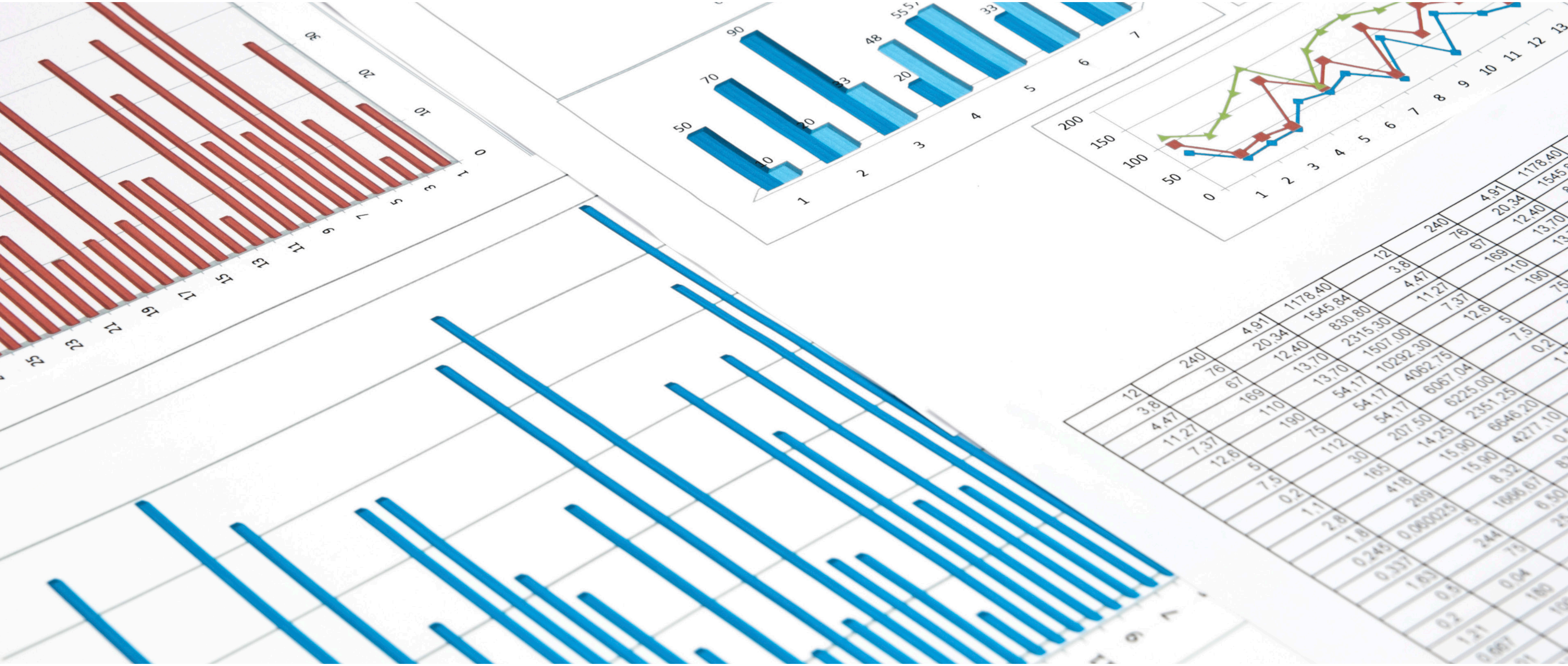
DEBT RESOLUTION FORUM

RESEARCH

2014 Client Survey: 3 Year Trend



DRF
DEBT RESOLUTION FORUM
Promoting Professional Standards

Prepared by Zero-credit for the Debt Resolution Forum

Zero-credit
the co-operative voice of credit

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FOREWORD

Dear Reader,

It seems a very long time since I commissioned DRF's 2012 client outcomes survey.

Back then it was both ground breaking (the first detailed look at the outcomes achieved for clients of fee charging debt resolution companies) and controversial (then as now, there are people who don't believe we achieve much for our clients, something that this research clearly shows is not the case).

This is the third annual study we have commissioned from independent research co-operative Zero-credit. This gives us the opportunity to publish the first ever longitudinal study of fee charging debt management and the outcomes achieved for our clients.

Getting this far has been a real achievement for DRF – but not our only one. Early in 2014 we were awarded the Money Advice Service's Debt Advice Quality framework for Organisations. This research played a part in that achievement too, not least in that our members get confidential datasets of the research done with their customers, enabling them to benchmark themselves against the results achieved by DRF members as a whole.

One of the things I am pleased that DRF's research has achieved is a wider understanding that the people who choose to pay for debt advice and action are quite different from those who choose free advice. Our clients are quite different from those that the Financial Conduct Authority (FCA) prioritise – they are older, more likely to be homeowners, less likely to be on benefits, and likely to owe a great deal more than the clients of free advice agencies. The proportion of people who shop around for debt advice has risen sharply since we started funding this work too. More than eight out of ten of our clients actively shop around for a solution provider, compared with four-five out of ten when we started these studies. Yes, being in debt makes you feel more vulnerable, but DRF clients do not fit the pattern of poverty and deprivation that many opinion-formers think is common to everyone in debt. This is reinforced by the work done by the Financial Services Consumer Panel "Defining consumer vulnerability and disadvantage".

Which is not to say that our clients don't need careful, sensitive, support and guidance. And, again, our research is playing a role in ensuring DRF member companies have the data they need to develop their services appropriately.

For me there are two key areas that this three-year study shows. The first is that it's been tough. People we help are finding it harder to make ends meet. The number of creditors that our more recent customers have is dropping sharply, as is the net income of those who have recently sought advice. Our economy may be growing again – but it's tough being in debt and not getting any easier. Our data also shows that people from ethnic minorities, over the entire three-year study, are less likely to be treated well by their creditors. It's a mystery why and we hope to fund more work on this.

Closer to home I think DRF's members can be justly proud of the ratings we get from our customers for the work we do and the outcomes we achieve. We, mostly, get more than eight out of ten. And ratings for the work we do AFTER we've "made the sale" are higher than the ratings we get for the work done up to the receiving our first payment from the client – again something that surprises many who do not have direct experience of our sector.

There are things we need to note and act on, though. I am concerned that there is some evidence of creditors trying to disrupt customers efforts to repay their debts. It's not overwhelming – but it's there. And DRF members have lessons to learn too: We need to look at why people's recall of the written proposals they receive is declining, for example, and we need to do better at signposting customers to other advice sources. We will be working with members to help in these and other areas.

I believe you will find this report useful and interesting and that it will change your view of the value of fee-charging debt solutions to the UK's indebted population – most of who still do not seek advice. There lies the biggest problem.

Yours sincerely,

David Emanuel Merton Mond FCA FCCA
Chairman
Debt Resolution Forum

1. INTRODUCTION

This is the first longitudinal analysis of the annual DRF client surveys. It is the principal report of four, the others being Key Performance Indicators, Demographics and Financial Circumstances, and a Technical Appendix, containing the Questionnaire and anonymised verbatim comments.

a. Background

Since 2012, Zero-credit has been conducting an annual survey of some 600 DRF members' clients. Telephone interviews are conducted under the RESPECT Code of Practice for Socio-Economic Research and we accommodate response times from ten minutes to over an hour because this recognizes clients' potential vulnerability and the sensitivity of information shared. Respondents also have the opportunity to decline an answer at all times.

The range of DRF member firms has changed since 2012, with an increase in membership applications from small and medium sized firms in 2013, followed by some firms resizing in response to market demand and regulatory change. For example, several firms have acquired the customers of redundant practices, whereas others have contracted to focus on a specific client base and some have exited the market for debt solutions entirely. These shifts are particularly noticeable in the growing prevalence of Band 2 (medium sized firms) clients since 2012 and the prevalence of IVA providers among Band 3 firms since 2013.

b. Participation

Participation in the annual client survey continues to grow, increasing from 75% of members in 2012, to 85% in 2013 and 90% in 2014. The following have taken part in all three years:

- Abacus
- Ashley Park
- Bright Oak
- Carefree Group
- ClearDebt
- Debt Advisory Services (Scotland)
- Debt Correct
- Debt Stop Direct
- Dissolve Debt
- Debt Release Direct
- Express Debt Solutions
- In Control Debt Solutions
- The Debt Advisor
- Varden Nuttall

c. Sampling

We continue to sample clients at random, within strata to reflect firms' size, so we can simulate accuracy at 95%, +/- 4%. Strata are defined as set out below and the number of interviews completed reflects the proportion of active clients by firm size for each year. Since 2013, we have defined active clients as those who have made a payment within the last 3 months, and since fieldwork takes place within a three month window, we can be confident that respondents have used a DRF member within the six months prior to an interview taking place.

Strata	**Band 1 (small)**	**Band 2 (medium)**	**Band 3 (large)**
Definition	fewer than 1000 clients	1000 to 3000 clients	more than 3000 clients
2012 (601 interviews)	44 completed in total	84 completed in total	473 completed in total
2013 (600 interviews)	80 completed in total	230 completed in total	290 completed in total
2014 (600 interviews)	86 completed in total	277 completed in total	237 completed in total

d. Questionnaire

Since 2012, the questionnaire has monitored a number of key performance indicators for pre- and post-contract service attributes, together with experiences of creditor intervention. Originally derived from the OFT's Debt Management and Irresponsible Lending Guidance, the inclusion of these attributes as FCA rules now permits a longitudinal analysis. In 2013, we made minor changes to improve the accuracy of respondent recall in relation to solution and provider, as well as recording health issues. We have retained these changes in 2014.

