

A New Model for Dealing with Personal Debt

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Executive Summary

The recent recession and current sluggish recovery have highlighted underlying flaws in the debt management framework. Consumers in financial difficulty have faced confusion with multiple organisations offering, at times, conflicting advice on dealing with debt and a myriad of solutions of varying quality to their problems. This needs to change.

The Department for Business, Innovation and Skills (BIS) call for evidence, in support of the Consumer Credit and Personal Insolvency Review, offers stakeholders an opportunity to work together to establish a new framework for debt management that can deliver a better outcome for borrowers and creditors, advisors and regulators alike. Current changes to the financial services regulatory landscape provide an opportunity to enable this change.

The BBA and Accenture have collaborated to understand the complexities and challenges of current approaches to dealing with debt and to develop a vision for the future of debt management.

We call for greater consistency in the way debt advice is provided, as well as greater consistency amongst how creditors deal with customers in financial difficulties, to ensure better and consistent outcomes for both debtors and creditors alike.

We believe that changes are necessary under four key areas to improve the debt management framework for consumers and creditors:

1. Establish a simplified governance model through –

- a single body to administer all formal debt remedies
- a single body to regulate debt advice provision
- a single debt management license, covering all 3rd party intermediaries
- a single body responsible for delivery of national over-indebtedness strategy

2. Simplify the debt remedies available by –

- encouraging early intervention and proactive use of informal remedies by creditors, as a preventative tool
- rationalising the formal debt remedies
- rationalising court- based remedies for an effective and efficient recovery process

3. Use more comprehensive management information to –

- build a complete picture of a consumer's financial situation
- allow early interception, proactive customer contact and resolution

4. Help consumers to help themselves by –

- improving financial education across the consumer life-cycle
- using technology to empower consumers to better manage their finances
- establishing a single debt-advice portal

If these strands can be drawn together, and if all creditors, including non-financial services providers, support a new debt management framework, it would lead to improved outcomes for debtors and creditors alike. This paper outlines how fundamental changes under each of these four key areas will simplify the landscape and produce better outcomes for all. It also offers a model by which these objectives might be implemented, through a Debt Resolution Portal.



The existing debt management framework is flawed

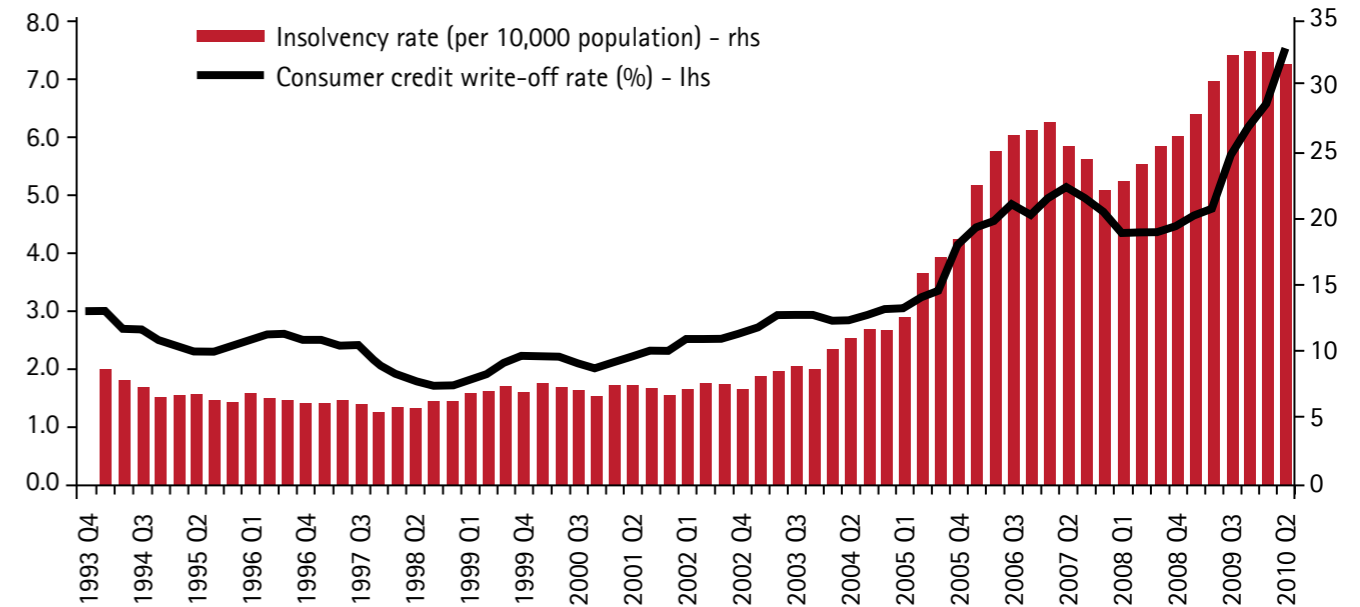
More individuals are struggling to service their debts...

Personal debt in the UK stands at nearly £1.5 trillion¹. While the economy was booming and asset prices rising, the broad increase in wealth of borrowers meant that these debts were serviceable. The recent recession has radically changed this and personal insolvency rates have risen as many individuals have struggled to repair their personal balance sheets.

