HM Treasury consultation: Public financial guidance review – consultation on a single body

Response by the Association of Business Recovery Professionals ('R3') to the consultation issued in December 2016

R3 is the trade body for the UK insolvency and restructuring profession. R3 represents insolvency practitioners working in firms of all sizes, from the global legal and accountancy firms through to smaller, local firms, as well as insolvency lawyers and other professionals working in the insolvency and restructuring profession.

Insolvency practitioners play a vital role in providing advice to those in financial difficulty. In 2013-14, insolvency practitioners assisted more than 60,000 individuals through an insolvency procedure, advised more than 135,000 individuals, and started work on cases that will help individuals repay £5bn of debt to creditors within five years[1]. Most Insolvency Practitioners also offer one hour free advice to debtors.

We have focused our response on those questions in the consultation where we can provide answers based on our members' expertise, including their experience of the personal insolvency market and in assisting indebted individuals with their financial difficulties. Questions which are unanswered reflect the fact that we have no opinion on the point at issue.

Please contact Caitlin Powell, R3's Committee and Policy Assistant Manager if you have any questions at caitlin.powell@r3.org.uk or on 020 7566 4204.

Executive Summary:

- R3 welcomes the consultation on the single financial guidance body (SFGB). It is hoped that the consultation will enable the government to implement a new body that is effective in responding to the different financial guidance needs of consumers.
- R3 hopes that the new SFGB will actively engage with stakeholders within the personal finance and pensions industry and will utilise their expertise when implementing and reviewing programmes and guidance.

Q1. Do people with protected characteristics under the Equality Act 2010, or any consumers in vulnerable circumstances, have particular needs for public financial guidance or difficulty finding and obtaining that guidance?

R3 is unable to comment on the protected characteristics under the *Equality Act 2010*, but is able to provide statistics from its Personal Debt Snapshot[2]. These show that worries about debt, the kinds of debt which cause concern, and the people who may struggle to make it to payday, all vary by gender and age. These variations need to be taken into consideration by the SFGB to ensure that the SFGB's initiatives are appropriately tailored to meet the differing needs of Britons in the UK.

[1] R3 Value of the Profession to the UK economy report (statistic from R3/Com Res member survey) (May 2015)

By way of illustration:

"I am worried about my current level of debt*"

Survey date	Male	Female	18-24	25-34	35-44	45-54	55-64	65+
Sep-16	35%	41%	42%	54%	53%	47%	30%	11%
Jun-16	34%	39%	47%	46%	51%	43%	25%	16%
Jan-16	36%	42%	44%	50%	52%	42%	34%	17%
Aug-15	38%	43%	53%	56%	51%	41%	32%	20%
Mar-15	42%	50%	59%	61%	55%	60%	28%	22%

Q: How worried or otherwise are you about your current level of debt? *NET worried (extremely worried + very worried + fairly worried on a four-point scale)

Q. What kind of debt is worrying you? (September 2016 survey)

	Male	Female	18-24	25-34	35-44	45-54	55-64	65+
Credit cards	49%	44%	15%	45%	50%	51%	59%	65%
Overdraft	21%	22%	23%	27%	26%	18%	14%	11%
Mortgage repayments	16%	21%	12%	12%	21%	32%	16%	7%
Loans from friends and family	11%	16%	16%	19%	12%	14%	10%	5%
Bank loans	16%	11%	9%	12%	18%	11%	16%	10%
Student loans	10%	13%	56%	12%	6%	2%	1%	-
Payday' or other short-term, high interest loan	6%	7%	9%	11%	5%	4%	5%	-
Rent arrears	5%	7%	7%	7%	8%	4%	9%	2%
Tax due to HMRC	4%	8%	6%	9%	6%	6%	7%	2%
Debts related to childcare costs	1%	2%	1%	4%	2%	-	1%	-

Base: All respondents who are worried about their current level of debt (n=745)

"I often/sometimes struggle to make it to payday"

Survey date	Male	Female	18-24	25-34	35-44	45-54	55-64	65+
Sep-16	34%	42%	42%	60%	55%	47%	29%	5%
Jun-16	36%	42%	39%	54%	55%	52%	29%	12%
Jan-16	31%	42%	42%	50%	49%	45%	33%	9%
Aug-15	34%	42%	51%	58%	50%	44%	30%	8%
Mar-15	35%	47%	52%	61%	56%	50%	27%	10%

Q. Which of the following apply to you?

Q2. Do you agree that these areas capture what the broad role of the SFGB should cover?

R3 welcomes the proposal that the broad role of the SFGB should cover *'provision of debt advice for those in problem debt'*, as well as the '*provision of information for people on wider money matters and co-ordinating and influencing efforts to improve financial capability'*. We are also pleased to see that the provision of readily available debt advice remains a government priority and that the government believes that it is essential that people should be able to access advice to help them get back on their feet.

