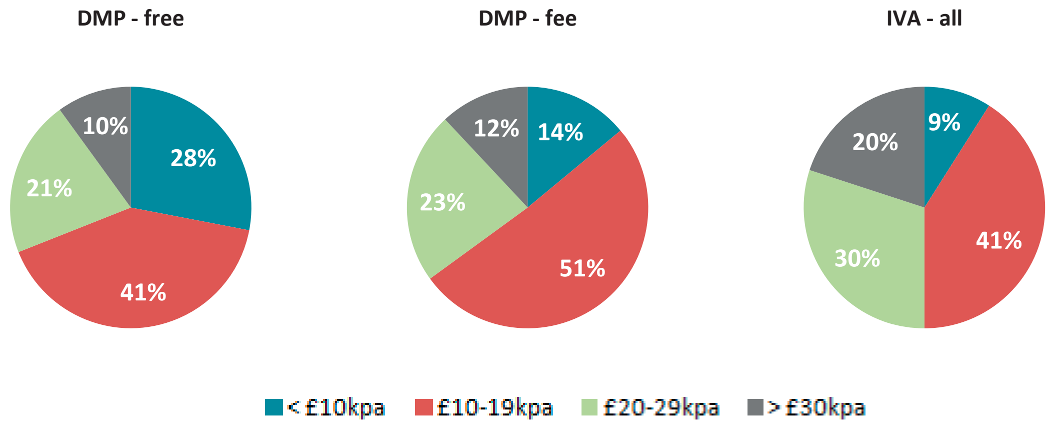


A greater proportion of clients without dependent children use free to client DMPs compared to those using DMPs with fees. IVA clients are less likely to have dependent children than DMP clients.



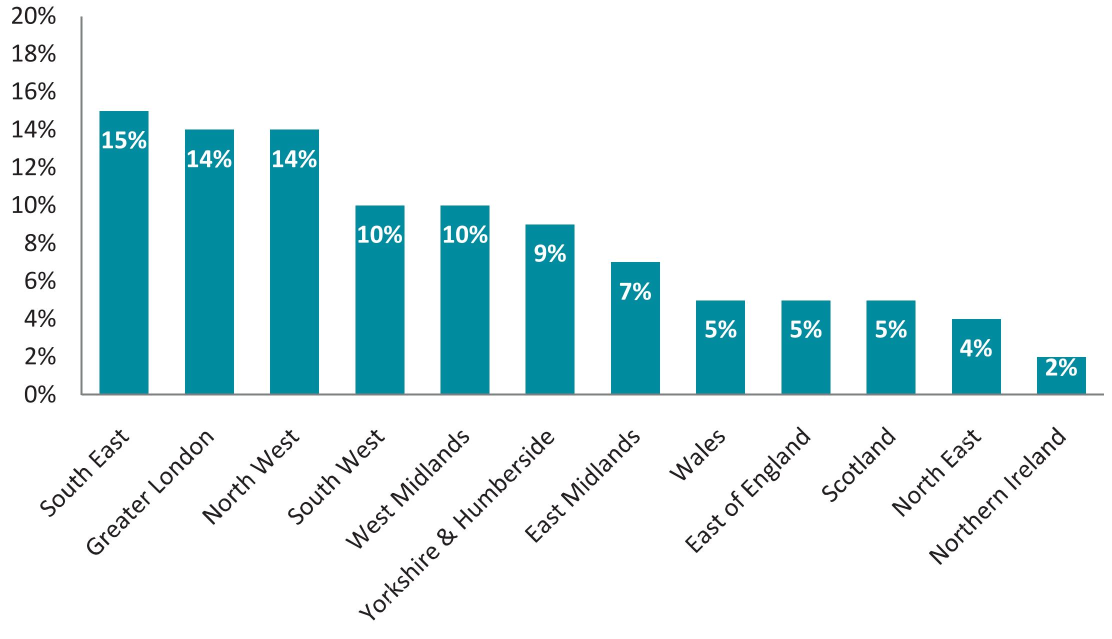
Whilst some providers record tenure other than owning or renting a property, many do not. There is a higher proportion of tenants accessing free to client DMPs than DMPs with fees. IVA providers are more likely to record other tenure types and as well as having a higher proportion of tenants in their client base than fee charging DMP providers. Several IVA providers reported clients living with family or friends.