This is not only a challenge for consumers struggling with debt, who may find their health and wellbeing profoundly affected², but puts significant strain on those organisations providing debt advice. Across the course of 2010 the Citizens Advice Bureau (CAB) in England and Wales has opened more than 9,000 new debt cases every

day. It also affects creditors – UK banks and building societies wrote-off more than £3.5bn in bad debts during the second quarter of 2010, up from £2bn the previous quarter and equating to a daily write-off rate of more than £38.1m.³

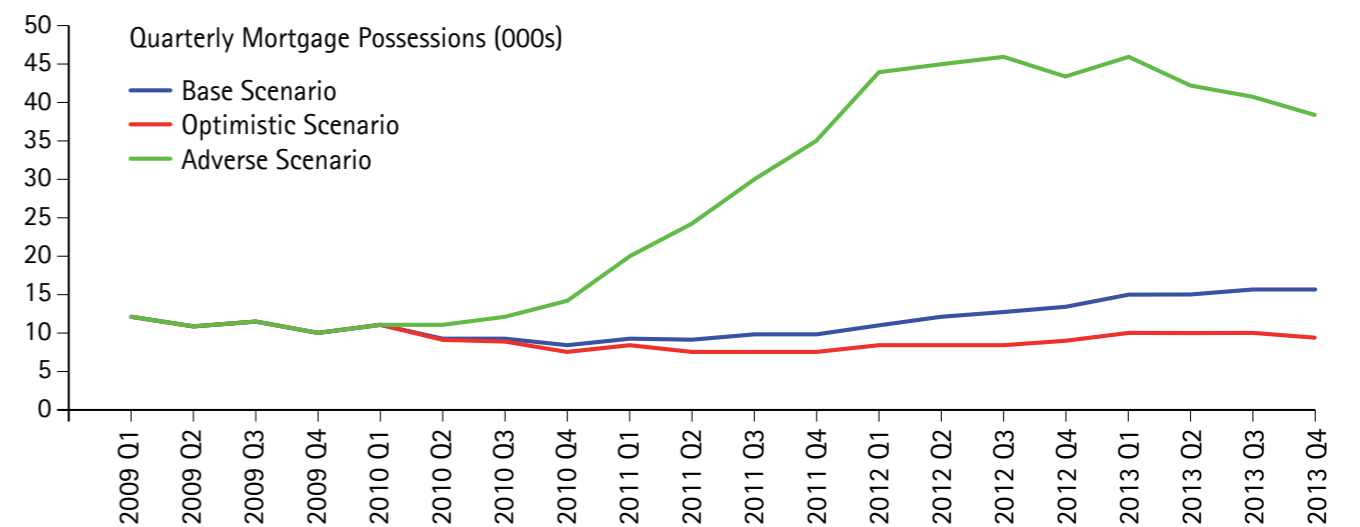
Fig. 1: Write-off rate on consumer credit and personal insolvency rate. Source: Bank of England



During the recession mortgage arrears and possession rates have been kept down as a result of government support to those in difficulty and lender's forbearance policies, as well as low interest rates. However, arrears and possession rates are highly sensitive to interest rates and the debt service ratio (the

ratio of households' mortgage interest payments to disposable income); should either increase sharply, or government or lender relief policies change, many borrowers may find themselves in financial difficulty over the next three to four years.⁴

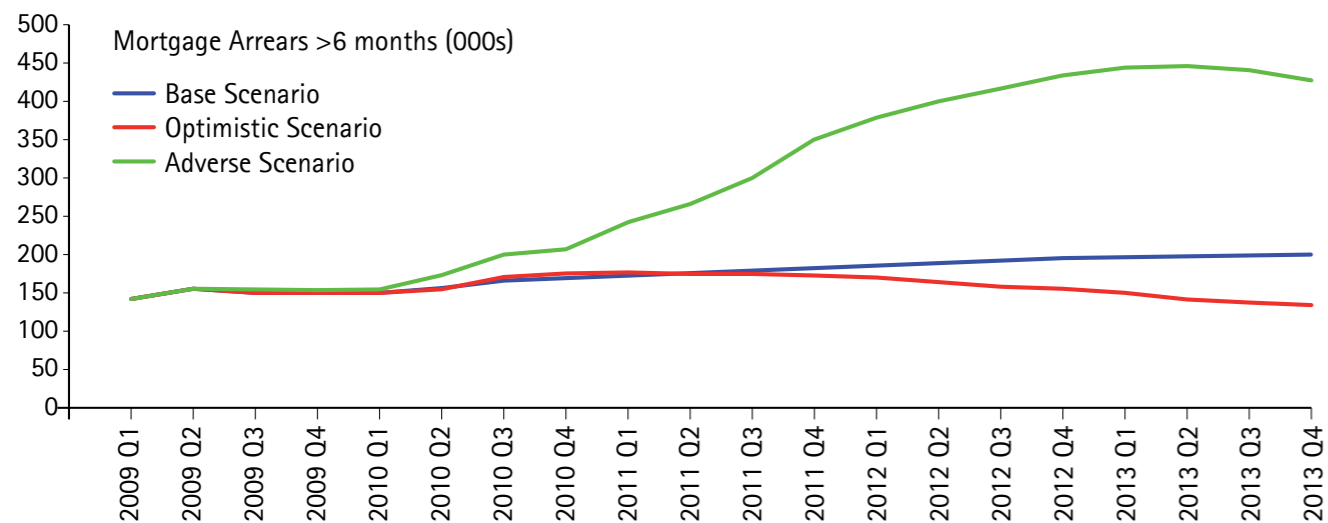
Fig. 2a: Forecast mortgage arrears and possessions. Source: Department for Communities and Local Government



¹<http://www.creditaction.org.uk/debt-statistics.html> ²Joseph Rowntree Foundation, <http://www.jrf.org.uk/sites/files/jrf/credit-debt-low-incomes-full.pdf> ³Joseph Rowntree Foundation ⁴<http://www.communities.gov.uk/documents/housing/pdf/164376.pdf>

Fig. 2b: Forecast mortgage arrears and possessions.

Source: Department for Communities and Local Government



Where debt problems lead to significant write-offs by lenders the wider economy may suffer too. Large loan losses reduce the amount of capital banks can use for new lending, reducing support for the economic recovery.

...but the current framework for dealing with those in debt is inadequate...