R3 would also like to see the SFGB play a pro-active role in looking at how indebted individuals deal with their debts, including considering the stigma associated with debt, and working with debt advice stakeholders, such as R3, to better understand the 'debtor journey' and break down the barriers to dealing with debt . This greater understanding of the experiences of indebted individuals throughout the "debt journey" would assist policymakers and debt advisers in understanding the behaviour of consumers and consequently to identify barriers to dealing with debt and establishing solutions that will ensure a better long term outcome for consumers.

Q3. Do you agree that the SFGB's financial capability initiatives should focus on priority groups such as those who are most in need of support to build resilience?

Yes. See answer to question 1 for the groups R3 has identified who are currently vulnerable to debt.

Q4. Do you agree that the SFGB should have a strategic role, working with the financial services and pension industry and third sector organisations to improve financial capability?

Yes. To be as effective and efficient as possible the new SFGB should work with the outlined organisations, including relevant financial and professional services trade bodies such as R3, to consider and implement ways to improve financial capability. R3 is keen to work with the new SFGB to discuss the role of the insolvency profession in providing debt advice and to support the provision of appropriate and comprehensive debt advice to those who need it. Regular engagement with third sector and private sector organisations is very important in ensuring that the SFGB understands the financial capability and debt advice market.

As the trade body for the insolvency profession, R3 is able to provide insights into personal debt levels and causes, as well as views and recommendations for reform of the personal insolvency landscape. R3 worked closely with the Insolvency Service on the 2011 and 2014 consultations on the personal insolvency landscape and published its own recommendations for reform of the personal insolvency landscape at the beginning of 2014.

The SFGB should also work closely with creditor bodies to ensure an understanding of the full debt picture, not just the views of indebted individuals.

Q5. How might the SFGB develop its understanding of what works and usefully contribute to sector wide research?

Engagement with key stakeholders (as outlined in question 4), including trade bodies such as R3, is essential for the SFGB to understand the debt advice market. We would strongly encourage the SFGB to work closely with R3 on all personal debt and insolvency issues. Regular and consistent engagement with key stakeholders would help to ensure that the SFGB has access to regular and contemporary information about the current debt advice sector.

R3 would also encourage the SFGB to consider the barriers to seeking debt advice and how individuals deal with their debt. The level of debt and solutions, such as insolvency procedures, are frequently discussed in the press and reformed appropriately, but little research and discussion has been given to the process of seeking debt advice. A better understanding of the process of seeking debt advice, and indebted individuals' experiences of this would provide a solid basis for considering changes that would help to ensure that people seek appropriate advice at an early stage.

a) Timeliness and appropriateness of advice

Early intervention combined with appropriate advice and action in dealing with debts is vital in ensuring that debts are dealt with before they become unsustainable for the consumer. Delays in individuals seeking debt advice mean that debts can mount unnecessarily – this may reduce an individual's options and, in some cases, leave little alternative to entering into a formal insolvency process. A delay in obtaining debt advice can also leave financially struggling individuals open to creditor pressure, which may cause rushed decisions about their options to resolve their financial situation, with potentially negative consequences.

In January 2014, 49% of R3 members said that it takes individuals more than a year from first showing signs of financial distress to approach them for advice. Just 5% of members said they are typically approached less than three months from when an individual first shows signs of financial distress.

R3's Personal Debt Snapshot research in March 2014[3] asked British adults (who said that they had debt worries) whom they would approach for help with any personal debt worries: 42% of British adults with debt worries indicated that they would most likely approach a family member for help, followed by 24% who said that they would approach a voluntary organisation or charity.

In terms of professional forms of advice, only 16% of those British adults with debt worries who responded to the survey said that they would approach a financial adviser; however, 16% of British adults said that they would approach a friend. Just 3% of British adults would approach an insolvency practitioner for advice and 21% of British adults would not know who to turn to for advice with their debt worries.

R3 is concerned that relatively so few people would seek the free, expert advice that is available and that relatively so many British adults would not know who to turn to at all. The vast majority of insolvency practitioners will offer an hour's worth of professional advice for free, while many debt advice agencies and charities employ qualified advisers who are also able to provide debt advice.

b) Stigma of dealing with debts through personal insolvency procedures

Research by R3 in August 2015[4] asked approximately 2,000 British adults about their views on insolvency. The findings were mixed – whilst it is positive to see that approximately 50% of adults believe that the social stigma of insolvency is less than it was a decade ago, almost half (48%) believe that there is still a stigma associated with insolvency.

Our research from August 2015 also indicates that just under a third of British adults (29%) agree that they have a good understanding of what happens when an individual enters into an insolvency

[3] R3/Com Res Personal Debt Snapshot Wave 13 report 'Are personal finances taking a turn for the worse?' – March 2014
https://www.r3.org.uk/media/documents/policy/research_reports/personal_debt_snap/R3_Personal_Debt_Snapshot_Wave_13.pdf

[4] R3/Com Res Personal Debt Snapshot report 'Attitudes to insolvency and the impact of a potential rise in interest rates' - August 2015
https://www.r3.org.uk/media/documents/policy/research_reports/personal_debt_snap/R3_Personal_Debt_Snapshot_Wave_17.pdf

procedure. There are also differing opinions on the reasons why an individual might enter insolvency – half of British adults agree that entering an insolvency procedure can be an opportunity for a fresh start, but just over a third of Britons agree that entering an insolvency procedure is an easy way out from having to repay debts (37%) and the same proportion agree that insolvencies are more likely to occur because of an individual's reckless spending than because of a factor outside of their control, such as job loss (37%).

