House of Commons

Business, Innovation and Skills Committee

Debt Management: Responses to the Committee's 14th Report of Session 2010–12

First Special Report of Session 2012–13

Ordered by the House of Commons to be printed 12 June 2012

HC 301
Published on 18 June 2012
by authority of the House of Commons
London: The Stationery Office Limited
£0.00

Business, Innovation and Skills Committee

The Business, Innovation and Skills Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Business, Innovation and Skills.

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The Reports of the Committee, the formal minutes relating to that report, oral evidence taken and some or all written evidence are available in a printed volume. Additional written evidence may be published on the internet only.

Committee staff

The current staff of the Committee are James Davies (Clerk), Neil Caulfield (Second Clerk), Peter Stam (Inquiry Manager), Josephine Willows (Inquiry Manager), Ian Hook (Senior Committee Assistant), Pam Morris (Committee Assistant), Henry Ayi-Hyde (Committee Support Assistant).

Contacts

All correspondence should be addressed to the Clerk of the Business, Innovation and Skills Committee, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 5777; the Committee's email address is biscom@parliament.uk

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First Special Report

The Committee published its Fourteenth Report of Session 2010–12, *Debt Management*, on 7 March 2012. A letter from Norman Lamb, Minister for Employment Relations, Consumer and Postal Affairs, dated 7 March 2012, to be read together with the Government's response, is at Appendix 1. The Government's Response was received on 24 May 2012 and is appended to this Report at Appendix 2. The Money Advice Service's Response was received on 27 April 2012 and is appended to this Report at Appendix 3.

Appendix 1

Letter from Norman Lamb, Minister for Employment Relations, Consumer and Postal Affairs, dated 7th March 2012

I am writing to thank the Committee for your report following its recent investigation into debt management. The report is timely as Government have been looking very closely at a number of issues surrounding consumer debt, including how consumers deal with their debt, where they get debt advice and high cost credit, including payday lending.

The report contains a number of important recommendations for Government and I will be responding to them all in due course. However, I wanted to write to you at the earliest opportunity regarding the Committee's recommendation on our research on capping the total cost of credit in the high cost credit market and to explain why this research is crucial to Government better understanding a difficult policy area.

In your report the Committee recommends that there is no need for Government to commission research from the University of Bristol, with all the associated costs, given the amount of evidence and research available on the Canadian and US markets. The Committee states that a report by the Centre for Responsible Credit highlights the situation in Ontario, Canada where a total cost of credit is in operation and that the Ontarian Government carried out a large amount of research before putting this into place. The report goes on to state that if Government continues to believe that new research is necessary, it will need to set out which specific areas lack existing data.

I am pleased to say that the research is well under way and is on course to report back to Government in the summer. The research will be a comprehensive study aimed at identifying the impact not just on consumers but on business of introducing a cap on the total cost of credit that can be charged. What makes our research different and what makes it so important for future policy decisions is that the researchers are not concentrating on one sector of the high cost credit market but are establishing the impact of introducing a total cost of credit cap that can vary between different parts of the high cost credit market.

The report by the Centre for Responsible Credit concentrates only on payday lending. The Government believes that this is too narrow a focus. The high cost credit market is highly complicated with a number of different sectors. The research commissioned by BIS will not just be looking at the impact of introducing total cost of credit cap in the payday lending market but also in the home collected credit and pawnbroking sectors, both of which have previously attracted similar headlines to those we are now seeing regarding payday lending.

Caps on the total cost of credit that vary between different sectors are not to our knowledge in operation in any other market and are certainly not covered by either the Canadian or the US research which concentrates on payday lending.

In addition the paper by the Centre for Responsible Credit states that it has called on payday lenders to provide independent academic researchers with access to their customer base to establish how payday lending is being used in the UK. The Centre goes on to criticise payday lenders for not co-operating and states that there is a lack of information available on the UK payday lending market. Before commissioning this research BIS worked hard to engage with lenders and their representatives in the payday, home credit and pawnbroking sectors to ensure that the successful bidder for this research would have access to their customer base. Lenders in these markets have been very co-operative and we are confident that the research will enable one of the most comprehensive pictures ever built up in the UK of who is using high cost credit, why they are using it and what other options they have when trying to access credit.

The Canadian research dates from 2008 and was published in 2009. It is clear to everyone that the UK payday lending market has grown and evolved over the last three years. The UK market has a number of large companies who only offer payday loans online, unlike the findings of the Canadian research which found that the vast majority of payday lending in their market was done via high street stores.

The Select Committee is right that there is a considerable body of research on the high cost credit market. However, much of this research is contradictory and some of it has been criticised by organisations like the Centre for Responsible Credit. Bristol University started their research by carrying out a comprehensive literature review of previous research in this area, something that will be extremely valuable to informing policy decisions going forward.

Finally, the Government is committed to evidence based policy making and at a time of difficult decisions on public spending would not commit funds for this research unless we thought it was absolutely necessary. Previous research has identified the difference between the UK and other credit markets and the different impacts that introducing credit controls could have in the UK compared with other markets. There is a real risk that intervening in the market and introducing credit controls could reduce access to licensed credit for some consumers, leaving them with no other options other than unlicensed illegal lenders. The Government believes that this is a vital piece of research that will enable future decisions on policy in this area to be taken with the confidence that we are fully aware of the potential impact.

Norman Lamb MP

Appendix 2

Government Response

The Government welcomes the Business, Innovation and Skills Select Committee's report on Debt Management published on 7 March 2012. This is a valuable contribution to the debate on the regulation of consumer credit and debt and how to address particular concerns around business practices in payday lending and commercial debt management.

The Coalition Agreement set out the Government's commitment to the reform of financial services regulation, to curbing unsustainable lending and to strengthening consumer protections, particularly for the most vulnerable in society. The Government's vision is that all consumers are empowered to make better choices for themselves and free to borrow if that is what they decide is in their best interest. In line with the Coalition principles of freedom, fairness and responsibility, consumers should have the tools they need to make informed decisions. At the same time, there should be a safe and fair regulatory framework for credit and personal insolvency that protects vulnerable consumers, particularly those at risk of falling into financial difficulty, and which drives rogue companies out of the market.