2. EXECUTIVE SUMMARY

a. Research Context

In 2013, the Debt Resolution Forum committed to an annual survey of its members' clients, as had first been conducted by Zero-credit in 2012. This 3 Year Trend Report compiles data from surveys in each of 2012, 2013 and 2014 and it is the first longitudinal analysis of key trends in the delivery of commercial debt solutions in the UK. The 3 Year Trend series will now replace reports of Key Performance Indicators and Demographics and Financial Circumstances that were prominent in previous years, although relevant subset analyses and full datasets will remain available in the public domain.

Recognising that DRF members are a minority that is pro-active in submitting to scrutiny, it is important to note that the standards recorded by this research may not reflect those achieved by the commercial debt sector as a whole. Despite significant market reform driving changes in supply, the client demography for DRF members remains very much the same, providing important insight into demand for commercial services.

This is significant because in its November 2012 customer segmentation, *Indebted Lives*, the Money Advice Service reported that more than eight out of ten over-indebted consumers are not currently seeking advice - some 7.3 million people. Within the demography of all 8.8 million over-indebted adults, it was apparent that neither free nor fee-charging providers serve the population as a whole, and that overlap between the two is limited.

As reported in our qualitative studies of consumer outcomes for the DRF in 2012, policy-makers, professionals and the public will always have differences of opinion about who should pay for which element of debt advice or resolution and why. From a regulatory perspective, the task must therefore be to reflect a balance of opinion such that supply and demand are proportionate and fair in achieving informed choice, and we trust this report helps to serve this outcome.

b. Customer Profile

From these surveys, it is apparent that more than two-thirds of DRF members' clients are over the age of 40, more than half are male, just under nine out of ten are white, just over eight out of ten are healthy, around two thirds are in a relationship, just under half have children, around two-fifths are homeowners and around half have a household income over £20kpa. In short, this core client base does not match the characteristics identified in *Consumer credit and consumers in vulnerable circumstances* (FCA, April 2014) of low income, lack of savings, receipt of benefits or living in rented accommodation.

However, the summary of subset analyses that follows does reveal some common vulnerability indicators, of which members need to be aware, when ensuring that advice seekers are appropriately signposted.

By age, important exceptions to our findings above were that respondents using IVAs tended not to be over 60. There was an increase in recent advice seeking among respondents under 40 and those over 60 were least likely to shop around for help. The highest household incomes were recorded in the middle age ranges of 25-39 and 40-59.

By gender, there were more male respondents using IVAs than females. There tended to be more women identifying themselves as Band 1 clients and recent advice seekers, compared to their presence in the 2014 sample as a whole. More women also reported a health problem and being single than men did and a significant minority of women were social tenants or unmortgaged homeowners, with household incomes of less than £10kpa.

By ethnicity, Black, Asian and Minority Ethnic (BAME) respondents continued to be far more likely than white respondents to seek other help in 2014, as in 2012 and 2013. They also tended to be younger (under 40), have either very high or very low household incomes and were present at just under 10% of the samples taken in 2012-2014.

By health, there was an increase in respondents with a problem seeking advice for the first time in recent years. This subset also tended to be older, female, single and less likely to shop around for advice. Significant minorities were also unmortgaged homeowners and social tenants.

There were fewer couples among recent advice seekers than across the 2014 sample as a whole. More men reported being in a relationship than women did. Respondents who were more likely to be single than prevalent in the total 2014 sample included those of BAME origins, people with a health problem, social tenants and unmortgaged homeowners. As might be expected, single people tended to have lower household incomes than respondents who were in a relationship.

As in previous years the proportion of respondents with children was very similar to the client base reported by the free sector. A key exception was lone parents, of whom there were significantly fewer than reported as using free agencies. There were more parents among respondents using IVAs than using DMPs and more using Band 3 firms, though the latter may be skewed by recent DRF membership changes. Among active advice seekers, there were more parents, and lone parents, in particular. There were more parents in the subset of mortgaged homeowners than other tenure types too.

Whilst homeowners dominated the total sample, there were more private tenants in IVAs than other tenures. There was a higher representation of private tenants among recent advice seekers than in the total sample, and mortgaged homeowners were the most likely to shop around for advice. Around half of private tenants were women, half were single and 64% of social tenants and 53% of private tenants had household incomes less than £20kpa.

There were more respondents from lower income households among Band 1 clients than other firms, as well as evidence of an increase in recent advice seeking from lower income households. However, income was not a determinant of active advice seeking. The lowest household incomes were reported by respondents who were either over 60, female, had a health problem, were single and / or living in rented accommodation.

c. Customer Circumstances

In 2014, respondents had on average 5.9 creditors, £1,414 in monthly net income, a personal borrowing level of £24,639, a debt to income ratio of 1.5 and an outstanding mortgage balance of £95,945, when starting a solution. Fewer of these indicators have been reported by the free sector in recent years, so it has become harder to benchmark customer circumstances. However, the personal borrowing of respondents to this survey was approaching £10,000 more than that of StepChange clients in 2013.

As might be expected, respondents using IVAs had more creditors, higher incomes, borrowing levels, debt to income ratios and outstanding mortgage values than DMP users did.

By Band, it was interesting to note that respondents using the smaller Band 1 firms had higher debt to income ratios and outstanding mortgage balances yet lower incomes on entering a solution that those using larger firms. Thus, it is worth recalling the prevalence of IVA providers among larger firms.

From the year on year trend analysis and how recently help had been sought, there was clear evidence that debt resilience was in decline. The average creditor number for respondents who had first sought advice in the last year was 4.6 compared to 6.5 for those seeking advice more than five years ago. Average monthly net income on entering a debt solution had dropped from £1,555 among those seeking advice more than five years ago to £1,203 among those seeking advice within the last year in the 2014 survey. This was reiterated in the £1,507 average income of respondents in 2012, compared to £1,414 in 2014. Similar patterns were apparent in personal borrowing levels, debt to income ratios and outstanding mortgage values.

Active advice seekers had higher creditor numbers, net monthly incomes, personal borrowing, debt to income ratios and outstanding mortgage levels than those who did not approach an agency other than a DRF member.

By age, respondents aged 40-59 tended to experience the greatest distress in terms of high borrowing and mortgage values. However, their incomes were higher than other age groups so the average debt to income ratio was not the highest by age range. Respondents over 60 were the most indebted by this measure, with a debt to income ratio of 1:7.

Women had fewer creditors, lower income, borrowing, debt to income ratios and mortgage balances than men did.

A similar pattern was apparent between BAME and white respondents, those with and without a health problem, and singles and couples.

Parents, on the other hand, had more creditors, higher income, borrowing, debt to income ratios and mortgage balances than those without children did.

By tenure, there was a stark contrast between the personal borrowing levels of social (£15,261) and private tenants (£19,526). However, at 1.3, their debt to income ratios were the same.

By current annual household income, the highest debt to income ratios were recorded by respondents in the £20-£29,999kpa and over £50kpa brackets. Average creditor numbers tended to increase with income from 5.5 in the two lowest household income brackets to 8.6 among those over £50kpa.

d. Customer Journey

A change in circumstances returned to first place as the main reason for seeking help in 2014 after a dip to second place in 2013. More than a third of respondents reported this in 2014.

Contact from creditors before entering a debt solution dropped for the second year running, such that a quarter of respondents reported no communications whatsoever. Qualitative feedback in the course of interviewing some respondents was that they had "nipped the problem in the bud" before creditors got in touch.

2014 saw yet another significant increase in active advice seeking, with 85% of respondents reporting this in 2014 compared with 45% in 2012. The internet was the main contributor to this, with just over a third of 2014 respondents using searches to learn about solving problem debt.

It was difficult to spot any trend in respondents' choice of firm by size because this is used to stratify the sample and there have been several changes in DRF membership since 2012.

Recommendations to use a DRF member increased for the second year running, such that in 2014 this was the number one attribute noticed about firms before making contact - more than a third of respondents mentioned this.

By solution, respondents using an IVA were most likely to shop around for advice and to mention the recommendations of others. DMP users reported that *they contacted me* more often than IVA users did.

By Band, those using the smaller firms were most likely to cite a drop in income as the main reason for seeking advice and least likely to shop around. However, more respondents using larger firms reported contact made by the DRF member. Some of this related to the acquisition of other firms' customers.

Among recent advice seekers, increased outgoings were a driver, with around a third of respondents, who had sought advice within the last year giving this as their main reason. However, this was not reflected in the year on year trend analysis, so may be specific to a small subset only.

Active advice seekers experienced more contact from creditors prior to entering a debt solution than those who did not approach anyone other than the DRF firm they were using.

