THE DEBT RESOLUTION FORUM
Promoting Professional Standards

DRF RESEARCH

2013 Client Survey
Demographics & Financial Circumstances

Executive Summary

prepared by
Zero-credit

for
The Debt Resolution Forum

CONTENTS

1. INTRODUCTION

In April 2013, the Debt Resolution Forum commissioned Zero-credit to complete a survey of members' clients, as had been conducted in 2012. This summary focuses on the demographics and financial circumstances of those DRF members' clients responding to the 2013 annual client survey.

In 2013, a total of 600 telephone interviews were conducted with DRF Members' clients from mid April to mid June. Interviews lasted from twelve minutes to a full hour, respecting the potential vulnerability of clients and the sensitivity of information shared. Respondents had the opportunity to decline an answer at all times.

The profile of DRF members has changed since 2012, with additional small and medium sized firms joining the professional association since last year and this is reflected in the sample. Participation in the client survey increased from 75% to 85% of all DRF members. Abstentions were principally from firms merging with other companies at the time.

As previously, we sampled DRF members' clients at random, within strata to reflect firms' size, because we have found this to be the best method for approximating accuracy at 95%, +/- 4%. Upper and lower quotas were set for each band of firm, so we could interview across a similar client base within the same band, if there was a shortfall. This was particularly the case for new market entrants with very small numbers of contacts.

Prior to commencing fieldwork, DRF members submitted a random sample of client contacts, from which we selected respondents at random as follows:

Band 1	Band 2	Band 3
fewer than 1000 clients	1000 to 3000 clients	more than 3000 clients
up to 60 contacts	up to 150 contacts	up to 300 contacts
7-10 interviews each	23-30 interviews each	50-60 interviews each
80 completed in total	230 completed in total	290 completed in total

As in 2012, the questionnaire drew heavily on the OFT's Debt Management and Irresponsible Lending Guidance, as we have we have established a number of key performance indicators for pre and post contract service attributes, together with experiences of creditor actions from these.

To the range of demographic and financial information, we have added questions relating to issues of health, mobility and wellbeing, as well as changes to the solution and solution provider currently used.

2. EXECUTIVE SUMMARY

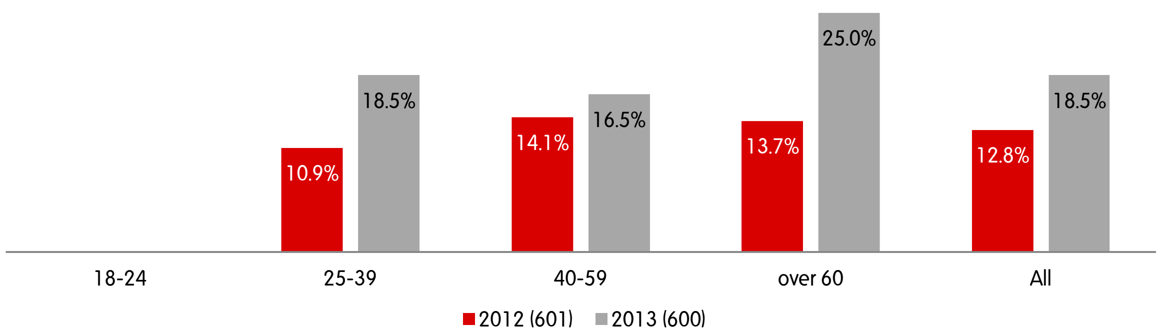
a. Elder Forbearance

For the most part, the demographic profile of respondents interviewed in 2013 replicated the sample taken in 2012, which was very much in line with the Market Analysis we conducted last year. It is clear that the DRF client base has a distinct demographic profile, which mirrors some elements of free advice seeking, but few of free solution use.

By age, for instance, this sample was very similar to that recorded by Optimisa for its evaluation of Money Advice Service funded face-to-face advice, yet not at all similar to the age ranges of StepChange clients, who tend to be much younger (as in 2012, only 1% of the DRF sample was under 25). However, in respect of disability, ethnicity and tenure, DRF members' clients tended to mirror the wider UK adult population, with lower incidence of demand from protected groups.