In taking forward these commitments, the Government announced in January 2012 its intention to proceed with the transfer of responsibility for consumer credit to the Financial Conduct Authority provided that a proportionate model of FCA regulation can be designed. The Government's Consumer Credit and Personal Insolvency Review, which concluded in November 2011, delivered positive measures for consumers on unfair bank charges and store cards, and paved the way for a set of proposals to enhance protections in the high cost credit market and to improve the personal insolvency regime.

Since then, the Government has been pressing ahead with specific actions relevant to the Committee's report, in particular:

- On consumer credit regulation we have outlined a timetable and methodology for how and when a decision will be made on whether the power to transfer consumer credit from the OFT to the FCA is to be exercised. Regarding licence suspension powers, the Government is seriously considering the issue and plans to make an announcement before the summer recess.

- On payday lending, we have been working with the four main trade associations to strengthen industry codes of practice to deliver real enhanced consumer protections, and to provide more clarity about how these loans work. We have agreed to a customer charter explaining how the loan works and the costs involved; a commitment to inform customers 3 days before money is withdrawn; increased transparency about loan repayment so that consumers can make informed decisions and are not surprised by hidden payments; more help for customers in financial difficulty by freezing charges and interest; robust credit and affordability assessments to ensure loans are suitable for the customer's situation; and effective compliance monitoring by the Trade Associations to root out poor practice in the industry.

- On debt management, I will chair the initial industry-wide meeting on 14 June to discuss the feasibility of a Debt Management Plan Protocol, which would aim to improve industry standards by ensuring that plans are sustainable and in the best interests of all parties.

The Government has considered in detail the Committee's 23 recommendations covering the regulation of consumer credit, payday lending, credit unions, the Social Fund, debt management companies and debt advice. This document sets out our response in full. I believe that this response is a positive step forward in achieving our vision of empowered consumers and a safe and fair regulatory framework for consumer credit and debt.

Norman Lamb

Minister for Consumer Affairs

Regulation of Consumer Debt

(Recommendation 1) We expect the Government—within six months—to outline a timetable and methodology for how and when a decision will be made on whether the power to transfer consumer credit from the OFT to the FCA is to be exercised. (Paragraph 10)

The Government is pleased to be able to set out this timetable and methodology now.

Following the announcement that the Financial Services Bill includes provisions enabling the transfer of consumer credit regulation to the Financial Conduct Authority (FCA), we have begun work to design a proportionate model of FCA regulation, working closely with FSA, OFT and stakeholders.

This is a complex piece of work, which we must take the time to get right. The detailed design work is expected to take several months. The work involves looking at the diversity of firms and activities currently regulated by the OFT under the Consumer Credit Act 1974 (CCA), and considering what regulatory approach is appropriate for the different segments of the market depending on the level of risk to consumers and the costs to business. It also involves looking at which consumer rights and protections should be retained in the CCA itself, and which can be replicated in FCA rules.

We have convened a forum of key industry and consumer stakeholders to advise on the design process.

The Government will carefully examine the costs and benefits of the new regulatory model. The Government's decision will be based on the evidence of these costs and benefits and a full assessment of the regulatory impact of the proposed model. If ministers are content that the regulatory impact is proportionate, the impact assessment will be submitted for scrutiny by the independent Regulatory Policy Committee. Treasury and BIS ministers anticipate being in a position to confirm their intention to transfer credit to FCA following this work by the end of the year. Until a proportionate model of FCA regulation is fully developed and its impact has been assessed, it is important that we retain the option to enhance the consumer credit regime within the current framework of the CCA.

The Impact Assessment will be published, and a consultation on the detail of the new regime launched early in the New Year 2013. The transfer will then be subject to approval by both houses of Parliament using the affirmative procedure, we expect in summer 2013.

Following successful completion of these processes, we expect responsibility for consumer credit regulation to transfer to the FCA in April 2014.

(Recommendation 2) The Government's review of consumer credit regulation should be seen as an opportunity to address the many current shortcomings. In framing its new approach we recommend that the Government put in place the following reforms:

- **That higher licensing fees should be charged for higher-risk credit businesses to allow for greater levels of assessment of competence and fitness to operate.**
- **That a fast-track procedure be developed to suspend credit licences; and**
- **That the regulator be given the power to ban harmful products. (Paragraph 29)**

Respondents to the consultation on the future of credit highlighted the important consumer rights and protections under the Consumer Credit Act. The Government has therefore decided to retain the effect of core substantive provisions in the CCA to deliver the best outcome for consumers and continuity for industry.

The OFT does a good job of regulating the market with the tools it has, and will continue to operate at the same level until the transfer is concluded, undertaking important work such as the review of payday lenders' compliance with its Irresponsible Lending Guidance. However, stakeholder consultation has indicated that additional powers and resources, and a more responsive regime, would be beneficial in addressing issues of concern in this rapidly changing market.

The FCA will be able to apply a much greater level of scrutiny to applications for credit licences—making it more difficult for irresponsible lenders to enter the market. For example, the FCA will be able to look in greater depth at a new firm's business model and check that it is specifically based on treating customers fairly.

The FCA will also have the ability to ban or impose restrictions on products it considers could cause harm. The Financial Services Bill specifically provides the FCA with a new product intervention power to act quickly and decisively where it spots a problem with a product.

The FCA will also be able to charge different fees for different types of firms. In setting its fees, the FCA will be able to consider, for example, the type of regulated activity a firm undertakes, the scale of that activity, and the costs the FCA incurs in regulating it.

BIS shares the concern, expressed by some stakeholders during the Consumer Credit and Personal Insolvency Review, that some rogue firms may be continuing to engage in practices which cause consumer detriment while appealing a decision to revoke their consumer credit licences. We recognise the importance of ensuring that consumers are well protected while at the same time ensuring that businesses have appropriate recourse to appeal. The Government is seriously considering this issue and is planning to make an announcement before the summer recess.