Income Ranges for Debt Solutions Clients in 2011



Clients who use free DMPs have lower incomes than those who use DMPs with fees. More than half of clients who pay for a DMP have an income between £10 and £19k per annum and over a third take home more than this. In 2011, the average debt level of a CCCS client was £20,023, compared to £19,744 from the fee charging providers we surveyed. There appears to be some tendency for those on lower middle incomes, with lower debt levels to access DMPs with fees. IVA clients have higher incomes than DMP clients, which in the context of higher tenancy levels would tend to indicate that these clients are earnings rich and asset poor by comparison to others using debt solutions.

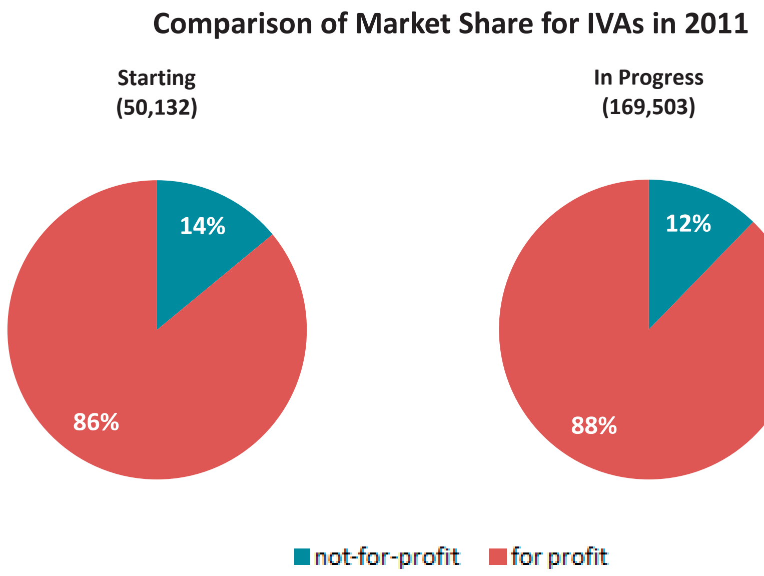
Debt Solutions Clients by Region in 2011



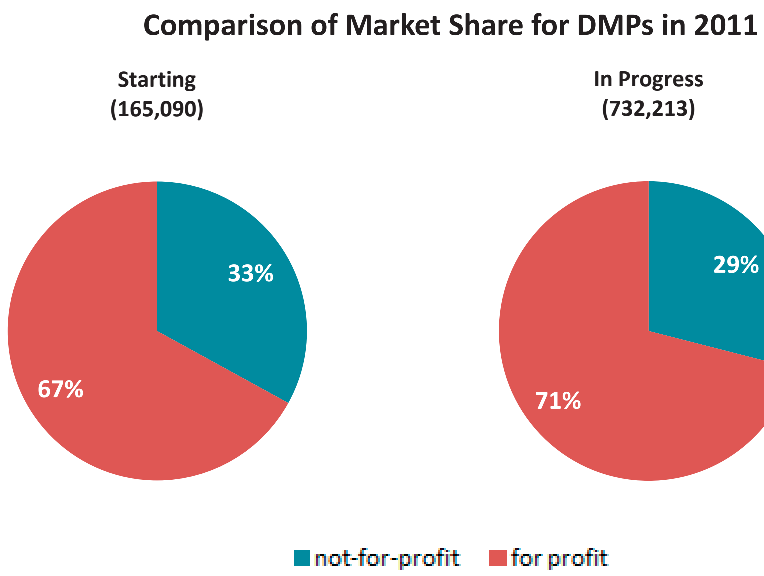
We found limited variation in client regions from the solutions providers we surveyed and the above table combines free to client and fee chargers' datasets to create an analysis for the UK as a whole.

