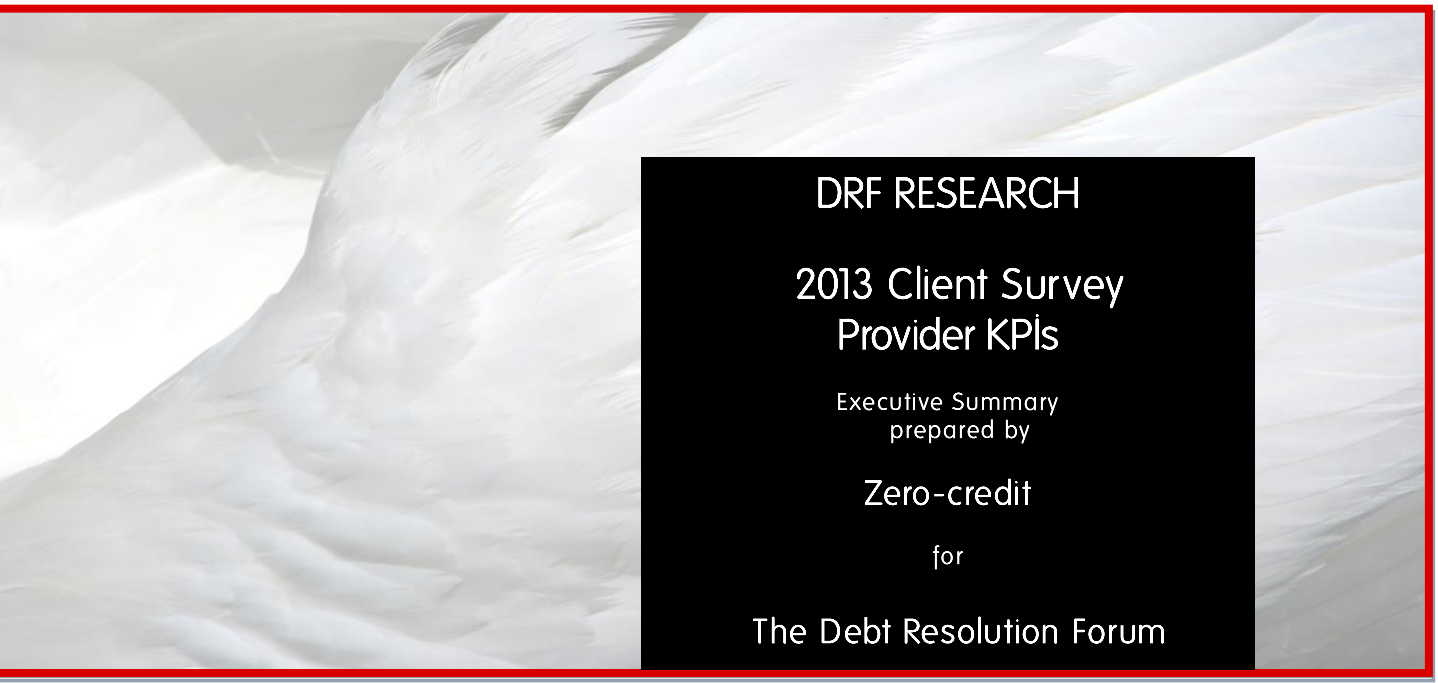


DRF RESEARCH

2013 Client Survey
Provider KPIs

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 key performance indicators for providers of debt solutions.

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.