(Recommendation 3) We welcome the Government's proposals for Christmas campaigns on debt amongst young people and illegal money lending. That said we do not believe that the timing of these campaigns—which only started in December—gave sufficient time to gain traction with the public and we recommend that future campaigns start in October. We further recommend that the Government, in its response, sets out the measurable impact on consumers of last year's campaign. (Paragraph 31)

The Government welcomes the views of the BIS Select Committee and will take these on board when planning future campaigns. The Dealing with Your Debt Campaign received 390 media mentions in print and broadcast media with an estimated value of £826,000. There were 83 national broadcasts and 283 regional broadcasts on BBC on radio and television alone. There was also a large volume of online coverage. While it is difficult to measure the impact of such campaigns, they do raise public awareness around the issues of borrowing more than can be paid back, encouraging people to take action early and letting people know about sources of good, independent and free debt advice.

In addition, the Money Advice Service is undertaking an extensive programme of activity designed to raise public awareness of the benefits of good money management.

Payday Loans

(Recommendation 4) We were pleased to hear that the OFT will be carrying out a compliance review of payday loan companies early in this year. In view of the rapid proliferation of payday loan companies, the Government will need to act swiftly to counter any evidence of non-compliance reported in the OFT's review. (Paragraph 44)

The Government recognises the upsurge of concern regarding payday and instant type lending. The market has expanded rapidly in the UK over the last few years. The Government is concerned that in some parts of the market there is a real lack of transparency as to how these loans work, coupled with a lack of understanding amongst consumers about fees and charges incurred if they run into difficulty repaying the loan.

We recognise that some individual payday loan companies have moved quickly to address these concerns, for example, by producing their own code of practice and this is welcomed. However, the Government believes that more can be done to address increasing concerns being raised about the payday loan market.

The OFT's review is investigating levels of compliance with the Consumer Credit Act and the extent to which businesses in the payday sector are meeting the standards set out in the OFT's irresponsible lending guidance. The aim of the review is to gain a deeper insight into the evolving practices of payday lenders and identify those companies that are not fit to operate. The review will inform the OFT's ongoing strategy to drive up standards across the sector.

The review involves inspections of 50 major payday lending companies, including compliance work with trade associations and surveys of industry and consumer bodies. Leading up to the review, the OFT has conducted a sweep of over 50 payday lending websites and written to the main trade bodies outlining areas where the OFT considers advertising standards need to be improved. The final report of the review will be published later this year.

Should the OFT, in conducting their compliance review, find firms in breach of the law or not meeting the Guidance standards, OFT have made clear that they will not hesitate to take enforcement action, including revoking their credit licence to operate where necessary. The OFT will also have regard to the extent that lenders adhere to their trade associations' codes of practice when considering lenders' fitness to hold a consumer credit licence.

That is why in parallel, as announced last November, the Government has been working with the four main trade associations representing over 90% of the payday loan market to improve consumer protections in their codes of practice.

The Government is pleased to report that the trade associations have now agreed to revise their codes of practice by the summer recess, to contain enhanced consumer protections, including commitments on:

- A common set of customer guidelines to be published by the summer recess setting briefly and clearly what consumers of payday and other short-term loans should expect from their lender;
- Increased transparency about loan repayment, to help consumers make better informed decisions and to make sure that continuous payment authority is not used inappropriately for those in financial difficulty. Lenders will:
- only extend ('rollover') the term of their loan at the specific request of the customer and after reminding the customer of the risks of extending a short term loan;
- provide consumers with a clear explanation of how continuous payment authority works and how payments will be deducted from their bank accounts;
- set out consumers' rights to cancel a continuous payment authority before they take out a loan, reminding them that if they cancel they will still owe any outstanding debt and the need to provide an alternative method of payment on the due date to avoid going into default;
- always pre-notify consumers by email, text, letter or phone at least 3 days1 in advance before attempting to recover repayment using continuous payment authority on the due date (this notice will encourage customers to contact the lender if they are in financial difficulties and cannot repay);
- where customers have failed to make repayment on the due date, send further regular reminders to customers when a continuous payment authority is being used, providing a contact point for the customer if they are experiencing repayment problems; and

1 Where contact is being made by telephone, this timeframe will be influenced by the customer actually receiving the call

- repay any amounts recovered by the continuous payment authority if the customer is in financial difficulty
- Sound, proper and appropriate affordability assessments and credit vetting as part of each loan application and before the term of a loan is extended ('rollover') to ensure the suitability of a loan given a consumer's particular situation;
- Forbearance and freezing of charges and interest on outstanding loans for consumers in financial difficulty. Lenders have committed to freeze charges and interest after 60 days of non-payment, engage sympathetically with the borrower and split the loan into realistic repayable amounts to be repaid over a longer period and/or offer appropriate breathing space;
- Effective compliance monitoring of members by their trade association to ensure improved self-regulation and root out poor practice. Trade associations have committed to: meaningful and enforceable sanctions in their Codes (up to and including expulsion from membership for serious non-compliance);
- delivering rigorous internal complaints procedures;
- taking a proactive approach to monitoring compliance with their codes and regular meetings with the OFT to discuss areas of concern in the market; and
- undertaking a review of the effectiveness of these changes to the Codes 12 months after they come into effect and in light of the OFT's current study of the market and publish the findings.

The outcome of the Office of Fair Trading's consultation on the misuse of continuous payment authority and the findings of their current review of payday lenders' compliance with OFT guidance will be important further developments to deliver action on enhancing consumer protection in this market. The Government looks forward to the conclusion of that work. In the meantime, the Government sees these voluntary commitments by the trade associations as a positive step in the right direction to deliver real improvements for consumers using payday and other short-term loans.

(Recommendation 5) The evidence we heard has left us in no doubt that the Government must act to limit the rolling over of loans in its review of this sector. (Paragraph 48)

The Government knows there are cross-party concerns about payday loans, especially for the lowest paid and most vulnerable consumers, and particular criticism about rolling over old loans into new. Having discussed this issue in some detail with consumer groups, the Government believes it is not the overall number of 'roll over' loans that is causing detriment to consumers, but rather the issue of adequate affordability checks before roll over loans are agreed. For some customers, rolling over a loan a number of times may not cause detriment; for others, rolling over even once could push them into financial difficulty. We have therefore focused with the industry on ensuring rigorous affordability checks are carried out before each and every rollover.