Individuals who find they are struggling with debt should be readily able to find appropriate advice to help them, but this is not currently guaranteed. Free advice is not always available, and fee-charging debt management companies (DMCs) offer a valuable service to consumers, filling the gap which results from the scarcity of resources in the free-to-client sector - by the end of 2010 there may be as many as 562,000 fee-charging plans in operation compared to around 220,000 in the free advice sector. However insufficient regulatory oversight and a lack of co-ordination by legitimate stakeholders in the debt management sector have allowed poor practices to become established, meaning it is hard for customers to be certain they will find the advice they need. The OFT recently warned 129 of 142 licensed firms to take immediate action to change their practices or face losing their consumer credit licence, and identified "significant and widespread examples" of fee-charging DMCs offering the most profitable solution for them, rather than the solution which was in the best interests of the consumer.⁵ Even if consumers succeed in finding good advice they face a multitude of potential informal, formal and court-based debt remedies. There are multiple points of entry into the debt management process and for every scenario there are different ways in which participants in the process may progress matters.

⁵http://www.ofg.gov.uk/shared_ofg/business_leaflets/credit_licences/OFT1274.pdf

...leading to inconsistent outcomes for borrowers and increased costs for creditors and regulators...

The route to rehabilitation for any consumer facing difficulty dealing with their debts depends on the policy of the solution provider, the creditors involved, the availability and quality of advice in an individual's local area and the consumer's own level of awareness and participation in the options available. This lack of consistency in the debt framework dis-empowers consumers.

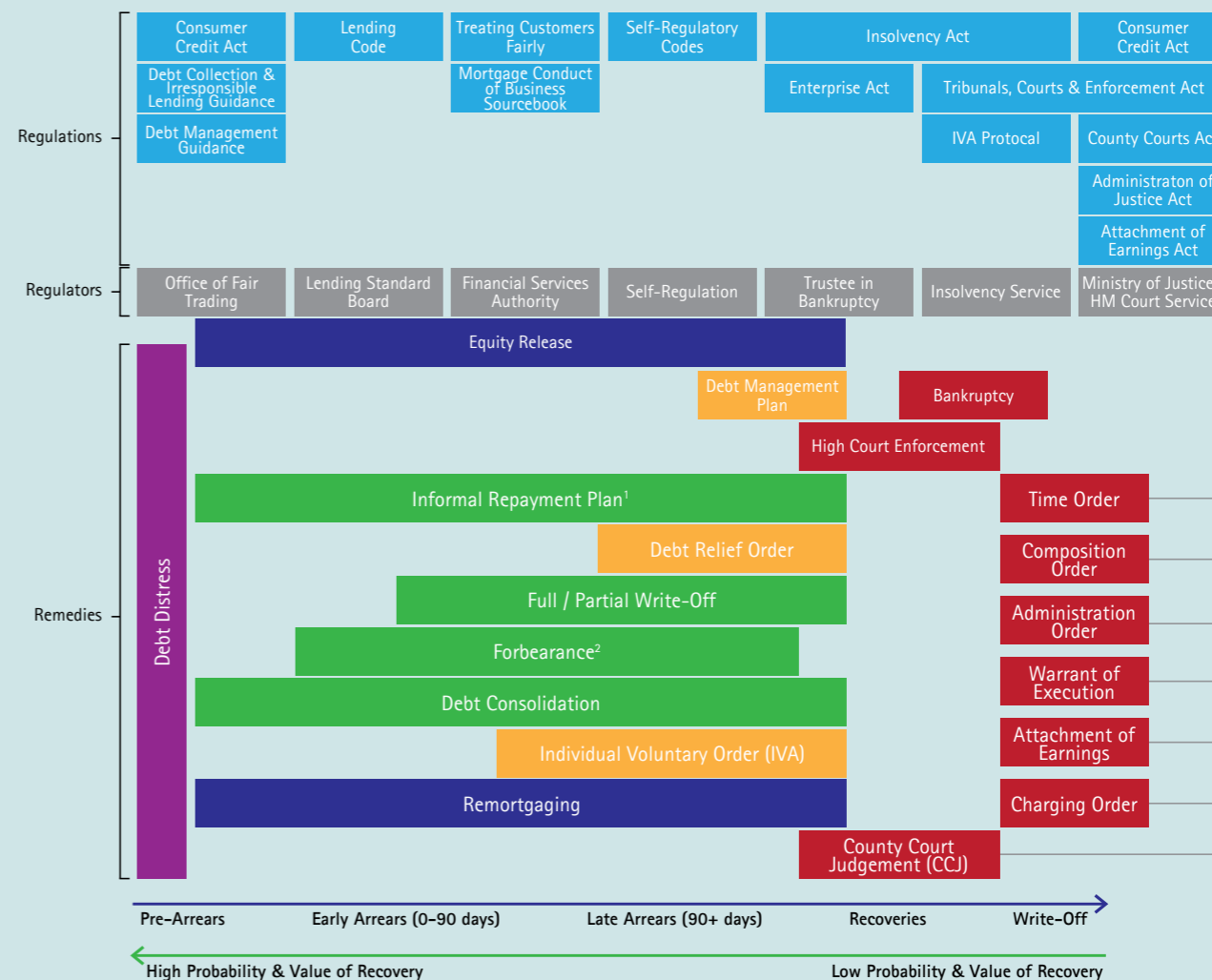
The complexity, opacity and inconsistency of the current regime also generate unnecessary cost and bureaucracy for creditors and regulators. These inefficiencies ultimately impact on the public purse through duplicate statutory procedures and administrations, as well as on the wider UK economy by excluding consumers from engaging in normal economic activity.