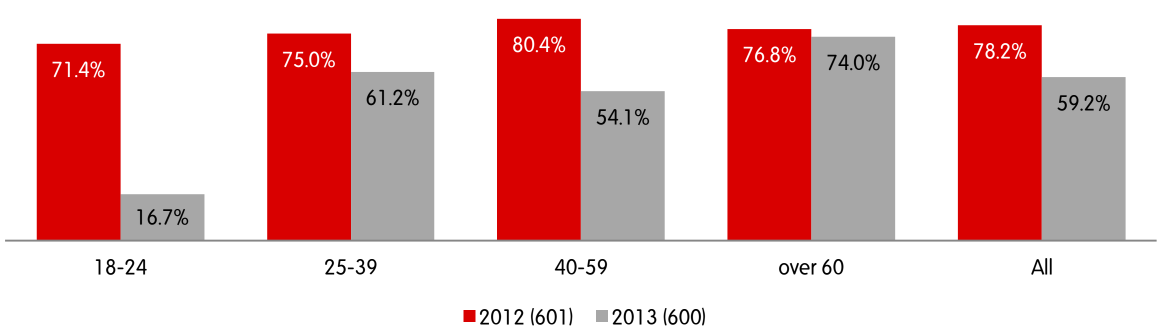
Overall, this sample was characterised by middle aged, mortgaged homeowners, yet the extent of shopping around for a range of advice before approaching a DRF member and satisfaction with pre- and post- contract services was often consistent by age. As a rule, over 40s were slightly more independent and discerning than younger respondents, but there was no pattern of under-informed or vulnerable decision-making.

Chart 1: Comparison of no pre-solution creditor intervention, by Age



However, there was a marked tendency for respondents in the over 60 age range to report significantly lower levels of creditor intervention pre- and post-solution than those under 60.

Chasrt 2: Comparison of no post-solution creditor intervention, by Age



Whilst evidence of creditor forbearance was apparent in an overall drop in intervention pre-solution, there were far more under 60s reporting actions than those over sixty. Among those aged 40-59, in particular, forbearance seemed least likely and their reports of notices of legal action were higher than for any other age range pre- and post-solution. It is worth nothing that the over 60s in this sample had a much higher average income than other age ranges. Whether creditor forbearance is perceived or actual demands further research to ensure equality of outcome and not simply delivery.

b. Gender Gap

By gender, there was strong evidence of more recent advice seeking from women and a tendency for women to use smaller Band 1 and 2 firms, as in 2012. In the Key Performance Indicators reports of 2012 and 2013, these were often the highest performing firms. Men tended to be more active advice seekers than women were and this difference was most marked between men and women who were lone parents: more than 90% of lone fathers sought a range of help compared to 70% of lone mothers. It was interesting to note that women were twice as likely to be single and that more than three quarters of women had an individual debt solution compared to just over two-thirds of men .

Chart 3: Men's Solutions

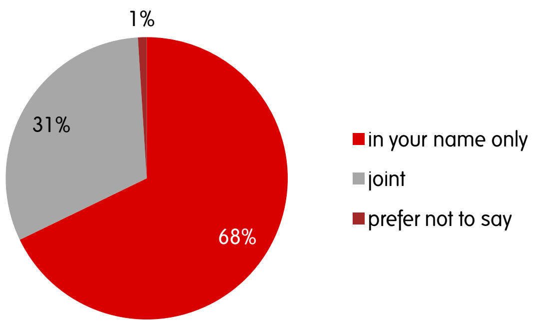
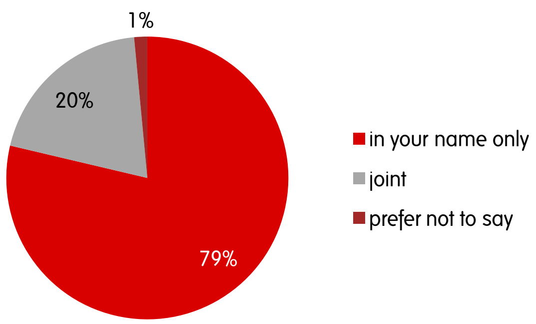


Chart 4: Women's Solutions



Men tended to experience lower levels of creditor intervention pre- and post- solution than women did, and reported incidence of the same or increased interest, penalties and charges, calls or visits at unreasonable times, and confusing communications was higher among women than men. This made the income gap of 34.7%, between male and female respondents, all the more remarkable in comparison to ONS data for the gender pay gap of just under 20%. The comparatively low incomes of women may well have been a reason why there were significantly fewer women in IVAs than men and this does raise the question of gender equality in the accessibility of the full range of debt resolution options to women.