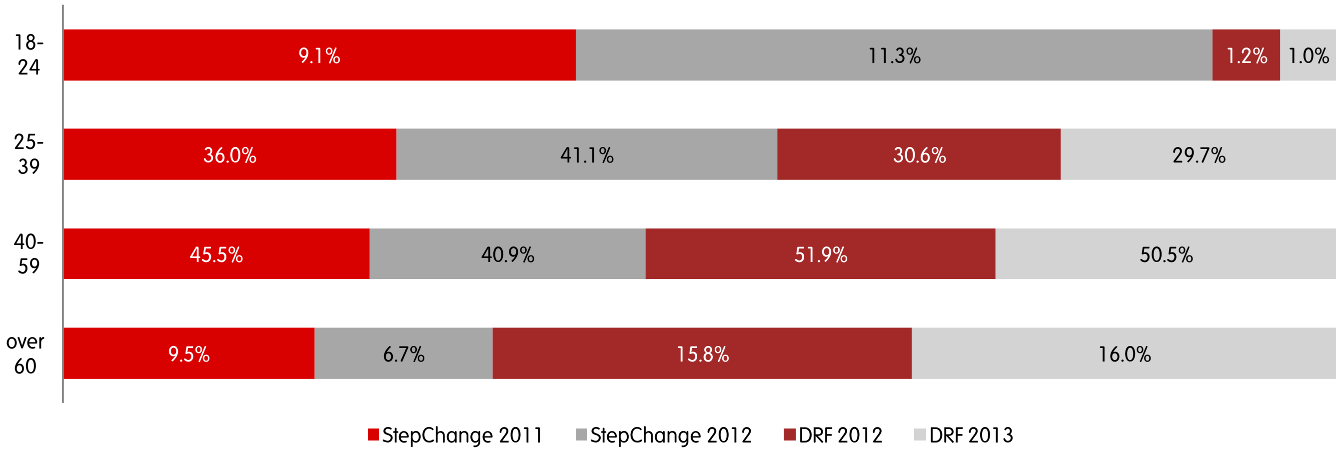
To the range of demographic and financial information, we have added questions relating to issues of health, mobility and wellbeing, as well as changes to the solution and solution provider currently used.

2. EXECUTIVE SUMMARY

a. A distinct demographic

The demographic profile of respondents in 2013 was almost a carbon copy of those taking part in the DRF 2012 client survey. This is significant because it continues to reflect a significant difference between DRF members' clients and those using free to client services, despite an increase in new DRF members. It is also worth recalling the CEBR prediction[1] that 48% of StepChange clients would be over 45 by the end of 2014, because the proportion of the charity's clients in this age range contracted between 2011 and 2012.

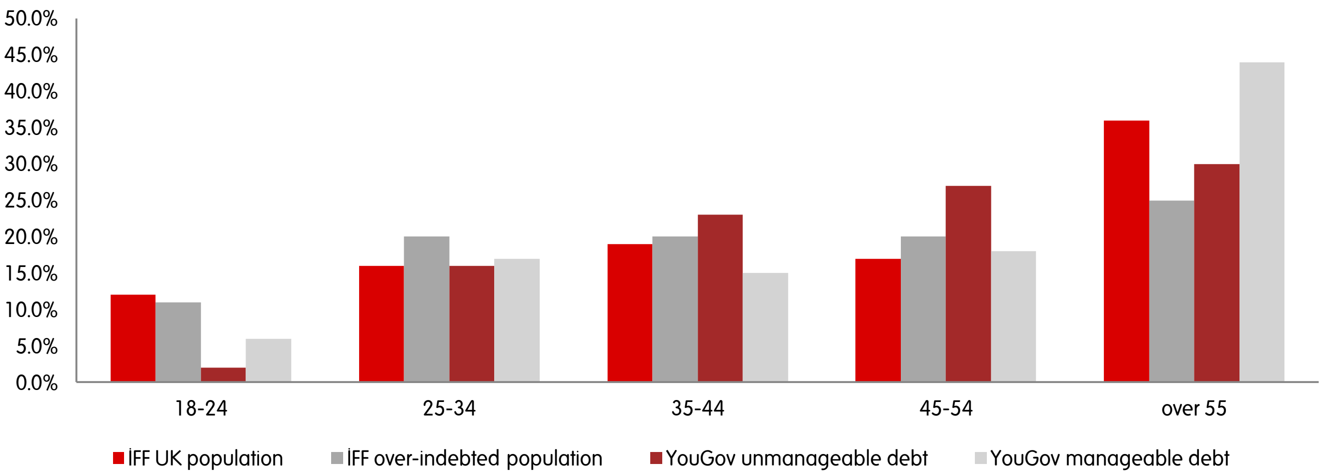
Chart 1: Comparison of StepChange and DRF Clients' Age Ranges



Source: StepChange Statistical Yearbooks 2011 & 2012

Comparing StepChange and DRF data to research commissioned from IFF Research and YouGov by the Money Advice Service throughout 2012, the contrast in age ranges served by free and fee charging agencies becomes all the more apparent. On this basis, and in view of the 70% or so, who are commercial debt resolution clients in the UK, policy makers and regulators need to consider the profile and behaviours of fee paying customers as a priority, when mapping supply and demand. It is impossible to prioritize resources effectively without this.

