The 'd' problem – revisited

David Kerr sees the debt as a problem for both sides.

AUTHOR – **David Kerr MCICM is the Chief Executive of the Insolvency Practitioners Association (IPA).**

David Kerr

IN last month's edition of *Credit Management*, David Andrews article 'The d word' examined the growing debt burden in the UK, and highlighted that average household unsecured debts are expected to be nearly £14,000 by the end of 2017, rising to a new high next year. Much of this is provided by credit cards, with credit being used to meet everyday bills. How would a rise in interest rates affect debtors' ability to service those borrowings, particularly the three million who are paying more in interest and charges than capital?

If there is any good news for creditors, it is in the estimates from some advisors that four in 10 debtors are in full time work. That opens up more opportunities for them, and holds out the prospect of some return for lenders. Individual Voluntary Arrangements (IVAs) are proving more popular than any of the alternative formal solutions, but are they good for the debtor and creditors?

Consumer advice is regulated by the Financial Conduct Authority (FCA), but it doesn't directly regulate the lead introducers who identify potential IVA candidates and pass their details to IVA providers. Two thirds of new IVAs started this year are run by just five volume operators who engage Insolvency Practitioners (IPs) to supervise those arrangements. IPs are regulated by professional bodies such as the IPA. More and more people are looking to resolve their debt problems through a process that provides relief from their debt burden, and the alternatives are either unattractive or unavailable to them.

While average debt is close to £14,000, those turning to IVAs typically have debts greater than the £20,000 limit that would otherwise make them eligible to consider a Debt Relief Order (DRO), which can provide relief for those with little or no net disposable income or assets. Bankruptcy still carries some stigma, and is not an inexpensive option. Informal debt management plans are now more closely regulated and do not give certainty in terms of debt forgiveness or protection from bankruptcy. So although disposable income levels are reducing, IVAs are still the preferred route for many. If the debtor keeps up the monthly payments, then the IVA gives protection from creditor action and forgiveness at the end of the term.

Concerns have arisen from some quarters about the advice given to debtors, and about some aspects of the cost base for IVAs, including other services and products 'sold' to IVA debtors. The IPA is looking closely at those areas of practice, but it is worth looking at how some of that 'noise' translates into complaints.

The number of complaints referred to the IPA through the Government's central complaints gateway has been reducing over the last three years (2014-2016). Of the 240 referred in 2016, just over 100 related to IVAs, representing less than half of one percent of the number of new IVAs started by IPA IPs that year, and a smaller fraction still of the total number of IVAs currently running. A significant number of those complaints in 2014 related to concerns about the treatment of PPI compensation claims, and those concerns have subsided as the legal position has become clearer.

So as IVA numbers increase, complaints about them seem to be decreasing. What that suggests, is that the current issues around the operation of IVAs are being raised less by debtors, (who account for about half of all complaints through the gateway) but instead from creditors and/or their representatives, who tend not to use the gateway. Their concerns relate more to costs, and that is understandable given that in most IVAs the debtor pays a fixed amount every month, and the return for creditors is a product of the debtor contributions less running costs. The problem is that certain costs are fixed, so that when debtors' disposable income is reducing that means smaller returns for creditors. The process of cost recovery could benefit from greater transparency, but the inescapable truth is that there is a level below which it is uneconomic for the provider to run an IVA.

The economics of IVA provision have seen some rationalisation in the IVA provider market, reducing the number of operators. That has not yet impacted on IVA numbers in total, but the viability of the IVA option might well soon be hit by decreasing disposable incomes. More debtors might look to DROs when IVA providers turn away those who cannot afford to pay more than £50 a month.

Who will lose out? Some debtors where they might have valued the benefits of an IVA; creditors certainly, as low value IVAs and the statutory alternatives bring reducing returns. The 'd' problem, it seems, might be just as much one for creditors as it is for debtors.