8 MARKET SHARE

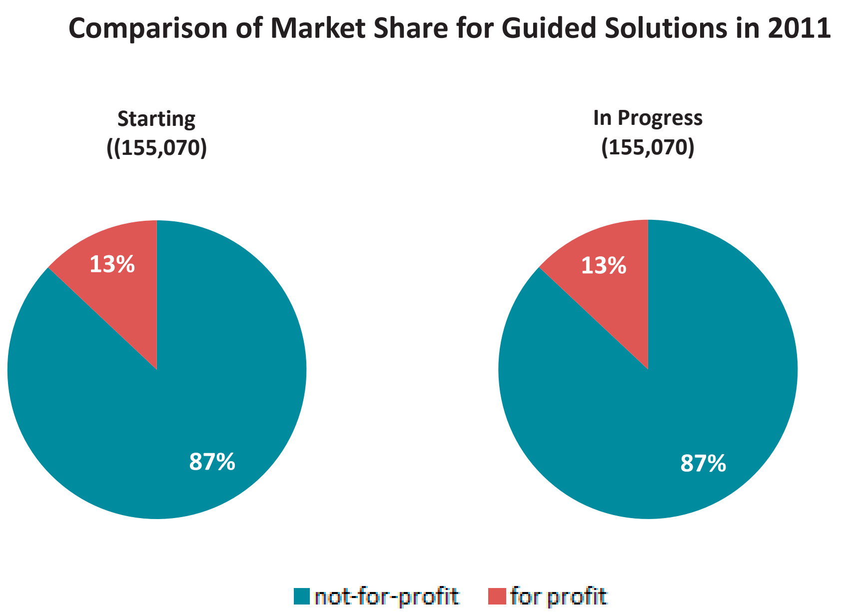
As mentioned previously in this report, little is known about the extent of fee charging for supporting clients through statutory insolvency procedures. Whilst there is no doubt that advisers may have a role in completing forms and providing moral support when there are challenging circumstances, most would agree that unless a case is particularly complex, fees for administering insolvency are contrary to the nature of the procedure. The requirement for Insolvency Practitioners to register for Category E Licences should increase the transparency of fee charging for these solutions.



Whilst all formal solutions incur fees, not-for-profit providers necessarily deliver voluntary insolvency procedures: they should not be providing a full service if they did not. However, voluntary solutions make up a small part of the not-for-profit portfolio and a great many advice agencies refer clients to other professional IVA practitioners and firms. There were more not-for-profit voluntary solutions starting than in progress in 2011 because IVAs from not-for-profit providers are a feature of the shift into social enterprise among previously free to client providers. With fees averaging in the region of £1300 per client per annum, IVAs starting in 2011 had a value of around £65 million.



More than 55,000 free DMPS started in 2011, accounting for almost a third of all new supply. This is a higher proportion than for solutions in progress, accounted for in part by an increase in referrals to free DMP providers and a tightening of regulations for the fee charging sector. At the end of 2011, there were some 213,000 free DMPs compared to some 519,871 DMPs with fees. Fees average around £450 per client per annum, so the value of all DMPs in progress in 2011 was around £234 million. By contrast, CCCS handled a total (new starts and in progress) of some 113,000 DMPs in 2010 from a total budget of £32 million and this equates to an annual unit cost of around £283.



By contrast, not-for-profit advice and solutions providers dominate the supply of Assisted Options and Self-help Resources, accounting for almost nine out of ten guided solutions.

Key Not-for Profit Solutions Providers

CCCS

Licensed since 1992, CCCS is the largest specialist debt charity in the UK. The organisation employs over 650 staff, who respond to around 400,000 enquires annually, through its telephone and digital services. The charity is funded almost entirely by donations from creditors and takes on some 30,000 new Debt Management Plans and around 1000 new IVAs each year.

Christians Against Poverty

Founded by John Kirkby in 1996 to tackle the debts that trap people in poverty, CAP has experienced overwhelming support and success in recent years. A key strength is the charity's commitment to empowering people through its rapidly extending network of centres. CAP helps over 20,000 people each year and around half of these use debt solutions provided by the charity. Funds come from individual and creditor donations.

Payplan

Funded by contributions from a combination of creditors, trade unions and major employers, Payplan has delivered free debt management plans for almost 20 years. However, it is a company, not a charity. Payplan often takes the lead in supporting others from the not-for-profit sector to develop new services and resources. The company handles some 25,000 new DMPs each year and around 6000 new IVAs.

Key For Profit Solutions Providers

Think Money Group
Employing over 900 staff, trading styles under the Think Money Group include Gregory Pennington (DMPs) and Freeman Jones (IVAs). The company has helped around half a million people since it started in the mid nineties and is at the forefront of innovations in money management.

Paymex Group
With origins in debt collection at formation in 1996, Paymex has grown to become one of the most diverse and respected debt specialists in the UK. Trading styles include Baines & Ernst (informal solutions), Blair Endersby (IVAs) and Baker Evans (bankruptcies). Over the last decade, Paymex companies have helped some 140,000 people.

Fairpoint
Trading styles under the Fairpoint umbrella include Debt Free Direct and Clearstart. Following in the footsteps of ThinkMoney and Paymex, Fairpoint has started to deliver money management resources through its recent acquisition of Moneyextra.com. The company helps around 130,000 people each year and is the largest IVA provider in the UK.