Chart 2: Comparison of MAS 2012 data for Age Ranges



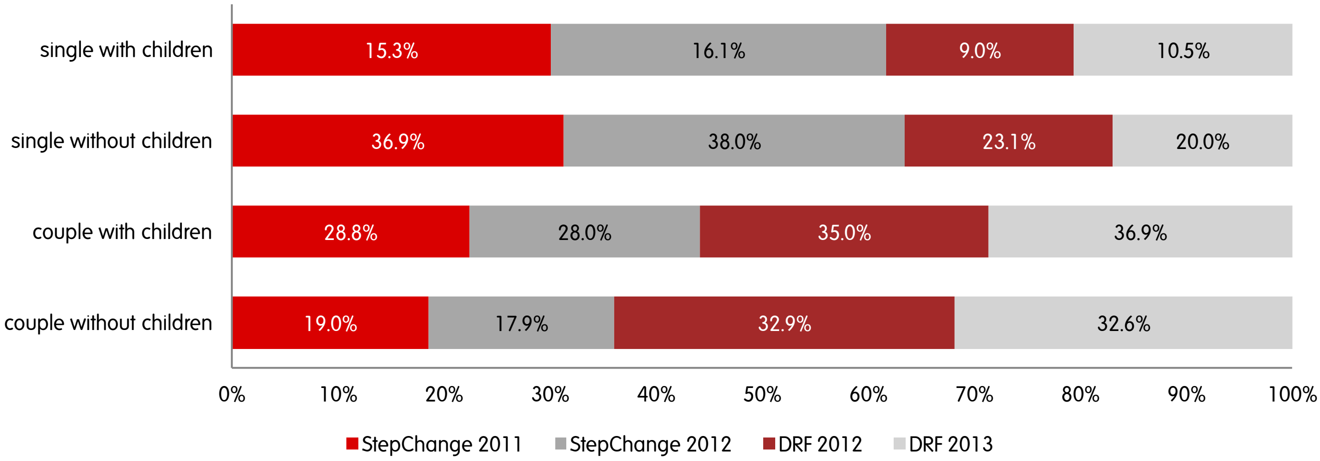
Sources: User Needs from Debt Advice, IFF Research, February 2012; The effectiveness of debt advice in the UK, YouGov, October 2012

There were slightly more clients with issues of health, mobility and wellbeing (19%) than present in the UK population as a whole (17%), but significantly fewer than recorded as using free face to face advice funded by the Money Advice Service[2] (33%).

The proportion of DRF members' clients with dependent children continued to mirror that in the free to client sector at approaching 45%. However, parents and carers using a DRF member to resolve their debts were more often in a relationship as well.

[1] Consumer Debt and Money Report, CEBR (for CCCS), Q4 2011

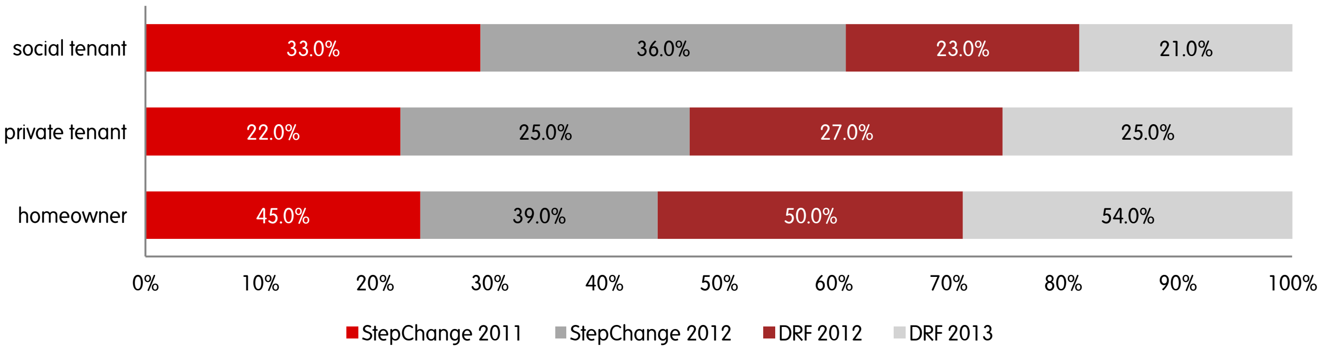
Chart 3: Comparison of StepChange and DRF Clients' Household Composition