Among those least likely to shop around for advice, or reporting that *they contacted me*, the dominant characteristics were being over 60, female, white, with a health problem, single, without dependent children, living in unmortgaged or socially rented accommodation and having a household income below £10kpa. Among the 600 respondents interviewed in 2014, four people reported all of the above, one in each of the time periods for first seeking advice.

e. Customer Experience

All customer ratings for pre-contract service attributes have risen since 2012. Outstanding mean scores (above 8.5) were achieved for: *I felt confident that they understood my circumstances*, *they explained the solutions that they could offer clearly*, *I felt they had my best interests at heart* and *the possible risks of each solution were explained calmly*. With the exception of *I learned about some other places to find help* (6.01), all attributes achieved means above 8 out of 10.

Recollection of receiving a written proposal dropped for the second year running from around nine out of ten respondents in 2012, to seven out of ten in 2013 and six out of ten in 2014. However, in 2012, around a third of those who confirmed receipt of a proposal could not remember any of the information contained within it, compared to just over 1% who recalled no detail in 2013 and 2014.

Information most likely to be recalled in all three years included a *statement of income, expenditure and any surplus, as verified with you, a warning about the impact of the solution on your credit history* and *the total cost of the solution differentiating monthly repayments and any fees*. Least likely to be recalled was *information about priority or debts not included in the solution*. Overall, just over a third of respondents to the 2014 survey recalled documentation about priority debts.

As in previous years, post-contract performance ratings were higher than pre-contract ratings and again, all mean scores for 2014 were higher than in 2012, though some not quite as high as in 2013. Seven of the ten attributes achieved outstanding scores (above 8.5) with the remaining three being very good (above 7). At 7.47, the lowest score was for *keeping me up to date with any feedback from my creditors*, from which it became clear in the subsequent verbatim responses that some creditors were communicating directly with former customers, beyond the practice of sending statements and irrespective of solutions in place. Some crude attempts to disrupt agreements were noted and this is clearly not in the best interests of the customer, the DRF member, nor indeed any of the other creditors who have reached an agreement.

f. Customer Outcomes

At the start of each interview in all three years, 99% of respondents stated that they were either in or had recently completed a solution with a DRF member. In 2014, five people indicated that they had changed provider, both at the start and again later in the interview.

The number of respondents reporting use of an IVA since first agreeing a solution with a DRF member has increased since 2012. However this may reflect some of the changes to membership, rather than a particular trend in solution preference. In 2014, just under two-thirds of respondents were using DMPs, compared to just over one-third using IVAs.

Among respondents who had changed debt solution with a DRF member (17 in 2013, and 22 in 2014) more than three-quarters were clear that they had entered insolvency procedures.

Recognising that some respondents share more detail as trust builds, since 2013, we have asked a more explicit question about changes to the original solution entered, later in the interview. At this point more than nine out of ten respondents have indicated no change to the original solution, or the original provider, in both years of asking.

In 2013, three respondents ended their solution to manage repayments themselves and eleven opted to use another firm. In 2014, these choices were made by three and five respondents respectively. It is clear that customer retention and loyalty are exceptionally high.

The average solution length to date increased slightly from 2.8 years to 3.0 years in 2014. However, this is likely to relate to customer acquisition from other firms and the impact this has had on recency of advice seeking, and, in some instances, the overall age profile of the sample also.

There was an increase in joint solutions from just over a quarter of respondents in 2013 to just under a third in 2014. However, of the latter, more than half had first started seeking help two to five years ago, and just under a quarter more than five years ago. Since their corresponding solution lengths were more in line with the rest of the sample, it was clear that a significant minority of joint solutions derived from customer acquisitions.

2014 saw another small decrease in reports of improved financial capability since using a debt solution. Across the four attributes of *managing your money*, *planning ahead*, *choosing suitable financial products* and *finding financial advice and information*, between one- and two-fifths of respondents stated that their skills had remained about the same.

Reports of creditor intervention since entering a debt solution increased again in 2014, with approaching a third of respondents relaying this. Two key areas of concern were year on year increases in *confusing communications* and *notices of legal action*, although, reporting of the latter by respondents of BAME origins fell in line with the total sample for the first time since 2012. From qualitative observations in the course of interviewing, it was clear that some respondents did not understand why creditors sent statements after a solution had been agreed, that they found this confusing and, in some instances, demotivating too. However, a disruptive minority of creditors was noted, and further research is necessary to explore communications designed to harass customers.

As in 2013, a significant minority of respondents reported household borrowing levels as none or manageable, despite fewer than 5% having recently completed a debt solution. Thereafter around three in ten stated it was below £20,000 and approaching a quarter of respondents preferred not to answer this question. Quite a few of these were IVA users who did not fully understand how their repayments settled an outstanding balance and there were others who simply did not know, coded within this response.

Around two-thirds of respondents added a verbatim comment to their ratings of DRF members and of these, around two-thirds were positive – the remainder were negative or neither. Outstanding feedback was often very personal:

We find it very, very good and he was only saying the other week that in the last 12 months he had paid this off. It has made the last years of my husband's life comfortable knowing he has been taken care of by [DRF member].

as was negative feedback, which, on occasion, gave examples of considerable misunderstanding. More incisively, feedback that combined both points of view often criticised the level of communication between some DRF members and their customers:

I think they've been alright and the IVA has helped me. They are a business - the only thing I would say is they only communicate at the review so I only hear from them every April. Other than that they are okay.

As a rule, firms that had introduced monthly statements were least likely to have negative comments.

3. CUSTOMER PROFILE

a. Age (Q28)

As in previous years, around half of the sample was aged between 40 and 59. 2014 saw an increase in respondents aged 60 and over, to more than one in five. However, care should be taken in assuming this is a distinct shift in client base, not least as subset analysis by how recently advice was first sought saw an increase in demand from respondents under the age of 40. The larger proportion of older respondents in the 2014 sample is most likely to relate to the advent of new regulation - many firms have refocused activity: some have expanded, others contracted, in some instances to the point of market exit.

It's also worth noting that the 2014 survey recorded an increase in respondents, who had first sought advice more than five years ago. Given the established trend that around half of DRF members' clients are aged 40-59, and that customer retention continued to be high in 2014, a simple matter of aging may account for the higher number of respondents in the over 60 age range. On this basis, we do not believe it is wise to connote a new trend in the age profile of DRF members' clients until the impact of reform beds in.

Since neither the free nor the fee-charging sectors serve the over-indebted population in its entirety, it is likely that we shall see shifts in targeted consumer groups and client bases for some time to come. Within the 83% of over-indebted people who are not currently seeking advice, the Money Advice Service *Indebted Lives* research is an important reminder that firms' knowledge and understanding of consumer demand has a long way to go. FCA reporting requirements will help firms to reflect more critically on customer segmentation and targeting, allowing the regulator to authorise appropriate business models accordingly.

Age group	2012 (601)	2013 (600)	2014 (600)	StepChange
18-24	1.2%	1.0%	1.2%	12.5%
25-39	30.6%	29.7%	25.5%	40.5%
40-59	51.9%	50.5%	47.8%	40.3%
over 60	15.8%	16.0%	22.8%	6.7%
average age	45.9	47.5	48.7	n/a

b. Gender (Q35)

By gender, the profile of DRF members' clients who responded to this survey was almost a reverse image of the StepChange client base. In all three years of conducting this research we have interviewed more men than women. However, neither StepChange nor DRF members serve women to the extent that they are reported as present in the over-indebted population. Approaching two-thirds of over-indebted people are women, according to MAS - considerably more than the percentages reported as insolvent by the Insolvency Service in 2012 (IVAs: 47.5%, Bankruptcies: 40.4% and DROs 62.6%).

The widespread under-representation of women in debt solutions is significant, not least because the TUC reported an average annual gender pay gap of £5000 in November 2013. Thus, affordability may be a barrier to advice seeking and debt resolution. Historically, there has been a tendency for financial services to measure the uptake of consumer credit by household and this is problematic because it may well be hiding an indebted female population. It's worth noting that the financial services sector employs over a million people across the UK - three in five of whom are men. It also has one of the biggest gender pay gaps of any industry.

Whilst the FCA is focusing on consumers in vulnerable circumstances, with little regard for their gender, the MAS data point to there being some 5.6 million over-indebted women in the UK - more than twice the 2.5 million children reported as vulnerable through living in indebted households by StepChange and the Children's Society in May 2014. Furthermore, in the January 2014 Lending Trends, the Bank of England reported:

The annual write-off rate on consumer credit – the ratio of write-offs on unsecured loans to the stock of unsecured lending – was unchanged in 2013 Q3, as was the rate of personal insolvencies in England and Wales. In recent discussions, some major UK lenders reported that indicators of distress related to unsecured lending, such as write-offs and arrears, had performed in line with or better than expectations in 2013.

In view of the MAS data, it is unlikely we should accept women's lending distress to be in line with or better than expectations. Similarly, DRF members are too small a sample base from which to assess where gender bias exists, but what is clear is that higher income often affords higher levels of debt relief. Since the FCA quite rightly wished to exert more influence over the affordability criteria that achieve sustainable repayment, the need for a comprehensive equalities impact assessment is apparent.