There were few differences in pre- and post-contract performance ratings by gender, although women tended to give higher scores than men did and were also slightly more likely to recall receipt of a written proposal. They tended to record an improvement in finding financial advice and information since using a debt solution also.

c. Minorities take notice

There was a small increase in the proportion of respondents from minority communities in 2012, but again the subset sample was too small to assert national trends from this survey alone. There was, however, replication of distinct behaviours and experiences recorded in 2012, which make our understanding of the differences between these and UK white communities an urgent priority. Two-thirds of UK white and minority respondents had shopped around for advice before using a DRF member and the latter were more likely to recall regulatory and professional standards also.

It was therefore disconcerting to see, as in 2012, that despite seeking a range of help before entering an agreement to repay debts, minority respondents continued to be twice as likely to report notices of legal action after starting a debt solution compared to those of UK white origins. They continued to have a higher debt to income ratio also, and in 2013, more than two-fifths cited a drop in income as their main reason for seeking help, compared to just under a third of UK white respondents.

Chart 5: UK White reason for seeking help

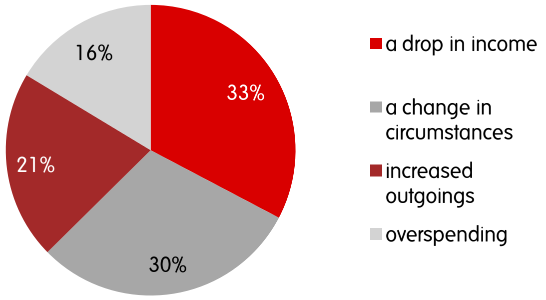
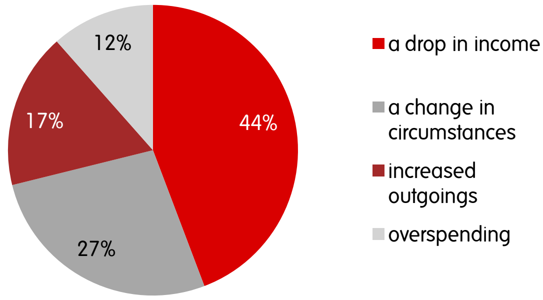


Chart 6: Others' reason for seeking help



Minority respondents tended to give DRF members slightly lower pre- and post-contract performance ratings than their UK white counterparts did, and were less likely to recall receipt of a written proposal. There was some evidence of provider switching among minorities. However, this was marginal and until the contradiction between active engagement with and forbearance experienced in the debt resolution process is addressed, it is impossible to pinpoint responsibility for an unsatisfactory customer experience. In either case, greater cultural awareness will enhance the recovery of and from debt for all concerned and effecting this must be a key priority for the regulator.

d. Healthy and wealthy?

Respondents with a long term illness, physical or mental health problem that significantly restricted their day to day activities accounted for just under a fifth of the sample - very much in line with UK wide prevalence of these circumstances. The subset was older than those without a health problem, recording an average age of 54, compared to 45 for respondents without a health problem and 47 for the sample as a whole. In view of the gender and cultural differences reported above, it is also worth noting that women were more likely to report a health problem than men were and respondents from this subset often came from a wider range of minority communities. They were also more likely to be outright home owners or social tenants.

The extent of active advice seeking was higher among respondents without a health problem, yet not substantially so: around six in every ten respondents with a health problem sought a range of help before approaching a DRF firm, compared to around seven in every ten of those without a health problem. Respondents with a health problem were slightly less observant of professional and regulatory standards than those without and tended to have lower recall of a written proposal also, yet they did make greater use of free-to-client help before approaching a DRF member (12.3% compared to 8.5%).

The most remarkable finding was that despite some of these key demographic differences, experiences of creditor intervention were similar irrespective of health, whereas one might expect some evidence of greater forbearance for borrowers in difficult personal as well as financial circumstances. In a similar vein, the ratio of DMPs to IVAs was similar between subsets and the extent of joint solutions among those with a health problem meant that more adults could be subject to restricted access to credit in households where there was an adult suffering ill health. This again has implications for the regulator in ensuring equality of access to credit.