Source: StepChange Statistical Yearbooks 2011 & 2012

The 2013 client survey results reiterated our 2012 findings that DRF members' clients were more likely to be homeowners than free advice seekers also.

Chart 4: Comparison of StepChange and DRF Clients' Tenure



Source: StepChange Statistical Yearbooks 2011 & 2012

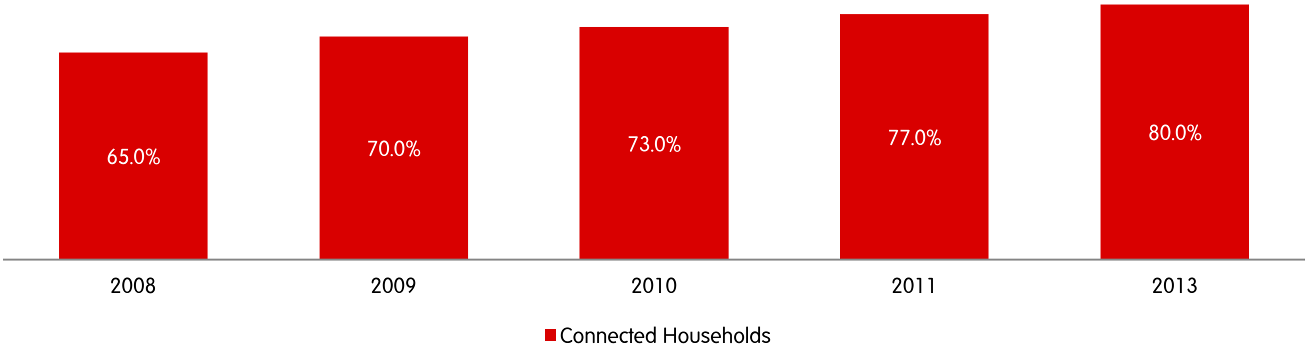
The distinct demographic profile of DRF members' clients is an important characteristic to recognise, because active advice seeking is another key difference between these and clients using the free sector. The qualitative research conducted with DRF members' clients throughout 2012 illustrated that a significant proportion consider themselves informed decision makers, and less vulnerable than challenged by their financial circumstances.

b. Advice Seeking Trends

This survey provided evidence that clients are becoming increasingly independent in their pursuit of information and advice. For instance, reports of internet use increased from 1.0% in 2012 to 20.5% in 2013 and there were signs of diversification in references to specialist forum and review sites also. This reflects the wider trend reported by the Office for National Statistics of increased internet access across all households in the UK.

[2] 360 degree evaluation of Money Advice Service funded face-to-face debt advice, Optimisa (for MAS), January 2013

Chart 5: Comparison of Internet Access among UK Households, 2008-2012



Source: ONS Statistical bulletins, Internet Access - Households and Individuals, 2008-2012

Overall, active advice seeking grew from 45% to 67% of respondents between 2012 and 2013 and particular trends within this were contractions in consulting banks and creditors and in approaching free to client agencies. The former may relate to a growing mistrust of mainstream financial services, since public awareness of mis-selling has emerged and the latter may relate to funding cuts to frontline advice services. However, further research is essential to verifying these hypotheses. An increase in approaching friends and family was also noted, which would tend to indicate some decline in the inter-personal stigma that can prevent people from accessing debt advice.

c. Advice Seeking Drivers

Evidence of austerity was apparent in these survey results because the main reason for seeking debt advice was recorded as "a drop in income" (32.5%) in 2013, compared to "a change in circumstances", which had been the main reason given in 2012. Together, these reasons accounted for over 60% of initial advice seeking, whereas overspending was reported by only15% and increased outgoings affected 24% of clients taking part in the 2013 survey.