It is also harder for creditors to model recovery rates in an environment where a debt advisor does not automatically advise the best course of action for the consumer. Unscrupulous practices around front loading fees also harm bank recovery rates. A DMC may seek to recoup all its costs using the initial upfront payments from consumers, as well as ongoing administration or distribution fees, and may charge further fees if the consumer is later "flipped" onto another debt solution. While front-loading charges minimizes the DMC's risk, it does not necessarily deal with the consumer's difficulties fully and impairs the creditor's recovery models. Understanding the impact on the creditor is important, as it makes it harder for them to manage their capital efficiently and can have a detrimental effect on lending to the economy.

The current debt management framework is not fit for purpose. It is time for a radical re-think.

Fig. 3: The current debt management framework in England and Wales.

Source: Accenture / BBA



High Probability & Value of Recovery

- 1. Repayment Plans Include: Informal Arrangements / Negotiated Agreements / Full and Final Settlement / Debt Reorganisation
- 2. Forbearance Measures Include: Breathing Space / Moratorium / Token Payment Plans

- Borrower-Led Solutions
- Informal Creditor-Led Remedies
- Formal Remedies
- Court-Enforced Solutions

Debt remedies can be confusing

The current debt management process is a complex web of remedies, from informal forbearance and Debt Management Plans (DMPs), to formal insolvency procedures, such as Debt Relief Orders (DROs), Individual Voluntary Arrangements (IVAs) and bankruptcy. There are also court enforced remedies, such as Administration Orders and Charging Orders. Informal and formal debt remedies are subject to a wide range of voluntary and statutory regulation enforced by different regulatory bodies: (See Fig. 3 opposite).

There are also a variety of ways for consumers to access debt advice and a number of entry points into the debt management process, either voluntarily or backed by some form of compulsion. Methods of entry to the process include contacting or being contacted by creditor(s), seeking the assistance of third party

advisors, or being subject to civil litigation. A number of different remedies can be applied to tackle a single distressed debt case, with the outcome largely dependent on the consumer's circumstances or the advice they receive.

This multiplicity of rules, regulators and remedies creates tensions for creditors and third party advisors alike as practices must be designed, and compliance ensured, in light of the expectations of different authorities and potentially contradictory pressures. The lack of consistency and timing in how individuals enter the debt management process dis-empowers consumers while the multitude of remedies creates an opacity which makes it harder for consumers to understand the different solutions, or judge whether the advice they receive is in their best interests.

It is time for a change

Reforming the debt management framework to deliver fairer, more cost effective outcomes for all, requires stakeholders to agree on a common set of desired outcomes. The BBA and Accenture propose all stakeholders adopt a charter for a new debt management framework.

Charter for a new debt management framework

1. Consumers are treated fairly, appropriately and positively by all participants because:

- a) The process is straightforward and transparent and fair.
- b) They are presented with the most appropriate outcome to their circumstances.
- c) They know they will receive treatment consistent with others in similar situations.
- d) They experience a consistent and joined-up relationship with all creditors.
- e) They are rehabilitated through information, education and support.

2. Creditors are confident that their interests are integral to all participants' actions because the process creates:

- a) A likelihood of more predictable, consistent returns.
- b) The knowledge that all creditors are acting consistently with interests aligned.
- c) Reassurance that advisors are acting in the best interests of all participants.
- d) Reassurance that creditors and their competitors have access to and are using the same accurate information.

3. Advisors can operate an efficient and effective business model and create the right outcomes for their clients because:

- a) Income and outgoings can be better predicted and accounted for.
- b) Creditors will accept proposals more readily and without moderations.
- c) Participants are collaborative and do not seek an unfair advantage.
- d) Relevant information is reliable and readily available.

4. Regulators can monitor and enforce effectively because:

- a) There are clear and straightforward standards against which to regulate.
- b) There is reliable and comprehensive data on performance and expectations.

The outcomes this charter establishes for consumers, advisors and regulators are readily apparent. Simplifying the debt management process and increasing its transparency would enable more consumers to take charge of their own affairs, reduce the burden on free-advice agencies and make the 3rd party intermediary sector easier to regulate. It would encourage competition amongst fee-charging advisors based on quality of service, delivering objectivity in advice and consistency in results. It would ensure fairness for consumers at the time they are most vulnerable.

Any new approach to debt management must also secure the support of creditors. It is self evident that it will be easier to do this if they too share in the benefits of a new model. Creditors will benefit from a process which delivers a more predictable outcome, allowing them to model their recovery rate with greater certainty and enable improved capital management.

The challenge for any lender is to ensure that their competitors are acting in the same responsible manner and that their interests are aligned in the recoveries process, including greater information sharing between all parties. Reducing competition over recoveries, shifting the competition to earlier in the life-cycle and adopting a more collaborative approach has the potential to yield a greater share of recovered debts for all creditors.

Finally, it is in the interests of creditors that debt advisors are acting in the best interests of all participants - both borrower and lender - rather than pursuing an approach which is not guaranteed to deliver the best outcome for the former and constrain the ability of the latter to recover debts. Although the benefits of such a system will not necessarily accrue to the individual in every case, it will improve the aggregate position of consumers.

A vision for a new debt management framework

Agreeing the principles which underpin a new debt management framework that delivers a better deal to all participants is only the first step. The real question is "how can these goals be achieved?" Addressing the challenges outlined below would create benefits for stakeholders and consumers both individually and collectively.

Establish a simplified governance model:

1. Introduce a single body to oversee all formal debt remedies

The current debt remedy regime is fragmented, with numerous debt remedies administered by a number of different Government bodies, including the Insolvency Service, Ministry of Justice (MoJ) / HM Courts Service (HMCS) and the Office of Fair Trading (OFT). At present, there are a number of debt remedy procedures, ranging from informal arrangements such as token payment plans and Debt Management Plans (DMPs); to formal insolvency procedures such as Debt Relief Orders (DROs), Individual Voluntary Arrangements (IVAs) and bankruptcy; as well as formal court-based remedies such as Administration Orders and Charging Orders.