The trade associations for payday lenders will revise their codes of practice by this summer to include stronger requirements on lenders to conduct robust affordability assessments and credit vetting on borrowers as part of each loan application and before the term of a loan is 'rolled over'. This will ensure the suitability of the loan given a borrower's particular situation. In addition, lenders will remind the customer that the loan is only suitable for borrowing over a short-term and not over a longer-term.

(Recommendation 6) We do not see the need for Government to commission research, with all the associated costs, from the University of Bristol on the capping of total credit costs given the amount of evidence and research available on the Canadian and US market. If Government continues to believe that new research is necessary, it will need to set out which specific areas lack existing data. (Paragraph 52)

Norman Lamb wrote to the Committee Chairman Adrian Bailey on 7 March in early response to this recommendation. His letter (Appendix 1) explained that what makes the Government commissioned research different and so important for future policy decisions is that it will be a comprehensive study aimed at identifying the impact on consumers as well as on business of introducing a cap on the total cost of credit that can be charged. The researchers are not concentrating on one sector of the high cost credit market but are establishing the impact of introducing a total cost of credit cap that can vary between different parts of the high cost credit market.

The Government is committed to evidence based policy making and at a time of difficult decisions on public spending would not commit public funds for this research unless it was absolutely necessary. Previous research has identified the difference between the UK and other credit markets and the different impacts that introducing credit controls could have in the UK compared with other markets. There is a real risk that intervening in the market and introducing credit controls could reduce access to licensed credit for some consumers, leaving them with no other option than using illegal lenders. The Government believes that this is a vital piece of research that will enable future decisions on policy in this area to be taken with the confidence that we are fully aware of the potential impact.

The December 2011 report "How to regulate payday lending: learning from international best practice", by the Centre for Responsible Credit, to which the Select Committee's report referred, focuses only on payday lending. The Government believes that this is too narrow a focus. The high cost credit market is highly complicated with a number of different sectors. The research commissioned by BIS will be looking at the impact of introducing a cap on the total cost of credit cap across the three key high cost credit markets of payday lending, home collected credit and pawnbroking.

Caps on the total cost of credit that vary between different sectors are not to our knowledge in operation in any other market, and are not covered by either the Canadian or the US research which concentrates on capping interest rates and other regulatory restrictions on payday lending

Before commissioning the research, BIS engaged with lenders and their representatives in the payday, home credit and pawnbroking sectors to ensure that the successful bidder for this research would have access to their customer base. In addition we also secured commitment from advice agencies to access contact details for their clients. We are confident that the research will enable one of the most comprehensive pictures ever built up in the UK of who is using high cost credit, why they are using it, and what other options they have when trying to access credit.

The Select Committee is right: there is a considerable body of research on the high cost credit market. However, much of the research is contradictory and some of it has been criticised by organisations like the Centre for Responsible Credit. Bristol University started their research by carrying out a comprehensive literature review of previous research in this area, something that will be extremely valuable to informing policy decisions going forward.

The literature review and business survey was completed by Easter. The consumer survey fieldwork of 1500 interviews was due to be completed on 18 May and in-depth interviews with advice agency clients were also conducted in early May. We expect delivery of the final report in summer 2012. The Government has published Bristol University's progress update today (24 May).

(Recommendation 7) It is clear that credit checking is a key factor in ensuring appropriate lending to consumers. We are therefore deeply concerned with the evidence that payday providers are not recording all of their transactions. Examples of credit databases that do capture payday lending are available in other countries and we recommend that the Government require industry to introduce similar models in the UK as a matter of urgency. (Paragraph 58)

The Government agrees that credit checking is an important part of assessing a borrower's ability to afford a potential loan. One of the key changes introduced under the Consumer Credit (EU Directive) Regulations 2010 is that creditors are now required to assess the borrower's creditworthiness before granting credit or significantly increasing the amount of credit. The assessment must be based on sufficient information, obtained from the borrower where appropriate, and from a credit reference agency where necessary.[2]

But credit checking is only one aspect of responsible lending. A borrower might have a good credit history but still not be able to afford a payday loan. That is why, alongside the CCD requirements, the Office of Fair Trading guidance on Irresponsible Lending covers the wider matter of affordability of credit. The OFT expects creditors to have regard to their Irresponsible Lending guidance so that they can avoid engaging in irresponsible lending practices and, for example, makes clear that creditors should:

- make a reasonable assessment of whether a borrower can afford to make repayments in a sustainable manner
- monitor the borrower's repayment record during the course of the agreement, offering assistance where borrowers appear to be experiencing difficulty.

The OFT guidance clarifies that all assessments of affordability should involve a consideration of the potential for the credit commitment to adversely impact on the borrower's financial situation, taking account of information that the creditor is aware of at the time the credit is granted. The extent and scope of any assessment of affordability, in any particular circumstance should be dependent upon—and proportionate to—a number

2 *Regulations implementing the Consumer Credit Directive, Quick Guide*, August 2010, BIS

of factors, as set out in the guidance. The guidance makes clear that the process of assessing affordability is assisted by creditors registering accurate data with credit reference agencies, in a timely manner, about the performance of an account and/or settlement of outstanding debt/arrears. The guidance also recognises that information obtained from the borrower, whether on an application form or during a meeting with a potential borrower, can also form one of the sources of information employed to assess affordability.

Furthermore, following discussions with Government, the trade associations for the payday loan industry have agreed voluntarily to improve their codes of practice to include a specific commitment that their members will undertake sound, proper and appropriate affordability assessments and credit vetting as part of each loan application and before the term of a loan is extended ('rollover') to ensure the suitability of a loan given a consumer's particular situation.

The OFT is currently undertaking an extensive review to investigate payday lenders' compliance with the Consumer Credit Act and its Irresponsible Lending Guidance. Should the OFT find firms in breach of the law or not meeting the Guidance standards, OFT will take enforcement action, including revoking their credit licence to operate where necessary.