It was reassuring to see creditors beginning to exercise some forbearance, when it came to debt collection and other interventions. There was a contraction in pre-contract creditor contact reported, from 87.2% in 2012 to 81.5% in 2013. However, the proportion of respondents reporting contact post-contract was cause for concern because this rose from 21.8% in 2012 to 40.8% in 2013.

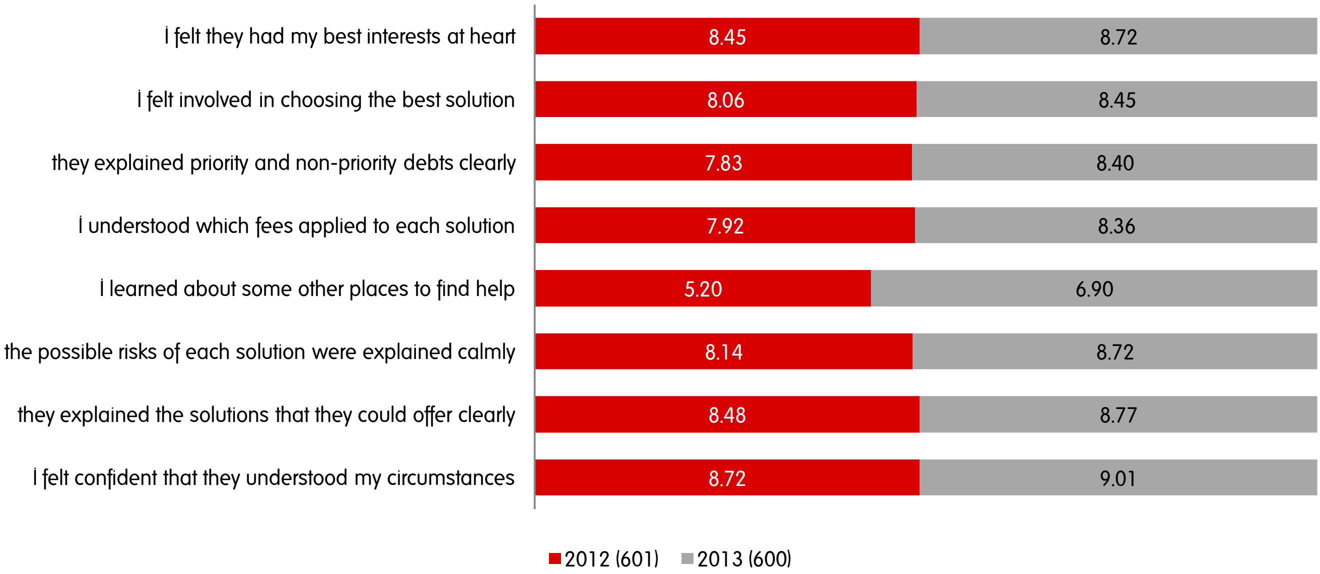
It is important to recognise that respondents' reports of creditor contact are perceived and therefore may not accurately represent communications sent. That said, contact experienced as harassment or a sanction after entering into a debt resolution contract is highly likely to have a detrimental effect on wider opinion of creditor fairness and in the longer term, may impact on the effectiveness of communications as a driver to advice seeking.

d. DRF Key Performance Indicators

Parallel with the growth in active advice seeking, there was increased awareness of regulatory and professional standards, which are set out in the relevant OFT guidance and DRF Code. For instance, recognition of firms' DRF membership increased from 7.8% to 18.2% in 2013, incidence of initial contact by a DRF member halved to 16.0%, and recommendations to use DRF members increased by 3% to approaching a quarter of all respondents.

There was improvement across all eight pre-contract service attributes, resulting in ratings that were good to very good. In the context of a contraction in free advice seeking before using a DRF member and the OFT's March 2012 Guidance stipulating that commercial firms must inform potential clients of free services, it was particularly good to see more respondents who rated DRF members highly for "I learned about some other places to find help".

