Review of the literature concerning the effectiveness of current debt solutions

Final Report for the Money Advice Service (MAS)

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Final Report for the Money Advice Service (MAS)

A report submitted by ICF Consulting Services

Job Number J30300791

Ben Smithers

ICF Consulting Services Limited
Watling House
33 Cannon Street
London
EC4M 5SB

T +44 (0)20 3096 4800
F +44 (0)20 3368 6960

www.icfi.com

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Prepared by	Prepared by Helene Beaujet, Melanie Dubuis, Ben Smithers
Checked by	Checked by Joe Sunderland

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Executive summary

Background

Around 8 million individuals across the United Kingdom are over-indebted, having missed bills or payments in at least three of the last six months, or feeling that keeping up with their bills and credit commitments is a heavy burden.

A diverse mix of formal and informal solutions are available to help over-indebted people resolve their financial difficulties. However, while debt solutions might work in individual circumstances, there are concerns that, in combination, they fail to form a set of options that meets the needs of all over-indebted people.

The Money Advice Service is therefore undertaking a review of the current debt solutions, to understand how well they meet the needs of over-indebted people. This review will consist of:

- **Literature review** – to understand what is currently detailed on this area in literature
- **Qualitative research** – to provide insight on the experiences of over-indebted people
- **Stakeholder consultation** – to understand the views of creditors, advice providers and other relevant parties
- **Final review & report** – to bring together the information from all stages into final recommendations

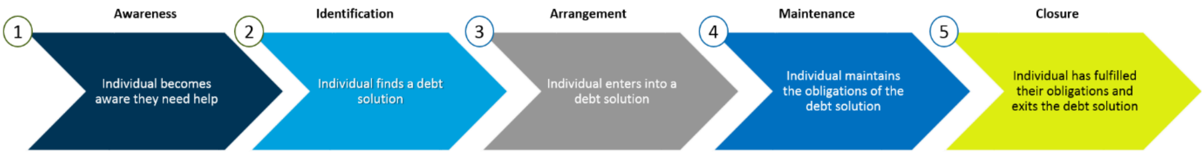
This report details findings from **stage 1 (literature review).**

Aims of the literature review

This review aimed to identify what is currently known about the effectiveness of current debt solutions in the literature.

It focused on twelve types of debt solution, examining their effectiveness across five simplified stages of the journey into and out of debt solutions (see Figure 1.1):

Figure 1.1 Five stages of an individual's journey through debt solutions



The primary research questions were:

- To what extent do the current debt solutions meet the needs of over-indebted people?
- What are the barriers that prevent over-indebted people's needs being met at each stage?
- What are the barriers that prevent over-indebted people from moving successfully from one stage to the next?

The overall objective was to identify areas for improvement that could form the basis of a set of sector-wide recommendations.

Methodology

ICF conducted a number of scoping interviews with advice providers, trade associations and research centres with expertise in the area of over-indebtedness.

Following this, the research team conducted an in-depth review of existing literature, including academic research studies, policy documents, websites and publications from free-to-client debt services, fee-charging debt services and debt advice trade associations, as well as public statistics and surveys.

Further details on the methodology can be found in Section 2.2 and Annex 3.

Summary of findings

The following sub-sections set out the key findings from each stage of the journey into and out of debt solutions. The research found that in reality, an individual's journey is often more complex than suggested by these five stages and is not necessarily linear. However, these stages provide a useful framework for structuring the findings and developing recommendations.

Awareness

Over-indebted people tend to have poor awareness and knowledge of the debt solutions that are available to them. While awareness of bankruptcy is high, over-indebted people tend to have poor knowledge of other solutions. Many solutions also have a high level of stigma associated with them, particularly bankruptcy.

While information on debt solutions is available on the internet, search engines typically promote fee-charging websites over free-to-client websites, or point to websites that may not contain enough information for people to make informed decisions by themselves.

For many, debt advice is the gateway to debt solutions, with many solutions requiring access through an authorised intermediary. Awareness and usage of advice services is therefore crucial if over-indebted people are to find and enter into appropriate solutions.

The vast majority of the UK population is aware of the existence of at least one debt advice provider. However, due to the complexity of the debt landscape and the fragmented nature of debt advice provision, about one in four over-indebted people is unsure who to approach for help, while others struggle to understand what services are offered by debt advice providers.

There are various other barriers deterring over-indebted people from seeking advice. Firstly, while several sources suggest that debt advice providers are generally well-perceived; others suggest a number of concerns, such as a low level of trust in "free" advice, low expectations regarding quality and a lack of belief that advice can make any difference.

In addition, the demand for debt advice is greater than supply and free-to-client debt advice providers have limited funding, which can make it hard for over-indebted people to access free debt advice. There are also some geographic areas where face-to-face debt advice services are unavailable.

Identification

The search for a debt solution is often characterised by distress or by a sense of urgency. Consequently, there is little evidence of over-indebted individuals "shopping around" to gather information on different advice services or debt solutions. This means that over-indebted people can be reliant on the information and advice given by one provider. Evidence suggests that debtors often do not challenge the information given to them by providers.

The literature suggests that some people find it difficult to understand the explanations provided by their debt advice provider. This is exacerbated by the fact that debtors may suffer from considerable stress by the time they get an appointment with a debt advice service, making it more difficult for them to understand the information provided and impairing their ability to make sound decisions. Potentially as a consequence, customers do not always follow the advice provided by debt advice services.

Additionally, some providers have previously been found to employ poor practices which make it harder for debtors to identify a suitable solution (e.g. false advertising, lack of transparency on fees, pressure selling and product bundling). There is also evidence that some providers are not always thorough enough when assessing debtors' financial position, and in some instances may be encouraging debtors to manipulate their personal information.

While there are several formal solutions available, eligibility criteria may lead to the exclusion of some groups, pushing them towards informal solutions instead. For example, people who have less than £50 disposable income per month and debts of more than £20,000 are excluded from all formal solutions except bankruptcy. Additionally, homeowners may have fairly limited options if they do not want to risk losing their home.

Arrangement

There are several issues that can be encountered by over-indebted people when arranging a debt solution. The unaffordability of fees is a common barrier preventing individuals from accessing some debt solutions (particularly bankruptcy). As a result, individuals may delay entering their preferred debt solution, or may seek a cheaper but less suitable solution.

Additionally, creditors have the right to refuse the arrangements proposed by their debtors, or to insist on higher repayment amounts before accepting. The latter course leaves the debtor with a choice of accepting an unsustainable arrangement, or finding another (potentially less suitable) solution.

Delays in the application process can sometimes prevent individuals from accessing a solution. In some cases, delays are so long that the amount of debt has increased and the consumer is no longer eligible for their preferred debt solution. The quantity of information required to set up a solution can also deter people from continuing with the application process.

According to the FCA, the process of setting up a formal solution such as an IVA or a DAS is straightforward once a debt management company is involved. However, communication during the set-up process can sometimes be of poor quality, with some over-indebted people signing up for debt solutions without being fully aware of the terms and conditions (e.g. fees). This can lead to negative impacts later on.

Maintenance

The most commonly cited issues relating to the maintenance of a debt solution relate to the unsustainability of some arrangements. This could either be because the monthly repayments are not affordable, or because the length of the repayment term is too long.

Changes in situation can make it particularly difficult for over-indebted individuals to maintain payments. In some instances, a change in financial or employment status can lead to the debt solution not being viable anymore because the individual no longer meets the eligibility criteria.

With some solutions, creditors and/or providers are able to change the terms of the arrangements (e.g. increasing monthly repayments, increasing interest rates), which can also prevent individuals from maintaining their solution.

Lack of support can also be an issue, with some providers offering limited or no contact (e.g. reassurance or encouragement) once a solution is arranged. This can make it difficult for over-indebted individuals to stay motivated and committed to their solution.

Nonetheless, for many the maintenance phase is a positive one. After entering into a debt solution, many people report feeling less stressed and anxious. They also report improved money management skills including organisation, budgeting and prioritising. It is unclear from the literature whether these positive effects are a result of the debt solution, or as a result of debt advice.

One source suggests that solutions which allow responsibility for dealing with creditors to be transferred to a debt management company provide individuals with breathing space, allowing them to deal with the underlying problems that have led them into debt in the first place; including domestic violence, relationship breakdown, etc. However, other sources suggest that it can be difficult for some individuals to improve their underlying financial circumstances if their options for income generation are limited.

Closure

The reasons why some over-indebted individuals do not reach the end of their debt solution are diverse. In addition to the reasons mentioned in the 'maintenance' section above, debtors can also cancel their arrangement based on personal choice: if they are no longer happy with the service, if they feel they can manage the debts or if they no longer want to pay the monthly fees. There is also historical evidence that some debt management companies have not paid creditors or have been fraudulent.

The majority of over-indebted people who successfully complete their solutions do not intend to use another debt solution in the future and are optimistic that they will not need to. However, some people have difficulties in managing their finances once their solution has finished. For some individuals, solutions appear to only provide a temporary answer, as people who take a DMP, for example, can end up with an IVA or bankruptcy in the future.

Taking on a debt solution can have medium-long term consequences on the lives of over-indebted people. The biggest impact is that it can remain on the credit report of the over-indebted individual for a period of up to six years after the solution. This can make it more difficult for over-indebted people to access financial services (e.g. open bank accounts, take out loans or access credit). It may also have negative consequences on employment and business opportunities, especially for the self-employed.

1 Introduction

This document is the Final Report of a study for the Money Advice Service (MAS) to review literature concerning the effectiveness of current debt solutions. This section introduces the purpose and aims of the study, explains the background and context and sets out the structure of the report.

1.1 Study purpose and aims

MAS is commissioning a multi-stage project to understand the extent to which the current debt solutions meet the needs of over-indebted people in the UK.

This study is the first stage: a literature review to identify what is currently known about the effectiveness of existing debt solutions in the UK, and to identify gaps in existing evidence.

The primary research questions are:

- To what extent do the current debt solutions meet the needs of over-indebted people?
- What are the barriers that prevent over-indebted people's needs being met?
- Are there specific groups whose needs (either practical or emotional) are not met by the existing debt option?

1.2 Background and context

This section provides an overview of over-indebtedness in the UK. It outlines the characteristics and needs of over-indebted people, and describes the existing debt solutions and their main characteristics.

1.2.1 Indebtedness and over-indebtedness in the United Kingdom

There does not appear to be a single, specific measure of 'indebtedness' and consumer research shows that perceptions of what people consider to be 'debt' or their ability to 'service their debt' can vary[1]. MAS uses the term 'over-indebtedness', which is defined as people who have missed bills or payments in at least three of the last six months and/or feel that keeping up with their bills and payments is a heavy burden. According to MAS, around 8 million individuals[2] across the UK are considered to be over-indebted.

The nature of over-indebtedness appears to be changing, with increasing numbers of people now falling behind on their household bills and struggling with basic living costs[3]. For example, National Debtline reported that one in four people who seek their services have arrears on council tax[4]. This has been particularly pronounced since the financial crisis of

[1] Financial Conduct Authority. 2014. Consumer credit and consumers in vulnerable circumstances

[2] Money Advice Service, 2016. A Picture of Over-Indebtedness.

[3] Money Advice Trust, Evolving our debt options to meet new challenges

[4] Money Advice Trust. 2014. Changing Household Budgets

2007. Increases in the costs of basic living expenses have also resulted in a greater proportion of income being spent on basic living costs[5].

1.2.2 Characteristics and needs of over-indebted people

Over-indebtedness is a problem that affects all demographic groups. Each demographic group and the individuals within it may have different needs when it comes to debt solutions. A recent MAS research study[6] suggests that while over-indebtedness among the general population stands at 16.1%, it is more common amongst:

- Those with household income below £10,000 (24 per cent);
- Single parents (28 per cent);
- Adults with children (20 per cent);
- Renters (25 per cent)
- Young adults aged 25-34, who are more than four times as likely to be over-indebted than those aged 65 and over.

There is evidence that over-indebted people's needs are both practical and emotional, and that these needs vary by individual and between groups.

From a practical point of view, the Centre for Social Justice (CSJ) indicates that over-indebted people need access to **advice and education on money and financial skills** throughout their lives. Advice and training may alter previously-held negative attitudes concerning debt advice services, while also empowering people to develop their financial capability and help them to avoid falling into problem debt[7]. Examples of training areas included literary skills, money management on a limited budget, planning for emergencies and calculating tailored costs for their respective lifestyles.

Others have argued that education and training should be extended to cover the **individual's legal rights and obligations**, of which many over-indebted people are unaware[8]. For example, MAS conducted a survey of over-indebted people and found that around half (51 per cent)[9] were unaware of their legal rights and obligations as they pertain to debt, while IFF Research found that 40 per cent of individuals were unaware[10].

Over-indebted people also need **information on the range of affordable financial products and services** suitable for their needs, as well as the benefits they are entitled to[11]. Almost half (49 per cent) of individuals need help with information concerning the benefits and credits to which they are entitled[12].

With regard to the emotional impact of debt, research has shown a negative correlation between over-indebtedness and emotional well-being, indicating a potential need for emotional support in addition to financial advice[13]. Emotional issues and needs include both internal factors (such as a lack of willingness to recognise a need for help and a lack of confidence to make changes) and external factors (such as needing encouragement and reassurances from others, as well as concerns about how they are viewed by others). For example, a survey of over-indebted individuals by IFF Research found that 32 per cent

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[5] Money Advice Trust, Evolving our debt options to meet new challenges

[6] Money Advice Service, 2016. A Picture of Over-Indebtedness

[7] The Centre for Social Justice. 2015. Future finance - A new approach to financial capability

[8] Money Advice Service. 2013. Indebted lives: the complexities of life in debt

[9] Ibid.

[10] IFF Research. 2011. User Needs from Debt Advice: Individual and Stakeholder Views.

[11] The Centre for Social Justice. 2015. Future finance - A new approach to financial capability

[12] Money Advice Service. 2013. Indebted lives: the complexities of life in debt

[13] IFF Research. 2011. User Needs from Debt Advice: Individual and Stakeholder Views

agreed that they were "worried that other people think that my money difficulties are all my own fault"[14].

IFF Research identified the following overarching themes concerning emotional needs: **reassurance**, **encouragement**, **confidence**, and **overcoming fear of tackling debt**[15]. They highlighted for instance that "individuals need reassurance that they are actually capable of tackling their debt situation – both from the perspective that it is possible to find a solution and that they have or can acquire the skills and/or knowledge to make their financial situation better".

The literature also highlights specific needs for particular groups of over-indebted people, with emphasis placed on vulnerable groups[16]. For example, the FCA found that recent serious medical issues or recent bereavement or relationship issues can further contribute to an individual's debt issues. As a result of this vulnerability, they require extended assistance[17].

1.2.3 Current debt solutions landscape

The current debt solutions landscape in the UK has evolved over time and now comprises a variety of formal and informal solutions, in response to the needs and requirements of creditors and debtors. Each solution has different entry criteria, although the development of debt solutions has been largely uncoordinated. The Money Advice Trust reported that while many debt solutions work well individually, "collectively they fail to form a cohesive system that is fit for purpose"[18].

The fragmented nature of debt advice provision adds further complexity to the existing landscape. There are multiple entry points to debt advice[19], and the landscape is fractured, involving over 250 organisations[20]. This is key, as to access most debt solutions, a third party has to be involved in the process.

The current framework offers twelve main debt solutions as outlined in Table 1.1 below. For each debt solution, the table shows whether:

- it is a formal option;
- it is available in all four UK countries (England, Wales, Scotland and Northern Ireland);
- fees apply (including application, set up, and administration fees);
- the individual needs to go through a third party (e.g. debt advice provider, insolvency practitioner) to access and/or maintain the solution; and
- creditors are prevented from taking further actions against the person.

The table also shows estimates of the number of solutions issued in 2014. The details of each solution are described further in the tables in Annex 1.

[14] Ibid.

[15] Ibid.

[16] Ibid.