Chart 7: Solutions by Health problem

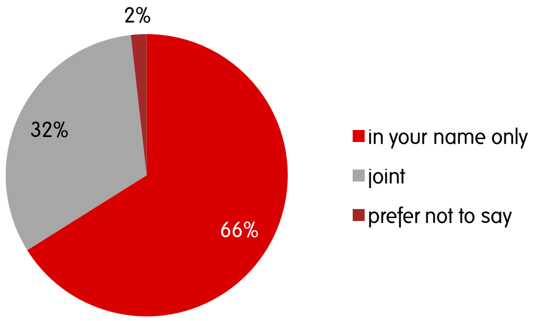
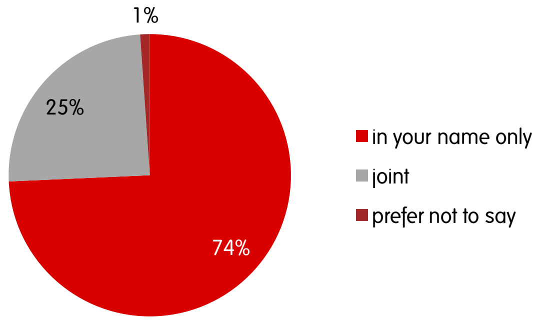


Chart 8: Solutions by No health problem



e. Single minded

Being in a relationship continued to be one of the key differences between DRF members' clients and those of free solution providers, yet the differences between singles and couples in both 2012 and 2013 were minimal compared to other demographics and financial circumstances.

Chart 9: DRF members' clients (2013 survey)

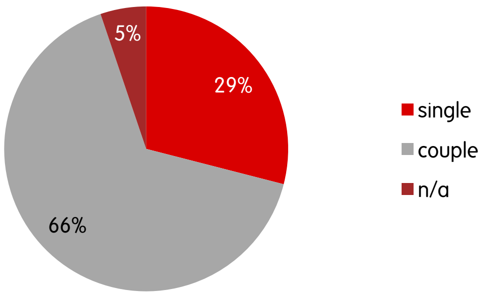
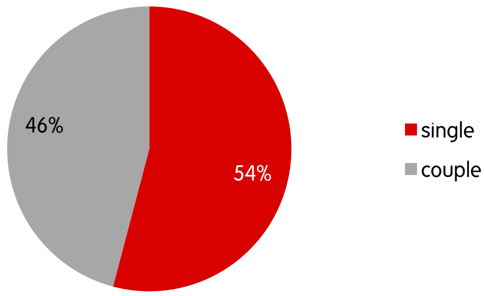


Chart 10: StepChange clients (2012 yearbook)