Much policy thinking has been given to new remedies, which propose mandating creditor concessions such as debt composition (write-off), compulsion and interest and charges forgiveness, including regulated DMPs and Simplified IVAs (SIVAs).

The existing debt remedies offer a variety of solutions with a range of protections for debtors. Each is different, but none in itself is a silver bullet. The aim of the Insolvency Act (1986) was to deal with traders, but has since been extended to deal with consumer debt – a purpose for which it was not originally intended. Furthermore, as the MoJ / HMCS has been considering extending its powers under the Tribunals, Courts and Enforcement Act 2007 (TCEA) regime, there is a view that suggests summoning debtors in front of the courts is neither cost-effective nor deals with their financial difficulty sympathetically or positively, especially when the cause of those symptoms was not a result of their own fault or making.

As a fundamental first step, there should be a comprehensive strategic review of all debt remedies (including those yet to be introduced). A holistic review of debt remedies should identify any gaps; highlight inconsistencies and overlaps in existing provisions; and a situation analysis of the emerging and future debt market. The needs of both debtors and creditors can be addressed by mapping the coverage of each remedy and addressing any identified gaps or overlaps. The primary objective of such a review would be to test whether all debtors and creditors are being well served by the present regime and what changes – if any – could be made to improve the system. Any new measures should be introduced in a way that helps to clarify the ways in which formal debt management remedies are provided.

Based on this review, a blueprint should be developed for a cohesive, streamlined system of remedies, which are understandable and accessible to consumers, and give sympathetic support for those who struggle to repay debt. At the same time the regime should deliver the desired recovery outcomes for debtors and creditors alike. One positive step towards achieving a consistent and coordinated approach to debt management would be having a single body responsible for overseeing all debt remedies, who could conduct such a review and which would ultimately lead to a reduction in duplication and cost.

2. Introduce single body for regulation

The multitude of legislation and regulation covering debt management, and independent regulatory bodies and government agencies with a supervisory role, can make changing the debt management framework slow, costly and difficult to implement. This framework needs to be reviewed and streamlined to create a more responsive and dynamic mechanism for regulating the market. Transferring the functions of the diverse regulatory bodies to a single body responsible for legislation and administering formal and court-based debt remedies would improve the efficiency of the debt management framework and make it easier to reform. This single regulatory body might then consider regulation to support all parties adhering to a non-competitive agreement around consumers in distress and bring all creditors such as utility providers, not just financial service providers, into that arrangement.

3. Introduce a single debt management license

Currently intermediaries and third parties providing debt advice and remedies, including DMCs and Insolvency Practitioners (IPs), hold either a Consumer Credit Licence or an Insolvency Practitioner Licence. Establishing a single licence and licensing body would leave a single supervisor in a position to actively monitor and supervise these firms.

4. Introduce a single body responsible for delivery of national over-indebtedness strategy

The recent National Audit Office and Public Accounts Committee reports on the Government's Over-indebtedness Strategy concluded that co-ordination of the myriad of interventions to improve consumer over-indebtedness had been inadequate. Giving responsibility for the delivery of the strategy to a single body, which can draw together organisations and materials to support consumers across the financial lifecycle and monitor the effectiveness of different interventions, would improve this. This single body should also give consideration to whether debt advice services are currently funded in the most effective way; to ensure innovation is not stifled as a result of a commitment to specific interventions, and that the existing efforts of financial institutions to help consumers are recognised.

Simplify the debt remedies available:

5. Encourage early intervention and proactive use of informal remedies by creditors, as a preventative tool

Informal remedies offered by creditors have an active role to play in helping consumers who 'can't pay' deal with debt. If competition in recoveries was reduced, the skills developed by collections specialists in creditor institutions could be redeployed earlier in the customer life cycle, focusing on early interventions to ensure the interests of the lender are represented and the experience of the customer is improved. With improved use of management information the efficacy of these remedies could be better measured and enhanced.

6. Rationalise the formal debt remedies

There are only a few generic situations that formal remedies need to deal with: Forbearance, where extra time is needed by a debtor with temporary financial difficulties; Repayment, where a debtor can afford to make some repayments (if not their full contractual obligations); Security, for asset rich but income poor customers where their assets could act as security against debts owed; and Debt Relief, where a customer has no income, no assets and no prospect of repayment. Existing remedies should be rationalised to reflect this.

For individuals who encounter temporary difficulties an Enforcement Restriction Order (a derivative of that recently proposed by the Ministry of Justice) would provide a formalised breathing space for a limited period of time (6 months, but reviewed after 3 months) to allow the debtor to get back on their feet.