(Recommendation 8) In addition we further recommend that payday lenders be required by law to record all loan transactions on such a database so that consumers' credit histories can be accurately monitored. We further recommend that the Government explores how this mechanism can be used to limit the practice of switching between payday loan companies and the subsequent rolling over of loans. (Paragraph 59)

As set out in our response to recommendation 7, lenders are now required by law to assess the borrower's creditworthiness before concluding a credit agreement and before significantly increasing the amount of credit to be provided under an existing agreement or the credit limit under a running-account agreement. Related to this legal requirement, the OFT Irresponsible Lending Guidance makes clear that the process of assessing affordability is assisted by lenders registering accurate data with credit reference agencies, in a timely manner, about the performance of an account and/or settlement of outstanding debt/arrears.

The Government believes that, as part of the credit check and affordability assessment of a potential borrower, it is right that payday lenders should both record consumers' transactions with credit reference agencies (ie. that payday loans form part of the credit file) and routinely use the credit reference agencies to credit check. There is evidence to suggest that 8 out of 10 payday loan borrowers also use mainstream credit, primarily credit cards and bank overdrafts[3]. This would reinforce the view that a credit check, which properly considers the use of all credit products by the prospective payday loan borrower should be carried out.

The Government notes the Committee's reference to examples of credit databases that capture payday lending available in other countries. Payday lenders in the UK use a variety

3 Forthcoming Policis research on debt spirals to be published in June

of databases as part of their credit checking—some use the mainstream credit reference agencies, others use real-time consumer credit information services. There has been some industry concern that too much data sharing or moving to a national database would remove consumer choice rather than allow consumers to decide for themselves how to prioritise their spending. We will need to consider whether there is any evidence to back these concerns.

The Government is therefore investigating the best way to ensure that payday lenders have proper access to credit references and that customers' high cost credit transactions are recorded in their credit files. The trade associations for payday lenders fully recognise that credit checking is important in ensuring responsible lending to consumers. They have agreed to update Government shortly on their discussions with the mainstream credit reference agencies about their members using them more comprehensively. We propose then to convene a round table with the credit reference agencies, payday trade bodies and the OFT to take this forward.

(Recommendation 9) We recommend that the Government studies the Florida example to see what lessons can be learned for the UK market on successful regulating of the payday loans market. (Paragraph 64)

The Government agrees that studying overseas examples to see what lessons can be learned for the UK market can be useful, particularly if it can stimulate debate beyond the issue of interest rate caps and generate ideas for growing alternative affordable credit. However, although helpful to draw on experience in other countries, there is not direct read-across; regulatory measures in other countries are specifically designed to address those countries' contexts and market conditions, which are different from those which exist in the UK.

One of the Government's main concerns about the research to date of payday lending in US markets is that it provides mainly anecdotal and experiential evidence rather than empirical evidence. The UK and US markets and regulatory models are fundamentally different and therefore difficult to compare. There is research to indicate that the profile of payday loan borrowers in the UK is significantly different to that of borrowers in the US4. The US does not have a national law equivalent to or providing the level of consumer protections under the Consumer Credit Act. Payday loans are still largely regulated by state law in the US.

The BIS-commissioned high cost credit study by the University of Bristol Personal Finance Research Centre will include relevant methodologically robust research into the international experience of regulating payday lending. As part of the study, BIS required an evidence review be undertaken to inform the research and to identify gaps in evidence that the primary business and consumer surveys would need to address.

The Bristol PFRC study, in its final report, will make reference to the Centre for Responsible Credit's report 'How to regulate payday lending: learning from international best practice' (December 2011), which reports on the international experience of payday lending, including the Florida example, as well as to additional relevant international evidence.

4 *Keeping the plates spinning—perceptions of payday loans in Great Britain*, Consumer Focus, August 2010

The Government is committed to evidence-based policy making and vulnerable consumers are at the forefront of our thinking. But we are concerned to ensure that any action we take does not lead to a worse outcome for the consumers we are seeking to protect – by reducing their access to legal sources of credit and leaving them with no other resort than illegal lenders.

(Recommendation 10) Whilst we recognise that although the use of continuous payment authority is legal in the payday loans market its use must be carefully monitored. We welcome the OFT's consultation on this matter and recommend that clear rules be put in place to outlaw companies accessing funds without prior agreement. We further recommend that the Government make clear to payday loan companies that if they do not demonstrate a commitment to moving away from the continuous payment authority as the method for receiving payments, the new regulator will be asked to address this matter as a priority. (Paragraph 67)

The Government recognises that there are particular concerns about businesses using continuous payment authority to take money out of people's bank accounts when they are not expecting it and a real lack of transparency about how these loans work. However, we do not believe that continuous payment authority as a method for receiving payments is in itself a cause of consumer detriment. It is the misuse of continuous payment authority by some payday lenders that is the Government's primary concern. The outcome of the OFT's consultation on the misuse of continuous payment authority and the findings of their review of payday lenders' compliance with OFT guidance will be critical in determining whether fundamental changes are needed. The Government therefore looks forward to the conclusion of this work.

The Financial Services Authority (FAS) guidance to consumers already makes clear that regular payments can be cancelled by telling the company taking the payments. However, consumers also have the right to cancel payments directly with their bank or card issuer, under the EU Payment Services Directive. The FSA is currently consulting on guidance to the banks and card providers to ensure that consumers are aware of their cancellation rights and to ensure that money is refunded if mistakenly taken out of the account after the customer has stopped permission for the payments.

Before the summer recess, the Government will be participating in a summit with the UK Cards Association and including representatives from the card issuers, the OFT, FSA, payday lenders and consumer groups to discuss how to resolve difficulties which can be caused by continuous payment authority. The aim of the summit will be to agree practical solutions which can be implemented by the cards industry, working with businesses using continuous payment authority, to help ensure that CPA is used appropriately and any problems for consumers can be quickly rectified.