[17] Financial Conduct Authority. 2015. Quality of debt management advice

[18] Money Advice Trust. 2015. Evolving our debt options to meet new challenges

[19] IFF Research. 2011. User Needs from Debt Advice: Individual and Stakeholder Views

[20] The Centre for Social Justice. 2015. Future finance - A new approach to financial capability

Table 1.1 Current debt solutions in the UK

	Formal	UK coverage	Fees apply	Advice required	Creditors prevented from taking actions	Number of solutions
Bankruptcy	✓	All UK[1]	✓	Varies	✓	7,450[21] in Q1 2017-8
Debt Relief Order (DRO)	✓	UK excl. Scotland	✓	✓	✓	6,313[22] in Q1 2017-8
Individual Voluntary Arrangement (IVA)	✓	UK excl. Scotland	✓	✓	✓	13,318[23] in Q1 2017-8
Administration Order (AO)	✓	UK excl. Scotland	✓	✓	✓	194[24] estimated for 2014
Debt Arrangement Scheme (DAS)	✓	Scotland only	✓	✓	✓	597[25] in Q1 2017-8
Trust Deeds (TD)	✓	Scotland only	✓	✓	✓[26]	4,437[27] across 2014-5
Debt Management Plan (DMP)	X	All UK	Varies	Varies	X	c. 500,000[28] held in Aug 2015
Token Payment Plan (TPP)	X	All UK	X	X	X	n.a.
Debt consolidation	X	All UK	Varies	X	X	n.a.
Debt write-off	X	All UK	X	X	X	n.a.
Informal arrangements with creditors	X	All UK	X	X	X	n.a.
Full and final settlement of debts	X	All UK	x	X	x[29]	n.a.

Notes: (1) Bankruptcy in Scotland is called sequestration and fees are lower. Bankruptcy costs and fees total £680 in England and Wales, and £647 in Northern Ireland, while sequestration fees in Scotland are £200. Minimal Asset Process (MAP) bankruptcy is also available in Scotland with fees of

[21] Bankruptcy figures for Eng/Wales/NI/Scotland for April- June 2017 : https://www.gov.uk/government/statistics/insolvency-statistics-april-to-june-2017

[22] Bankruptcy figures for Eng/Wales/NI/Scotland for April- June 2017 : https://www.gov.uk/government/statistics/insolvency-statistics-april-to-june-2017

[23] Bankruptcy figures for Eng/Wales/NI/Scotland for April- June 2017 : https://www.gov.uk/government/statistics/insolvency-statistics-april-to-june-2017

[24] ICF estimates based on figures from: The Debt Resolution Forum. 2012. Debt resolution in the UK; Money Advice Unit. 2009. Factsheet - Administration Orders; and the Ministry of Justice, 2011. Court Statistics Quarterly April to June 2011. Calculation assumes rate of decline prior to most recently published figures (2011) continued

[25] DAS figures from: Accountant in Bankruptcy, Scottish Insolvency Statistics: April to June 2017 (Quarter 1 2017-18) - https://www.aib.gov.uk/scottish-insolvency-statistics-april-june-2017-quarter-1-2017-18

[26] A voluntary trust is not binding on creditors. However, a Protected Trust Deed is legally binding: creditors cannot chase debtors.

[27] Trust Deed figures from: Accountant in Bankruptcy, Annual Report and Accounts 2014-5 - https://www.aib.gov.uk/sites/default/files/aib_annual_report_2014-15.pdf

[28] DMP estimates taken from FCA Sector Views 2017 - https://www.fca.org.uk/publication/corporate/sector-views-2017.pdf

[29] It happens that some creditors take the money but continue to chase the debtor for the rest of the debt.

£90[30]. This is where debts of less than £17,000 that cannot be repaid within a reasonable time are written off.

As illustrated in Table 1.1, some debt solutions are used more frequently than others. This could be due to a number of reasons including fees, eligibility criteria, personal preferences, needs, information received, etc.

It is notable that a larger number of people use informal solutions (i.e. arrangements that do not offer guaranteed legal protection from creditors) compared to formal solutions (i.e. arrangements that guarantee to protect debtors from their creditors if they accept the proposal). This is illustrated by the high number of Debt Management Plans (DMPs). This could suggest possible issues in accessing/maintaining formal debt solutions.

1.2.4 Gaps in evidence

Although there are many existing debt solutions and a multitude of debt advice providers in the sector, there is little published literature on how effectively the debt solutions meet the needs of over-indebted people, and much of the available literature is not recent. Given the changing nature of the debt landscape, this means some literature may be out-of-date. In particular, many sources mention practices of fee-charging advice providers which are likely to have been reduced since the FCA's thematic review and subsequent authorisation process.

Many of the sources that do exist reference each other. The amount of information available in the literature is thus less than might be expected for this number of sources.

Additionally, research has mostly focused on debt advice and its impact rather than on debt solutions specifically, though the two are linked. For some debt solutions, receiving debt advice is a necessary condition to access/maintain a solution (see Table 1.1). However, there might be instances where people do not seek advice before arranging a debt solution. For example, it is now possible to enter bankruptcy online without taking advice. Information on over-indebted people who enter debt solutions without debt advice is scarce.

Lastly, research on debt solutions has mostly focussed on formal debt solutions and DMPs. There is a lack of information and research on other informal debt solutions. Overall, the complexity of the debt solutions landscape as well as the limited research in the area inevitably impacts what is known.

1.3 Structure of the report

The remainder of this report is structured as follows:

- Section 2 details the **conceptual framework** used to explore the 'individual journey' into debt solutions and also describes the methodological approach of the study.
- Section 3 describes the **findings from the literature regarding the effectiveness of current debt solutions** at each stage of the individual journey. It also includes a comparative assessment between Scotland and the rest of the UK[31].

[30] StepChange, Bankruptcy costs and fees. Available at: https://www.stepchange.org/debt-info/bankruptcy-costs-and-fees.aspx

[31] As the debt solutions available vary between Scotland and the rest of the UK, an assessment was undertaken to compare both landscapes.

2 Conceptual framework and methodological approach

This section describes the conceptual framework and overall methodological approach deployed to meet the study objectives.

2.1 Conceptual framework

The conceptual framework (Figure 2.1) used in this study describes five hypothetical stages of an individual's 'journey' into and out of debt solutions[32]:

1. **awareness** – where an individual recognises the need for help;
2. **identification** – where an individual finds a debt solution;
3. **arrangement** – where an individual arranges and enters into a debt solution;
4. **maintenance** – where an individual maintains the obligation of the debt solution; and
5. **closure** – where an individual completes a debt solution.

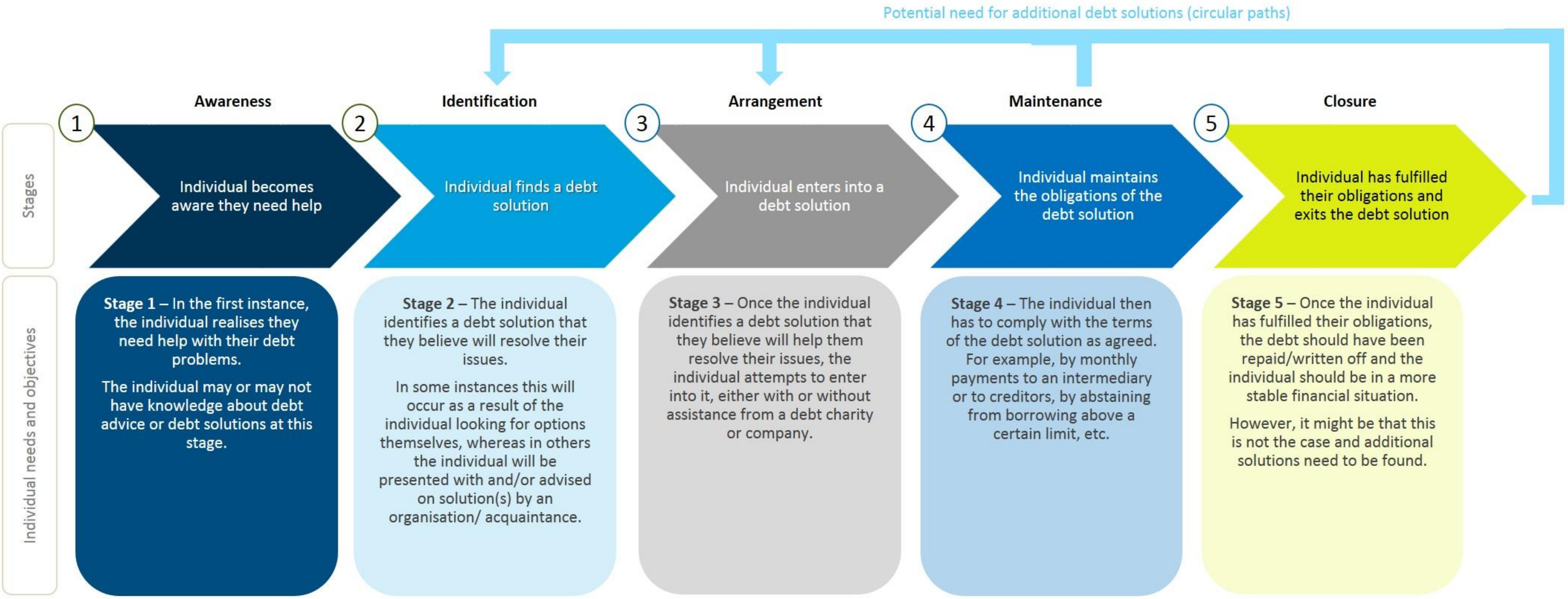
The first four stages were identified and recommended by MAS for this study. Further research from ICF highlighted the need for a fifth stage. This framework aims to:

- identify whether an individual's needs (financial and non-financial) are met throughout the different stages of their journey; and
- identify barriers (financial and non-financial) to success at each stage.

The reality is that an individual's journey can be more complex than that suggested by the conceptual framework and is not necessarily linear. For instance, an individual may begin at the Identification stage (e.g. if a provider approaches them with a potential solution), or finish prior to the Closure stage (e.g. if they cannot maintain the solution to completion). In addition, an individual may return to a previous stage. The framework acknowledges the possibility of beginning and finishing at different stages as well as circular paths.

[32] The study focuses on the six formal and six informal debt solutions described in Table 1.1. Where it is not specified, the term 'debt solution' relates to both, formal and/or informal.

Figure 2.1 Individual's journey into debt solutions



2.2 Method

The methodology for the study can be broken down into two stages, as outlined below.

2.2.1 Scoping interviews

The research team conducted six targeted 'scoping interviews' with experts, including free-to-client advice providers, trade associations and a research centre. The interviews focussed on larger stakeholders that provide support and advice on several debt solutions, rather than on those who concentrate on one particular debt solution.

The intention of the interviews was to gather intelligence and information on the needs of over-indebted people and on the available debt solutions, including:

- recommendations for relevant sources, to ensure that the evidence base for this study was comprehensive; and
- views on over-indebted people's experience of debt solutions.

Findings from the interviews informed the desk research described below.

2.2.2 In-depth review of the literature

This was the main research component of the study. Key documentation was identified using an online search of relevant sources.

In the first instance, general key words were used as search terms, including 'debt solution', 'remedies', 'debt options', 'debt advice', 'over-indebtedness', etc., and the names of individual solutions (such as 'bankruptcy' and 'individual voluntary arrangement'). The research team then used specific key words for each stage of the individual's journey, including 'awareness of debt solutions', 'barriers to maintenance of debt solutions', etc.

The research team then extracted the relevant information into an Excel template before critically reviewing each source against the study questions. The full list of study questions can be found in Annex 3.

The review covered 82 sources and included academic research studies, policy documents, websites and publications from free-to-client debt services, fee-charging debt services, debt advice trade associations and regulators as well as public statistics and surveys. The complete list of sources can be found in Annex 4.

The literature review was conducted in Jan – Feb 2016, with the original report being written in March 2016. The tables in the report were updated in September 2017 to reflect changes in the solutions landscape.

3 Findings on the effectiveness of current debt solutions

This section presents the findings on the effectiveness of current debt solutions. It includes a sub-section on each stage of the framework described in Figure 2.1 (awareness, identification, arrangement, maintenance and closure), with each:

- describing the key findings from the literature review
- identifying any specific groups whose needs are not met.

The section also presents a comparative assessment of the debt solutions landscape in Scotland versus the rest of the UK.

3.1 Awareness

In the "Awareness" stage, the over-indebted individual recognises the need for help and attempts to find a 'solution' (not necessarily a debt solution) to their difficulties.

Issues relating to awareness are described further below and cover:

- usage of debt advice services
- knowledge of debt solutions

It is important to consider usage of debt advice as it is the gateway to identifying and arranging many debt solutions.

3.1.1 Usage of debt advice services

Awareness of debt advice providers and their services

Overall, awareness of the existence of debt advice providers is high. For example, a study by the National Audit Office (NAO) found that the vast majority of individuals are aware of the existence of at least one debt advice provider: 97 per cent of the over-indebted population are aware of Citizens Advice while 59 per cent know about National Debtline[33]. This confirmed previous findings in the literature (Day, Collard and Hay (2008) and Downs and Woolrych (2009))[34].

The Legal Services Research Centre (LSRC) reported that levels of awareness of fee-charging services are high, due to the presence of advertisements on the television and internet[35]. Stakeholders interviewed mentioned that free-to-client advice providers do not have similar budget for advertisement[36].

Despite high awareness of advice providers, over-indebted people struggle to understand **who to approach** for services. The debt landscape is complex, partly due to the **fragmented nature of debt advice provision**. There are multiple entry points to debt advice[37], and the landscape is fractured involving over 250 organisations[38].

[33] National Audit Office. 2010. Helping over-indebted consumers

[34] Money Advice Service. 2012. Debt Advice in the UK

[35] Legal Services Research Centre. 2007. Assessing the Impact of Advice for People with Debt Problems.

[36] ICF stakeholder interviews

[37] IFF Research. 2011. User Needs from Debt Advice: Individual and Stakeholder Views

[38] The Centre for Social Justice. 2015. Future finance - A new approach to financial capability

A survey by Debtless in 2011 suggested that 81 per cent of the UK population would not know where to look for help with debt (the survey also showed that men are more likely than women to know where to go for help)[39]. The NAO focused on the over-indebted population, and found that 25 per cent of over-indebted people do not know where to go for support (33.5 per cent for the most heavily over-indebted)[40].

Individuals also may not always understand **what services are offered** by debt advice providers. For example, the Personal Finance Research Centre (PFRC) found that even users of CAB were unsure if they were using the right service to deal with their debt problem, or did not know what assistance the CAB might provide to someone in their situation[41]. The LSRC found that individuals generally have little idea of what they can expect from money advice services, beyond knowing that they provide help and advice to people with debt problems and financial difficulties[42].

In addition, people find it difficult to distinguish between free-to-client and fee-charging advice providers, particularly when they search for help on the web[43]. The Money Advice Trust found little evidence of creditors signposting participants to sources of advice and support (for either free or fee-paying services)[44].

Access to advice services

The effectiveness of free-to-client advice services is hampered because demand is greater than supply. According to the Personal Finance Research Centre[45], free-to-client debt advice services were under-funded in 2002 and as a result, they encountered difficulties in coping with the numbers of people reaching out to them. However, by 2010, the University of Nottingham noted that the four largest free-to-client debt advice providers (Citizens Advice, Payplan, National Debtline and CCCS – now StepChange) were providing advice to approximately 90% of all individuals seeking free-to-client debt advice each year[46]

The literature suggests that the following issues can prevent over-indebted people from accessing advice.

- **Long waiting times** before being granted a face-to-face appointment within the free advice sector. For example, the Money Advice Trust found it could take up to three months to get an appointment[47]. The Money Advice Trust also noted that while waiting for their appointments, debtors could see their situation deteriorate further (due to mounting debts and increased pressure from creditors[48]).
- For those seeking a telephone appointment, it was sometimes **impossible to get through**[49].