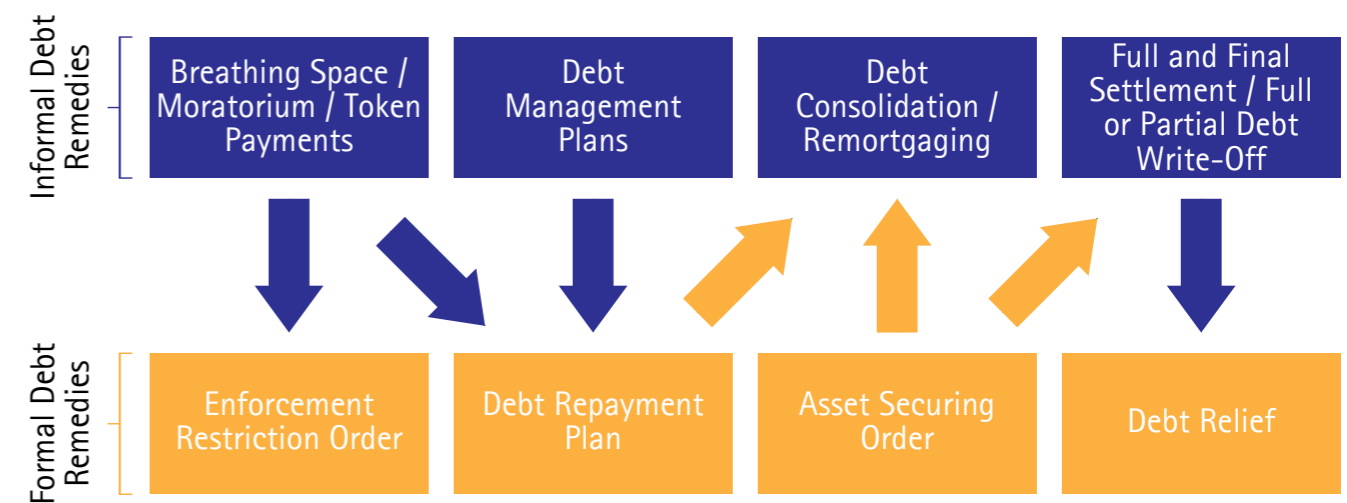
The primary income-based remedy in this new framework would be a Debt Repayment Plan (DRP), which would replace IVAs, Administration Orders and potentially also Debt Management Plans. There should be few specific criteria for these plans to maintain flexibility to meet the customer's situation, and maximise eligibility. While a customer is on a DRP creditors would freeze interest and charges where appropriate and take no further enforcement action. In return the customer would make repayments as agreed and agree not to divest any assets they may hold.

For those debtors with little or no income, but who have significant assets, an **Asset Securing Order (ASO)**, in effect a 'pro-rata' Charging Order securing the debts against the asset in proportion to the value of debts owed to each creditor, should be considered. This would provide all creditors with reassurance/security, without the need to necessarily force the sale of any assets. This way, all creditors would be treated consistently, without individual creditors competing to obtain a Charging Order first to secure their debts against any asset.

Debt relief, whether as part of the existing bankruptcy process, or as a write-off by the creditor, if they wish to make a good will gesture in exceptional circumstances, would remain as the last resort.

By streamlining the formal debt management process (Fig 3), the costs associated with it would diminish. This would enable creditors, regulators and advisors to invest more in supporting customers before they enter the formal debt management or recovery process. It should also rationalise the fee-charging market and drive improved standards across the sector.

Fig. 4: Simplified debt remedies. Source: Accenture / BBA



7. Rationalise court-based remedies.

Court based remedies have an important role to play in the debt management framework as an enforcement mechanism of last resort, particularly for debtors who 'won't pay'. However, with improved formal remedies, court based remedies could be rationalised. A government review of court-based remedies may offer the opportunity for underused enforcement mechanisms such as Time Orders, Administration Orders and Composition Orders to be scrapped and further consideration given to whether the remaining enforcement solutions could be amended and improved.

Use more comprehensive management information:

8. Build a complete picture of consumers' financial situation

At present no one stakeholder in debt management has a complete picture of the consumer and creditor experience. For instance, data is not consistently collected or interrogated on the performance of DMPs and no single resource exists to capture, analyse and compare the success or failure of different remedies or the movement of consumers from one remedy to another, or into and out of the debt-cycle. Creditors should work together across the credit data sharing community to agree to the use of 'white data' on consumers' borrowing and repayments for account management. Currently lenders are able to access this data once a customer has defaulted, but cannot do so before hand, due to concerns that the data could be used by less reputable lenders as an opportunity for inappropriate marketing. Agreement via an industry

protocol on the use of this data would allow lenders to get a more complete point-in-time picture of a consumer's financial health and improve lending and arrears decisions.

9. Allow early interception, proactive customer contact and resolution

In many circumstances the journey from a manageable level of debt to debt distress will be gradual, and there are steps that creditors can take to flag up potential problems before they emerge. At present creditors who subscribe to the Lending Code will attempt to contact a consumer if the information available to the creditor indicates that an individual is heading towards financial difficulty. Adoption of this practice throughout the credit industry could have a positive impact on preventing over-indebtedness. Building a more complete, point-in-time picture of a consumer's financial health would help maximise the potential of proactive contact and enable the lender to assist individuals in avoiding further indebtedness, signpost sources of debt advice and, if necessary, consider debt remedies at an early stage if the consumer's financial position appears unlikely to improve. Consumers value ongoing service very highly and a more proactive approach to servicing and supporting the customer is likely to deepen the relationship between creditor and consumer. A feedback loop, where data from the debt management process is fed into future lending and arrears management decisions would also enable stakeholders to better judge the effectiveness of preventative action, collections activity, different debt remedies or rehabilitation, and enhance lending and arrears decisions.

Helping customers to help themselves:

10. Improve financial education across the consumer life-cycle

The creation of the Consumer Financial Education Body (CFEB) is intended to lead to the development of a coherent financial education landscape. In the debt arena, this should focus on prevention and rehabilitation, enabling consumers who have struggled with debt to access help and guidance which will facilitate their re-entry to the consumer life-cycle in future. Currently there are a number of organisations operating various educative programmes including CFEB, charities and lenders. The consumer experience could be enhanced by streamlining these programmes and providing a single point of entry to them. Research should be commissioned to better understand what programmes and delivery methods work well, and what works less well. The results of this research should be used to drive improvement of existing programmes.

11. Use technology to empower consumers to better manage their finances

Technology exists to enable consumers to be better informed about their finances as shown by the increase in types of accounts that allow an individual to analyse their spending and saving. Online and mobile banking has moved beyond electronic statements; creditors should seek innovative approaches to serve borrowers. By enabling consumers to visualise their income and outgoings (including debt servicing), and supporting scenario planning, creditors would be able to change consumer behaviour and improve their understanding of their debts.