Gender

	2012 (601)	2013 (600)	2014 (600)	StepChange	MAS
male	54.2%	52.8%	55.7%	44.6%	35%
female	45.8%	45.3%	42.3%	55.4%	64%
prefer not to say	0.0%	1.8%	2.0%	n/a	n/a

c. Ethnicity (Q29)

The subset of Black, Asian and Minority Ethnic (BAME) respondents remained under 10% of the samples taken, at 51, 54 and 53 individuals in each of 2012, 2013 and 2014 respectively. This is below the 12.8% recorded as resident in the 2011 Census across all four nations of the UK and it is impossible to state with certainty whether this is a demographic trend or related to the regional uptake of DRF members' services. However, with subset samples large enough to make some statistical inference in all three survey years, we have been reporting distinct differences between the Customer Journeys and Outcomes of BAME and

White respondents since 2012. Particularly because there are very few records of consumer credit customers by ethnicity, we reiterate that further research is essential to achieving a robust equalities impact assessment for the market.

Ethnicity	2012 (601)	2013 (600)	2014 (600)
White / White British	90.5%	88.2%	88.8%
Mixed / multiple heritage (inc British)	1.7%	1.0%	0.8%
Asian / Asian British	1.8%	3.0%	2.7%
Black / African / Caribbean / Black British	2.5%	2.8%	3.0%
Other	2.5%	2.2%	2.3%
prefer not to say	0.5%	2.8%	2.3%

d. Health (Q32)

After some discussion of how best to reflect the relationship between debt and mental health, we introduced a question recording long-term illness, physical and mental health problems in 2013. Working to the RESPECT Code, we must always consider the consequences of our research and whether it satisfies the principle of avoiding social and personal harm. Given the brevity of interviewing, we use a composite question to help eliminate some of the stigma associated with reporting health issues. This also allows us to compare our findings to statistics from the Office for Disability Issues, which are compiled more frequently than academic budgets allow and less sensationally than some in the media.

The OBI disability prevalence estimates for 2011/12 indicate that some 18.4% of the population has a longstanding illness, disability or infirmity that causes significant difficulty with day-to-day activities. Among respondents to the 2013 and 2014 surveys, incidence of similar experiences was well within our notional confidence interval of +/-4% at 95%. Particularly in the context of other demographic trends, this similarity tends to indicate that DRF members' clients more closely resemble the wider UK population than the one in two British adults with a debt problem, who has a mental health problem also.

Since consumers in vulnerable circumstances are high on the regulatory agenda, it is important to recall that DRF members are a minority among commercial consumer credit firms and that very little can be known about the mental health of the 83% of over-indebted people, who are not currently seeking advice - some 7.3 million adults. Further research is essential to establishing the onus of care placed on the public and third sector, not least as recent guidance from the Royal College of Psychiatrists makes a compelling case for improved awareness between health, welfare and debt advice professionals.

From the perspective of Treating Customers Fairly, we should hope that commercial firms identify and target consumer groups that do not have mental health problems, whilst recognising that from an equalities perspective, access to informed choice is the consumer's right, irrespective of personal circumstances. Investment in incisive strategy, monitoring and review is critical to supporting vulnerabilities ethically and effectively.

Long term illness, physical or mental health problem	2012 (601)	2013 (600)	2014 (600)
yes	n/a	19.0%	18.7%
no	n/a	78.0%	76.5%
prefer not to say	n/a	3.0%	4.8%

e. Relationships (Q30)

In 2013 and 2014, we continued to find very few differences in Customer Journeys, Experiences and Outcomes by relationship status. However, it is relevant that around two-thirds of respondents to all three surveys were in a relationship, especially when so little is known about how gender influences decision making. In its 2013 Statistical Yearbook, StepChange reported that 56.2% of its clients were single - almost double the 29% of single respondents to the 2013 survey. The prevalence of relationships among DRF members' clients may to relate to firms having an older client base than free sector firms, as well as there being higher levels of home ownership within the cohort. Benchmarking against the MAS *Indebted Lives* datasets should soon become a pre-requisite for evidencing how the needs of identified consumer groups are being met through products and services that are targeted accordingly.

Relationship status	2012 (601)	2013 (600)	2014 (600)
in a relationship	66.6%	65.8%	64.8%
single	31.5%	29.0%	29.8%

f. Dependents (Q31)

There was a slight dip in the number of respondents reporting dependent children in 2014, although this may very well relate to the increase in respondents aged over 60. Over three years, it is clear that clients without children are in the majority, at just over half of respondents. It is therefore worth noting that the ratio of respondents with children to those without is almost identical to the customer profile reported by many free solutions providers. However, from the StepChange 2013 Statistical Yearbook, it is clear that whilst lone parents are some 17% of the charity's client base, this subset was only 9.7% and 9.5% of respondents in 2013 and 2014 respectively. From this we may deduce that parents who are clients of DRF members are more likely to be in a relationship than those who use the free sector.

Dependent children				
	2012 (601)	2013 (600)	2014 (600)	StepChange
yes	44.1%	45.8%	40.8%	43.4
no	55.4%	51.3%	55.3%	56.6
prefer not to say	0.5%	2.8%	3.8%	n/a

g. Tenure (Q26)

In *Indebted Lives,* MAS reported home ownership among 48% of the over-indebted population, as well as 27% having private and 21% social tenancies. Results from all three DRF client survey years relate closely to this. By contrast, and reflecting its younger client base, StepChange sees far more clients from the private rented sector and paying for board or lodgings. However, it is worth noting that there may be some overlap in the definition of the latter with "living with friends / family". Regrettably, the consistency of definitions within the debt sector remains an issue that makes comparison tricky and this is not in the best interests of consumers. From a methodological perspective, our preference is for the FCA to insist that firms follow MAS's customer segmentation, because this would achieve continuity that permits longitudinal analysis, as well as fulfilling the authority granted to each agency by the Government.

Housing status					
	2012 (601)	2013 (600)	2014 (600)	StepChange	MAS
mortgaged home owner	43.6%	43.7%	38.0%	31.2%	48%
private tenant	26.2%	22.0%	23.2%	31.5%	27%
social tenant	17.9%	18.5%	19.0%	23.0%	21%
living with friends / family	7.2%	9.2%	8.5%	n/a	n/a
outright home owner	4.1%	3.2%	5.2%	2.1%	included above
prefer not to say	1.0%	2.8%	4.7%	n/a	n/a
something else?	0.0%	0.7%	1.5%	12.2%	n/a

h. Current Household Income (Q33)

We edited questions relating to financial circumstances before and since entering a debt solution in 2013, because respondents in 2012 found it hard to recall the level of detail that the DRF had initially requested from this research. In practice, we have also found respondents' confidence when reporting experiences of firms that hold their personal financial records can be undermined by questions for which they may not have a precise answer. Since committing customers to figures of which they are uncertain is a common practice among unscrupulous debt collectors and advisers, it is important to avoid any replication of the social and personal harm this causes.

Since 2013, at least three-quarters of respondents have been happy to place their annual household income within a range, giving us data that we can relate to other social and economic research sources. Currently, the most relevant of these is the MAS *Indebted Lives* dataset, from which we are able to see a prevalence of middle income households among DRF members' clients. In the context of wider debt sector trends towards lead generation, back book sales and "IVA factories", it is interesting to note a gap in supply among over-indebted people in households with incomes in excess of £40,000 a year.

Household income	2012 (601)	2013 (600)	2014 (600)	MAS	DRF adjusted
less than £10,000	n/a	17.2%	14.3%	included below	included below
ten to less than £20,000	n/a	26.8%	25.7%	50%	53%
twenty to less than £30,000	n/a	24.3%	19.2%	18%	25%
thirty to less than £40,000	n/a	8.2%	10.2%	12%	13%
forty to less than £50,000	n/a	4.5%	3.7%	7%	5%
more than £50,000	n/a	3.0%	2.8%	9%	4%
prefer not to say	n/a	16.0%	24.2%	4%	0%

i. Region (Q27)

Since DRF members are a minority among commercial firms in the debt sector, care should be taken in attributing too much significance to responses by region from these surveys. Within samples of circa 600, subsets are too small for statistical inference and this question serves primarily for quality control purposes. Historically, we have completed the smallest number of interviews with respondents in Northern Ireland (1-2%) and the highest with respondents in the South East (15-21%).

4. CUSTOMER CIRCUMSTANCES

a. Creditor numbers (Q19)

Between 2012 and 2014 the mean number of creditors on entering a debt solution with a DRF member has ranged from 5.8 to 6.6. Responses in all three years have clustered at a distribution peak of 5 creditors.

Number of creditors		mean
	2012	5.8
	2013	6.6
	2014	5.9

b. Monthly income (Q20)

The number of respondents able to recall monthly income at the start of their solution fell from almost half in 2013 to fewer than a third in 2014. This is likely to relate to the number of respondents in the 2014 sample, who first started seeking advice more than five years ago. Incomes at solution start appear to have contracted also, though again, this may be accounted for by the greater prevalence of longer term clients in the 2014 sample. All averages were at the upper end of the £10-£19,999 household income range, reflecting a cluster at just below the UK average household income of £21,000 and well above the poverty line of £12,600 among DRF members' clients.