[39] Debtless. 2011. UK Debt Attitude Survey

[40] National Audit Office. 2010. Helping over-indebted consumers

[41] Personal Finance Research Centre, University of Bristol. 2009. An independent review of the fee-charging debt management industry

[42] Legal Services Research Centre. 2008. Money Advice Outreach Evaluation: Qualitative Outcomes for Clients

[43] Arrow Global. 2013. Working together: understanding motivation and barriers to engagement in the consumer debt marketplace

[44] Money Advice Trust. 2012. Sustaining debt repayments - Experiences of people in informal repayment arrangements

[45] Kempson. 2002. ‘Over-indebtedness in Britain’, A report to the Department of Trade and Industry

[46] The University of Nottingham. 2010. Demand, Capacity and Need for Debt Advice in the United Kingdom

[47] Money Advice Trust. 2012. Sustaining debt repayments - Experiences of people in informal repayment arrangements

[48] Ibid.

[49] Legal Services Research Centre. 2008. Money Advice Outreach Evaluation: Qualitative Outcomes for Clients

- **Restricted opening times** can deter over-indebted people from seeking advice, especially those in work[50].
- **Queuing** could discourage individuals from seeking advice, especially as debt advice providers' offices can be found uncomfortable and unwelcoming[51].

Another frequent problem is that of **geographic accessibility**. The Money Advice Trust reported that many remote areas have no face-to-face coverage at all[52]. The LSRC noted that people located in rural areas experience challenges in accessing advice[53]. Although a study by MAS found equal likelihood of accessing debt services (regardless of location)[54].

The LSRC further noted that people with mobility problems (e.g. depression, chronic health problems or disabilities) may be too far away from debt advice services and could therefore benefit from home visits[55].

The problems mentioned above mostly concern free-to-client services and could be one of the reasons why some people choose to use fee-charging services. According to a survey conducted by the Money Advice Trust in 2012, 14 per cent of people using a fee-charging debt management company do so because they tried to get help from a free advice agency but could not access help quickly enough[56].

Perceptions of debt advice

Several sources suggested that debt advice providers are **well-perceived**, especially free-to-client services. The general perception is that providers have a good reputation, provide good advice and are able to refer people to other sources of advice or help if necessary[57].

However, other sources suggested that **perceptions** of debt advice services can also be **negative** and can act as a barrier preventing people from looking for a debt solution. Issues include:

- offers of 'free' debt advice are treated with scepticism and are sometimes perceived as scams[58];
- non-for-profit organisations are perceived as having fewer resources, and fewer incentives to offer a good service compared to fee-charging organisation[59];
- the debt advice sector can feel "severe" and "scary" for some people[60];
- individuals sometimes feel that advisers are not experts and lack sufficient knowledge to offer satisfactory assistance[61];

[50] Legal Services Research Centre. 2007. Assessing the Impact of Advice for People with Debt Problems

[51] Ibid.

[52] Money Advice Trust. 2014. Debt relief orders and the bankruptcy petition limit. (Money Advice Trust response)

[53] Legal Services Research Centre, April 2009. The Experience of Money and Debt Problems in Rural Areas

[54] Money Advice Service. 2012. Debt Advice in the UK

[55] Legal Services Research Centre. 2008. Money Advice Outreach Evaluation: Qualitative Outcomes for Clients

[56] Money Advice Trust. 2012. Sustaining debt repayments - Experiences of people in informal repayment arrangements

[57] Legal Services Research Centre. 2007. Assessing the Impact of Advice for People with Debt Problems

[58] MAS debt interventions. 2015. Research debrief (unpublished)

[59] Ibid.

[60] IFF Research. 2011. User Needs from Debt Advice: Individual and Stakeholder Views

[61] Legal Services Research Centre. 2007. Assessing the Impact of Advice for People with Debt Problems

- individuals expect advisers to be judgemental[62] and think it is humiliating to talk through personal experiences and problems with a stranger[63];

Other barriers preventing people from seeking advice

The **perceived costs** associated with seeking advice are an important barrier preventing over-indebted people from looking for help. The Friends Provident Foundation showed that 20 per cent of people not using debt advice suggest this is because they think they cannot afford help[64]. In addition, spending time in appointments with debt advice providers can lead to a loss of earnings[65], and telephone appointments can also be costly (as not all advice providers have a free number)[66].

Barriers preventing over-indebted people from looking for help can also be **emotional**. Several behavioural biases seem to be operating:

- **Under-confidence effect**: over-indebted people can believe they are incapable of dealing with the situation (e.g. lack of knowledge on how to deal with debt)[67]. This can lead to disengagement. The Money Advice Service estimated that 41 per cent of the over-indebted population lack the skills and confidence to deal with creditors[68].
- **Attribution bias**: over-indebted people can think they are not responsible for, or cannot help their debt situation and therefore are not responsible for sorting it out[69]. This can depend on the type of debt and the circumstances of the individual. For example, a family with small children may argue that they need to use a certain amount of water and electricity, or need to buy a washing machine, even if they cannot afford to do so[70].
- **Hyperbolic discounting**: refers to the tendency for people to choose a smaller-sooner reward over a larger-later reward[71]. Thus, the instant satisfactions gained by spending outweigh the potential positive impacts of accessing a longer term plan[72].

These behavioural biases have two main consequences. Firstly, over-indebted people often **refuse to acknowledge their debt situation** (the CSJ estimated that around 20 per cent of over-indebted people do not recognise they have debt problems[73]).

On the one hand, people can suffer from optimism bias and assume their situation will improve. For example, according to IFF Research, 27 per cent of over-indebted people say they would contact an advice provider ‘if their financial situation got any worse’ despite

[62] Legal Services Research Centre. 2008. Money Advice Outreach Evaluation: Qualitative Outcomes for Clients

[63] MAS debt interventions. 2015. Research debrief (unpublished)

[64] Friends Provident Foundation. 2010. The Impact of Independent Debt Advice Services on the UK Credit Industry

[65] Legal Services Research Centre. 2007. Assessing the Impact of Advice for People with Debt Problems.

[66] Money Advice Service. 2012. Debt Advice in the UK

[67] Money Advice Service. 2013. Personalising the debt sector - A segmentation of the over-indebted population

[68] Ibid.

[69] Friends Provident Foundation. 2010. The Impact of Independent Debt Advice Services on the UK Credit Industry

[70] Summers, B., Read, D. and Fylan, F. (2005) Literature in the Areas of Behavioural Economics and Psychology Relevant to the Understanding of an Individual’s Propensity to Engage with their Creditors

[71] Behaviorlab, Hyperbolic Discounting (no date)

[72] MAS debt interventions. 2015. Research debrief (unpublished)

[73] The Centre for Social Justice. 2015. Future finance - A new approach to financial capability

indicators that these individuals are already in arrears, falling behind on bills or experiencing creditor action[74]. Women are more likely than men to view their debts as being serious[75].

On the other hand, people can suffer from a pessimism bias and prefer to "bury their heads in the sand" in relation to their financial situation[76] as they do not believe it can be improved.

Secondly, people frequently **seek professional advice at a late stage**, after a significant period of trying to manage their debts on their own (e.g. looking for a debt consolidation loan or contacting their creditors)[77]. Half of the people who recognise they are over-indebted wait a year or more before they actually seek advice, at which point their debt is often much harder to deal with[78].

3.1.2 Knowledge of debt solutions

Awareness of the existence of debt solutions

Over-indebted people typically have **poor knowledge** of what debt solutions are available to them. The Money Advice Service estimated that 44 per cent of the over-indebted population did not know about the debt solutions available to them[79]. To some extent, the issue is due to the **multitude of debt solutions** available to customers. London Economics remarked that the English and Welsh system contains a very high number of possible solutions compared to Germany, Sweden or France[80], while the Money Advice Trust reports that the debt landscape is much simpler in Scotland than in the rest of the UK[81].

Because they do not always have complete or relevant information about the options available to them, over-indebted people may not be able to make informed choices when selecting debt solutions. The FCA states that they are unlikely to 'shop around' for help with debt and are more likely to engage with the first organisation they contact (or that contacts them)[82]. The search for a debt solution is often characterised by distress or by a **sense of urgency**[83]. Consequently, there is little evidence of over-indebted individuals "shopping around" to gather information on different advice services or debt solutions[84].

Bankruptcy is the most well-known debt solution. The majority of the population (even individuals who have not gone through a bankruptcy) are aware of bankruptcy. Interviews with stakeholders also suggested that there is also reasonable awareness of DMPs, due to them being heavily advertised, although other solutions are not commonly known[85]. Annex 2.1.1 provides further information on awareness of DROs, AOs, DMPs and Debt consolidation.

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[74] IFF Research. 2011. User Needs from Debt Advice: Individual and Stakeholder Views

[75] Legal Services Research Centre. 2007. Assessing the Impact of Advice for People with Debt Problems

[76] Personal Finance Research Centre, University of Bristol. 2009. An independent review of the fee-charging debt management industry

[77] Ibid.

[78] The Centre for Social Justice. 2015. Future finance - A new approach to financial capability

[79] Money Advice Service. 2013. Personalising the debt sector - A segmentation of the over-indebted population

[80] London Economics. 2012. Study on means to protect consumers in financial difficulty

[81] Money Advice Trust. 2015. Evolving our debt options to meet new challenges

[82] Financial Conduct Authority. 2015. Quality of debt management advice

[83] Financial Conduct Authority. 2014. Consumer Credit Research: Payday Loans, Logbook Loans and Debt Management Services

[84] CMA. 2014. Problem debt.

[85] ICF interviews with stakeholders

Perceptions of debt solutions

Debt remains a **taboo**, and seeking advice is associated with **failure** in the minds of many[86]. This can also be a barrier preventing people from looking for a debt solution. Indeed, according to the CSJ, more than 40 per cent of people struggling with serious debt issues worry about the stigma attached to seeking advice and solutions[87]. Another survey from IFF Research showed that 32 per cent of over-indebted people are worried that other people think that their money difficulties are all their own fault; 26 per cent are too embarrassed to discuss their financial situation[88].

Bankruptcy was particularly affected by stigmatisation. According to the FCA, many people associate going bankrupt with ‘giving up’ and ‘losing face’ and believe that it is shameful and immoral to go down this route[89]. A survey conducted by This is Money in 2010 found that only 18 per cent of respondents thought bankruptcy was nothing to be ashamed of[90].

Several sources also described perceptions of other debt solutions, which are summarised below and described in more detail in Annex 2.1.2:

- **DRO:** DROs are generally well-regarded and enable individuals to avoid the expense of a formal bankruptcy[91].
- **Trust Deed**: Trust Deeds also tend to be well-regarded, as they enable individuals to avoid the expense, formality and stigma of formal sequestration in Scotland[92].
- **TPP:** TPPs are commonly well-regarded by over-indebted people. As the Money Advice Trust observed, TPPs are often seen as the “least worse option”[93].
- **Debt consolidation**: Some people perceive debt consolidation as an effective way of dealing with debt. It is seen as a flexible method that does not affect credit ratings and allows the over-indebted person to stay in complete control of their finances[94]. However, individuals who have already undergone debt consolidation feel that it does not put a stop to the cycle of debt and that it takes a lot of willpower and self-discipline to successfully manage debt issues with a consolidation loan[95].
- **Informal arrangements with creditors**: Informal arrangements are popular among the over-indebted population[96].

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[86] MAS debt interventions. 2015. Research debrief (unpublished)

[87] The Centre for Social Justice. 2013. Maxed out - Serious personal debt in Britain

[88] IFF Research. 2011. User Needs from Debt Advice: Individual and Stakeholder Views

[89] Financial Conduct Authority. 2014. Consumer Credit Research: Payday Loans, Logbook Loans and Debt Management Services

[90] This is Money. 2010. Debt and bankruptcy 'no longer shameful'

[91] Financial Conduct Authority. 2014. Consumer Credit Research: Payday Loans, Logbook Loans and Debt Management Services

[92] Citizens Advice. 2015. What options are there for dealing with debt

[93] Money Advice Trust. 2015. Evolving our debt options to meet new challenges

[94] Financial Conduct Authority. 2014. Consumer Credit Research: Payday Loans, Logbook Loans and Debt Management Services

[95] Ibid.

[96] Ibid.

Information on debt solutions

For those unable (or unwilling) to access face-to-face or telephone advice, several organisations make information and/ or advice on the different debt solutions available online.

Examples include: Money Advice Service, National Debtline, CAB and StepChange. The latter provides a debt remedy tool that helps people work out which solution is in their best interest. In Scotland, two recent initiatives help people discover what options are available to them: (i) the Financial Capability E-learning Module, combining debt advice and financial advice[97]; and (ii) the Balance Your Budget campaign, raising awareness of the Scotland's Financial Health Service website and helpline, which signpost users to bodies offering information and advice on debt, managing money, saving and financial education[98]. However, there are several key problems that may limit how well these information sources help people[99]:

- free-to-client services have a **limited budget** for communicating information and online searches on debt typically promote fee-charging websites over free-to-client ones;
- websites do **not contain all the necessary information** on debt solutions and should be used only as a starting point. Many people need a professional debt adviser as they are not able to self-manage themselves[100]; and,
- individuals who **lack internet access** are inherently excluded from online information.

3.1.3 Specific groups whose needs are not met at the Awareness stage

Some specific groups of people are less aware of debt advice, or are less likely to seek it. MAS reported that young people are more likely to be in debt, but do not necessarily actively seek advice[101], with similar findings found by the CSJ in its 2013 study[102].

Some other groups are also less likely to seek advice:

- MAS reported that men are less likely than women to seek advice[103].
- A study by Disney, R. et al. found that ethnic minorities, the socially excluded and people who lack basic literacy and numeracy skills may be less likely to seek advice for cultural and educational reasons[104].

MAS acknowledges the existence of particular barriers to seeking advice in its study, in particular for **poorer households[105]** who are more likely to prefer face-to-face advice as well as **ethnic minorities** who would rather communicate in their native language[106]. The CSJ reported that most research has failed to recognise that poor households have different preferences in accessing debt advice[107].

[97] Money Advice Trust. 2015. Evolving our debt options to meet new challenges

[98] The Scottish Government. 2016. New year debt campaign launched

[99] ICF interviews with stakeholders.

[100] ICF interviews with stakeholders.

[101] Money Advice Service. 2012. Debt Advice in the UK

[102] The Centre for Social Justice. 2013. Maxed out - Serious personal debt in Britain

[103] Money Advice Service. 2012. Debt Advice in the UK

[104] Disney, R., Bridges, S. and Gathergood, J. (2008), "Drivers of Over-Indebtedness", a report to BERR.

[105] Defined as having incomes of less than half the UK average.

[106] Money Advice Service. 2012. Debt Advice in the UK

[107] The Centre for Social Justice. 2015. Future finance - A new approach to financial capability

Prisoners were also identified as another group that can struggle to access debt advice services. This was confirmed in research from the LSRC who explained that slower access and communication arrangements, prevented prisoners from accessing advice[108].

3.2 Identification

In the "Identification" stage, the over-indebted individual attempts to find a suitable solution for their situation and identifies their preferred option.

The literature focuses mainly on the difficulties of over-indebted people in finding a solution through advice and not through their own means (e.g. online research, friends, etc.).

Barriers that prevent over-indebted people from identifying a suitable solution fall into several categories:

- knowledge gaps;
- provider practices;
- rejection of advice given; and
- exclusion from debt solutions.

These barriers are described further below.

3.2.1 Knowledge gaps

FCA rules require for-profit debt management firms to make customers aware that free debt advice is available[109]. This is important, as fee-charging service providers do not always offer the full suite of solutions.

However historically, fee-charging providers **have not always mentioned the availability of free debt services** and over-indebted people have not always been informed of the existence of other debt solutions beyond the ones they are considering[110]. Evidence from an R3 study is provided in Annex 2.2.1. However, since the FCA's thematic review, most debt management companies have been through a formal authorisation process which is likely to have reduced these practices.

The market for debt solutions is characterised by **asymmetric information**, with debt solution providers being more financially aware than debtors. Thus, people might find it difficult to understand the explanations provided by their debt advice provider (e.g. pros and cons of different debt solutions)[111].