Nevertheless, the Government believes that there are actions which can be taken now, without pre-empting the OFT's findings or any systems changes which the card issuers agree. We have held intensive discussions with the four trade associations for payday lenders and their agreement to strengthen their codes of practice by this summer represents a step in the right direction to ensure increased transparency about loan repayments. The trade associations have committed their members to:

- provide consumers with a clear explanation of how continuous payment authority works and how payments will be deducted from their bank accounts. This will help consumers decide whether this type of repayment is acceptable to them before they take out the loan;
- set out consumers' rights to cancel a continuous payment authority before they take out a loan, reminding them that if they cancel they will still owe any outstanding debt and the need to provide an alternative method of payment on the due date to avoid going into default;
- always pre-notify consumers by email, text, letter or phone at least 3 days[5] in advance before attempting to recover repayment using continuous payment authority on the due date. This notice will encourage customers to contact the lender if they are in financial difficulties and cannot repay;
- where customers have failed to make repayment on the due date, send further regular reminders to customers when a continuous payment authority is being used, providing a contact point for the customer if they are experiencing repayment problems; and
- repay any amounts recovered by the continuous payment authority if the customer is in financial difficulty.

Furthermore, the trade associations will strengthen their codes on forbearance, with specific provisions on freezing of charges and interest on outstanding loans for consumers in financial difficulty. Lenders will freeze charges and interest after 60 days of non-payment. In addition, where appropriate, lenders will engage sympathetically with the borrower and split the loan into realistic repayable amounts to be repaid over a longer period and/or offer appropriate 'breathing space'.

(Recommendation 11) For self regulation to be effective it has to include transparent and enforceable sanctions. We understand that more vigorous codes of practice are under development by the industry. The Government must ensure that self regulation can deliver the necessary enforcement sanctions and demonstrate that they are sufficient to protect consumer interests. Therefore, we recommend that the Government provide us with an update on the development of the codes of practice by the end of 2012. If it cannot be demonstrated that self regulation can deliver the necessary protections then the Government will need to intervene with statutory regulation. (Paragraph 73)

The Government's strong preference is to promote responsible corporate and consumer behaviour through a voluntary approach. By working with industry, we can deliver real improvements for consumers far more quickly than waiting for legislation. The Government shares the Committee's view that self regulation needs to be backed up by meaningful, enforceable sanctions.

5 Where contact is being made by telephone, this timeframe will be influenced by the customer actually receiving the call.

We have engaged closely with the trade associations representing the payday lending industry to introduce enhanced consumer protections into their codes of practice. They have been positive about this work and recognised that the public perception of them as an industry requires them to make changes to the way they have previously operated.

We have secured commitment from the trade associations to publish a common industry-wide Good Practice Customer Charter setting out in a clear, concise and user-friendly format what customers of payday and other short-term loans should expect from their lender. This Charter will demonstrate the payday lending industry's renewed commitment to strong and effective self-regulation. Specifically, the Charter will:

- highlight lenders' key commitments to customers, including to provide clear information about how the loan works, the price per £100 borrowed as well as the APR, and charges for extending the term of the loan ('rolling over') and default;
- explain how lenders will communicate with customers and how customers can contact them;
- explain how they assess if customers can afford a loan;
- explain how to complain if there is a problem and signpost customers to sources of free and independent debt advice and relevant helplines;
- sit along with each trade association's individual Codes, be easily accessible via lenders' websites or at business premises.

Importantly, the trade associations have also agreed to more effective compliance monitoring of their members to ensure improved self-regulation and to root out poor practice. Trade associations have committed to: meaningful and enforceable sanctions in their Codes (up to and including expulsion from membership for serious non-compliance); delivering rigorous internal complaints procedures; taking a proactive approach to monitoring compliance with their codes and regular meetings with the OFT to discuss areas of concern in the market; and undertaking a review of the effectiveness of these changes to the Codes 12 months after they come into effect and in light of the OFT's current study of the market and publishing the findings.

The OFT is also currently taking forward important work on compliance and enforcement. The OFT launched its compliance review of the payday lending sector in February. The review is investigating compliance with the Consumer Credit Act and the OFT's guidance on irresponsible lending. The review is progressing well and more than half of the 50 planned inspection visits to payday lenders have already taken place. A survey of advertising practices has also been completed. The OFT has held follow-up meetings with all the relevant trade bodies to make them aware of the findings and all the trade bodies have indicated a willingness to improve the advertising standards of their members. The OFT is also now studying the responses from its wider questionnaire survey of key stakeholders. Evidence gained during the review will be used to inform the OFT's overall findings, due for publication at the end of the year, along with a strategy for improving standards across the sector.

(Recommendation 12) We recommend that APR should no longer be used to measure and compare the cost of payday loans. Instead, the total cost of the loan should be made clear; for example if £100 is borrowed and £150 is paid back including interest and fees then this total amount is the figure that should be advertised. It also should include how much it costs if paid back a week late, 2 weeks late and so on, so consumers are clear of the reality and penalties of late payment. (Paragraph 79)

UK Regulations implementing the 2008 EC Consumer Credit Directive stipulate that the cost of credit must be expressed as an APR (annual percentage rate of charge). The APR serves a useful purpose in enabling comparability between different loans on a consistent basis. The way it is calculated is determined at EU level. However, the Government recognises that there are difficulties with using APRs (calculated on the existing EU assumptions) to measure the cost of short term loans. In the case of short-term, low-value loans, the interest and other credit charges are high relative to the amount and duration of credit. This results currently in a very high APR.

It is open to credit providers to include the total cost of credit per £100 in their advertisements as well as in the pre-contractual information given to customers. The payday lenders' trade associations have agreed that their members will provide clear information to borrowers about how the loan works, the price per £100 borrowed, as well as the APR, to provide customers with the maximum possible clarity. To enable the comparison of all credit products on a consistent basis as required by EU law, the total cost of credit must be in addition to the APR, and the APR and other information such as the interest rate must be more prominent in advertising where any pricing information is provided.