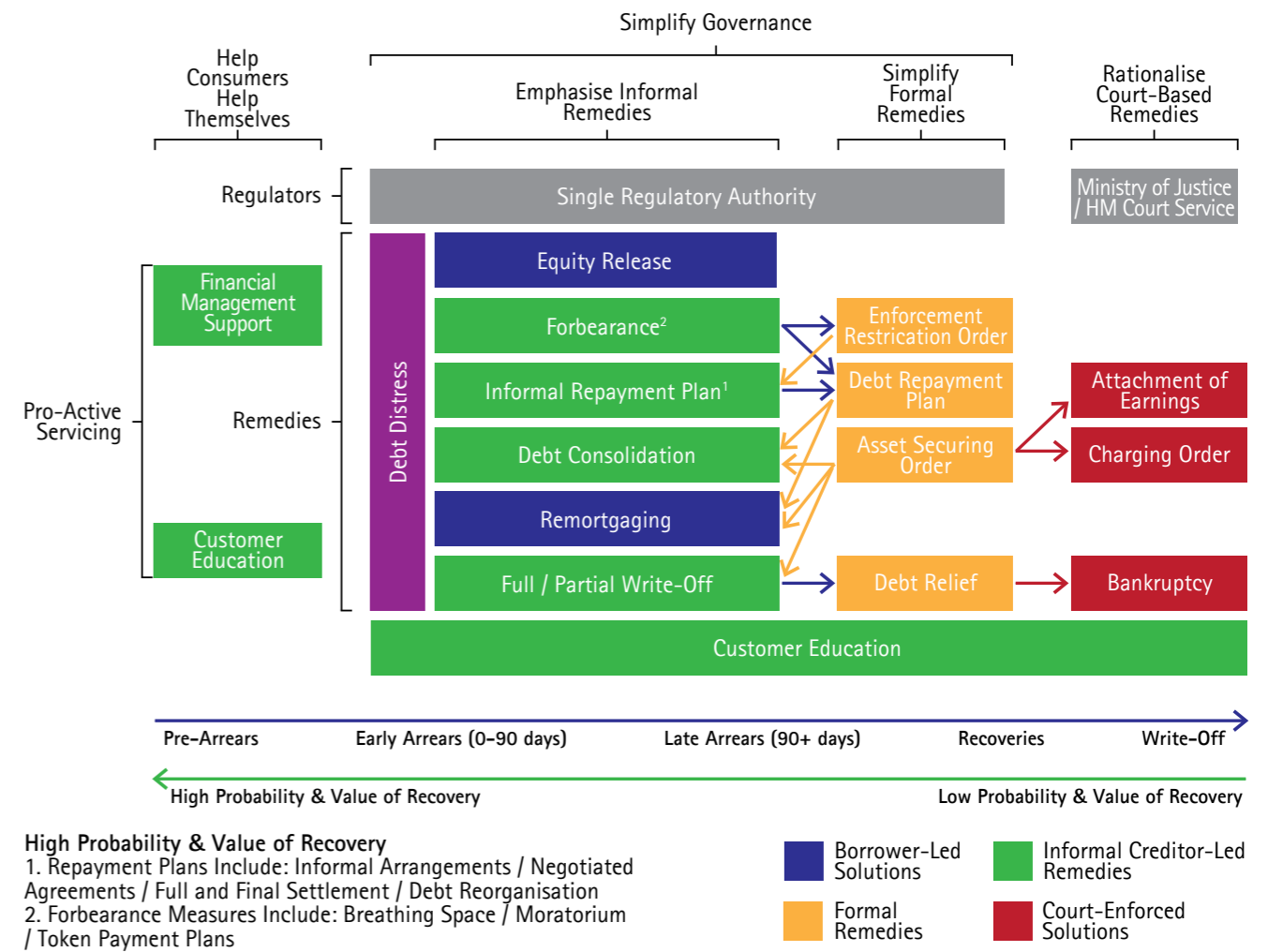
12. Establish a single debt-advice portal

Customers experiencing financial difficulties are often reluctant to take positive action to deal with their debt problems. This is not necessarily because they are unaware of the availability of information and support, but they may feel there is stigma associated with seeking help, or that they are responsible for managing their own finances.

A single portal through which all free sources of internet, phone and face-to-face information and debt advice are accessed should be established. This would simplify the current process and could become the focus of promotion and awareness raising by current participants in the debt environment. If this single portal offered advice and support across the life-cycle, it would reduce the risk of stigma associated with a pure debt management source of advice. The portal could filter enquirers towards the most appropriate types and channels of information and could also act as the starting point for any subsequent debt management and rehabilitation activity.

Empowering the consumer in this way, enabling them to take the right decisions to repair their personal balance sheets at an earlier stage, would reduce the burden on free debt advice and consumer reliance on fee-charging debt management companies. This in turn will leave a smaller market for the less scrupulous DMCs to exploit, and is likely to improve the arrears rates for creditors and be easier for regulators to monitor.

Fig. 5: A simplified debt management framework. Source: Accenture / BBA



A way forward: implementing change through a debt resolution portal

How to implement these changes is a challenge. One model for doing so is a Debt Resolution Portal. Such a portal could function as a simple, cost effective, self-financing and consumer-friendly body; it could help consumers manage their debts; it could automatically identify the appropriate resolution for any distressed borrower; it could help creditors recoup monies owed; and it could support consumers' rehabilitation.

A debt resolution portal would be designed to remove competition for business from DMCs around those customers in severe difficulty and ensure creditors received a fair-share of recoveries, which would encourage them to focus their efforts earlier in the debt life-cycle. Set out below is an operational vision of how such a portal might work.