This is exacerbated by the fact that debtors may suffer from considerable **stress** by the time they get an appointment with a debt advice service, making it more difficult for them to understand the information provided and impairing their ability to make sound decisions[112].

Evidence suggests that debtors often do not challenge the information given to them by providers. The FCA noted that many of those who visit a debt advice service experience a

[108] Legal Services Research Centre, November 2008. Money Advice Outreach Evaluation: Qualitative Outcomes for Clients

[109] Financial Conduct Authority. 2015. Quality of debt management advice

[110] Financial Conduct Authority. 2014. Consumer Credit Research: Payday Loans, Logbook Loans and Debt Management Services

[111] Money Advice Service. 2012. Debt Advice in the UK

[112] CMA. 2014. Problem debt.

similar feeling as when they visit the doctor: they feel they have no reason to doubt what they are told[113].

3.2.2 Provider practices

Mis-selling and other poor practices that exist in the debt advice market can make it difficult for over-indebted people to understand the debt solutions available to them and determine which one is right for them.

Mis-selling

Poor practice, involving mis-selling of debt solutions, can also make it difficult for over-indebted people to understand the debt solutions available and to identify which one is right for them. A research study commissioned by the BBA in 2010 identified poor practice in the debt management sector, particularly involving fee-charging DMCs[114]. The OFT also identified examples of fee-charging DMCs offering the most profitable solution for them, rather than the solution that best met the needs of the consumer.[115] For example, IVAs and DMPs might be promoted at the expense of less lucrative debt solutions such as bankruptcy, DAS schemes or informal arrangements with creditors.

Mis-selling takes various forms[116] (for more details on each form, please see Annex 2.2.2):

- false advertising;
- lack of transparency;
- pressure selling; and
- product bundling[117].

Another study was undertaken by the FCA in 2015, which reviewed the core services offered by a sample of eight debt management firms (including fee-charging and free-to-customer firms). The research revealed that only around 20 per cent of the advice cases across these firms were assessed as posing a low risk of harm to customers while around 50 per cent were assessed as posing a high risk of harm to customers[118].

According to DEMSA, complaints were made against DEMSA members for less than two per cent of DMPs managed by these companies in 2011. The major reasons behind the complaints included: poor customer service, misconceptions around expected savings, higher than anticipated interest rates and charges and debt not being written off as initially pitched[119].

Since the FCA's thematic review of the quality of debt management advice, most debt management companies have been through a formal authorisation process which is likely to have reduced the practices mentioned in this section.

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[113] Financial Conduct Authority. 2014. Consumer Credit Research: Payday Loans, Logbook Loans and Debt Management Services

[114] BBA. 2010. A New Model for Dealing with Personal Debt

[115] Office of Fair Trading, 2010. Debt management guidance compliance review

[116] Financial Conduct Authority. 2014. Consumer Credit Research: Payday Loans, Logbook Loans and Debt Management Services

[117] Unwanted products bundled with the debt solution without the customer asking for it or even realising

[118] Financial Conduct Authority. 2015. Quality of debt management advice

[119] Debt Managers Standards Association. 2012. Fee Charging Debt Management Market Assessment

Assessment of circumstances

Another problem relates to the fact that debt advice providers are **not always thorough enough when assessing debtors' personal circumstances or their financial position**. Before providing debt advice, debt advice providers are required to[120]:

- carry out a reasonable and reliable assessment of the customer's personal circumstances (e.g. reasons for financial difficulty and foreseeable changes in the customer's circumstances); and,
- carry out a reasonable and reliable assessment of the customer's financial position (e.g. disposable income, expenditure).

Evidence from the FCA[121]

The FCA conducted a review of the quality of debt management advice, using a sample of eight firms of varying sizes and business models. The main findings are as follow:

- In most firms considered, staff did not adequately review aspects of customers' circumstances and failed to ask about expected changes in circumstances (e.g. retirement, children approaching school leaving age).
- In all firms considered, staff failed to assess customers' financial positions in a thorough manner. The quality of the assessment was lower for fee-charging services than for free-to-client services. For example, staff did not ask whether debtors had any assets or about possible frequent variations in income or expenditure.
- Many firms did not request documentation to check their customers' income and outgoings. Even when they did, the documentation was not always reviewed. This finding is in accordance with that of R3, according to which 22 per cent of people in a DMP say their debt advice provider did not ask to see proof of income or expenditure before their plan began[122].

Another issue concerning the assessment of debtors' personal circumstances and financial situation relates to the fact that some debt advice providers encourage debtors to **lie about or manipulate their personal information**. These practices can have negative impacts, as they might prevent customers from identifying the solution that is best suited to for their needs and allow them to commit to payments they cannot realistically afford or to low and long-term repayment [123].

3.2.3 Rejection of suitable solution(s)

Despite the **high levels of satisfaction** with debt advice services[124], not all over-indebted people choose to follow the advice given. According to one stakeholder, over-indebted people do not always follow the advice provided[125]. This is confirmed by a study by MAS

[120] Ibid.

[121] Financial Conduct Authority. 2015. Quality of debt management advice

[122] R3. 2010. Debt Management Plans

[123] Financial Conduct Authority. 2014. Consumer Credit Research: Payday Loans, Logbook Loans and Debt Management Services

[124] IFF Research. 2011. User Needs from Debt Advice – suggests that 74 per cent of persons seeking advice declare themselves "satisfied" or "very satisfied" with the services they receive

[125] ICF interviews with stakeholders.

showing that over-indebted people do not always take up the debt solution that was recommended to them[126].

The box below shows that for most debt solutions, the majority of over-indebted people did not follow the advice and recommendations provided. Only for IVAs and DMPs did the majority of advice-seekers follow the advice provided. The main reasons cited for not following the advice of the provider included: not perceiving the options to be appropriate to their situation; and feeling pressured into enter into an agreement.

Evidence from Money Advice Service study[127]

YouGov conducted a survey of over-indebted people seeking advice. The main findings are as follows:

Of those recommended to declare themselves **bankrupt**, 50 per cent did not do so.

Of those recommended to set up a **DRO**, 58 per cent did not do so.

Of those recommended to set up an **IVA**, 32 per cent did not do so.

Of those recommended to set up a **DMP**, 28 per cent did not do so.

Of those recommended to set up a **debt consolidation**, 54 per cent did not do so.

Of those recommended to set up a **debt write off**, 73 per cent did not do so.

The rest of the solutions were not examined by the study.

Evidence also suggests that debtors are influenced by the **stigma** attached to bankruptcy and IVAs. According to several sources, a proportion of debtors who are best suited to bankruptcy or an IVA reject these options and opt for an alternative solution (with women being more prone to ignore suitable debt solutions due to stigma[128]). This can cause the length of their repayment period to become five times longer[129].

The FCA remarked that some advisers reinforce customers' misconceptions of bankruptcy, even though bankruptcy is in the customers' best interest. To do so, advisers do not present certain information or give undue emphasis to the disadvantages and risks of bankruptcy, while over-emphasising the advantages of other solutions[130].

3.2.4 Actual exclusion from debt solutions (based on eligibility criteria)

Some groups of over-indebted people are effectively excluded from all formal debt solutions and are therefore limited to informal solutions. For example, people who have less than £50 disposable income per month and have debts of more than £20,000 are excluded from all formal solutions except bankruptcy. Therefore if they cannot or will not accept bankruptcy (i.e. due to the fees charged or the stigma associated with bankruptcy), the only option is an informal solution which offers no statutory protection.

[126] Money Advice Service. 2012. The effectiveness of debt advice in the UK

[127] Money Advice Service. 2012. The effectiveness of debt advice in the UK

[128] Going Debt Free. 2012. Avoiding Viable Debt Solutions Due to Debt Stigma

[129] Ibid.

[130] Financial Conduct Authority. 2015. Quality of debt management advice

Additional evidence was found in the literature in relation to exclusion from specific debt solutions and is described below:

- Several documents highlighted problems with the eligibility criteria for DROs. It was found that the previous criteria were too restrictive[131] and stakeholders welcomed the changes that increased the debt and asset limits in 2015[132].
- A couple of sources noted that the rules for AOs are too restrictive (i.e. a consumer must have a County Court or High Court judgment, total debts of no more than £5,000 and at least two debts). According to the Money Advice Trust, the average amount of debt is often substantially higher than £5,000, which therefore exceeds the eligibility criteria for AOs[133].

3.2.5 Specific groups whose needs are not met at the Identification stage

The preceding section reported that some groups are effectively excluded from all debt solutions as they do not meet eligibility criteria. **Poorer households** are particularly likely to struggle to identify a debt solution due to high fees and a lack of income or savings. For example, they may fall into the group described above who have less than £50 disposable income per month and debts of more than £20,000.

In addition, some sources have looked into the problem of "perceived" exclusion. A study by the University of Bristol listed the types of over-indebted people whose needs are not met by current debt solutions. For example, **homeowners** consider they have fairly limited options if they do not want to risk losing their home. Furthermore, the research found that **ethnic groups** may not be reached by current debt solutions for reasons of language or culture, as different ethnic groups can have different attitudes to borrowing and debt. For example, it is relatively common for the Turkish population to borrow money from peers, resulting in greater informal lending[134].

The FCA acknowledges the necessity of having effective policies and procedures to identify vulnerable people and deal with them accordingly[135]. It defines **three groups of vulnerable people**: i) people with recent, significant medical problems; ii) people with difficulties understanding financial or legal issues; and iii) people with recent bereavements or relationship issues that contributed to their debt problem. It reported that firms generally have some sort of vulnerable consumer policy although not all of them put these into practice.

3.3 Arrangement

In the "Arrangement" stage, the over-indebted individual has identified which debt solution they want and attempts to enter into it (either with or without assistance from a debt advice service).

[131] Department for Business, Innovation and Skills. 2015. Insolvency Proceedings: Debt relief orders and the bankruptcy petition limit – Call for evidence

[132] R3. 2015 Bankruptcy and Debt Relief changes – R3 comments

[133] Money Advice Trust. 2015. Evolving our debt options to meet new challenges

[134] University of Bristol. 2014. The over-indebtedness of European household

[135] Financial Conduct Authority, June 2015. Quality of debt management advice

3.3.1 Main barriers in arranging a debt solution

Several barriers can prevent over-indebted people from entering into their preferred debt solution. The most commonly mentioned barriers in literature include:

- unaffordability of fees;
- creditors' refusal to accept debtors' offers;
- delays and other problems in the application process; and,

There can also be poor communication at (and after) the application phase, which can lead to problems later.

These issues are described further below.

Unaffordability of fees

Fees vary significantly between debt solutions. Some solutions are free of charge, while others cost significant sums. The fees for each debt solution can be found in Annex 2.3.1.

For those debt solutions that are not free of charge, unaffordability of fees is a common barrier preventing individuals from accessing them. As a result, individuals may delay entering the debt solution, or may seek another, cheaper solution (most of the informal solutions are available free of charge).

Specific affordability issues are described below for some of the different debt solutions:

- Several sources raise concerns that some individuals are not able to declare themselves bankrupt because they cannot afford to do so. Bankruptcy can cost up to £680 and the cost cannot be paid in instalments. The issue of affordability is less in Scotland as fees for sequestration are much lower and can be paid in instalments[136].
- One source pointed out that even though DROs cost only £90 to set up, individuals sometimes struggle to afford them[137].
- Issues around affordability of IVAs were reported by two sources. IVAs are relatively expensive, while insolvency practitioners may require payment of fees up-front[138]. Research from the Debt Resolution Forum suggests that individuals who are more likely to be able to afford IVAs are likely to be income rich and asset poor[139].
- Fee-charging DMP providers tend to charge high upfront fees, which effectively extend the duration of the DMP[140]. There is also evidence that in some instances, monthly management charges paid to DMP providers can exceed the amount distributed to creditors[141].

Further evidence in relation to each debt solution can be found in Annex 2.3.1.

[136] Money Advice Service. 2015. Options for clearing your debt

[137] Department for Business, Innovation and Skills. 2015. Insolvency Proceedings: Debt relief orders and the bankruptcy petition limit – Call for evidence and Citizens Advice Bureau. 2014. Debt relief orders and the bankruptcy petition limit. (Citizens Advice response)

[138] National Debtline. 2015. 10 ways to clear your debt

[139] The Debt Resolution Forum. 2012. Debt Resolution in the UK

[140] Citizens Advice. 2015. Debt solutions

[141] Citizens Advice. 2015. Debt solutions

Creditors' refusals to accept debtors' offers

Creditors can refuse debt solutions proposed by their debtors. Research with advice agencies revealed that some creditors will initially reject solutions presented directly by a debtor but will then accept an identical solution proposed by a debt advice agency. [142] This can cause significant frustration for debtors, who report several issues on the creditors' sides, such as a refusal to listen, unreasonableness, a failure to recognise the debtor's financial position, and a failure to recognise that other creditors also have to be paid[143].

The rejection of offers is particularly common amongst IVAs[144] and informal debt solutions[145] and creditors regularly attempt to increase the repayment amounts. Similarly, according to the Friends Provident Foundation, some creditors will also renegotiate higher repayments very shortly after setting up a DMP[146].

Further findings on the different debt solutions are provided in Annex 2.3.2.

Delays and other problems in the application process

Delays in the application process can prevent individuals from accessing their preferred debt solution. Delays can be caused by many factors including: long waiting times between the start of a plan and pro rata contributions being made to the plan[147]; and the intrinsic length of the court process[148]. According to CAB, credit reports can take a very long time to arrive in the case of a DRO application[149]. Sometimes, delays are so long that the amount of debt has increased during the period waiting for the reports and the consumer is no longer eligible for a DRO.

Our stakeholder interviews indicated that another barrier that may prevent debtors from arranging a debt solution is the quantity of information required to set up the solution[150]. Stakeholders indicated that people can feel the questions asked are intrusive or difficult to answer, which could deter them from completing the application process or encourage them to choose another debt solution for which less information is needed.

Poor communication around the application process

According to the FCA, the process of setting up a formal solution such as an IVA or a DAS is straightforward once a debt management company is involved, regardless of whether it is free-to-client or fee-charging[151].The same is true for individuals setting up a DMP or another

[142] Friends Provident Foundation. 2010. The Impact of Independent Debt Advice Services on the UK Credit Industry and University of Bristol. 2014. The over-indebtedness of European household

[143] Warwick Institute for Employment Research. 2014. The long-term impact of debt advice on low income households YEAR 1

[144] Insolvency Service. 2009. IVA Protocol Review

[145] Money Advice Trust. 2012. Sustaining debt repayments - Experiences of people in informal repayment arrangements

[146] Friends Provident Foundation. 2010. The Impact of Independent Debt Advice Services on the UK Credit Industry

[147] Debt Managers Standards Association. 2012. Fee Charging Debt Management Market Assessment

[148] University of Bristol. 2014. The over-indebtedness of European household

[149] Citizens Advice Bureau. 2014. Debt relief orders and the bankruptcy petition limit. (Citizens Advice response)

[150] ICF interviews with stakeholders.

[151] Financial Conduct Authority. 2014. Consumer Credit Research: Payday Loans, Logbook Loans and Debt Management Services

informal arrangement: 83 per cent of individuals with an informal agreement find it easy to set up their arrangement[152].

However, there can also be poor communication during the arrangement process that leads to negative impacts later on. The FCA highlighted the issue of poor communication after the DMP or IVA is set up and the paperwork sent back[153]. This issue is exacerbated by the fact that many people just want to hand over their debt problems to the debt advice company and therefore have little interest in understanding how the solution is reached[154].

Sometimes, consumers receive paperwork but are not informed of what happens next[155]. Similarly, some consumers are not kept in the loop about the negotiation process with their creditors undertaken on their behalf[156].

Another problem is the lack of clarity of explanations, particularly for consumers of fee-charging services: some consumers believe they have signed up for one debt solution when they have in fact signed up for another[157]; others are unaware of details such as the length of arrangements or the level of fees[158].