Credit Unions

(Recommendation 13) Credit Unions have a valuable role to play in this market and their role needs to be highlighted by Government. We support the argument that the Post Office network has huge potential to work with the Credit Unions to provide short-term loans at a lower cost than commercial payday lenders. We recommend that the Government set out in its response, how it proposes to use Post Offices as a vehicle to expand the Credit Union market. (Paragraph 88)

The Government agrees that the credit union sector has an important role to play in this market, and also that there are potential benefits to be gained from the Post Office working with Credit Unions. Indeed, Post Offices already work with the sector in a number of ways. For example; more than 20 Credit Unions use Co-operative Finance's banking platform for cash receipts, payments and balance enquiries at the Post Office; and over 60 credit unions use Post Office's bill payment facilities to enable repayments of their loans. DWP's feasibility study into credit unions, published on 10 May, represents an important next step in understanding how the sector could develop and work towards financial sustainability, and how this might enable it to work more widely with Post Office Ltd in the longer term.

Social Fund

(Recommendation 14) We are concerned by anecdotal evidence which suggests that the removal of the Social Fund will push people towards payday and other high cost

lenders. In its response to this Report, we will expect the Department to set out what meetings—at Ministerial and Official level—have already taken place on this issue; and to set out what joint plans Ministers from BIS and the DWP have put in place to ensure that the Social Fund and the proposed 'local welfare assistance' will protect the most vulnerable from payday and other high cost lenders or loan sharks. (Paragraph 95)

Discussions on issues of concern related to debt management take place on a frequent basis at Ministerial and official level between departments. These discussions have included how best to protect vulnerable consumers who use payday and other high cost loans from detrimental practices.

It is not accurate to say that the Social Fund is being removed. In April 2013 the discretionary elements of the Social Fund will be replaced by local provision by local authorities in England and arrangements made by the Scottish and Welsh Assembly Governments. The Budgeting Loan scheme will continue because this is an important buffer which protects people from turning to illegal lending. Under Universal Credit, the Government has committed to maintaining a simplified and modernised national system of interest-free advances which can be accessed through the benefit system as part of the wider package of reforms, and which will be similar in nature to the existing Budgeting Loan scheme. The residual scheme will continue until Universal Credit is fully rolled out, gradually being replaced by Budgeting Advances. In addition the Regulated parts of the Social Fund, Sure Start Maternity Grants, Funeral Payments and Cold Weather Payments will continue

Debt Management Companies

(Recommendation 15) While we acknowledge that the OFT has provided guidance on up-front fees we do not believe that the Minister's assertion that such guidance will drive out the abuse of such fees goes far enough. We recommend the phasing out of up-front fees and look to the Department to set out how this will be brought forward. (Paragraph 107)

The issue of up-front fees was looked at in detail by the OFT when they considered the super-complaint made by Citizens Advice in March 2011. They concluded that there was limited evidence that initial arrangement fees in themselves were a significant cause of consumer harm in the debt management sector and, therefore, no further or revised legislation regarding the charging of initial debt management arrangement fees was necessary. In its subsequently revised Debt Management Guidance (published March 2012), the OFT included explicit provisions on ensuring transparency to consumers regarding up-front (and other) fees.

We recognise however that creditors and debt advice agencies still have concerns that up-front fees do not encourage debt management companies to ensure that plans are sustainable, both in terms of affordability to the debtor and the return provided to the creditor. We are working with stakeholders to develop a Protocol of best practice for debt management plans and the nature and timing of fees is an aspect of this. The Government accepts that there is a place for commercial debt management companies and is looking to the Protocol to provide an environment in which consumers in debt are helped into the right debt remedy for them; that is one which is sustainable. Where up-front fees threaten the sustainability of the chosen route, we would expect providers to look to change their business models.

Norman Lamb will be chairing the first industry-wide meeting to discuss and take forward this Protocol on 14 June 2012. This industry-wide meeting follows some months of meetings officials from The Insolvency Service have had with a smaller, representative group of stakeholders who have talked through processes, commercial terms—including fees and business models—and the importance of holistic debt advice generally. The Committee will be aware that the next step in this process is to open up the discussions wider to ensure that there is buy in across the industry. The Committee may like to note that DEMSA, one of the largest trade bodies for DMP providers, is going to work with its members to explore the feasibility of implementing all of the Committee's recommendations, including phasing out up- front fees.

In future, the new Financial Conduct Authority will have the ability to make binding rules applying to debt management companies, including on charging structures, should it consider these rules are necessary or expedient to advance its consumer protection or competition objective. They will want to see how and whether the voluntary codes are working before considering any work in this area.

(Recommendation 16) We conclude that greater transparency in the commercial debt advice market, Including a requirement that companies publish figures on the cost of their debt advice and their outcomes, would benefit the consumer and benefit the market. Such information could lead to a comparison website to help consumers chose whether a commercial debt management company is worth paying for as opposed to going to a free debt adviser. We recommend that the Government consider this in its discussions with the industry and introduce the necessary regulations if this is not achieved through voluntary agreements. (Paragraph 110)

The Government agrees with the Committee that greater transparency in the commercial debt management industry could prove very useful to consumers who may be looking for debt management assistance and will explore their ideas about the potential for a comparison website. We agree with the Committee in noting that cost is not the only factor that will be of interest to a consumer. We will consider with industry how debt advice outcomes could be expressed so that they are both comprehensible and easily comparable.

The sort of information that consumers need and want in order to help inform their choices is something that we are looking at with stakeholders, although it is worth noting that there are some websites already available for consumers to compare fees charged by debt management companies. The key issue is to ensure that consumers are aware of such sites. We are discussing with both the OFT and Money Advice Service ways of making consumers more aware of such websites.

(Recommendation 17) We are sceptical of voluntary codes of practice in the debt management industry given the absence of proper sanctions against companies which either do not abide by the Code or are not members of trade associations. If self regulation is to be credible, the Government's proposals for a strong code will need to deliver effective enforcement, address the problems of excessive management fees and provide a simple mechanism for comparing paid-for advice and the availability of

alternative free debt advice. These issues need urgent attention and we recommend that in its response, the Government sets out the detailed timetable for reform, how these issues will be addressed and when the new, strengthened code will be introduced. (Paragraph 114)

While the Government shares the Committee's concerns about certain practices in the debt management sector we believe the improvements that are needed can be achieved by a voluntary code. We understand—and agree—that while 92 business have exited the market since the OFT's compliance review in September 2010 further improvements in standards for consumers in financial difficulty are needed.