Chart 6: Comparison of DRF Pre-Contract Perfromance Indicators, 2012 & 2013



Note: mean rating scores calculated from "marks out of ten"

Across the ten post-contract performance indicators, DRF members achieved even higher ratings than they did for pre-contract service attributes, as they did in 2012. Without exception, scores were in the range of very good to outstanding, which is a clear indication that DRF members are committed to delivering high levels of customer care after entering into a contract with their clients.

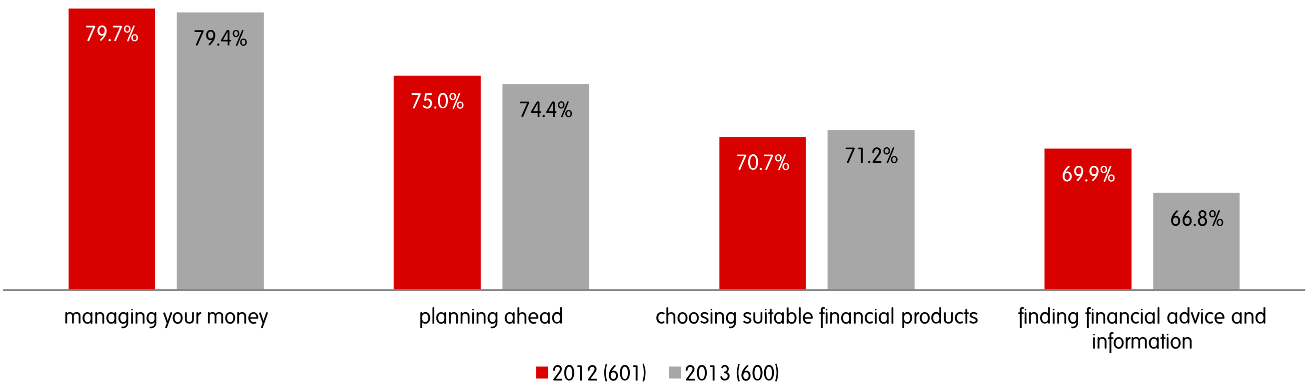
On a less positive note, there was a contraction in the percentage of respondents who recalled receipt of a written proposal before entering a contract, from 88% in 2012 to 72% in 2013. As was the case for reported creditor contract, there is potential for a mismatch between actual and recalled communications because around a third of respondents were in solutions for which it is impossible to have a contract without this. Whilst 72% recollection is not a major cause for concern, it is sufficiently lower than the 88% recorded in 2012 and the DRF will need to address this through more explicit signposting of important documentation.

For the first time in 2013, the client survey recorded switching from DRF solutions and providers. It was therefore noteworthy that after researching the reasons for dropping out of a DRF member's DMP in November 2012, only 6% of respondents to this survey reported that they were no longer using their original solution or provider. High levels of customer retention are therefore a key characteristic DRF member firms.

e. DRF Clients' Outcomes

As in 2012, between two-thirds and four fifths of respondents reported improved financial capability since entering a debt solution with a DRF member. This was broadly in line with the free to client outcomes recorded by the Channel Strategy Research conducted by Policis, for the Money Advice Trust in 2011.

Chart 7: Comparison of Improved Financial Capability Outcomes , 2012 & 2013



Further analysis of clients' financial circumstances is the subject of a parallel report to this. However, it was interesting to note that when asking respondents about the levels of personal borrowing in the household at the time of the interview, a significant minority (37.5%) described this as "none or manageable" despite the qualification that all debts had been repaid. This phenomenon requires further research into the psychology behind it. However, it does point to a strong desire to leave the debtor population, which in the context of increases in active advice seeking and informed decision making would tend to suggest that DRF members' clients expect prompt rehabilitation to the mainstream population of personal finance consumers. To a large extent, the economic recovery derived from consumer confidence could be deemed as dependent on this.

4. RECOMMENDATIONS

a. The Good News

DRF members serve a distinct group of borrowers who are significantly different to those using free to client services. Their demographic profile shows many of the characteristics of people who enjoy social cohesion within communities that have higher levels of social capital and resilience.