Monthly income		mean
	2012	£1,507
	2013	£1,661
	2014	£1,414

c. Personal borrowing (Q21)

Since 2012, personal borrowing levels on entering a debt solution have continued to be substantially higher than reported by the free sector. In 2013, for instance, survey respondents owed an average of £10,000 more than StepChange clients.

Personal borrowing		mean	StepChange
	2012	£25,056	£17,635
	2013	£26,207	£15,979
	2014	£24,639	n/a

d. Debt to income ratio (Q20&21 calc)

Variations in debt to income ratios from survey responses in 2012 to 2014 cannot yet connote a trend reliably. This should be possible from 2015, when we will have three years of data drawn from identical questions about financial circumstances, as well as greater stability in the market due to FCA authorisations.

Debt to income ratio		mean
	2012	1.4
	2013	1.3
	2014	1.5

e. Mortgage balance (Q22)

The average mortgage balance on entering a debt solution fell by 19.5% between 2012 and 2014. House prices and therefore new mortgage values have not contracted similarly.

Mortgage Balance		mean
	2012	£119,148
	2013	£112,848
	2014	£95,945

5. CUSTOMER JOURNEY

a. Advice seeking (Q4)

There was a sharp contraction in survey respondents who had first sought advice within the last year in 2014, coupled with a similar increase in respondents who had first sought advice more than five years ago. With fieldwork conducted at the point of regime change, this may be more supply than demand led.

First decision to seek help	2012 (601)	2013 (600)	2014 (600)
within the last year	13.6%	17.0%	10.7%
more than 1 but less than 2 years ago	22.8%	19.0%	17.0%
more than 2 but less than 5 years ago	50.9%	52.3%	52.5%
more than 5 years ago	11.7%	10.8%	19.5%
prefer not to say	1.0%	0.8%	0.3%

b. Reasons (Q5)

Similarly, the shift in the main reason for seeking help from a drop in income to a change in circumstances may relate to the larger proportion of respondents who had first sought advice more than five years ago.

Main reason for seeking help	2012 (601)	2013 (600)	2014 (600)
a change in circumstances	38.9%	28.5%	34.3%
a drop in income	20.5%	32.5%	25.0%
increased outgoings	22.8%	19.7%	19.3%
overspending	14.1%	15.0%	16.8%

c. Drivers (Q7)

2014 saw yet further contraction in creditors' actions to recover arrears, both in terms of respondents who reported no debt collection activity and by the collection procedures reported. Small yet notable exceptions to this were *token payments not accepted* and *money withdrawn from another account*. Since 2012, the BBA has been concerned that this research pinpoints creditors who are not exercising forbearance fairly and later in this report, it is clear that despite collections serving as an advice seeking driver, reports of creditor intervention after respondents had entered a debt solution have increased since 2012.

Clearly this research can only record respondents' perceptions, but reports of creditor activity serve as a reliable indicator that borrowers' right to breathing space and representation by an advice agency are not universally respected. In our qualitative studies for the DRF in 2012, we commented that customers' negative experiences of consumer credit can be inflated by word of mouth and that this is an important phenomenon common to understanding protection and detriment in any consumer market.

In recording increased incidence of *token payments not accepted* and *money withdrawn from another account* before entering a debt solution, it seems likely that the short term high cost credit sector is the cause. For instance, both the OFT and the FCA have been particularly concerned about the continuous payment authorities and aggressive debt collection practices of this sector for some time.

Creditor experiences before solution	2012 (601)	2013 (600)	2014 (600)
calls or visits at unreasonable times	67.9%	56.7%	39.2%
notices of legal action	62.6%	52.0%	48.3%
confusing communications	41.8%	40.0%	34.2%
token payments not accepted	27.0%	21.0%	23.5%
money withdrawn from another account	6.8%	4.7%	8.3%
same/increased interest, penalties and charges	58.6%	60.5%	53.8%
prefer not to say	0.3%	1.2%	0.7%
none of these	12.8%	18.5%	24.2%
anything else?	0.0%	0.5%	0.7%

d. Sources (Q6)

Driven largely by searches on the Internet, there has been a marked increase in respondents seeking advice from a range of sources before approaching a DRF member, from just over two in five in 2012 to more than four out of five in 2014. Less striking, but similarly pertinent, are the increases in consulting friends and family or another company, rather than respondents' bank or creditors, a charity, government or council adviser. Since the latter are actions recommended by the FCA and the Money Advice Service, this finding is particularly significant in relation to the 83% of over-indebted people who are not currently seeking advice. The combination of active advice seeking that has a decreasing dependence on recommended sources and an overwhelming majority of target customers ignoring FCA/MAS recommendations entirely indicates a stark contrast in perceptions of appropriate advice.

Sources of help

	2012 (601)	2013 (600)	2014 (600)
accountant / solicitor	1.2%	1.2%	2.3%
another company	7.3%	21.0%	27.5%
bank / creditors	17.6%	12.0%	15.8%
charity, government or council	19.1%	9.2%	12.3%
friends / family	1.2%	9.7%	18.0%
internet search	1.0%	20.5%	33.7%
internet forum	0.0%	1.2%	6.5%
did not seek other help	55.6%	32.5%	17.2%

e. Firm size (Q3)

46.2% of respondents were clients of Band 2 firms in 2014, compared to 14.0% and 38.3% in 2012 and 2013 respectively.

f. First impressions (Q8)

As in 2013, respondents to the 2014 survey were more likely to report that testimonials and referrals had influenced their decision to approach a DRF member: around a third of first impressions recorded this.

Incidence of firms contacting clients increased in 2014, though remained below the level recorded in 2012. Whilst some of this related to lead generation, company takeovers by a number of Band 2 and 3 firms also meant that DRF members initiated contact. The verbatim comments recorded at Question 25 revealed that some respondents disliked being informed of such change by a new provider and this feedback applied to debt sales by creditors also. It is certainly contrary to the concept of seamless service that is so important to relationship marketing.

Despite the increase in active advice seeking since 2012, it is worth noting that respondents to the 2014 survey were less likely to notice regulatory and professional standards than in previous years. Again, this is a critical insight for understanding why so many over-indebted people are not currently seeking advice.

DRF member initial observations	2012 (601)	2013 (600)	2014 (600)
top / close to top of an internet search	28.3%	32.7%	19.0%
clear contact details	29.0%	33.8%	11.5%
consumer credit licence number	8.0%	11.2%	3.0%
DRF membership / professional standards	7.8%	18.2%	4.7%
overview of debt solutions	21.1%	21.0%	7.0%
some examples of likely fees	18.6%	19.7%	3.5%
they contacted me	32.0%	16.0%	26.8%
prefer not to say	3.2%	1.3%	3.3%
none of these	3.7%	10.8%	10.2%
advertisements	13.8%	8.2%	6.0%
testimonials / referrals	20.3%	23.3%	33.5%
company takeover	0.0%	0.8%	5.8%
anything else?	5.0%	0.7%	1.3%

6. CUSTOMER EXPERIENCE

a. Pre-contract KPIs (Q9)

With the exception of learning about other places to find help, DRF members' pre-contract performance ratings remained high, and all were higher than in 2012.

Pre-contract ratings	2012 (601)	2013 (600)	2014 (600)
I felt confident that they understood my circumstances	8.72	9.01	9.02
they explained the solutions that they could offer clearly	8.48	8.77	8.84
the possible risks of each solution were explained calmly	8.14	8.72	8.62
I learned about some other places to find help	5.20	6.90	6.01
I understood which fees applied to each solution	7.92	8.36	8.34
they explained priority and non-priority debts clearly	7.83	8.40	8.38
I felt involved in choosing the best solution	8.06	8.45	8.41
I felt they had my best interests at heart	8.45	8.72	8.64

b. Durable medium (Q10)

Recollections of receiving proposals in a durable medium fell again in 2014 and this is cause for concern. Aware that the IPA audits of DRF members require evidence of treating customers fairly, a mismatch between documented procedures and customers' perceptions of these clearly exists. Since the purpose of sending proposals in a durable medium is to ensure that customers have a fair, clear and not misleading account of options recommended to them, it is important that they continue to identify what is essentially a specification for the service they will receive throughout the solution term.

Over time, this longitudinal analysis of DRF client surveys will allow us to see whether the increase in active advice seeking that does not seem to place a particular value on regulatory and professional standards has a bearing on the recollection of contractual terms and conditions. We believe this is a measure that should apply to all consumer credit sectors because in *Trust schemes for consumers: What 'good' looks like*, the National Consumer Federation cites the trend in web based peer review that can create a false sense of security in others' opinions, without reference to regulatory or professional conduct requirements.

Receipt of pre-contract proposals			
	2012 (601)	2013 (600)	2014 (600)
Yes	88.4%	71.7%	60.8%
No	2.8%	9.0%	12.3%
don't know	8.8%	17.8%	24.0%

c. Proposals (Q11)

Whilst recollections of receiving proposals in a durable medium were at their highest in 2012, when prompted to relay the types of information included, almost two in five respondents could not remember. By contrast, in 2013 and 2014, respondents who were unable to recall any information in a written proposal were a little over 1% of the sample. That said, over the three year period recollection of particular items of information has dropped.