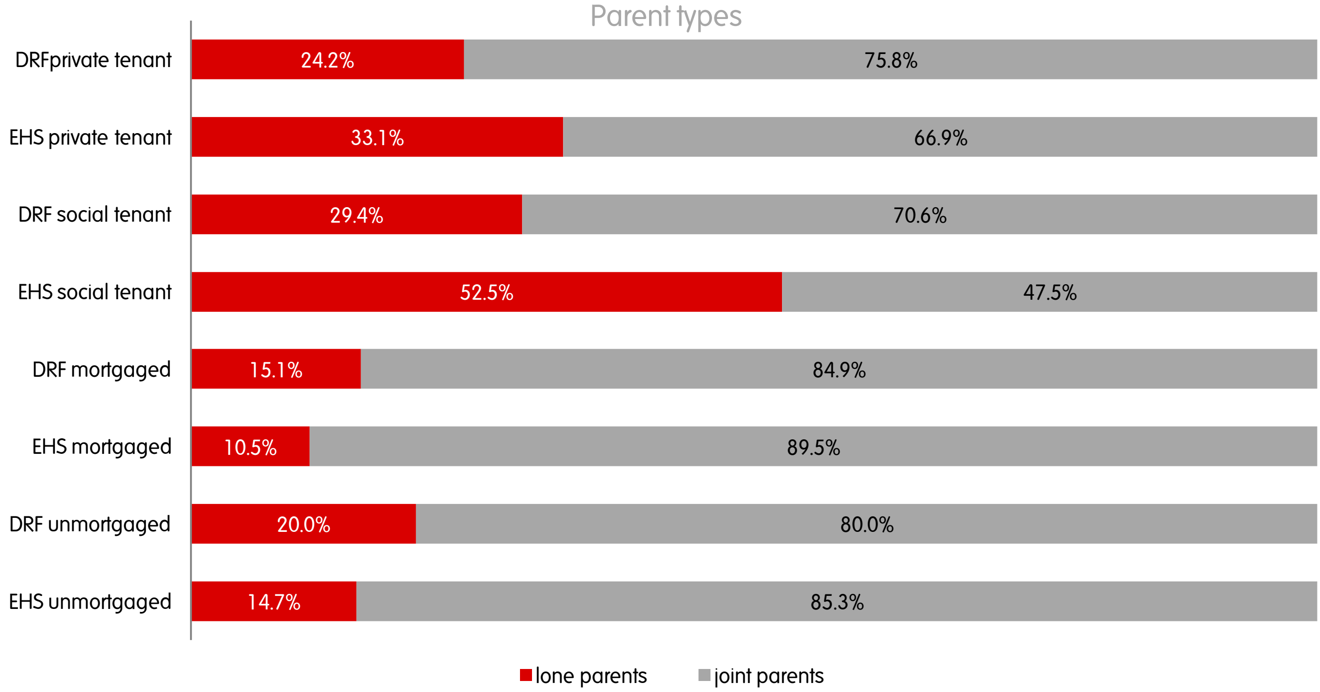


Couples tended to suffer a drop in income (38.0%) prior to seeking debt help, whereas singles tended to cite a change in circumstances (35.6%). Active advice seeking was higher among respondents who were not in a relationship, 68.4% compared to 63.8% among those who were. Other than this there were few variations between respondents who were singles or couples.

f. The kids are alright?

As one might expect, respondents with dependent children tended to be in the middle age ranges and there was an even split of parents to those without dependents by gender. However, there tended to be a broader diversity of ethnic origins among respondents who had children and higher incidence of mortgaged home ownership and private rentals. The prevalence of home ownership was particularly apparent in the under-representation of lone parents who were tenants, and in particular social tenants, when comparing the tenure of respondents, who were parents, with records from the English Housing Survey.

Chart 11: Comparison of English Housing Survey* and DRF respondents' tenure, by Parent types



*Source: Office for National Statistics for the Department of Communities and Local Government, English Housing Survey 2011-12

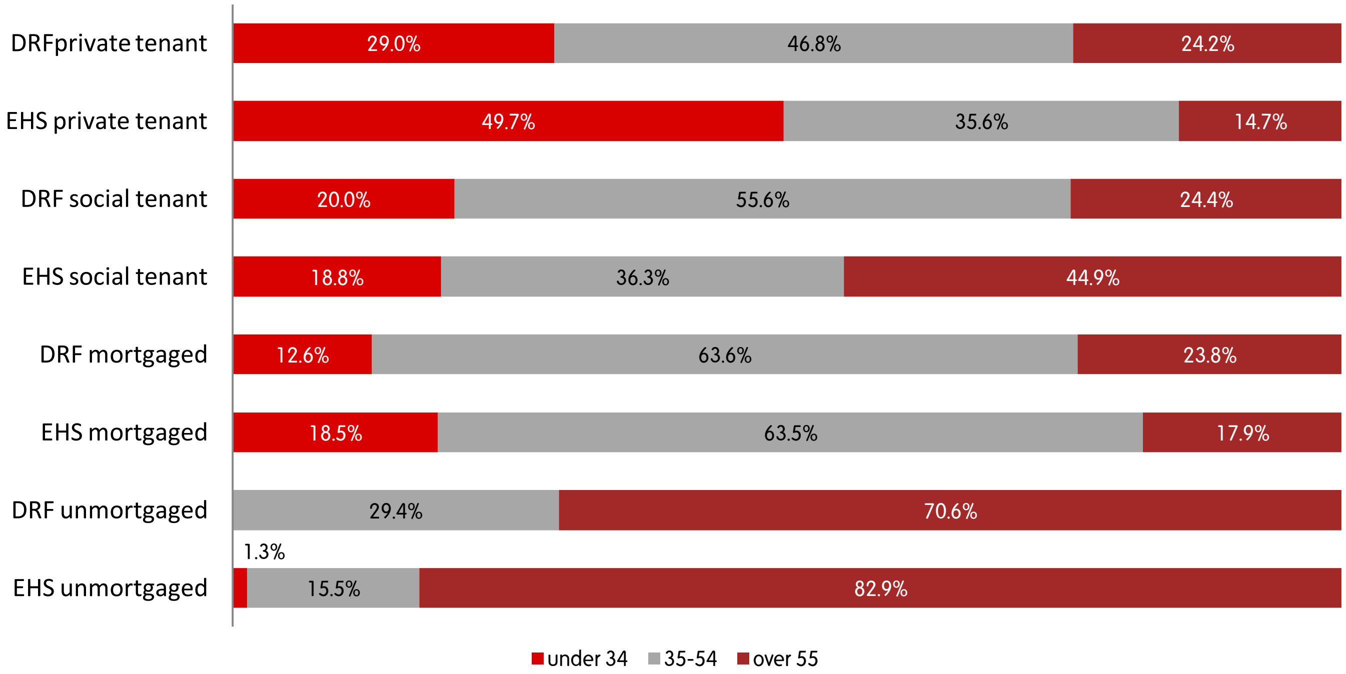
There were few differences in drivers, behaviours and experiences of advice seeking, with the exception that parents were more inclined to report increased outgoings as the main reason for seeking help than non-parents. This made parents' perceptions of creditor intervention all the more significant, because lone and joint parents were more likely to report the same or increased interest, penalties and charges before entering a solution than non-parents and although lone parents experienced the greatest respite after entering a debt solution, parents in general reported higher incidence of escalated creditor intervention than non parents did post-solution.