Clients' capacity for informed decision making is apparent in the growing inclination to shop around for advice before entering a contract for any kind of debt resolution. This is a characteristic of independent learning, which is fundamental to lifelong financial capability.

The contraction in creditor intervention prior to entering a debt solution is evidence of forbearance from some lenders, demonstrating their responsiveness to public opinion. Given the role of intervention as a driver to advice seeking, the growth in autonomous shopping around is all the more significant.

DRF members experience outstanding customer retention. However, consumers' disinclination to switch financial services provider in general may be a contributory factor to this and researching whether the phenomenon applies to the debt sector (and more specifically DRF members) was not the aim of this survey.
Clients' awareness of key regulatory guidance and professional standards seems to be increasing. Both this and the diversification of internet use as an advice seeking source demonstrate consumers' progression in finding financial advice and information.

For pre-contract service attributes, clients rated DRF members as good to very good. There was an improvement in supporting clients with other places to find help and this was important because the use of free advice agencies before approaching a DRF member had contracted, despite an overall increase in shopping around.

Improved performance for post-contract attributes was also noted and yet again in 2013, this was higher than pre-contract. With post-contract ratings now in the range of very good to outstanding, it was clear that DRF members pursue a sustained relationship with their clients.

As in 2012, the highest performers in the DRF membership cohort were the smaller firms with fewer than 3000 clients and in 2013, the outstanding customer service of firms in the Band 2 category (1-3000 clients) came to the fore.

b. The Not So Good News

Client's recollection of receiving a written proposal before entering a contract dropped significantly. Focusing on the mismatch between actual and recalled proposals within the IVA client base and the fact that the range and extent of specific documents recalled was the same as in 2012, the contraction is undoubtedly a perception rather than a failure of service delivery. 72% recall is not bad, but it is considerably lower than 88% and this change needs to be addressed.

Clients' perceptions of post-contract creditor intervention is cause for concern because it challenges the authority of debt resolution professionals, increases dissatisfaction with lenders and undermines the value of debt collection as a driver to advice seeking. Word of mouth is a powerful tool for spreading misinformation such as "lenders have no right to chase this debt". Particularly among clients in IVAs, customer perceptions of creditor contact as intervention must be a priority.

c. The Next Steps

When around 70% of debt solutions are commercial, 40% of consumer credit licensees are sole traders and the DRF has a proven track record in engaging and nurturing smaller firms, the FCA would be well advised to consider DRF standards and members' business models when designing improved regulation with regard to the commercial debt sector.

Over the next two to three years, the pivotal role of the DRF must be to bring more suppliers into its fold, such that consumers who choose to pay for debt resolution are better protected. For the foreseeable future, self-regulation will be a critical component in the consumer credit market and those who are wary of its effectiveness will want to see it applied without exception.

As consumers' capacity for informed search and selection of debt resolution evolves, so too will the sophistication of criteria. Regulatory and professional standards invariably focus on easily quantified tangibles, like income to debt ratios or complaint handling timeframes, whereas consumers often prefer to focus on the added value of intangibles, like empathy.

To maintain the outstanding customer perceptions of members' performance, the DRF needs to develop strategic partnerships with consumer bodies, such that indicators remain responsive to the changing debt advice and resolution landscape and the individual who chooses to pay for a service is at the heart of shaping sustainable outcomes.

Whilst solution and provider switching is marginal, the DRF needs to maintain a close eye on clients' reasons for leaving. From the perspective of outcomes that are fair to borrowers and lenders, zones of tolerance for exiting a contract need to be developed across for and not for profit models, such that an industry standard that is consistent, accountable and transparent is formed.

DRF members need to work more closely with creditors on perceptions of post-contract intervention to ensure that customers experience the spirit of OFT Guidance for Debt Management and Irresponsible Lending. In as much as creditor intervention and debt collection may be a driver to advice seeking, clients are likely to perceive relief from these as their just reward for addressing a debt problem.

The DRF needs to lobby policy makers and regulators to conduct further research into the attributes of effective advice seeking. The growth and diversification of the internet as an advice source is evidence that behaviour is changing, so it is imperative to develop digitally native approaches to services delivered through this channel.

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