3.3.2 Specific groups whose needs are not met at the Arrangement stage

Poorer households encounter difficulties in arranging a debt solution due to high fees. The University of Bristol reported that access to help is linked to income: households with lower incomes lack access to solutions[159].

3.4 Maintenance

In the “Maintenance” stage the individual has to comply with the terms of the arranged debt solution.

3.4.1 Main barriers associated with maintaining a debt solution

There are several difficulties associated with maintaining a debt solution. Those most commonly mentioned in literature include:

- unsustainable arrangements;
- change in situation; and,
- lack of information, support and poor practice.

[152] Money Advice Trust. 2012. Sustaining debt repayments - Experiences of people in informal repayment arrangements

[153] Financial Conduct Authority, April 2014. Consumer Credit Research: Payday Loans, Logbook Loans and Debt Management Services

[154] IFF Research. 2011. User Needs from Debt Advice: Individual and Stakeholder Views.

[155] Financial Conduct Authority, April 2014. Consumer Credit Research: Payday Loans, Logbook Loans and Debt Management Services

[156] Money Advice Trust. 2012. Sustaining debt repayments - Experiences of people in informal repayment arrangements

[157] Financial Conduct Authority. 2014. Consumer Credit Research: Payday Loans, Logbook Loans and Debt Management Services

[158] Money Advice Trust. 2012. Sustaining debt repayments - Experiences of people in informal repayment arrangements

[159] University of Bristol. 2014. The over-indebtedness of European household

These barriers are described further below.

Unsustainable arrangements

The most commonly cited problems relating to maintaining a debt solution relate to the sustainability of the solution. The terms of the arrangement are not always appropriate, with repayment plans being set at unsustainable levels. This could either be because the **amount of the monthly repayments is excessive** and not affordable or that the **length of time over which the debt is to be repaid is too long**.

A recent study from the National Debtline suggested that some IVAs fail because the repayment plan agreed is too high[160]. The University of Bristol revealed evidence that some of the DMP repayment plans arranged by fee-charging companies are not affordable[161]. In addition, a study from R3 indicated that 46 per cent of insolvency practitioners surveyed had witnessed DMPs fail because the monthly payments were not affordable, and 40 per cent reported having seen DMPs fail because the repayment timescale was not realistic[162]. The Money Advice Trust found that such an extended repayment period was preventing people from keeping up with their payments[163].

A study from the Money Advice Trust estimated that among respondents who had cancelled their arrangement before the end, more than half mentioned they could no longer afford to keep up with repayments[164]. The same research suggested that there is a higher failure rate for arrangements from fee-charging services[165].

Some people are also prevented from maintaining their solution because of the additional **monthly fees** requested by fee charging providers. For example, a University of Bristol study indicated that in some cases, consumers were not even aware of such fees, while others were aware of the fees but did not know the exact amount before receiving their first statement[166].

Debts can also become unsustainable in cases where **interest and/or charges** continue to be applied, so that the outstanding debt increases. For instance, with DMPs, creditors cannot be forced to freeze interest, therefore the debt will continue to increase over time[167] if monthly payments are small.

Failure rates vary between debt solutions, with DMPs and IVAs having relatively high failure rates. For example:

- **IVA**: The CSJ estimated that one in four IVAs has failed in the past 20 years. The main reason for this is an inability to keep up with the repayment plan[168].
- **DMP**: Several studies have researched reasons for the failure of DMPs. A study by the FCA declared that self-negotiating arrangements often result in unsustainable plans,

[160] National Debtline. 2015. 10 ways to clear your debt

[161] Personal Finance Research Centre, University of Bristol, June 2009. An independent review of the fee-charging debt management industry

[162] R3. 2010. Debt Management Plans

[163] Money Advice Trust. 2012. Sustaining debt repayments - Experiences of people in informal repayment arrangements

[164] Money Advice Trust. 2012. Sustaining debt repayments - Experiences of people in informal repayment arrangements

[165] Ibid.

[166] Personal Finance Research Centre, University of Bristol, June 2009. An independent review of the fee-charging debt management industry

[167] National Debtline. 2015. 10 ways to clear your debt

[168] The Centre for Social Justice. 2013. Maxed out - Serious personal debt in Britain

which in turn led to some people going bankrupt[169]. Arrow Global and MAS reported that DMPs terminate before the end when debtors can no longer afford repayments[170], Arrow Global further explained that this can be due to a change in situation (for instance relationship breakdown or fluctuating earnings)[171]. Several interviews with stakeholders also pinpointed the length of DMPs as an important barrier to reaching the end. People are generally quite good at keeping repayments for the first few years, but chances of reaching the end were estimated at 30-40%[172].

Change in situation

Changes in consumers' situations can also create difficulties for them. The LSRC found that some people are unable to maintain their payments following a change in their financial or employment status[173]. In other instances, a change in situation can lead to the debt solution not being appropriate or available anymore.

This was found to be the case for DROs in particular. With a DRO, if a client's disposable income surpasses the £50 threshold in the 12 months of a DRO, it will be cancelled[174]. R3 reported that the prospect of a DRO being cancelled acts as an important disincentive to seeking employment or better-paid work. It was also recognised to discourage individuals from notifying the Official Receiver of changes in circumstances[175].

With some solutions, it is also possible for creditors and/or debt management companies to change the terms of repayment (e.g. length of solution, payment schedule). The new terms may or may not be suitable for the individual. For example:

- **IVA**: R3 reported that 17 per cent of people with an IVA saw their monthly payments increased and the same proportion experienced an increase in the length[176].
- **DMP**: A survey conducted by R3 showed that for 17 per cent of people with a DMP, the length of the plan had increased. In addition, 21 per cent reported an increase in the monthly amount due and 9 per cent mentioned an increase in the interest rate[177].

Lack of information, support and poor practice

Other key difficulties relate to a lack of information and support in relation to debt solutions as well as poor practice operated by providers.

Some studies reported a **lack of support** (i.e. ongoing advice) once the solution was arranged. For example, a study from IFF Research for MAS described the disappointment of some individuals with the lack of follow-up contact[178]. Those individuals reported a need

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[169] Financial Conduct Authority, April 2014. Consumer credit and consumers in vulnerable circumstances

[170] Arrow Global, December 2013. Working together: understanding motivation and barriers to engagement in the consumer debt marketplace and Money Advice Service. 2012. Debt Advice in the UK

[171] Arrow Global, December 2013. Working together: understanding motivation and barriers to engagement in the consumer debt marketplace

[172] ICF interviews with stakeholders.

[173] Legal Services Research Centre, November 2008. Money Advice Outreach Evaluation: Qualitative Outcomes for Clients

[174] Citizens Advice Bureau, October 2014. Debt relief orders and the bankruptcy petition limit. (Citizens Advice response)

[175] R3. 2014. The Personal Insolvency Landscape - A way forward for formal debt relief

[176] Ibid.

[177] R3, April 2010. Debt and insolvency: the full picture.

[178] IFF Research. 2011. User Needs from Debt Advice: Individual and Stakeholder Views.

for reassurance as well as encouragement to stay motivated and committed to their debt repayment plan.

Several studies reported that consumers can find maintaining a DMP difficult because of a **lack of transparency and information** about their arrangement. Consumers reported that a debt management company often kept them apart from negotiations with creditors, and as a result they had little knowledge of payment structures or amounts[179]. Individuals were not aware of when payments to creditors would start, and whether creditors would agree to freeze the interest on debts. The University of Bristol also reported that some consumers were frustrated that they were not automatically provided with information on the outstanding balances owed to individual creditors[180].

Poor practice with regard to creditors not being paid or being paid late is also a key issue. The FCA raised concern around creditors not being paid resulting in the individual being caught between the creditors and the debt management company[181]. R3 reported that 15 per cent of individuals in a DMP experience late payments made to creditors[182].

3.4.2 The extent to which the solution meets the needs of over-indebted people

The needs of over-indebted people can be separated into two categories:

- financial needs; and
- non-financial needs such as physical and mental health.

There is evidence that debt advice helps to meet the financial and non-financial needs of over-indebted people. However, there is a lack of evidence on whether debt solutions themselves help to meet the needs of over-indebted people. Most debt solutions (see Section 1.2.3) are accompanied by some advice, and it is unclear whether they offer benefits over and above the benefits that advice delivers.

The extent to which the solution meets individuals' financial needs

Seeking advice improves the financial and debt situation of over-indebted people. For instance, a study by the CMA found that 76 per cent of people reduce or clear at least some of their debts within six months of receiving advice[183]. The CSJ found that people who seek debt advice are twice as likely to have their debts become manageable within 12 months compared to those who do not[184]. In addition, MAS highlighted that for people who do not seek advice, it takes on average three additional months for the debt to become manageable in comparison with people who seek advice[185]. In terms of the type of advice, one source mentioned that both free-to-client and fee-charging services are effective in helping people improve their financial situation[186].

Research findings also suggest that some debt solutions successfully meet the needs of most over-indebted people in terms of their financial and debt situation. A survey from IFF

[179] Legal Services Research Centre, November 2008. Money Advice Outreach Evaluation: Qualitative Outcomes for Clients

[180] Personal Finance Research Centre, University of Bristol, June 2009. An independent review of the fee-charging debt management industry

[181] Financial Conduct Authority, April 2014. Consumer Credit Research: Payday Loans, Logbook Loans and Debt Management Services

[182] R3. 2009. Debt Management Schemes – delivering effective and balanced solutions for debtors and creditors

[183] Competition and Markets Authority. 2014. Problem debt

[184] The Centre for Social Justice. 2013. Maxed out - Serious personal debt in Britain

[185] Money Advice Service. 2012. The effectiveness of debt advice in the UK

[186] CMA. 2014. Problem debt

Research was conducted in 2011 with over-indebted individuals, which showed that most respondents (71 per cent) believe that the solutions received helped to reduce their debt. A survey from BIS conducted in 2015 showed that 96 per cent of respondents state that without a DRO, they would not be able to deal with their debts[187]. In addition, the University of Bristol undertook face-to-face depth interviews with customers of fee-charging debt management companies and found that most of the participants believed that their financial situation had improved since they had taken a DMP. They also suggested that despite struggling occasionally, they were able to keep up with the DMP repayments and other bills[188].

People with a debt solution are also less likely to experience unwelcome creditor conduct, such as penalties and charges, refusal to accept partial payments, and notices of legal action[189]. However, statutory protection from creditors is only a benefit for formal debt solutions and does not tend to extend to informal solutions.

The extent to which the solution meet non-financial needs

Non-financial needs include wider needs such as improved physical or mental health. Again, there is a general consensus that seeking advice can have a positive impact on the needs of over-indebted people. People feel less stressed and anxious after seeking advice. A study by Leeds City Council reported that 67 per cent of debt and money advice users describe a reduction in stress due to advice received[190]. MAS further found that eight out of ten people who have received debt advice feel less stressed or anxious and more in control of their life[191]. Receiving advice is particularly beneficial for people with long-term health issues such as depression and anxiety[192].

There is also evidence to suggest that seeking advice has a positive impact on physical well-being and relationships with friends and family. For instance, one study reported that 41 per cent of CAB consumers see an improvement in their health after using the service[193]. The LSRC has identified additional positive impacts of debt solutions and suggested that transferring the responsibility for dealing with creditors to a debt management company provides individuals with breathing space. This allows them to deal with the underlying problems that have led them into debt in the first place; including for instance domestic violence, relationship breakdown, etc.[194].

However, it remains unclear whether solutions themselves improve physical and mental well-being. CAB and BIS reported that 95 per cent and 99 per cent, respectively, of DRO holders surveyed believe that the DRO has improved their mental health. However, research by R3 found that many people (in DMPs, IVAs, DROs and those who filed for bankruptcy) also reported experiencing pressure, as well as threatening behaviour from creditors[195].

[187] Department for Business, Innovation and Skills, January 2015. Insolvency Proceedings: Debt relief orders and the bankruptcy petition limit – Call for evidence

[188] Personal Finance Research Centre, University of Bristol, June 2009. An independent review of the fee-charging debt management industry

[189] CMA. 2014. Problem debt

[190] Money Advice Service. 2012. Debt Advice in the UK

[191] Money Advice Service. 2015. Best ways to pay off your debts

[192] Legal Services Research Centre, November 2008. Money Advice Outreach Evaluation: Qualitative Outcomes for Clients

[193] Money Advice Service. 2012. Debt Advice in the UK

[194] Legal Services Research Centre, November 2008. Money Advice Outreach Evaluation: Qualitative Outcomes for Clients

[195] R3, April 2010. Debt and insolvency: the full picture

Evidence from an R3 study is provided in Annex 2.4.1.

The extent to which the solution addresses the underlying causes of over-indebtedness

There is conflicting evidence on the extent to which debt advice and debt solutions address the underlying causes of over-indebtedness. ICF's analysis has identified a positive impact on money management skills including organisation, budgeting and prioritisation. For instance, the LSRC found that the central benefit of debt advice is an increased understanding of priority and non-priority debts. They also reported that one third of respondents felt they were able to budget and prioritise better, although one third were unsure, and a few saw no changes[196].

However, although the management of finances appears to improve, underlying financial circumstances are more difficult to address as options for income generation are often limited[197]. For example, DROs and IVAs are both associated with employment issues, which may prevent people from seeking better-paid employment and thus restrict their ability to address the causes of their over-indebtedness[198].

3.4.3 Specific groups whose needs are not met at the Maintenance stage

The Money Advice Trust found that **younger people** were more likely to have missed payments associated with their debt solution. The study concluded that this reflects a lower motivation among the 18-24 year demographic to maintain debt solutions[199].

Work status is also a statistically significant predictor of difficulties associated with repayment[200]. The Money Advice Trust reported that in households with only one person in full-time work, or with no one in full-time work, there was an increased likelihood of respondents finding repayments difficult.

3.5 Closure

Once the individual has fulfilled their obligations towards their creditors, the debt should have been repaid or written off. After this, the individual should be free of the debt solution. However, this does not always occur, and when it does it may be that the individual requires another debt solution shortly afterwards. Additionally, debt solutions can have effects that impact an individual's circumstances over the longer term.

3.5.1 Main barriers to reaching the end of the term

There are several barriers to reaching the end of a debt solution. In addition to those mentioned in the Maintenance section (Section 3.4), the most commonly mentioned factors in literature include:

- personal choice; and,

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[196] Legal Services Research Centre, November 2008. Money Advice Outreach Evaluation: Qualitative Outcomes for Clients

[197] Ibid.

[198] The Centre for Social Justice. 2013. Maxed out - Serious personal debt in Britain

[199] Money Advice Trust. 2012. Sustaining debt repayments - Experiences of people in informal repayment arrangements

[200] Ibid.

- poor practice.

These are described further below.

Personal choice

Personal choices made by debtors can explain why some debt solutions are not completed in full. In some cases, the solution might be cancelled by the individuals if they are **no longer happy** with the service, if they **feel they can manage the debts** or if they **do not want to pay the monthly fees** anymore.

The Debt Management Standard Association outlined several reasons why consumers may leave a DMP. One of the reasons was that some consumers feel they can self-administer their plans to avoid paying the monthly management fees, while others are not happy with the services provided and decide to switch providers[201]. MAS also highlighted that debt solutions can positively fail if the debtor finds a more suitable way to pay off their debts or where a full and final settlement with creditors is reached[202].

Switching has been raised by several stakeholders during the interviews as one of the key reasons for people not reaching the end of their solution. Switching can happen if the person no longer meets the criteria of the current solution, or on a voluntary basis if the person is not happy with the current solution. However, the literature on the subject is relatively limited.

Poor practice

ICF's analysis suggests that another reason for failing to reach the end of a solution arises from poor practice by debt management companies.

Some cases have been reported where the debt company **did not pay the creditors**, was **fraudulent**, or **went bankrupt**. MAS described that in a few cases the people interviewed reported that the debt management company was a fake company, disappeared or went bankrupt[203]. The University of Bristol further reported that several participants in their study cancelled their DMPs because their creditors had not been paid or had received late payments[204].