There were few differences between subsets for pre- and post-contract performance ratings and it is worth noting that lone parents were particularly observant of professional and regulatory standards, when choosing a DRF firm, and least inclined to be influenced by advertisements. More than three quarters of lone parents shopped around for advice before entering a debt solution, compared to around 70% of all parents and 65% of non-parents.

g. Owners v Renters

Around half of DRF members' clients are home owners, a fact which differentiates them substantially from clients using free services. It was particularly interesting to compare responses from those who gave a finite age with the profiles recorded by the English Housing Survey 2011-12 and from this it was clear that DRF members' clients tend to be in later middle age across most types of tenure. Indeed, far from the stereotypical perception of fee chargers actively seeking out vulnerable debtors, such as those who are particularly young or old, the age profiles by tenure for DRF members' clients showed a distinct underrepresentation of such groups.

Chart 12: Comparison of English Housing Survey* and DRF respondents' tenure, by Age



*Source: Office for National Statistics for the Department of Communities and Local Government, English Housing Survey 2011-12

Despite this, there was some evidence that a small number of social tenants could be vulnerable to under-informed decision-making because this subset was less inclined than others to shop around for advice, less likely to identify professional and regulatory standards, more inclined to respond to advertisements and tended to have lower recollection of written proposals. In isolation, these were not significant characteristics, but as a suite of tendencies, they serve as a caution that DRF members need to exercise continued vigilance in ensuring that people who are benefit dependent or on low incomes do not access solutions that may be beyond their means. As in 2012, the recommendation is to identify the range of help sought before approaching a DRF firm, in order to encourage awareness of alternatives from the outset, rather than in a manner that could be perceived as a prejudicial referral. The qualitative studies of 2012 made it quite clear that many low income households reject token payments as a matter of dignity.

As in 2012, this survey found that home owners tended to experience creditor intervention as an escalation of debt collection pre- and post-solution. It therefore remains a concern that a significant proportion of home owners with mortgages are of working age and have dependent children because this has implications on the perceived accessibility of leaving the debtor population among generations to come. It is important to remember that respondents' experiences of creditor intervention may well be perceived, but the mismatch between the delivery and outcome of debt collection cannot simply be ignored. The Money Advice Service, in particular, has raised the profile of debtor centricity in its management of supply and standards. However, without the support of creditors in recognising that messages sent may not be the same as those received, there is little that any debt resolution professional can do to avoid advising a borrower in difficulty to ignore creditor contact. The potential for non-communicative strategies to become urban myth that reinforces head in the sand responses is counter-productive and, ultimately, not sustainable. When an intermediary negotiates repayments, debt resolution is a three way conversation.