Pre-contract proposal contents			
	2012 (536)	2013 (430)	2014 (365)
statement of income, expenditure and any surplus	93.1%	91.6%	92.3%
details of the repayment offer to each creditor	87.5%	84.7%	80.8%
information about priority / debts not included	71.1%	65.1%	60.5%
a warning of creditors' right to reject	84.3%	81.4%	77.8%
total solution cost differentiating repayments and fees	86.8%	80.9%	81.4%
the estimated length of the solution	85.7%	79.5%	80.5%
how often you and your creditors would be updated	78.9%	75.8%	70.7%
a warning about the impact on your credit history	86.0%	84.0%	82.2%
information about a cooling off and how to terminate	80.0%	75.8%	74.5%
prefer not to say	0.0%	1.6%	0.8%
none of these	37.5%	1.2%	1.1%

d. Post-contract KPIs (Q24)

Overall, satisfaction with DRF members' post-contract service standards in 2014 was higher than in 2012 and, as in previous survey years, higher than the pre-contract satisfaction ratings. Some were not quite as high as they were in 2013, though with the exception of *keeping me up to date with any feedback from creditors,* all were above eight and therefore an outstanding achievement.

From the responses to Question 23 about creditor intervention after entering a debt solution, and the verbatim comments recorded at Question 25, it was apparent that some respondents were perturbed that debt collection attempts continued despite a repayment agreement:

The key issue is that years ago, when I contacted [DRF member] I had two long conversations - both really gave me the confidence to cope with the situation and it's as true today as it was then. [Debt collector] phoned the other day - they have called 100 times in recent weeks - at 8.45pm said they needed to speak to me because my debt management company could not be contacted and would not speak to them. She said we don't know who they are, so I said who has been paying you and she said I don't know. They lie and will do anything to get money out of you.

I feel sometimes as if the creditors have not had the payments. [High street bank] sent a letter to say they had issued a CCJ and swapped it to a secured loan on the house. They said they had tried to contact me by letter and phone several times. [DRF member] do not always seem to be in control of it. I have never missed any payments but I still seem to get the letters sent through as if I've missed them. To be fair to [DRF member] they do say not to worry on the phone, though that couldn't happen with the [high street bank] CCJ issue.

Other respondents simply found creditors' statements of an outstanding balance confusing, given that they now perceived themselves to be the DRF member's customer. For some, this meant that DRF members were not keeping them as up to date as their creditors were, and, irrespective of standard procedures, this is clearly disruptive to an experience of reliable service and thus not consumer centric.

Whilst we do not report results for individual DRF member firms, those that have adopted monthly statements tended to score highly, so it is worth noting these comments from responses to Question 25:

I'd prefer a monthly statement showing each creditor and how much I've paid them that particular month and what my balance was last month and this month in figures, not just how much has gone to them but how much has been paid so far, like an up to date balance of what's left.

They're just not great at keeping me updated - I have an annual expenditure review but no idea of where I am at.

The latter was particularly interesting because IVAs only require an annual review, so customers' expectations of engagement may be underestimated by industry standards. For example, in 2008, the IVA.co.uk community attempted to petition the government to reform publication of the Insolvency Register and this was rejected on the grounds that the register safeguards the public when making decisions about their dealings with people who are insolvent. Given that 7.3 million over-indebted adults are not currently seeking advice and the equalities impact of current provision is unclear, the MAS *Indebted Lives* finding that 83% of over-indebted people would like to pay off their debts as soon as possible and 82% believe it's important that they are debt free is hugely significant.

Post contract performance ratings

	2012 (601)	2013 (600)	2014 (600)
easily contactable	8.99	9.16	9.05
approachable with any query	8.94	9.10	8.99
discrete communications	9.06	9.08	9.11
offering help and advice to stay on track	8.02	8.37	8.13
clear advice about what to expect as solution progresses	8.02	8.33	8.08
keeping track of my circumstances and ability to repay	8.39	8.61	8.50
keeping me up to date with any feedback from creditors	7.37	7.76	7.47
providing me with regular (at least annual) statements	8.55	8.62	8.63
collecting my repayments on time	9.57	9.46	9.54
repaying my creditors on time	8.92	9.03	9.00

7. CUSTOMER OUTCOMES

a. Client status (Q1)

Since 2012, more than 99% of respondents interviewed were either current or completing customers of a DRF member.

Solution still provided by DRF Member, by survey year	2012 (601)	2013 (600)	2014 (600)
Yes	86.9%	96.3%	95.8%
no, it has come to an end	12.5%	2.3%	3.0%
no, I changed provider	0.5%	1.3%	0.8%
prefer not to say	0.2%	0.1%	0.3%

b. Solution type (Q12)

Over the three years that we have conducted a survey of DRF members' clients, there has been an increase in the number of respondents using IVAs. However, this may relate more to the range of firms that are DRF members than demand in the wider UK market for debt resolution. Since qualification for an IVA often relates to higher debt level and income to service repayments, the growing prevalence of IVAs may account for consistently higher numbers of men responding to these surveys than in the over-indebted population as a whole.

Original solution chosen			
	2012 (601)	2013 (600)	2014 (600)
Debt Management Plan	66.2%	61.2%	59.3%
IVA	27.6%	31.3%	34.7%
Bankruptcy	0.7%	0.3%	0.0%
Debt Relief Order	0.0%	0.2%	0.0%
Debt Arrangement Scheme	0.0%	0.3%	1.0%
Trust Deed	0.0%	4.5%	0.0%
Sequestration	1.2%	0.0%	0.0%
prefer not to say	12.6%	2.2%	5.0%
another solution?	0.50%	0.0%	0.0%

c. Solution change (Q15)

Among the small number of respondents who have reported a change to their debt solution with a DRF member, more than three quarters have reported progression from an informal plan to an insolvency procedure.

d. Customer retention (Q13)

In our more explicit customer retention question, more than 90% of respondents in both 2013 and 2014 were still using or had recently completed their original debt solution with a DRF member.

Changes to original solution			
	2012 (601)	2013 (600)	2014 (600)
Yes	n/a	6.0%	4.3%
no, but it has come to an end	n/a	0.8%	3.0%
No	n/a	92.7%	92.3%
prefer not to say	n/a	0.5%	0.3%

e. Customer loyalty (Q14)

Among those who had changed solution, respondents in 2014 were less likely to switch to another provider and there was a small increase in respondents managing their own repayments. In total, only eight respondents out of the 600 interviewed in 2012 had opted for a solution that was not offered by a DRF member.

Changes to solution provider			
	2012 (601)	2013 (36)	2014 (30)
with DRF member	n/a	47.2%	73.3%
with another provider	n/a	30.6%	16.7%
managing repayments yourself	n/a	8.3%	10.0%
prefer not to say	n/a	13.9%	0.0%

f. Solution length (Q16)

The average solution length in 2014 increased from 2.8 years in each of 2012 and 2013 to 3 years.

Solution length		mean
by survey year	2012	2.8
	2013	2.8
	2014	3.0

g. Contract type (Q17)

There was also an increase in respondents reporting joint debt solutions from 26.1% in 2013 to 30.4% in and 2014.

h. Financial capability (Q18)

2014 saw a drop in respondents reporting improved financial capability since entering a debt solution, with many more assessing these skills as *about the same*. If this is repeated in 2015, it will be an important trend to watch in relation to respondents' active advice seeking

Financial capability ratings	2012 (601)	2013 (579)	2014 (592)
BETTER			
managing your money	79.7%	79.4%	74.3%
planning ahead	75.0%	74.4%	68.9%
choosing suitable financial products	69.9%	71.2%	58.3%
finding financial advice and information	70.7%	66.8%	54.2%
WORSE			
managing your money	1.5%	1.4%	2.2%
planning ahead	0.5%	1.6%	2.5%
choosing suitable financial products	1.2%	1.4%	1.5%
finding financial advice and information	0.5%	1.4%	1.2%
ABOUT THE SAME			
managing your money	17.8%	18.0%	21.8%
planning ahead	23.0%	23.1%	25.8%
choosing suitable financial products	26.5%	24.2%	33.5%
finding financial advice and information	27.3%	29.7%	39.5%

i. Creditor intervention (Q23)

There were fewer reports of creditor intervention in 2014 than 2013, through these remained higher than in 2012: more than a third of the 2014 sample perceived creditor contact as an attempt at debt collection. As a co-operative owned by borrowers, Zero-credit believes this undermines the value of creditor communications as an advice seeking driver and may have a bearing on the very low levels of advice seeking reported by MAS. DRF members are a minority of commercial debt specialists, who adhere to professional standards, yet there can be limited competitive advantage to joining a professional association if a third of customers continue to perceive creditor contact as contrary to the repayment agreement they have made. With this in mind, it is of particular concern that *notices of legal action* were reported by around one in five respondents in both 2013 and 2014 and whether these were legal notices or not, what matters is the consumer's perception of them as such. Furthermore, we believe that some professionals' reluctance to acknowledge commercial firms as the consumer's informed choice to tackle a debt problem creates detriment. Indeed, among the verbatim comments to Question 25, we believe there is evidence of double standards:

I've had more problems with the [high street bank] who referred me to debt management in the first place. [DRF member] advised me to put in a complaint regarding that. [high street bank] advised me to go with [another company] - well I received a letter from the [high street bank] asking me to contact their financial advisers but I was put through to [another company] and the next thing I knew, my bank account was frozen and I was given a [high street bank] account which was a special account, I think. I had awful problems with it because it was a business account and I had awful problems with it and it was like two accounts that operated as one and I functioned like that for years. I nearly lost my house and I was forced to sell a car that I was purchasing on HP that I needed for my job and without my job I would have lost everything - I was on the phone to the bank again this evening - [high street bank] - it was a complaint I had put in about being hounded with SMS messages - apparently this is a credit card account I had with them and I was told a couple of weeks ago that it was a cash payment of £400 for payment straight away. I had not received any correspondence from them regarding this debt.