9 KEY TRENDS & DEVELOPMENTS

The principal trend influencing the uptake of debt solutions over the last five years has been the impact of recession on the highest levels of personal borrowing that this country has ever seen. With around £1.5 trillion in secured and unsecured lending, indebtedness reaches the mainstream. For this reason, we see a focus on standards and training from the relevant professional associations, coupled with an emphasis on transparency and informed choice from the regulator. From a government perspective, the aim has been to shift expenditure from the public purse towards making creditors accountable, through the establishment of a National Debt Advice Gateway funded by an industry levy. Reform is afoot.

The trouble with change is that it is rarely welcome. The UK market for debt solutions is young and dynamic and it has caught the policy makers unaware. Years of buying into “no more boom and bust” have led to a consistent underinvestment in regulation with the result that supply was sullied as soon as the opportunity to exploit consumers became apparent. Make no mistake that debt repayments are a big deal, for the consumer who feels angry at lenders, for the lenders who want debts repaid, and for the intermediaries who tread this negotiable path. A handful of early market entrants enjoy large market shares, but these are challenged by the innovation and intimacy of smaller providers, who seek a different approach to channelling consumers into a predetermined solution.

Notable developments in the UK market for debt solutions include the emergence of social enterprise to address shortfalls in public spending and the use of technology to personalise rather than streamline the advice seeking process, for instance:

- Debt Advice Northants is a new service set up by the Community Law Service from Northampton & County that offers low cost debt advice, debt management and bankruptcy support services. The service is provided by fully qualified and experienced debt advisers, who until recently were covered by the Advice UK Group Licence.

- Money Matters Action is a Community Interest Company founded by former employees of Birmingham City Council who invested voluntary redundancy settlements in its formation. When the City’s debt support service was cut, the company’s founders wanted to ensure that local people still had access to quality advice and solutions. Profits are invested in financial education.

- Money Saviour is another Community Interest Company, created to meet demand for accessible debt advice. The company aims to fill a gap in local provision by working with organisations to provide a holistic service to communities, tenants and employees. The company is passionate about social and financial inclusion and uses its profits to support local business and the community.

- Founded by the FIF project manager at Bristol Debt Advice Centre, and part-funded by Payplan, Debtology is a smart phone application that diagnoses financial circumstances. It then points consumers to a range of solutions from providers, who do not charge fees. The app costs a few pounds to cover the ongoing costs of its development.

- MoneyMax from Community Interest Company, IncomeMax, extends the concept of assessing benefits entitlement to broader money management, debt advice and information about appropriate solutions. Working only with Commissioning Organisations and Organisational Members, profits create funds and resources for vulnerable people on an occasional basis.

- DIY debt help is a website with price comparison tool, created by the commercial provider Bridgewood, to help consumers explore all options when considering a debt solution. It promotes self-assessment and contact with creditors in the first instance, followed by not-for-profit advice seeking, and only then turning to a for-profit provider if the service is not what is required.

Intrinsic motivation is critical to effecting sustainable outcomes, because without a desire to repay, debtors will default. The indebted population is diversifying rapidly and efforts to address this demand that we innovate. Submissions to the BIS Inquiry reveal a paucity of consistent and constructive information and a degree of hubris that surveys evidence as some economical parking space. The Government has taken a bold decision to hold the market to account in its decision to require creditors to finance debt advice and solutions and it now needs to question providers incisively. Given the importance of solutions starting in 2011 for projecting trends, it is telling that not one expert witness at the BIS enquiry shared this information. The anti-competitive behaviour of many providers in this market speaks volumes.

10 FUTURE FORECASTS

At approaching half a million new solutions each year, the UK market for debt solutions is substantial and any attempt to deny this ignores the significant numbers of consumers seeking advice. Current trends will see insolvencies continue to contract and unless intervention to secure the impartiality of advice is achieved, routes into solutions may be channelled through financially incentivised referrals. Under current arrangements, our projections for the UK debt solutions market include a 10% increase in the number of all solutions starting between the end of 2011 and 2014, or well over half a million consumers.

% change	2012	2013	2014
Bankruptcy	-8	-7	4
Debt Relief Order	11	8	3
Individual Voluntary Arrangement	-2	-4	5
Protected Trust Deed	8	7	8
Debt Management Plan	16	13	11
Debt Arrangement Scheme	66	68	32
Assisted options	-31	-36	-25
Self-help resources	2	3	6