

The economic impact of debt advice on debt-recycling



Does taking debt advice reduce the risk of over-indebted borrowers entering further debt cycles? The research investigated this question and found that debt advice has a positive effect on deferring debt cycles. Its economic benefits are of at least £25-48 million annually across the UK.

The study contributes empirically to understanding the effect of debt advice on debt-recycling, using a larger sample 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.

Background

Borrowers can become trapped and experience multiple episodes of being over-indebted. Debt recycling is where individuals who have already been through one debt cycle, enter an additional debt cycle. Overall the research indicates that taking advice reduces the likelihood of debts becoming unmanageable again by about 10 per cent.



83% of people who sought debt advice managed to keep their debts manageable



72% of people who did not seek debt advice managed this

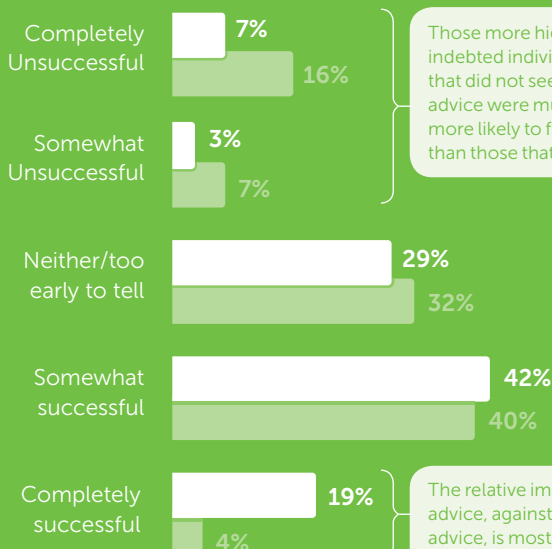
Debt advice increases the success rate of actions against debt

Sought advice
 Did not seek advice

Success rate of actions - such as creating a household budget or entering a debt management plan - for over-indebted population



Success rate of actions for most highly over-indebted individuals i.e. those with debt to income ratios above one



Those more highly indebted individuals that did not seek advice were much more likely to fail than those that did

The relative impact of debt advice, against not seeking advice, is most striking amongst the most highly indebted individuals

How can debt advice help?



Debt advice clients can learn to seek advice earlier in the following debt cycle. This can ameliorate the adverse effects of debt



Debt advice clients can learn useful skills and capabilities which can help them make their debts more manageable



But debt advice might only be delaying the entry into a new cycle of being overindebted – rather than outright preventing such entry

Economic impact

Debt advice helps individuals to either delay entering a new debt cycle or else helps avoid such re-entry. The deferral of a new debt cycle was modelled, combining the data and calculations from the other impacts of debt advice that could be monetised, such as creditor recovery, mental and physical health and productivity. Thus, this is an underestimate of the total benefits.

The duration of debt cycles was assumed to vary between 4 and 5 years. Due to the lack of a time dimension of the primary research data, it was not possible to assess if debt advice entirely prevents debt recycling. Thus, entire prevention was not included in the total impact.



There is an additional benefit to creditor by an increase in transfer payments of **£12–£32 million** annually.



In addition debt advice has social benefits of **£25-48 million** annually across the UK

This is shared **£13-26 million** in consumer benefits and **£12-22 million** in benefits for creditors