Creditor experience after entering a solution

	2012 (601)	2013 (600)	2014 (600)
calls or visits at unreasonable times	9.5%	16.5%	13.7%
notices of legal action	10.5%	16.8%	18.8%
confusing communications	8.8%	19.7%	20.7%
token payments not accepted	1.5%	2.2%	3.8%
money withdrawn from another account	1.0%	1.3%	0.7%
same/increased interest, penalties and charges	7.2%	14.3%	13.2%
prefer not to say	0.2%	1.0%	0.2%
none of these	78.2%	59.2%	62.5%
anything else?	0.0%	1.5%	1.3%

j. Household borrowing (Q34)

In 2014, as in 2013, we noted the tendency for a significant minority of respondents (around two in five) to view borrowing that was still being repaid through a debt solution as *none or manageable*. Indeed, to some extent, this may explain why the 2010 Wealth and Assets survey of some 20,000 households recorded unsecured debt levels at £104 billion compared to Bank of England Statistics for the same period at approaching double this amount. Consumers' perception of debt being repaid as non-existent or insignificant may be an important contributor to the self-confidence needed for recovery and the industry's failure to recognize this may be the root cause of low levels of advice seeking.

Current annual household borrowing			
	2012 (601)	2013 (600)	2014 (600)
none or manageable	n/a	37.5%	39.7%
less than £20,000	n/a	32.2%	28.0%
£20,000-£39,999	n/a	8.0%	6.8%
£40,000-£59,999	n/a	2.2%	1.0%
£60,000-£79,999	n/a	1.3%	0.3%
£80,000-£99,999	n/a	0.5%	0.2%
£100,000 or more	n/a	0.7%	0.2%
prefer not to say	n/a	17.7%	23.8%

k. Customer feedback (Q25)

There was a sharp increase in the number of respondents sharing comments at Question 25 from 40.8% in 2013 to 68.8% n 2014. We believe this is due to our introduction of an in house fieldwork team. All anonymised comments can be seen in the technical appendix to the 2014 reports.

Verbatim comments about DRF member			
	2012 (601)	2013 (600)	2014 (600)
Comment	44.20%	40.8%	68.8%
no comment	55.80%	59.2%	31.2%

8. CONCLUSIONS & RECOMMENDATIONS

a. Customer Profile

Overall, the core client base of DRF members is neither particularly vulnerable nor especially disadvantaged. However, there are subtle shifts in the profile of recent advice seekers, to which members need to give care and attention. For instance, it is likely that welfare reform is driving more people whose circumstances have changed due to relationship breakdown, bereavement, accident or illness to seek advice for the first time. In several instances, these people are or become single in the course of a debt solution and within their tendency to approach smaller firms, it is likely that informal trust networks are influential.

Across the wider customer population, incidence of active advice seeking is increasing, yet attention to detail seems to be in decline - recollection that firms meet certain regulatory and professional standards and of the specific content of written proposals is falling. The internet is breeding a new era of peer support and collectivism. On this basis, people, who are considerably distracted by personal circumstances that may impose a change in lifestyle and social capital, may be more vulnerable to overlooking the requirements of pre-contract communications and indeed, alternatives.

Currently there are no specific indicators that respondents experiencing changes to their personal circumstances are any less satisfied with DRF members' performance than other groups. However, the potential for individual detriment is considerable, so awareness of the vulnerabilities that can misdirect some customers into using certain solutions and indeed opting for commercial supply needs to be paramount at all times. DRF members need to remain vigilant that their core customer base makes an informed choice that continues to be effective for the customer's current circumstances.

Taking the most constant difference between free and fee paying customers into consideration, we believe that relationship status may serve as an initial screen for gauging vulnerability. Whereas couples benefit from a partner's additional points of view and social networks, individuals who have recently lost this decision-making buffer may be particularly vulnerable to focusing on personal loss, rather than the sustainability of an appropriate debt solution. Other important advice handling considerations include recent changes to household composition and the number of contributors to household income.

b. Customer Circumstances

The overriding trend in customers' financial circumstances is that debt resilience has been in decline and that this is bringing a new profile of advice seeker to DRF members' doors. In view of the mismatch between the client profile of all agencies serving the over-indebted population and the MAS *Indebted Lives* segmentation, DRF members would be wise to consider an in depth review of market potential and to target new customers accordingly.

Anticipating demand is especially important as new regulation becomes established. Consumers' expectations will be higher as a result of rogue and non-complaint firms exiting the market, so differentiating for competitive advantage will become critical. This applies to all firms seeking FCA regulation because delivering a service of last resort connotes shoddy service. Compliance is the minimum that consumers expect and to consign individuals in vulnerable circumstances to their perpetuity is not sustainable.

It is also worth noting that MAS records some 16% of the over-indebted population as having incomes over £40,000 compared to the 9% present in respondents to the 2014 survey. Since DRF members are an elite, in that they are the only commercial firms to hold the MAS debt advice quality framework standard, it is at odds that customers with higher incomes seem less aware of this than they could be.

Throughout this three year trend analysis it is apparent that there are niches that could be better served, both in terms of more sensitive referral to free advice and target marketing by member firms. For instance, improved segmentation of advice seekers from the private rented sector and those living with friends or family should complement changes that the UK economy is experiencing in the housing market.

c. Customer Journey

The year on year growth in word of mouth recommendations to use DRF member firms is an achievement. However, a recent increase in contact initiated by DRF member firms is also noted and this needs to be handled with care. Some is clearly related to the transfer of customers from other firms, but as noted in the verbatim comments, this is not always as seamless an experience as customers would like it to be. Even if an acquired customer was using a provider who had been unfair, unclear and misleading, it does little for customer confidence to reiterate this. Furthermore, there is a risk that transferred dissatisfaction will impact on the number of recommendations to use DRF members in the long run.

There is also no escaping the fact that since the Government and the FCA agreed to make lead generators' compliance the responsibility of firms, this hidden sector in the customer journey has seen somewhat of a new lease of life. Given the mismatch between some of the more affluent customer segments identified by MAS and the prevalence of these within the DRF client base, we question whether lead generation has the sensitivity to generate the kinds of customer one might expect to be more discerning. Among early adopters of digital media and those with greater social capital, there is certainly a growing market for barriers to unsolicited communications.

In terms of creditor contact with customers before entering a debt solution, there is some evidence that increased forbearance may not be driving informed decision making as it should, and we believe there are several factors contributing to this. In the first instance, whilst forbearance is commendable in straitened economic times, a reduction in contact with customers experiencing difficulties can communicate a lack of care. A key rationale for the formation of the FCA was to restore confidence in financial services, so it is important that dialogue remains open.

Secondly, it is clear that a small contingency of lenders is intent on allowing defaults and arrears to increase before attempting debt recovery after the consumer has chosen a remedy. This creates a cost benefit in collection to the detriment both the adviser and consumer investing in debt resolution, which in some instances will affect the recovery of other creditors' outstanding balances also. In the absence of communications from lenders trying to be sensitive to customers in difficult circumstances, there is an opportunity for the less ethical to escalate their repayments.

In addition to the above, advice seeking is on the rise, yet the extent to which this is informed varies. In particular, the internet offers consumers greater independence, this being fundamental to financial capability. However, self-help is disruptive to the authority of financial services professionals and as Wikileaks and the Arab Spring have shown, the rise of the underdog is a compelling narrative. Are the 83% of over-indebted people who are not currently seeking advice ignorant or in stasis? It may not be wise to assume so because if these 7.3 million people were to stop spending, our economy might not experience recovery.

d. Customer Experience

With consistently high scores for pre-contract attributes, it is a concern that of *I learned about some other places to find help* remained marginally above average at 6.1. Informing advice seekers of free services became a requirement of the OFT's Debt Management Guidance in 2012, so this lower score requires some consideration. Qualitatively, in the course of interviewing, it was apparent that a significant minority of respondents do not believe that learning about other help is relevant to their circumstances. Since this is subjective, it is worth considering some of the academic hypotheses relating to the psychology of over-indebtedness.

In *Self-Control, Financial Literacy and Consumer Over-Indebtedness* (Centre for Finance and Credit Markets, 2012), researchers found a correlation between over-indebtedness, a lack of self-control and poor financial literacy - on this basis, advice seekers who ignore free debt advice services may not be capable of recovery. In *First steps out of debt: Attitudes and social identity as predictors of contact by debtors with creditors* (Mewse, A.J., Lea, S.E.G., Wrapson, W. (2010). Journal of Economic Psychology, 31(6), 1021-1034) researchers found that engagement with getting out of debt was associated with a stronger attitude of financial self-efficacy and a perception of indebtedness as a permeable state - on this basis, self-confidence may be critical to recovery.