As mentioned in previous sections, most debt management companies have been through a formal authorisation process since the FCA's thematic review which is likely to have reduced these practices.

3.5.2 Impacts on individuals' long-term circumstances

The main financial impact of using a debt solution is that it remains on the credit report of the over-indebted individual for a period of up to six years. The extent to which each debt solution impacts debtors' credit files can be seen in Annex 2.5.1.

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[201] Debt Managers Standards Association. 2012. Fee Charging Debt Management Market Assessment

[202] Money Advice Service. 2012. Debt Advice in the UK

[203] Money Advice Trust. 2012. Sustaining debt repayments - Experiences of people in informal repayment arrangements

[204] Personal Finance Research Centre, University of Bristol, June 2009. An independent review of the fee-charging debt management industry

This affects the credit rating of the individual and can restrict future opportunities for the individual in terms of:

- access to financial services; and
- employment and business opportunities.

Individuals may also experience the loss of personal assets, particularly their home.

Access to financial services

MAS described that the impact of debt solutions on credit ratings makes it more difficult to open bank accounts, take out loans or access credit[205]. The CMA suggested similar findings in their 2014 study and went further to acknowledge the difficulties that over-indebted people have when trying to break free of the debt trap, explaining that these people do not necessarily have access to the cheapest forms of credit[206].

Examples of restrictions for different debt solutions are described in detail in Annex 2.5.2. These examples include restricted access to credit, for six years on average, for people with formal solutions[207].

Employment and business opportunities

Taking up a debt solution can negatively impact on employment, by preventing access to certain types of job as well as business opportunities, especially for the self-employed. For example, restrictions associated with bankruptcy or DROs mean over-indebted people need to inform the individuals they do business with about their debt problems, which can negatively impact their business. However, it was reported that AOs and IVAs should not impact employment[208]. More specific findings are summarised below and described in more detail in Annex 2.5.3:

- **Bankruptcy**: National Debtline reported that bankruptcy may affect employment, particularly for the self-employed as it might be difficult to continue to trade[209]. The CSJ found that there is a negative stigma associated with conducting business with individuals who have been declared bankrupt, and particularly those associated with undischarged bankruptcy[210].
- **DRO**: Individuals are unable to act as company director during the DRO period (without the leave of the court)[211] London Economics also reported that the DRO process could negatively impact employment for people working in the financial sector or armed forces, as well as people working as a solicitor, accountant, or in the police[212].

[205] Money Advice Service. 2015. Options for clearing your debt

[206] CMA. 2014. Problem debt

[207] Department for Business, Innovation and Skills, January 2015. Insolvency Proceedings: Debt relief orders and the bankruptcy petition limit – Call for evidence; National Debtline. 2015. 10 ways to clear your debt; Personal Finance Research Centre, University of Bristol, June 2009. An independent review of the fee-charging debt management industry

[208] London Economics. 2012. Study on means to protect consumers in financial difficulty

[209] National Debtline. 2015. 10 ways to clear your debt

[210] The Centre for Social Justice. 2013. Maxed out - Serious personal debt in Britain

[211] R3. 2014. The Personal Insolvency Landscape - A way forward for formal debt relief

[212] London Economics. 2012. Study on means to protect consumers in financial difficulty

Loss of personal assets

Another major impact highlighted in the literature lies in the loss of personal assets, especially **property/homes**. London Economics reported that one of the biggest fears of over-indebted people and one of the largest impacts on their lives is the loss of their home[213]. This can happen with bankruptcy or a Trust Deed.

Another concern relates to the impact on **pensions**. Since April 2015, debtors have been allowed to use their pension money to pay their debts. However, it is unclear what particular effect this has on the individual's finances in the long term and on their entitlement to benefits[214].

3.5.3 The extent to which the solution removes the need for other debt solutions in the future

The majority of people who successfully complet their arrangements do not intend to use another debt solution in the future and are optimistic they will not need to. Research by R3 indicated that 86 per cent of people with an IVA and 77 per cent of discharged bankrupts believe they will not need help with their finances in the future[215]. BIS reported that 77 per cent of people who have a DRO do not intend to use a debt management or insolvency procedure in the future[216].

However, some people reported having difficulties in managing the remaining debts once the solution was over. PFRC mentioned that consumers who had voluntarily cancelled their plan because they were unhappy with the services provided were usually worse off as a result[217]. In addition, some solutions prove to be only temporary or not sufficient, in particular DMPs and TPPs. R3 reported that people who take a DMP can often end up with an IVA or bankruptcy in the future[218]. The University of Bristol estimated that around 30 per cent of individuals in formal solutions have previously been in a DMP[219]. Friends Provident Foundation outlined that TPPs are usually agreed for a relatively short period of time and are then often followed by one or more debt solutions[220].

3.5.4 Specific groups whose needs are not met at the Closure stage

This study found no information on specific groups whose needs are not met by current debt solutions at the closure stage.

3.6 Comparative assessment of Scotland and the rest of the UK

This section provides a comparative assessment of the effectiveness of debt solutions in Scotland versus the rest of the UK.

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[213] Ibid.

[214] National Debtline. 2015. 10 ways to clear your debt

[215] R3, April 2010. Debt and insolvency: the full picture

[216] Department for Business, Innovation and Skills, January 2015. Insolvency Proceedings: Debt relief orders and the bankruptcy petition limit – Call for evidence

[217] Personal Finance Research Centre, University of Bristol, June 2009. An independent review of the fee-charging debt management industry

[218] R3. 2009. Debt Management Schemes – delivering effective and balanced solutions for debtors and creditors

[219] University of Bristol. 2014. The over-indebtedness of European household

[220] Friends Provident Foundation. 2010. The Impact of Independent Debt Advice Services on the UK Credit Industry

Table 3.1 below shows the debt solutions available in England, Wales, Northern Ireland and Scotland. As can be seen, bankruptcy (known as sequestration in Scotland) and all the informal debt solutions are available in the whole of the UK. However, DROs, IVAs and AOs are offered only in England, Wales and Northern Ireland while DAS and Trust Deeds are available only in Scotland.

Table 3.1 Availability of debt solutions in England, Wales, Northern Ireland and Scotland

Formal debt solutions	England, Wales, Northern Ireland	Scotland	Informal debt solutions	England, Wales, Northern Ireland	Scotland
Bankruptcy / sequestration*	✓	✓	DMP	✓	✓
DRO	✓	-	TPP	✓	✓
IVA	✓	-	Debt consolidation	✓	✓
AO	✓	-	Debt write-off	✓	✓
DAS	-	✓	Informal arrangements with creditors	✓	✓
Trust deed	-	✓	Full and final settlement of debts	✓	✓

** Bankruptcy in Scotland is called sequestration and fees are lower. Bankruptcy costs and fees total £680 in England and Wales, and £647 in Northern Ireland, while sequestration fees in Scotland are £200. Minimal Asset Process (MAP) bankruptcy is also available in Scotland with fees of £90[221]. This is where debts of less than £17,000 that cannot be repaid within a reasonable time are written off.*

3.6.1 Awareness

There is a strong emphasis on information diffusion regarding debt advice and debt solutions in Scotland. The Scottish Government has actively promoted the activity of Money Advice Scotland and has launched two recent initiatives to help consumers discover what options are available to them:

- the Financial Capability E-learning Module, combining debt advice and financial advice[222]; and
- the Balance Your Budget campaign, raising awareness of the Scotland's Financial Health Service website and helpline, which signposts users to bodies offering information and advice on debt, managing money, saving and financial education[223].

3.6.2 Identification

There are indications that Scottish over-indebted people may find it more difficult to identify the most appropriate debt solution, compared to their English counterparts. A MAS study reports that Scottish over-indebted people are less satisfied with the debt advice they

[221] StepChange, Bankruptcy costs and fees. Available at: https://www.stepchange.org/debt-info/bankruptcy-costs-and-fees.aspx

[222] Ibid.

[223] The Scottish Government. 2016. New year debt campaign launched

receive, which is usually due to advisers discussing English debt solutions rather than the relevant Scottish debt solutions[224].

However, debt solutions available only in Scotland have advantages that other solutions do not share[225].

- **DAS**: DAS allows a "breathing space": which protects consumers by giving them extra time to pay by stabilising their debt while preventing creditors from taking further enforcement action. All interest, fees and charges are frozen from the date of application and written off on completion of the plan. Another positive aspect of DAS is that no particular amount of debt is required to enter the scheme.
- **DAS and Trust deed**: These schemes offer substantial protection of equity and assets, which is particularly important for homeowners.

DAS is so successful that the UK Government is urged by some to launch a consultation on DAS and extend the scheme across the rest of the UK[226].

3.6.3 Arrangement

Sequestration fees are much lower in Scotland than bankruptcy fees in the rest of the UK[227], making it easier to declare bankruptcy. The relevant fees are:

- **England and Wales**: £680, cannot be paid in instalments.
- **Northern Ireland**: £647.
- **Scotland**: £200, can be paid in instalments.

A Minimal Asset Process (MAP) bankruptcy was introduced in Scotland on 1 April 2015 and is available to those on low incomes whose debts are between £1,500 and £17,000 and whose total assets are worth no more than £2,000. It costs £90 to access a MAP. [228]

However, one stakeholder noted that this amount of money can still be seen as significant for some debtors.

3.6.4 Maintenance

The interview with Money Advice Scotland suggested that it is easier to maintain a DAS thanks to several characteristics, such as flexibility (e.g. payment holiday, adaptable payments) and the fact that there are no direct restrictions on employment (e.g. there are no specific restrictions on holding certain positions or requirements to disclose particular information).

3.6.5 Closure

A study by the Money Advice Service found that people living in Scotland are 73 per cent more likely to be out of unmanageable debt within 12 months in comparison with someone

[224] Money Advice Service. 2012. Debt Advice in the UK

[225] Money Advice Trust. 2015. Evolving our debt options to meet new challenges

[226] AiB. 2016. 1,233 Scots debt-free thanks to Debt Arrangement Scheme

[227] Money Advice Trust. 2015. Evolving our debt options to meet new challenges

[228] StepChange, Bankruptcy costs and fees. Available at: https://www.stepchange.org/debt-info/bankruptcy-costs-and-fees.aspx

who lives in other parts of the UK[229]. The study reported that there were no significant differences in the debt characteristics or demographic profile of the two populations. The difference was also considered unlikely to have been caused by differences in debt advice. The reasons for such differences could therefore be due to differences in the debt solutions landscape[230]. However, further evidence would be required to demonstrate this.

[229] Money Advice Service. 2012. The effectiveness of debt advice in the UK
[230] Ibid.

ANNEXES

Annex 1 Characteristics of current debt solutions

Table A1.1 Main characteristics of formal debt solutions

	Bankruptcy	Debt Relief Order	Individual Voluntary Arrangement	Administration Order	Debt Arrangement Scheme	Trust Deeds
Description	Form of insolvency. A public official (trustee) is appointed to take control of the debtor's assets (money and possessions) and sell or use them to help pay creditors back. Bankruptcy freezes interest rates and charges. Debts are written off after a certain period of time, usually a year.	Agreement that freezes a debtor's debt repayment, interest rates and charges for 12 months. If the financial situation of the debtor is identical at the end of the period, the debts are written off.	Agreement that freezes a debtor's debts, interest rates and charges and allows them to pay them back over an agreed period (usually 5 years). The debtor makes regular payments to an insolvency practitioner, who divides the money between creditors. Any money still owed at the end of the period is written off. The debtor could be required to sell their home to pay off remaining debts if they have equity in their property.	Order by a court. A debtor having a county court or High Court judgment against them makes monthly payments for the full amount owed to the local court which then divides the money between creditors. An AO freezes interest rates and charges. If the court believes the debtor will not be able to pay the debt in full, a composition order is granted – whereby only a percentage of the debt is paid back and the rest is written off after an agreed period (usually 3 years).	Government-run debt management tool which allows debtors to repay their debts through a debt payment programme (DPP). Debtors repay their debts by making regular payments to a payment distributor who then distributes the money to creditors. A DPP can last for any 'reasonable' length of time. Payments are computed based on the amount of money left after paying bills.	Agreement that transfers part, or all, of the debtors' assets (money and property) to a trustee to manage for the benefit of creditors. The debtor makes monthly payments to pay back what they can afford (part, or all of what they owe). A Trust Deed lasts a minimum of 4 years; at the end of the period, any money still owed is written off.
Regional coverage	All UK. Bankruptcy in Scotland is called sequestration and fees are lower. Minimal Asset Process (MAP) bankruptcy is also available in Scotland and is where debts that cannot be repaid within a reasonable time are	All UK, except Scotland.	All UK, except Scotland.	All UK, except Scotland.	Only Scotland.	Only Scotland.

	Bankruptcy	Debt Relief Order	Individual Voluntary Arrangement	Administration Order	Debt Arrangement Scheme	Trust Deeds
	written off. This has a different value limit and fees to sequestration.					
Qualifying debts[231]	Most types of debts are included (excluding magistrates court fines, payments ordered under a confiscation order, student loans, secured loans/debts, debts owed because of personal injury/death of another person, social fund loans, some benefits and tax credit overpayments, maintenance payments and child support payments).	Only some kind of debts are included (e.g. credit cards, overdrafts and loans, arrears with rent, utility bills, telephone bills, council tax and income tax, benefits overpayments, hire purchase or conditional sale agreements, buy now - pay later agreements and business debts).	Only some kind of debts are included (e.g. bank and building society loans and overdrafts, credit cards, personal loans, store cards, catalogues and store cards. They can also include council tax arrears, tax debts and electricity and gas debts).	All kinds of debts are included but it can be advisable to exclude mortgage or rent arrears .	Debts included are mostly unsecured debts. Child support arrears and benefit overpayments cannot be included and mortgage debts are unlikely to be included.	Only unsecured debts are included.
Eligibility criteria	Debts must have reached a level where debtors are never likely to be able to pay them off. For a creditor to make you bankrupt, you must owe at least £5,000.	Debts must not exceed £20,000. Debtors must have £50 or less left over each month after paying usual household expenses; they must have less than £1,000 worth of savings or assets.	Debts must be worth more than £10,000 in total. Debtors must have spare each month after paying their bills, usually at least £100.	Debts must be worth less than £5,000. Debtors must owe money to at least two creditors; they must prove they can afford regular repayments; and have a county court or High Court judgment against them.	No particular amount of debt is required. Debtors must have surplus income and be willing to pay their debts. Debtors must owe money to at least two creditors.	Debts must be worth more than £5,000 in total. Debtors must owe money to at least two creditors and must have a surplus income.
Application process	Debtors must fill in a debtor's bankruptcy application (using online forms at GOV.UK). It	Debtors cannot apply on their own. They must go through an approved	Debtors need to provide details about their financial situation to an insolvency practitioner	Debtors must fill in an application for an administration order and return it to the local	Debtors must approach a DAS approved money adviser, who will complete the DPP	Debtors must go through an Insolvency Practitioner who draws

231 https://www.citizensadvice.org.uk/debt-and-money/debt-solutions

	Bankruptcy	Debt Relief Order	Individual Voluntary Arrangement	Administration Order	Debt Arrangement Scheme	Trust Deeds
	includes: personal and business information; declarations about eligibility for bankruptcy; details of previous bankruptcies or other insolvency procedures.	intermediary (or DRO adviser).	who will work out what the debtors can afford to repay and how long the IVA lasts.	court. It is then up to the court to decide how much of the debt is to be repaid and for how long.	proposal and get creditors to accept it.	up a proposal and gets creditors to accept it.
Fees	Up-front fee: £680. (Note: £647 in Northern Ireland and £200 in Scotland)	Up-front fee: £90.	Set-up fee + handling fee (varies).	Court fee (varies).	Application fee + payment distributor fee (vary).	Administration fee (varies):
Extent to which creditors can reject debtors' requests for a debt solution	Creditors can ask the court to annul the bankruptcy.	Creditors have 28 days to object to the order. Objections are considered by the Official Receiver who can revoke or amend the DRO if appropriate.	Creditors have the right to reject the proposal outright.	Creditors can object to the court and ask to be left out of the order.	Creditors have 21 days to accept or object to the terms of the DAS. If any one of the creditors does not accept the terms, the DAS Administrator decides whether the proposal is approved or not.	Creditors do not have to agree to the terms of the Trust Deed. A Deed can be enforced only if at least half of creditors or those owed over 67 per cent of the total unsecured debts agree to the terms.
Protection from creditors' further actions	Most creditors cannot pursue debtors after bankruptcy. Exceptions include: secured debts, magistrate court fines, maintenance / child support arrears, social fund loans, student loans, etc.	The agreement is legally binding: creditors cannot pursue debtors.	The agreement is legally binding: creditors cannot pursue debtors. The IVA applies to all creditors, including any who disagreed to it.	The agreement is legally binding: creditors cannot pursue debtors without court's permission.	The agreement is legally binding: creditors cannot pursue debtors.	A voluntary trust is not binding on creditors. However, a Protected Trust Deed is legally binding: creditors cannot pursue debtors.
Public record	Record made on the Individual Insolvency Register. Bankruptcy stays on credit record for six years.	Record made on the Individual Insolvency Register. DROs stay on credit record for six years.	Record made on the Individual Insolvency Register. IVAs stay on credit record for six years.	AO is added to the Register of Judgments, Orders and Fines for six years. Debtors can ask for a 'certificate of	Debtors' details are recorded on the DAS register, which is publicly available and free of charge. It stays	Record made on the Individual Insolvency Register. Trust Deeds stay on credit record for six years.