The entity: A single, dedicated, multi-channel consumer-facing portal designed to simplify the existing plethora of advice and debt management agencies. It would sit under the auspices of an appropriate authority and become the default resource for any and all matters relating to personal debt. Such a portal might draw on, and draw together, the tools and expertise of existing charity based advisors such as the Consumer Credit Counselling Service (CCCS), National Debtline (NDL) and Citizens Advice. Not only would consumers use the portal to access advice, information, budgeting tools, and signposts to useful sources of additional information, but it would become the single accepted route into the debt management process either via creditor referral (whether financial institution or other creditor such as utilities), other stakeholders, or through direct contact by the consumer.

This multi-channel portal would be a closed ecosystem – individuals who engaged with it would only need to interact with the portal. The vulnerable would be protected as they would not be competed for directly by debt management providers. The initial costs of establishing such a portal could be funded via a combination of government funding, industry contribution and existing advice agency resources, but ongoing costs for maintaining and developing the portal would be met via a fixed proportion of the recoveries from the debt management process.

The debt repayment process: After accessing the portal, the consumer, depending on their individual circumstance, would either be encouraged to speak to their creditors and signposted to appropriate money and debt advice tools, or enter the debt management process. When in the debt management process, after consumers have provided the requisite personal information and data from credit reference agencies (CRAs) has been received and the consumer's identity verified, the most appropriate debt remedy for the consumer would be automatically identified.

Depending on the consumer profile, individuals would either be subject to an Enforcement Restriction Order, a Debt Repayment Plan (DRP), Asset Securing Order or Debt Relief. It would also be possible for individuals to pass from one remedy to another if their circumstances changed. Once an individual is within the debt management process they would also be in a position to be provided with appropriate educative resources to support the rehabilitation process.

Debt management plan providers: To ensure fair treatment of customers in a non-competitive environment, providers must demonstrate accreditation of appropriate standards (regulated and monitored by the appropriate statutory authority). Consumers would be referred to participant providers through the portal on a weighted basis depending on prior performance.

As a DRP would already be identified by the portal as the appropriate remedy, the role of the provider would be to collect any outstanding and necessary data such as proof of income and expenditure, administer the scheme and distribute dividends. On completion (or termination) of the remedy, the DRP provider would be assessed on standard criteria by creditors and the consumer for use in the weighting system, distribution fee and continued accreditation. Although the creditor would receive the major part of a consumer's total debt repayments a proportion would be retained for the funding process, with this residual sum being used to fund the ongoing portal costs, and a rehabilitative fund to finance debt prevention and education tools.

A Debt Resolution Portal would create a range of savings and benefits, including:

- Less complex process for consumers
- Rationalisation of duplicate sources of debt advice, and associated cost savings
- Fewer formal or court based remedies reducing complexity and cost
- Increased repayment of debt to creditors (and less diversion of funds to 3rd parties)
- Ability to collect and analyse data on debtors and performance of all remedies
- More structured and comprehensive rehabilitation of the debtor as relationship between consumer and portal continues throughout the process

Recommendations for action: moving towards the vision

It is clear that moving towards a unified recoveries process will take some time; however there are steps that can be taken in the short term to enhance the current framework and lay the foundations for the improved framework of the future:

1. Review the governance model.

The Consumer Credit and Personal Insolvency Review should be used as an opportunity to gather feedback on the existing processes and authorities, and their complexity with a view to reducing overlapping roles and responsibilities amongst regulators and supervisors and establishing a single authority to authorise, supervise and monitor the effectiveness of DMCs, debt advice and remedies.

2. Propose a code of practice amongst lenders for customers in distress. Agreement between the regulators and creditors on the appropriate treatment of distressed customers, on the point at which customers enter the recoveries process, debt solutions they are offered at stages of the debt life-cycle, and the agreement of all creditors to adhere to these guidelines, can form the foundation of an improved debt management framework. If principles on non-competitive collection were agreed across the industry, treatment of individuals in distress would be fairer, and lenders would be able to model recoveries better and feed that data back into lending and arrears management decisions.

3. Encourage creditors to pilot strategies that focus on early interception. Development of education, use of technology supporting better, regular, graphical statements, put in place of reactive customer debt management and pilot schemes on proactive debt prevention have the potential to reduce the number of consumers entering the recovery process and enhance creditors' profitability. Better use of analytics should support decisions across the life-cycle, from lending to managing the best solution for consumers in early arrears. Technology also offers creditors a point of differentiation as online and mobile banking offerings move beyond online statements. Applications which enable consumers to analyse their income and outgoings, linked to improved financial education can empower individuals to take more personal responsibility for their finances.

4. Encourage more open effective data sharing. Open, effective and regulated use of 'white' data between creditors and CRAs, which gives a clear picture of a consumer's financial circumstances would not only enable lenders to make better risk-adjusted lending decisions but also discourage competition around consumers in distress and help identify the best recovery solution for individuals, while not subjecting them to unfair marketing. Government should consider allowing additional data to be shared so that creditors and advisers can get a full picture of the debtor's financial circumstances (e.g. council tax, student loan, utilities arrears, etc.).

5. Establish working group to research and develop a single debt management portal based on reforms to the debt management framework. A working group established under the proposed single regulatory authority body could work with a core set of delegates and industry representatives to set out the code of practice amongst lenders for customers in distress which would underpin the portal. They could consider how to enhance and build a management information and feedback solution and use improved data sharing to support the portal and enhanced credit decisioning. They should also consider extending the reach of the portal to cover broader credit providers (non-FS providers).

Consensus on a new framework must be achieved between politicians, lenders, borrowers, charities and the advice bodies that represent them, and stakeholders must work together to make fundamental changes throughout the cycle to have a positive impact on the way debt is managed through the rehabilitation of debtors and the prevention of new or repeated debt behaviour.

Government, regulators, creditors, advisors and consumers all have a role to play in improving the debt management framework. All would benefit from change.

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