With these contrasting analyses in mind, it is relevant to reflect that two-fifths of our 2014 respondents considered current household borrowing to be none or manageable, when fewer than 5% had completed a solution. Indeed, the disparity between the Wealth and Assets Survey 2010-12, in which households reported unsecured debt in the region of £100 billion, and the Bank of England Lending to Individuals statistics, which reported around twice this amount throughout the same period, may reflect a stark contrast in borrowers' and lenders' perceptions. Thus, the premacy of customer experience is a challenge.

In *Indebted Lives*, MAS reported that some eight of ten over-indebted borrowers want to repay or become debt free as soon as possible, yet fewer than one in five is currently seeking advice. Consumer credit market expansion on the scale recorded throughout the last decade has ensured comparisons between customer service in this and other markets, to some extent resulting in the formation of the FCA to tackle widespread public mistrust, often in relation to irresponsible lending and mis-sold payment protection insurance. Thus, the legacy of a dysfunctional market and its comparison with other customer experiences means that both the regulator and the industry need to exercise care when trying to understand consumer behaviour. For instance, food is a distressed purchase when a parent's cupboard is bare, yet we should not expect a supermarket cashier to refer parents to a food bank, though we might expect a food bank to recommend supermarket offers that could help a struggling family.

Similarly, in the declining recollection of written proposals, we may be seeing greater reliance on top line facts and figures. It is pertinent that recollections of the first documentation sent in a durable medium through 2012 to 2014 stayed much the same for the income and expenditure statement, credit history warning and total cost of the solution because these are the most intrinsically motivating items, e.g. is this about me, how will this affect me and how much will this cost me, compared to how much are my creditors getting, can they reject the offer, how long will it take, and so forth.

As part of its research into trust networks, The National Consumer Federation has produced some excellent analysis relating to the 700 goods and services for which the average consumer makes purchase decisions over a lifetime. The internet has, of course, increased access to choices, but as noted in *Performance Studies an introduction* (Richard Schechner, Second Edition, Routledge 2006): *Traditional literacy is being forced to the extremes… E-mail, cell phones, blogs,* *instant messaging and wi-fi are transforming what it means to be literate.* This aligns closely with constructivist learning theories relating to language acquisition - we tend to retain fluency based on the frequency and relevance of this knowledge to our daily lives.

Since recovery from over-indebtedness tends to be an unique customer experience, it is important that the acquisition of knowledge and understanding to overcome it is supported. Why should respondents to a consumer credit survey have *knowledge of options such as administration orders or Fast-track Voluntary Arrangements* (*Consumer Credit Research: Payday Loans, Logbook Loans and Debt Management Services*, ESRO for the FCA, April 2014)? Assessments of others' self-control, logic and capability are an exercise in power, which need to command respect if they are to have any currency. It is therefore worth remembering that supermarkets help to raise awareness of food banks by inviting customers to donate to them.

e. Customer Outcomes

Overall, responses to the 2014 survey indicated improved customer outcomes since 2012. Customer retention and loyalty were exceptionally high and feedback that was not entirely positive tended to be constructive. Positive feedback was often very personally appreciative, so it is clear that some DRF members and the individual case workers employed by them go above and beyond the service levels expected by their customers.

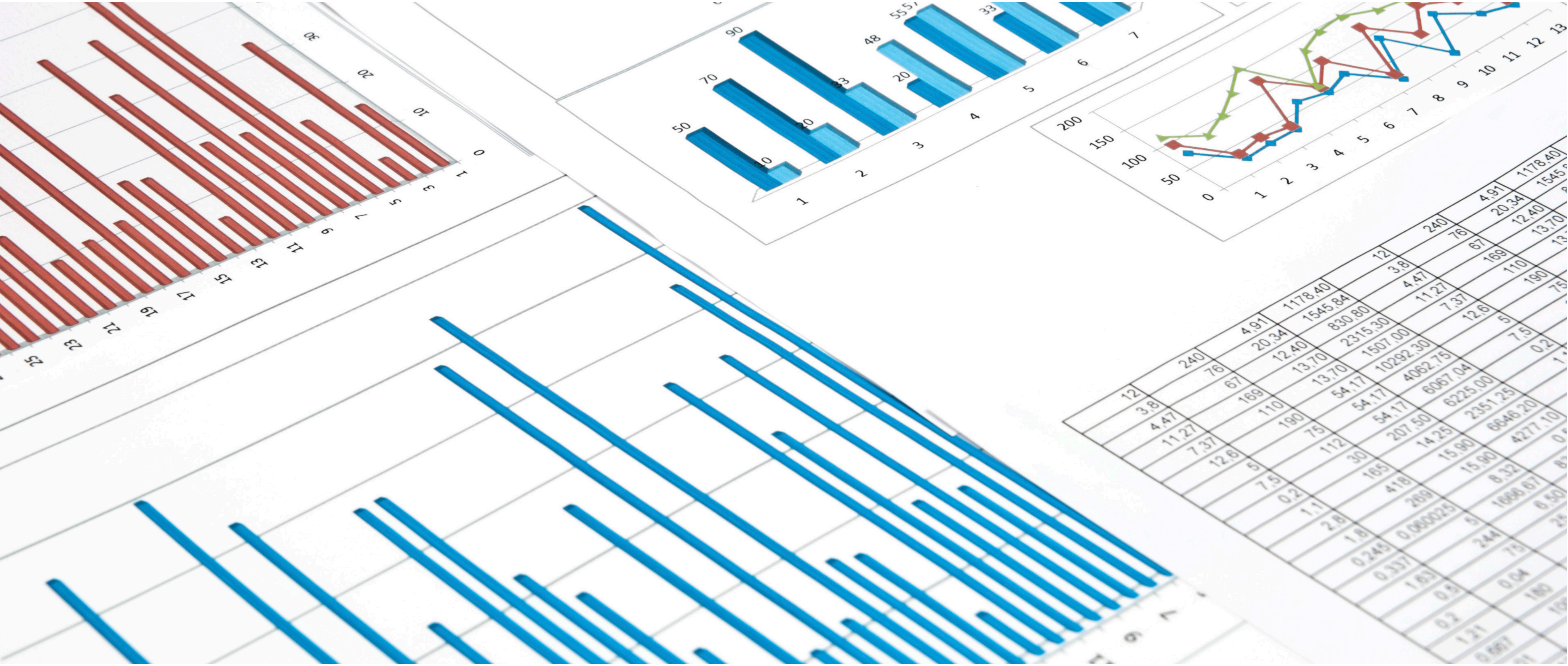
However, there are issues for consideration if DRF members are to continue in this successful vein. It is clear that within the 2014 sample of 600 there is a handful of respondents who do not fully understand the debt solution for which they are paying, and suggestions that some DRF members should do more to keep in touch could address this. Free or fee-charging, firms will always encounter customers, who subsequently decide an agreement is not for them - several of the 2014 comments touched on unsustainable debt management plans offered by the free sector, for instance. Neither the free nor the fee-charging sector should exploit customers, who need to retain confidence in the decisions they have made. It must be for the consumer to decide whether an option is intrinsically wrong.

This is particularly important because there is evidence that a minority of lenders and debt buyers are not treating customers (or their peers) fairly by attempting to break agreements that have been made. The mismatch between creditor intervention pre- and post-contract in both 2013 and 2014 is a clear indicator that whilst the majority of creditors have been trying to exercise forbearance and support economic recovery, others have been exploiting this to cut costs and increase returns from debt collection. DRF Member firms that are not keeping as close contact with their customers as they could do are missing an opportunity to intercept this.

However, predatory collections are particularly disconcerting because even within the more affluent DRF client base, there is evidence of increased demand from advice seekers whose circumstances are less resilient than in previous years. This is especially a consideration in the context of consumers' increased confidence in independent advice seeking, when this is compromised by a tendency to skim and scan regulatory, professional and contractual detail. In 2012, we reported how a lone mother who had recovered vulnerable circumstances had her confidence knocked when she overpaid a token agreement, only to be told the following month that by breaking these terms she needed to increase repayments. This resulted in a return to the local advice agency that was unnecessary for her and the charity concerned.

The increase in active advice seeking recorded by three years of DRF client surveys is a phenomenon that both the regulator and others in the industry should note. Vulnerabilities may make a compelling narrative for the media, but their over-emphasis disregards the significant body of research that identifies a far broader spectrum of society encountering problem debt. Furthermore, people who want to disassociate or distinguish themselves from such circumstances are more likely to fall prey to non-compliant and rogue trade that appeals to their self-confidence. Ultimately, this creates more work for ethical firms and the regulator.

To conclude, both the debt sector and the wider consumer credit market need to consider customer outcomes from a far broader perspective than whether repayments are made and fears allayed. Credit products have no material gain of intrinsic worth because all serve as the means to purchase other goods and services. For this reason, consumers will continue to compare consumer credit with their customer experiences in other markets and the question is whether this will have a positive outcome.



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