	Bankruptcy	Debt Relief Order	Individual Voluntary Arrangement	Administration Order	Debt Arrangement Scheme	Trust Deeds
				satisfaction' at the end of the AO.	on credit record for the duration of the term plus a few years.	

Table A1.2 Main characteristics of informal debt solutions

	Debt Management Plan	Token Payment Plan	Debt consolidation	Debt write-off	Informal arrangements with creditors	Full and final settlement of debts
Description	Agreement between a debtor and creditors to pay their debts. The debtor makes monthly payments to a debt management company, which then shares the money out between creditors. There is no specific duration. Interest rates and charges may be frozen.	Short term agreement between a debtor and creditors occurring after the situation of the debtor changes (e.g. maternity leave). The debtor offers to make a "token payment", normally £1 per month to each debt, thereby showing creditors they are not ignoring their debts.	Form of debt refinancing. Debtors who have several debts can merge them together into one loan, in the hope of lowering the interest rate and the monthly repayments. Interest rates and charges are not frozen.	Arrangement where creditors agree to write off the debtor's debts, if they are convinced the debtor is unable to pay back and their situation is unlikely to improve. The write-off can be total or partial.	Informal arrangement with creditors involving a mutually agreeable solution between a debtor and creditors regarding an affordable repayment plan for the debts. The agreement can involve paying the debt partially or fully. The amount paid can vary as well as the frequency and length of the time period. A grace period (involving for instance forbearance or a payment holiday) can also be agreed. Interest rates and charges may be frozen.	Agreement occurring if the debtor has a lump sum of money available. The debtor can use this to make a settlement offer to their creditors (e.g. ask creditors to pay a lump sum and immediately write off the debt instead of continuing to make regular payments). If creditors accept a lump sum that is smaller than the full amount owed, the debt can still be classed as full payment.
Regional coverage	All UK.	All UK.	All UK.	All UK.	All UK.	All UK.
Qualifying debts[232]		No particular types of debt are required.	No particular types of debt are required.	No particular types of debt are required.	No particular types of debt are required.	No particular types of debt are required.

232 https://www.citizensadvice.org.uk/debt-and-money/debt-solutions

	Debt Management Plan	Token Payment Plan	Debt consolidation	Debt write-off	Informal arrangements with creditors	Full and final settlement of debts
	Non-priority debts only such as credit cards and bank loans, water charges, student loans, and benefits overpayments					
Eligibility criteria	No particular conditions are required.	Debtors must usually prove their income enables them to cover only their household bills. Debtors must prove their situation will improve within one year.	Eligibility criteria varies between debt consolidation programs. Usually, criteria include credit score and income.	No particular conditions are required.	No particular conditions are required.	No particular conditions are required.
Application process	Debtors can go through a debt management company authorised by the FCA, a local authority, or can self-administer and deal with their creditors themselves. Monthly payments are based on the debtor's financial situation.	Debtors need to write to creditors asking for a TPP. Alternatively, TPP can be set up with assistance from a debt adviser.	Debtors can apply via banking and financial services companies.	Debtors need to write to creditors asking for them to write off the debts. Sample letters are available (e.g. on National Debtline or Citizens Advice websites).	Debtors need to contact their creditors and ask them to agree to regular lower repayments towards all or part of their debts. Informal agreements can be set up by the debtor himself or via a third party organisation.	Debtors need to write to creditors offering full and final settlements. Sample letters are available (e.g. on National Debtline or Citizens Advice websites).
Fees	Available with no fee with free-to-client services. With fee-charging services there is usually an initial set-up fee and a monthly handling fee	No fee.	Banking fees apply.	No fee.	No fee. However, the amount of debt owed can increase if small repayments do not cover interest or charges.	No fee.
Extent to which creditors can reject debtors'	Because these debt solutions are informal, creditors have the right to refuse all of them.	Because these debt solutions are informal, creditors have the right to refuse all of them.	Lenders have the right to refuse debt consolidation products.	Because these debt solutions are informal, creditors have the right to refuse all of them.	Because these debt solutions are informal, creditors have the right to refuse all of them.	Because these debt solutions are informal, creditors have the right to refuse all of them.

	Debt Management Plan	Token Payment Plan	Debt consolidation	Debt write-off	Informal arrangements with creditors	Full and final settlement of debts
requests for a debt solution						
Protection from creditors' further actions	The agreement is not legally binging. Creditors can cancel the DMP at any time and take action to recover their money.	The agreement is not legally binging. Creditors can change their mind and pursue the debtor.	The agreement is not legally binging. Creditors can change their mind and end the payment plan.	The agreement is not legally binging. Creditors can change their mind and pursue the debtor.	The agreement is not legally binging. Creditors can change their mind and pursue the debtor.	It is recommended to ask the creditor to confirm in writing that the money will be accepted as a Full & Final Settlement. It happens that unscrupulous creditors take the money but continue to pursue the debtor for the rest of the debt.
Public record	A DMP might show on the credit record because it usually involves reduced debt repayments – but this will be decided by the creditors. Also, debtors are required to close most of their credit card accounts while on a DMP; this has a negative impact on their credit rating.	Debts repaid thanks to a TPP can be marked as defaulted on a debtor's credit records.	Consolidating debt can have a positive impact on a credit rating (several debts appear paid off). However, actions taken after the debt consolidation can hurt the score if a payment is missed or a credit card account is closed.	Debt write off appears on credit files for six years.	Credit rating is affected by informal arrangements.	Credit rating is not affected if the creditor marks the debt as settled in full. However, if the creditor marks the debt as partially settled, this appears on the credit file for six years.

Annex 2 Detailed findings

This section describes additional findings from the desk research presented in Section 3.

A2.1 Awareness

This section provides additional evidence on the awareness of debt solutions.

A.2.1.1 Awareness of the existence of debt solutions

Additional evidence was found in the literature in relation to the level of awareness of specific debt solutions and is described below.

DRO: Sources disagree on the level of awareness of DROs: while some approved intermediaries say that around half of their customers have heard of DROs, others say that less than 5 per cent of their customers were aware of DROs before seeking advice[233]. A Citizens Advice Bureau survey in 2014 found that 24 per cent of intermediaries believe most of their customers are unaware of the existence of DROs[234]. According to the Money Advice Trust, DROs are not publicised well enough[235]. They are explained on free-to-client service providers' websites; however, commercial debt management companies do not feature DROs at all or if they do, not very prominently. According to the FCA, those who are aware of DROs have generally been directed towards them by an independent advice provider following an unsatisfactory experience with a fee-charging company[236].

AO: According to a survey conducted by the FCA in 2014, no respondents had experience or knowledge of AOs[237].

DMP: Interviews with stakeholders[238] suggested that because DMPs are heavily advertised, people are mostly aware of their existence. According to a survey conducted by R3 in 2010, 39 per cent of people with a DMP first hear about these plans by seeing an advert about them and 12 per cent receive a phone call from a company offering DMPs[239]. However, no information is available on how much people actually know about DMPs. A survey conducted by the Money Advice Trust demonstrated that of DMP holders who are charged fees, 50 per cent are not aware that DMPs can be set up for free[240].

Debt consolidation: Debt consolidation is well-known by over-indebted people. One source quotes a fee-charging debt advice provider who suggests that the 'stereotypical' over-indebted individual believes they can solve their problems by borrowing more money instead of going to a debt advice provider[241].

A.2.1.2 Perceptions of debt solutions

Additional evidence was found in the literature on the perceptions of various debt solutions:

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[233] Citizens Advice Bureaux. 2014. Debt relief orders and the bankruptcy petition limit. (Citizens Advice response)

[234] Ibid

[235] Money Advice Trust. 2014. Debt relief orders and the bankruptcy petition limit. (Money Advice Trust response)

[236] Financial Conduct Authority. 2014. Consumer Credit Research: Payday Loans, Logbook Loans and Debt Management Services

[237] Financial Conduct Authority. 2014. Consumer Credit Research: Payday Loans, Logbook Loans and Debt Management Services

[238] ICF interviews with stakeholders.

[239] R3. 2010. Debt and insolvency: the full picture.

[240] Money Advice Trust. 2012. Sustaining debt repayments - Experiences of people in informal repayment arrangements

[241] Money Advice Service. 2012. Debt Advice in the UK

Bankruptcy: According to the FCA, many people associate going bankrupt with ‘giving up’ and ‘losing face’ and believe that it is shameful and immoral to go down this route[242]. A survey conducted by This is Money in 2010 found that only 18 per cent of respondents thought bankruptcy was nothing to be ashamed of[243]. Another survey conducted by the Bank of England in 2006 remarked that 54 per cent of households would never consider bankruptcy as an option, while 34 per cent of households would only consider it as a last resort. It is interesting to note that those who know a bankrupt person are more inclined to consider bankruptcy themselves[244].

However, a 2012 study by Going Debt Free suggests that the stigma attached to bankruptcy is declining in the UK[245]. Another source suggested that “bankruptcy tourism” is developing with Europeans coming to the UK to take advantage of the bankruptcy regime and its shortened bankruptcy term[246].

In contrast, however, a large number of sources disagreed and evidence was consistent across them: there is a stigma associated with being bankrupt. This is due to several reasons: the loss of assets including property, possible impacts on individuals employed in certain professions, long-term impact on credit reports, public listing of the individual’s name in the Insolvency Register and court appearance. Bankruptcy is commonly seen as an extreme solution that can only be used as a last resort.

DRO: According to the FCA, DROs are well-regarded, especially by individuals with no assets, very little disposable income and a relatively low amount of debt that has nonetheless become unaffordable. Indeed, DROs enable these individuals to avoid the expense of a formal bankruptcy[247].

Trust Deed: According to Citizens Advice, Trust Deeds are well-regarded, as they enable individuals to avoid the expense, formality and stigma of formal sequestration[248].

TPP: TPPs are commonly well-regarded. As the Money Advice Trust observed, TPPs are seen as the “least worse option”[249].

Debt consolidation: Views on debt consolidation are diverse. Some people perceive debt consolidation as an effective way of dealing with debt. It is seen as a flexible method that does not affect credit ratings and allows the over-indebted person to stay in complete control of their finances[250]. However, individuals who have already undergone debt consolidation feel that it does not put a stop to the cycle of debt and that it takes a lot of willpower and self-discipline to successfully manage debt issues with a consolidation loan[251]. It is interesting to note that only 26 per cent of the UK population believe, that in the right circumstances, it is a good idea to borrow money to pay off another debt[252].

Informal arrangement with creditors: Informal arrangements are popular among the over-indebted population. According to Debtless, 79 per cent of the UK population think that people should be allowed to have a mortgage holiday for a month or two while they are having temporary financial difficulties[253].

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[242] Financial Conduct Authority. 2014. Consumer Credit Research: Payday Loans, Logbook Loans and Debt Management Services

[243] This is Money. 2010. Debt and bankruptcy 'no longer shameful'

[244] Bank of England. 2006. The state of British household finances: results from the 2006 NMG Research survey

[245] Going Debt Free 2012. Avoiding Viable Debt Solutions Due to Debt Stigma

[246] R3. 2014. The Personal Insolvency Landscape - A way forward for formal debt relief

[247] Financial Conduct Authority. 2014. Consumer Credit Research: Payday Loans, Logbook Loans and Debt Management Services

[248] Citizens Advice. 2015. What options are there for dealing with debt

[249] Money Advice Trust. 2015. Evolving our debt options to meet new challenges

[250] Financial Conduct Authority. 2014. Consumer Credit Research: Payday Loans, Logbook Loans and Debt Management Services

[251] Ibid.

[252] Debtless. 2011. UK Debt Attitude Survey

[253] Debtless (2011) UK Debt Attitude Survey.

A2.2 Identification

This section provides additional evidence on the identification of debt solutions.

A.2.2.1 Discussion of other options

The box below presents evidence from an R3 study relating to whether or not individuals taking up debt solutions had discussed other options.

Evidence from R3 study[254]

Commissioned by R3, research agency ComRes surveyed 1,961 members of the public who describe themselves as struggling with debt by online questionnaire, between 17 December 2009 and 7 January 2010. The main findings are as follows:

- 54 per cent of individuals who declared **bankruptcy** say they had been talked through other options before they became bankrupt, but 43 per cent say this did not happen in their case.
- Around half of individuals in a **DRO** say they had been talked through other options before they started their DRO, but the other half say this did not happen in their case.
- 65 per cent of individuals in an **IVA** say they had been talked through other options before they started their IVA, but 32 per cent say this did not happen in their case.
- 60 per cent of individuals in a **DMP** say they had been talked through other options before they started their DMP, but 35 per cent say this did not happen in their case.

Note: figures do not add up to 100 per cent as some of the respondents said they "did not know".

A.2.2.2 Mis-selling

Additional evidence was found on mis-selling practices.

- **False advertising**: Some studies showed that debt management companies sometimes make false claims about the services they offer[255]. For example, debt management companies claim that they can guarantee creditors will co-operate (e.g. agree to freeze interests or accept reduced payments) while, in reality, creditors are not required to do so[256]. An example of potentially misleading information would be when debt management companies claim that people can become debt-free with a DMP[257] or when they claim IVAs can wipe out 90 per cent of someone's debt. In reality, debt reduction is on average around 60 per cent[258].
- **Lack of transparency**: A large number of sources mention debt management companies sometimes deliberately leave out, or distort, important information[259]. Lack of transparency regarding fees is one common example of this. The FCA indicated that customers are often not

[254] R3. 2010. Debt and insolvency: the full picture

[255] Information was found only for IVAs and DMPs

[256] Financial Conduct Authority. 2014. Consumer Credit Research: Payday Loans, Logbook Loans and Debt Management Services

[257] Citizens Advice. 2015. Debt solutions

[258] Going Debt Free. 2012. Avoiding Viable Debt Solutions Due to Debt Stigma

[259] Information is available for bankruptcy, IVAs, DAS schemes and DMPs

told that charges apply, or give misleading information on the level of charges[260]. According to a survey conducted by R3 in 2010, 10 per cent of people in a fee-charging DMP are not told about charges until after they start their plan[261]. Additional sources stated that other important details on debt solutions are sometimes not correctly presented by debt management companies. A mystery shopping study by Zero Credit showed that information on the terms and conditions, or warnings concerning the caveats of debt solutions (e.g. impact on credit rating), are not always clearly put forward[262].