3. CONCLUSIONS & RECOMMENDATIONS

In this, the second year of a DRF members' client survey, the DRF has made a commitment to running this research as a continuous study – with good reason. It is clear that the demographic profile of DRF members' clients differs significantly from that of free-to-client advice agencies and solutions providers. It is also true to say that with substantial evidence of active advice seeking, independent and informed decision-making, together with high levels of customer satisfaction and retention, DRF members are not to be mistaken for the widely held perception of fee chargers who exploit the vulnerable.

DRF members' clients are an important demographic to understand within the entire population of debt advice and resolution seekers because they demonstrate many of the attributes that the regulator, the Money Advice Service, and professionals of integrity wish to embed in consumers' capacity to address, recover and sustain positive outcomes from an experience of problem debt. On this basis, the DRF's annual client survey has become an important dataset for understanding the national debt resolution landscape. Together with data from free-to-client advisers, providers, the Money Advice Service and the FCA, DRF data can help us to better understand supply and demand, such that consumers may exercise an informed choice, which keeps them engaged with their creditors and protected from detriment.

Of particular note in the 2013 survey is that despite some differences in the drivers, behaviours and experiences of debt, average performance ratings were in the range of good to outstanding, irrespective of demographic subset. This is particularly significant because this survey does not take a crude measure of customer satisfaction, but requires respondents to consider attributes set out in the OFT's Debt Management Guidance for pre- and post-contract aspects of service. Of course, there will always be some element of respite or relief that biases ratings in favour of advisers and providers because the inability to repay debts can be stressful and borrowers, who use an intermediary, free or fee charging, are effectively handing their burden to a third party. For this reason, the levels of informed choice apparent in these survey results are important because they demonstrate that the vulnerability of indebtedness has been removed promptly and handled with integrity. That rating values increased post-contract in both 2012 and 2013 demonstrates DRF members' commitment to continued customer care.

Another significant trend to emerge in 2013 is the increase in independent advice seeking and decision-making among DRF members' clients. More of these borrowers are using a range of sources to inform themselves about the most appropriate solution and provider for their circumstances and this is a behaviour that needs to be encouraged for resilient financial capability to become an outcome of debt resolution. The only person who should be concerned as to whether a solution is free of fee-bearing is the consumer, and it must be an individual choice as to whether an option that commands fees adds value to life quality, whilst repaying debts. It is particularly important to recognise demand for informed choice, within the 70% or so of debtors using commercial solutions to resolve a debt problem. The DRF client base gives clear indication that a significant proportion of these are not from protected groups or similarly vulnerable, and that exercising choice is a acted upon as a fundamental consumer right. The task now must be to ensure that others using commercial solutions experience outcomes of a similar quality.

There is a strong message to creditors within both the 2012 and 2013 survey findings in that debtors may experience intervention and debt collection differently to how it is intended. The apparent forbearance towards over 60s compared to other age ranges, the significantly lower incomes of women debtors, the higher debt to income ratio of those from minority communities, the similarity of experiences irrespective of health, and the comparative lack of forbearance towards mortgaged home owners and especially those with children all have a bearing on public perceptions of financial services and the effectiveness of intervention as a an advice seeking driver. Irrespective of a standardised approach to managing accounts in arrears, it is not acceptable when this is perceived as prejudiced, and least of all when experienced as such by some of the more vulnerable and protected subsets of the debtor population.

The regulator needs to impose far more detailed records of borrowers' demography, social and economic circumstances on lenders and to ensure that this information is managed carefully throughout debt collection and resolution. Among low income and benefit dependent households in particular, we must question the affordability of lending and debt solutions when so many seem to be at risk of a perpetual state of repayment. When women's incomes are 34.7% below that of men, for instance, in this more affluent and resilient sample of clients, there is a very real question about who is carrying the burden of personal debt in the UK. Without figures for debt management plans and self-negotiated repayments, it is impossible to know, and such risk of inequality is not sustainable.

Debt professionals from all aspects of the customer's experience need to liaise to ensure that borrowers who respond to difficulty by seeking help and agreeing repayments are rewarded with the respect to their circumstances that they have afforded their creditors in seeking a prompt resolution. There is an urgent need for transparent discussion and the involvement of consumers with experience of debt in developing a set of cross sector performance indicators that are relevant and informed by customer expectations.

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