CONSUMER DEBT - ADVICE AND SOLUTIONS

David Kerr MCICM looks at the Money Advice Service's recommendations on improving debtors' options advice, and says it's a mixed bag.

IN the March issue of *Credit Management*, I covered an initiative by the Money Advice Service (MAS) to promote a new Standard Financial Statement (SFS) for use across the UK by all advisors and debt solution providers when assessing a debtor's income and expenditure. A welcome measure to drive consistency in the way debtors' circumstances are dealt with. It is already being used by some (such as Payplan, one of the leading free-to-client debt management companies) and is due to be taken up by others gradually over the next year and fully implemented by next April (2018) – at least, in England and Wales. The Accountant in Bankruptcy in Scotland is less firm in its commitment at this stage, intending to consult on if/when to switch over to the SFS.

MAS has been busy on another front in its role to improve the provision and consistency of advice on debtors' options. It commissioned research by Professor Collard from the Personal Financial Research Centre at the University of Bristol to review the current landscape and make recommendations where necessary. It has published a report setting out a draft set of proposals and is consulting with a steering group with a view to prioritising those which are the most practical and workable.

To put the debt 'problem' into perspective, MAS estimates that the number of people in the UK with more debt than they can handle (having missed bills or payments in three of the last six months or feeling their debts to be a heavy burden) is a staggering eight million. Whether they do anything about it, the consistency of advice they receive and the solutions offered seems patchy.

One of the key recommendations is to improve the funding of debt advice, perhaps by way of a levy on lenders, including government. Local Councils are among the organisations featuring regularly in the creditor mix. The regulation of lead-introducers is recommended too – these are the companies that carry out advertising and cold-calling, and pass debtors' details onto the organisations that are authorised to offer and implement debt solutions of one kind or another.

The report also urges the introduction of some form of statutory debt management scheme in England and Wales to ensure that those trying to pay their debts through a structured plan have similar protections (eg against bankruptcy petitions) to those afforded to people in more formal arrangements such as an Individual Voluntary Arrangement (IVA). Remember, these proposals are unashamedly geared towards debtor protection, so may not necessarily be creditor-friendly.

The report supports work already underway in government regarding creditor behaviour, where the focus is on central and local government departments and their approach to debtors, but also utility and telecoms suppliers. There is also some emphasis on debtor rehabilitation and the role of credit reference agencies, particularly in respect of debtors whose incomes fluctuate.

One of the meaty sections in the report is in respect of the bankruptcy regime. It expresses concerns about the cost of access and absence of advice when a debtor make an online application. Notwithstanding perhaps valid concerns about the Official Receiver's costs, the suggestion that a debtor might obtain a bankruptcy order, and the debt relief that goes with it, before full payment of the fees seems unworkable. The report doesn't mention the current absurd and immoral option for debtors to pay online using their own debit or credit card, thereby committing a fraudulent act through a government web portal.

There is, however, a very sensible suggestion about strengthening the signposting to advice provision, possibly using an intermediary in the same way that applies to an applicant for the 'mini-bankruptcy' Debt Relief Order. But again this comes back to funding, as intermediaries in those cases earn a paltry £10 for every case. The ridiculous limit imposed on Insolvency Practitioners (IPs) in this regard is unfortunate, preventing those who are among the best-qualified to give advice on bankruptcy from doing so within the scope of their insolvency licence, instead insisting that they have to obtain separate/duplicate authorisation from the Financial Conduct Authority (FCA).

The report poses the rather contradictory proposition that IPs might be removed from advice provision altogether (even in respect of IVAs) if not FCA regulated, or alternatively and more sensibly that the insolvency regulators work closely to ensure a consistent approach by those giving advice; the steering group recognised that work in this area is already underway, spearheaded by the Insolvency Service which oversees IP regulation, and afforded this a low priority among the recommendations in the MAS report.

All in all, a mixed bag of recommendations, with some work still to be done to refine and focus on those which are more practical. A further report is due to be published later this year.

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