- **Pressure selling**: A couple of sources also gave evidence of pressure selling on the personal debt solutions landscape[263]. Issues can relate to aggressive marketing behaviours, such as cold-calling by bulk operators[264]. The FCA noted that some consumers feel salespeople actively try to hurry them through the process, leaving little time for thought or reflection[265].
- **Product bundling**[266]: This is another problem as the additional product(s) can further reduce the debtor's disposable income and thereby extend the length of time of repayment[267].

A2.3 Arrangement

This section provides additional evidence on the arrangement of debt solutions.

A.2.3.1 Affordability of fees

Table A2.1 presents the fees associated with each debt solution.

[260] Financial Conduct Authority. 2014. Consumer Credit Research: Payday Loans, Logbook Loans and Debt Management Services

[261] R3. 2010. Debt and insolvency: the full picture

[262] Zero-Credit. 2012. Pricing and Fee Examples - Mystery Shopping: Debt 9

[263] Information is available mainly on DMPs and IVAs

[264] Oxera. 2007. Individual Voluntary Arrangements: cashing in on consumer debt?

[265] Financial Conduct Authority. 2014. Consumer Credit Research: Payday Loans, Logbook Loans and Debt Management Services

[266] Unwanted products bundled with the debt solution without the customer asking for it or even realising

[267] Financial Conduct Authority. 2015. Quality of debt management advice

Table A2.1 Fees associated with debt solutions

Formal debt solutions		Informal debt solutions	
Bankruptcy	Up-front fee: £705 (Note: £647 in Northern Ireland and £200 in Scotland)	**DMP**	Available with no fee with free-to-client services. With fee-charging services: Set-up fee (£430 on average) + handling fee (£50 per month on average)
DRO	Up-front fee: £90	**TPP**	No fee
IVA	Set-up fee + handling fee: £5,000 on average	**Debt consolidation**	Banking fees apply.
AO	Court fee: less than 10 per cent of debt	**Debt write-off**	No fee
DAS	Application fee + payment distributor fee: less than 10 per cent of debt	**Informal arrangements with creditors**	No fee
Trust Deed	Administration fee: between £2,500 and £5,000	**Full and final settlement of debts**	No fee

Several sources mentioned issues with the fees for various solutions:

Bankruptcy: Several sources raise concerns that some individuals are not able to declare themselves bankrupt because they cannot afford it. Bankruptcy can cost up to £680 and the cost cannot be paid in instalments. As pointed out by R3, it seems counter-intuitive that individuals who consider bankruptcy (typically individuals on low incomes, with no available income and minimal assets and with substantial debt) can find that amount of money and pay it up front[268]. An R3 survey showed that 29 per cent of insolvency practitioners see debtors as unable to afford to declare bankruptcy, despite it being an appropriate solution[269]. The issue of affordability for bankruptcy / sequestration in Scotland is less prevalent, considering fees are much lower and can be paid in instalments[270].

DRO: One source pointed out that even though DROs cost only £90 to set up, individuals sometimes struggle to afford them[271]. However, existing literature did not provide statistics on the proportion of over-indebted people struggling to afford a DRO.

IVA: Issues around affordability of IVAs were reported by two sources. IVAs are expensive (up to £5,000) and insolvency practitioners may require payment of fees up-front[272]. This can explain the findings from the Debt Resolution Forum, according to which individuals who are more likely to be able to afford IVAs are income rich and asset poor[273]. Again however, existing literature did not provide statistics on the proportion of over-indebted people struggling to afford an IVA.

DAS: One source stated that while Scottish stakeholders are generally happy with DAS, they would welcome a tendering process to achieve a reduced fee[274]. No further information was found in relation to the affordability of DAS.

[268] R3. 2014. The Personal Insolvency Landscape - A way forward for formal debt relief

[269] R3 Membership Survey. 2011

[270] Money Advice Service. 2015. Options for clearing your debt

[271] BIS. 2015. Insolvency Proceedings: Debt relief orders and the bankruptcy petition limit – Call for evidence and Citizens Advice Bureau. 2014. Debt relief orders and the bankruptcy petition limit. (Citizens Advice response)

[272] National Debtline. 2015. 10 ways to clear your debt

[273] The Debt Resolution Forum. 2012. Debt Resolution in the UK

[274] Accountant In Bankruptcy. 2010. The Debt Arrangement Scheme Improving Access

DMP: Fee-charging DMP providers may charge high upfront fees, which effectively extend the duration of the DMP[275]. There is evidence that in some instances, monthly management charges paid to DMP providers exceed the amount distributed to creditors[276]. Another issue is that of packaged deals, where additional services are provided to customers alongside DMPs: these services can come at a cost over and above the cost of the DMP and further extend its duration[277].

Debt consolidation: The University of Bristol found that fees might be associated with arranging the loan, and additionally that people with poor credit histories may be offered poor terms and conditions[278].

A.2.3.2 Creditors' refusals to accept debtors' offers

Table A2.2 describes the extent to which creditors can reject debtor's requests for each debt solution.

Table A2.2 Extent to which creditors can reject debtors' requests for a debt solution

Formal debt solutions		Informal debt solutions	
Bankruptcy	Creditors can ask the court to annul the bankruptcy.	**DMP**	Because these debt solutions are informal, creditors have the right to refuse all of them.
DRO	Creditors have 28 days to object to the order. Objections are considered by the Official Receiver who can revoke or amend the DRO if appropriate.	**TPP**	
IVA	Creditors have the right to reject the proposal outright.	**Debt consolidation**	Lenders have the right to refuse debt consolidation products.
AO	Creditors can object to the court and ask to be left out of the order.	**Debt write-off**	Because these debt solutions are informal, creditors have the right to refuse all of them.
DAS	Creditors have 21 days to accept or object to the terms of the DAS. If any one of the creditors does not accept the terms, the DAS Administrator decides whether the proposal is approved or not.	**Informal arrangements with creditors**	
Trust Deed	Creditors do not have to agree to the terms of the Trust Deed. A Deed can be enforced only if at least half of creditors or those owed over 67 per cent of the total unsecured debts agree to the terms.	**Full and final settlement of debts**	

Several sources raised issues with creditors rejecting solutions:

IVA: In 2007, approval rates for IVAs were around 85 per cent[279]. However, several sources suggest that creditors tend to refuse debtors' initial proposals for an IVA and may ask for the terms of the arrangements to be amended so that monthly repayments are higher. One source reported that 97 per

[275] Citizens Advice. 2015. Debt solutions

[276] Citizens Advice. 2015. Debt solutions

[277] University of Bristol. 2009. An independent review of the fee-charging debt management industry

[278] University of Bristol. 2014. The over-indebtedness of European household

[279] Oxera. 2007. Individual Voluntary Arrangements: cashing in on consumer debt?

cent of IVA proposals were modified before they were accepted by creditors in 2009[280]. Debtors then have the choice to accept the changes (and face the risk of entering an unsustainable IVA that will eventually fail[281]) or refuse (and have to find another solution and possibly face the stigma as well as the publicity of bankruptcy[282]). Additionally, according to an R3 survey conducted in 2014, 33 per cent of insolvency practitioners saw creditors or their agents modifying IVA proposals so severely that they became unworkable and 32 per cent saw cases where the IVA proposal was rejected outright by the creditor or their agents[283].

Informal debt solutions: Again, existing literature highlighted issues linked to creditors attempting to increase repayment amounts[284]. According to the University of Bristol, creditors are very unwilling to agree to informal arrangements as they prefer formal solutions[285].

DMP: According to the Friends Provident Foundation, some creditors renegotiate higher repayments only very shortly after the set-up of a DMP[286]. No information was found on the extent and prevalence of this issue.

A2.4 Maintenance

This section provides additional evidence on the maintenance of debt solutions.

A.2.4.1 Creditor action

The blue box below provides evidence from R3 in relation to threats received from creditors.

Evidence from R3 study[287]

Commissioned by R3, research agency ComRes surveyed 1,961 members of the public who describe themselves as struggling with debt by online questionnaire, between 17 December 2009 and 7 January 2010. The main findings are as follow:

- 44 per cent of individuals in a **DMP** had been contacted by their creditors and 35 per cent had been threatened by their creditors to take action.
- 25 per cent of individuals in an **IVA** had been contacted and 15 per cent had been threatened by their creditors to take action.
- 44 per cent of undischarged **bankrupts** had been contacted by creditors since becoming bankrupt.
- The majority of individuals in a **DRO** had been contacted by creditors since starting their DRO.

[280] Insolvency Service. 2009. IVA Protocol Review

[281] R3. 2014. The Personal Insolvency Landscape - A way forward for formal debt relief

[282] London Economics. 2012. Study on means to protect consumers in financial difficulty

[283] R3. 2014. The Personal Insolvency Landscape - A way forward for formal debt relief

[284] Money Advice Trust. 2012. Sustaining debt repayments - Experiences of people in informal repayment arrangements

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A2.5 Closure

This section provides additional evidence on the closure of debt solutions.

A.2.5.1 Impact of debt solutions on public records

Table A2.3 describes the impact of each debt solution on public record.

Table A2.3 Impact of debt solution on public record

Formal debt solutions		Informal debt solutions	
Bankruptcy	Record made on the Individual Insolvency Register. Bankruptcy stays on credit record for six years.	**DMP**	A DMP might show on the credit record. Also, debtors are required to close most of their credit card accounts while on a DMP; this has a negative impact on their credit rating.
DRO	Record made on the Individual Insolvency Register. DROs stay on credit record for six years.	**TPP**	Debts repaid thanks to a TPP can be marked as defaulted on a debtor's credit records.
IVA	Record made on the Individual Insolvency Register. IVAs stay on credit record for six years.	**Debt consolidation**	Consolidating debt can have a positive impact on the credit rating (several debts appear paid off). However, actions taken after the debt consolidation can hurt the score if a payment is missed or a credit card account is closed.
AO	AO is added to the Register of Judgments, Orders and Fines for six years. Debtors can ask for a 'certificate of satisfaction' at the end of the AO.	**Debt write-off**	Debt write off appear on credit files.
DAS	Debtors' details are recorded on the DAS register, which is publicly available and free of charge.	**Informal arrangements with creditors**	Credit rating is affected by informal arrangements
Trust Deed	Record made on the Individual Insolvency Register. Trust Deeds stay on credit record for six years.	**Full and final settlement of debts**	Credit rating is not affected if the creditor marks the debt as settled in full. However, if the creditor marks the debt as partially settled, this appears on the credit file for six years.

A.2.5.2 Access to financial services

Additional evidence was found on the impact of particular debt solutions on access to financial services.

DRO: Three sources acknowledged the difficulties of accessing credit in the aftermath of a DRO, due to the fact that a DRO will remain for on an individual's credit file for six years. A recent study by BIS reported that 24 per cent of people having completed a DRO process could not access credit[288].

IVA: One study mentioned that IVAs will be held on the public Individual Insolvency Register and will therefore have a negative impact on credit ratings and the ability to take credit in the future[289].

AO: One study reported that the court may impose an attachment of earnings order on the consumer which can negatively impact credit rating and consequently on future access to mainstream credit[290].

DMP: Several sources indicated that a DMP makes it harder to access credit. The University of Bristol assessed that people with a DMP will experience restricted access to credit for six years on average[291].

A.2.5.3 Employment and business opportunities

Additional evidence was found on the impact of debt solutions on employment and business opportunities.

Bankruptcy: National Debtline reported that bankruptcy may affect employment, especially for the self-employed as it might be difficult to continue to trade[292]. In addition, one of the restrictions associated with bankruptcy implies that individuals have to inform business partners and creditors that they have previously been declared bankrupt[293]. This could have negative implications. The CSJ found that there is a negative stigma associated with conducting business with individuals who have been declared bankrupt, and reported that 85 per cent of these individuals believed that people viewed them as a personal failure. The CSJ study also reported that less than 50 per cent of businesses would engage with individuals who had previously been declared bankrupt on normal terms[294]. The negative stigma and impacts can be even worse for undischarged bankruptcy, with the CSJ finding that only one in ten businesses would conduct business with these individuals on normal terms.

DRO: London Economics reported that the DRO process could negatively impact employment for people working in the financial sector or armed forces, as well as people working as a solicitor, accountant, or in the police[295]. In addition, during the DRO period, the individual is unable to act as a company director without the leave of the court[296].

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Annex 3 Detailed Methodology

A3.1 Study questions

Stages	Barrier to success	Research questions
Awareness	The individual has low awareness or negative perceptions of the available solutions, so they do not attempt to find a solution	What is the awareness of the debt solutions available? What is factually known?
		What perceptions/ worries do people have about the various debt solutions, and to what extent are these are a barrier to looking for a solution? How is the overall debt solution landscape perceived?
		What perceptions do people have about the complexity of finding or arranging a debt solution, and to what extent is this a barrier to looking for a solution?
		Are there any specific groups whose needs (financial or non-financial) are not met by the existing debt solutions?
Identification	The individual attempts to find a debt solution, but is unable to find one that meets their needs (when one may or may not have been suitable)	How easy is it for over-indebted people to understand the debt solutions available?
		How easy is it for over-indebted people to identify which solution is right for them?
		What are the financial and non-financial barriers that discourage people from pursuing the various debt solutions? Which of these are most impactful/ most commonly experienced? How are these barriers distinct from barriers that stop people seeking advice in the first place?
		Are there specific groups of people who are effectively excluded (for financial and non-financial reasons) from all debt solutions?
		Are there any specific groups whose needs (financial and non-financial) are not met by the existing debt solutions?
Arrangement	The individual finds a debt solution which they believe meets their needs, but is unable to successfully enter into it	What are the barriers that prevent people from entering into their preferred debt solution? (e.g. fees, creditor agreement) Which of these are most impactful/ most commonly experienced?
		Are there certain groups (e.g. specific demographics or circumstances) that are more likely to be prevented from entering into their preferred debt solution?
		Are there any specific groups whose needs (financial and non-financial) are not met by the existing debt solutions?
Maintenance	The individual enters into a debt solution either themselves or via debt advice, but it does not meet their needs, or they are unable to maintain it	Once an individual has entered into a specific debt solution, to what extent does it meet their needs – both financial and non-financial?
		How easy or difficult is it for individuals to maintain the debt solutions until the end of the term?
		To what extent do the debt solutions address the causes of over-indebtedness, as well as the symptoms?
		Are there any specific groups whose needs (financial and non-financial) are not met by the existing debt solutions?

Stages	Barrier to success	Research questions
Closure	The individual is unable to fulfil the arrangement fully as agreed or the individual is forced to look for other solutions after completion	What are the barriers to reaching the end of the term? Which of these are most impactful/ most commonly experienced?
		What impact do the debt solutions have on individuals' long-term circumstances?
		Do the debt solutions fulfil the needs of the individual (i.e. the debt is cleared, fully repaid)?

A3.2 Scoping interviews

ICF worked jointly with MAS to identify potential stakeholders for involvement in this study. ICF identified eleven potential organisations from which MAS selected eight as priorities for interviewing.

ICF prioritised stakeholder organisations for interview according to the following rationale.

- ICF aimed for a mix of stakeholder types, to include regulatory and government bodies, debt advice providers and a research agency.
- Within each group, where possible, stakeholders who participated in the Money Advice Trust roundtable[297] were targeted. ICF believed that conversations with these parties would be particularly valuable, given their familiarity with the issues at hand.
- ICF also considered the size of each organisation and aimed to target the largest within each group. In doing so, ICF believed that the stakeholders would have an overall view of the debt solution landscape and more likely to have data and studies on the subject.

A3.3 Desk review

ICF created a pro-forma template to collect the information from the literature. The pro-forma consisted of an Excel file that was used to map information collected from the 82 sources (as listed in the "Sources" tab).

The pro-forma was organised in different tabs, one for each stage of the individual's journey into debt solutions (e.g. Awareness, Identification, Arrangement, Maintenance and Closure).

For each stage, ICF identified key relevant information, in light of the evaluation questions (as summarised in the "Summary" tab of the pro-forma).

[297] Money Advice Trust, 2015. Evolving our debt options to meet new challenges. Provides a summary of the roundtable discussions that took place in September 2015, between not-for-profit advice agencies, creditors, Government and regulatory bodies.

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