The latter of these statistics paint a worrying picture given that, where appropriate, one of the three formal personal insolvency processes (bankruptcy, an Individual Voluntary Arrangement, or a Debt Relief Order) may be the most appropriate method for an individual to sort out their financial problems and return to financial health.

R3 is concerned that 'mind-set' issues such as fear, shame or even over-optimism, have a negative impact on the number of individuals who decide to seek advice on personal insolvency, or indeed who might later choose to enter a personal insolvency procedure, even where it the most appropriate way to deal with their debts. By way of example, in R3's January 2014 member survey, 45% of insolvency practitioners said that they have seen an individual in a Debt Management Plan who should have been in a formal insolvency procedure instead and who, therefore, may not have received appropriate advice about how to resolve their financial situation or, based on their perception of the stigma around formal insolvency, decided to opt for the 'less formal' option of a Debt Management Plan.

Financial education focusing on how to properly deal with debt problems by seeking appropriate debt advice needs to be improved, as does education about the personal insolvency options available and what is involved in each one. It is concerning that people do not consider the insolvency options available to them because they are not clear about what is involved. R3 believes that the SFGB has a vital role to play in improving this aspect of financial education, working alongside other organisations in both the private and public sector.

Q6. In what ways could the SFGB co-ordinate and add value to the provision of financial education

The SFGB should act as a central point for all UK financial education initiatives and information, including providing its own advice and initiatives and signposting to initiatives by other bodies.

Q7. Are there other delivery channels that the SFGB should consider that would be effective for delivering to consumers?

The SFGB website will be one of the most important delivery channels for consumers. In terms of insolvency, the Money Advice Service website currently outlines the different types of insolvency procedures and where to find more information. This is something we would strongly encourage the SFGB to do. The website should also include information on the role of insolvency in getting individuals back on their feet and giving them that 'second chance'. Use of this more 'positive' language would help in breaking down the barriers to dealing with debt.

The SFGB could also consider using stakeholders (outlined in question 4) to promote its work. R3 would encourage the SFGB to seek regular feedback from consumers and the front line organisations providing debt advice on whether its channels for delivering information to consumers are effective and reaching their intended audience.

Q8. How should the SFGB ensure that it engages consumers at the right time for them?

As outlined in question 5, understanding the timeliness of seeking advice and the stigma associated with insolvency should be a key part of the SFGB's work. The SFGB should ensure that it engages with consumers at the right time for them by working closely with relevant stakeholders (as outlined in question 4) to understand the consumer debt landscape.

As part of ensuring that consumers are engagement at the right time, the SFGB should also consider undertaking more research into areas such as:

- the stigma associated with a personal insolvency procedures;
- why consumers leave seeking debt advice so late; and
- why they often do not choose the most appropriate debt relief solution for their circumstances.

R3 is concerned that some consumers do not seek appropriate advice at the right time and can end up in the wrong debt solution and therefore not deal with their debts in the most sustainable way, for example 45% of insolvency practitioners have said they have an individual in a Debt Management Plan that should have been in a formal insolvency procedure.

By gaining a greater understanding of the reasons why consumers do not seek appropriate advice at the right time, and taking appropriate actions to combat this, the SFGB will be better able to ensure that it is engaging with consumers at the right time for them.

Q10. Would these proposals have any impact on the delivery of public financial guidance in Scotland, Wales or Northern Ireland?

Personal insolvency law is devolved in Scotland. The SFGB will therefore need separate delivery channels for personal insolvency advice in Scotland, such as speaking with Insolvency Practitioners based in Scotland for their views of the Scottish personal insolvency landscape, and a separate section on the website outlining Scottish personal insolvency procedures.

R3
February 2017

Methodology:

Personal Debt Snapshot: R3 commissioned independent research agency **ComRes** to interview c.2000 British adults from October 2011 to September 2016, using an online methodology. Data were weighted by age, gender, region and socio-economic grade to be representative of all British adults. Fieldwork was carried out on the following dates:

Wave	Number of respondents	Dates of fieldwork
13	2,013	7th-9th February 2014
14	2,035	18th-20th July 2014
15	2,054	14th-16th November 2014
16	2,011	13th-15th March 2015
17	2,047	21st - 23rd August 2015
18	2,013	8th-10th January 2016
19	2,032	10th-12th June 2016
20	2,041	23rd - 25th September 2016

ComRes is a member of the British Polling Council and abides by its rules. Full data tables are available at: http://www.comresglobal.com/

Value of the Profession to the UK Economy: R3 commissioned **ComRes** to survey 448 insolvency practitioners across the UK, all of whom are members of R3. The interviews were conducted online between 9th October and 14th November 2014.