

# The economic impact of debt advice on creditor recovery



Financial distress can often prevent individuals from fulfilling their obligations to their creditors. Debt advice can help lower debt levels and can therefore improve creditor recovery rates. This research estimates that taking debt advice reduces costs by at least £135-237 million and additional creditor recovery of £133-360 million annually across the UK.

The study contributes empirically to understanding the effect of debt advice on creditor recovery than previous research, and more up-to-date data. To facilitate meaningful and robust statistical comparisons, the sample of 3,800 over-indebted people included similar proportions of those that had sought debt advice and those who had not.

## How creditors benefit from debt advice

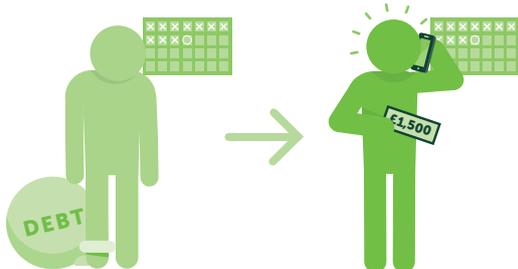


Creditors benefit from an improved recovery rate on problem debts. This lightening of the debt burden comes as a transfer from the borrowers

A further gain from debt advice is achieved through lower costs of recovering debts, as the process of pursuing debtors becomes less expensive, such as by avoiding the courts

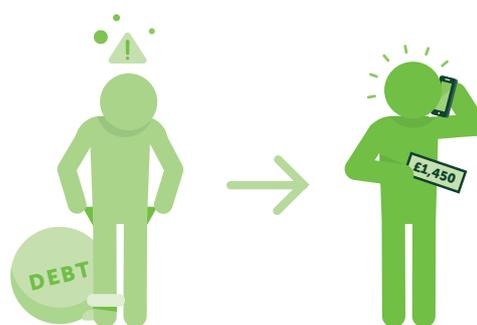
## Benefits of taking debt advice

The benefit per Debt Management Plan is estimated at £2,000-3,650



There are an estimated 460,000 Debt Management Plans currently active

The benefit per IVA/ Trust Deed is estimated at £1,750-2,600



There are an estimated 270-280,000 IVAs and Trust Deeds currently active in the UK

## Economic impact

The likely increase in debt recovery were modelled and the reduced costs of recovering that debt using data on debtors obtained from primary research conducted by YouGov and other data on the frequency of DMPs and IVAs/Trust Deeds.

Combining this information provides an approximate calculation of how important debt advice can be to both creditors and debtors. Owing to a lack of robust data, these calculations includes the three most popular debt solutions but omit others, such as where clients self-negotiate with creditors. As such, it follows that the total benefits are larger still.



**£268-596 million**  
in total benefits

The combined gain adds together both the benefit of decreased recovery costs and increased creditor recovery. These two benefits are, however, qualitatively different. Decreased recovery costs are a social gain, which benefit can be shared by both creditors and debtors.



**£133-360 million**  
in transfers between debtors and creditors

On the other hand, increased creditor recovery means that payments from debtors to creditors go up, i.e. these are transfers. This does not represent social benefits in the same sense as the reduced recovery costs.

# £135-237 million

in social benefits annually across the UK

This is the reduced cost of recovery only. And since the benefit was calculated for only three of the available solutions the total impact of debt advice will be even larger.



For more information please read the report: "The Economic Impact of Debt Advice" - [moneyadviceservice.org.uk/EconomicImpactDebtAdvice](http://moneyadviceservice.org.uk/EconomicImpactDebtAdvice)  
Contact the Money Advice Service: [debtadviceresearch@moneyadviceservice.org.uk](mailto:debtadviceresearch@moneyadviceservice.org.uk) | [@yourmoneyadvice](https://twitter.com/yourmoneyadvice) | [moneyadviceservice.org.uk](http://moneyadviceservice.org.uk)

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