We are actively working with the industry as a whole to develop a Debt Management Plan (DMP) Protocol, which will achieve a better and faster result than by opting immediately to take a legislative path. All sides of the industry—fee-chargers, free-to-debtor providers, debt advice sector, creditors, the OFT and Money Advice Service—are working with us towards improvements that demonstrate that a consumer in financial difficulty has been helped towards the most appropriate debt remedy for them. This will ensure better outcomes for creditors and debtors. To date we have been working with a small representative group to actively consider what the Protocol should cover—from ensuring that DMPs are priced in such a way as to ensure sustainability and to demonstrate they are the most appropriate remedy, to what reassurances creditors need to ensure that interest and charges on overdue accounts are frozen.

We are also keeping the OFT fully informed of all work in this area.

(Recommendation 18) Effective auditing of Debt Management Companies' client accounts should be established as a matter of urgency. We recommend that the Government include this in any discussion it has about the industries' proposals for self regulation, together with the establishment of an industry guarantee fund to protect the consumer in the event of company failure or fraud. (Paragraph 117)

The OFT's Debt Management Guidance is clear (paragraph 3.42) that any monies held on behalf of consumers should always be kept in a separate ring-fenced bank account and not used by the licensee for its own purposes. Debt management companies failing to take this action will be acting against guidance, leaving them open to investigation and enforcement action by the OFT.

In future, the FCA will have the ability to make binding rules applying to debt management companies, including regarding the segregation of client assets, should it consider these rules are necessary or expedient to advance its consumer protection or competition objective.

We will include this Committee recommendation in our discussions with the industry, and will include provisions in a voluntary code if we can secure agreement.

(Recommendation 19) We do not believe the Minister's reliance on internet search providers 'corporate social responsibility' to provide an adequate solution to the problem of commercial debt management companies dominating searches for debt advice to the detriment of free debt advice services. The Government must act on this now so that free debt advice is clearly shown as an available option for debt advice. In

this respect, we encourage the Government to consider the feasibility of a traffic light system which would help consumers recognise more trustworthy sources of information. (Paragraph 123)

The Government shares the Committee's concerns over advertising practices in the debt management industry. OFT have also expressed concerns over specific practices including look-a-like websites or commercial debt management companies claiming to be free to the consumer when they are not. Consequently, this remains high on OFT's enforcement agenda going forward and their revised Debt Management Guidance is clear that "All marketing, advertising and promotion and other oral or written representations should be clear, accurate and truthful and should not mislead, either expressly or by implication or omission." The guidance also contains further detailed provisions relating to 'online marketing and advertising' which seek to improve standards significantly in this area. The OFT remain committed to take action where possible against those that do not adhere to this guidance.

On 11 April, the Government published its response to the consultation on Empowering and Protecting Consumers. We are inviting the Trading Standards Institute to establish a successor to the Consumer Code Approval Scheme (CCAS) from April 2013 on a self-funding basis. In the meantime, the OFT will continue to maintain the CCAS for existing members.

The new scheme will be backed by the Trading Standards profession which will provide an equally well-recognised and respected alternative to Government endorsement and the OFT logo. TSI plans also to develop an online portal providing simple public access to details of the business members of the different approved schemes. With a postcode check, the consumer would be able to see quickly and easily which traders had been approved in their area and under which type of approval process. TSI is in discussion with other potential partners to help deliver these plans.

Money Advice Service

(Recommendation 20) Without sight of the Money Advice Service's business plan it is difficult to accurately assess the impact of the Service and how it will operate. This is particularly worrying given the fact that it will be up and running by April of this year. At present, it appears to have a confused remit and one which overlaps with existing and highly respected brands like Citizens Advice. We do not believe that the Money Advice Service should enter into competition with Citizens Advice. It would better serve the public by supporting and promoting Citizens Advice. (Paragraph 130)

The Money Advice Service will not compete with Citizens Advice but will continue to work closely with them to ensure that consumers receive the advice they need. The service will build on the existing good reputation among providers, in order to increase understanding of how to access free debt advice.

The Money Advice Service published its debt advice business plan for 2012/13 on 30 March. This followed a period of consultation with the FSA, HM Treasury, BIS, and each of the devolved Administrations. The plan included a commitment to provide funding of more than £30m to the free debt advice sector across the UK in 2012/13. The majority of that will go to the Citizens Advice network across England and Wales.

On 22 February the Money Advice Service published 'A better Deal for Everyone: A New Approach to Debt Advice', which set out their approach to debt advice co-ordination. This includes a commitment to commission free debt advice services as well as leading on setting service standards and securing funding from the financial services sector.

(Recommendation 21) We are confused by the Minister's assertion that there will be no diminution of face-to-face debt advice when the legal aid budget for debt advice is being cut by 75% and the Government appointed debt advice coordinator, the Money Advice Service, is advocating moving people away from face-to-face advice provision to web-based help. Web-based advice is better provided by existing free providers—for example Citizens' Advice or moneysavingexpert.com—both of which have high levels of brand awareness. We believe that Government funds would be better directed at highlighting and supporting those services, leaving the MAS to concentrate on telephone and face-to-face support. (Paragraph 137)

The Government announced in July 2011 that the Money Advice Service would take over coordination of the provision of free debt advice from April 2012. Since then, the Money Advice Service has been working with a range of debt advice organisations, creditors and BIS officials to review the outcomes of their debt advice research and build on the expertise and brands of existing free debt advice providers.

There will not be any diminution of the provision of face-to-face debt advice. The Money Advice Service has secured funding for face-to-face debt advice from the FSA for 2012/13 and has been clear that it will increase the volume of provision from 100,000 to 150,000 clients through the introduction of efficiencies and improvement in co-ordination.

The research into debt advice commissioned by the Money Advice Service found that whilst some people prefer face-to-face, many would be willing to use telephone and online services. This indicates there is clear scope for providing timely and appropriate support through other channels, freeing resources for more and better-quality face-to-face advice and outreach services, particularly for the most vulnerable consumers. These findings are also reflected in recent research from the Money Advice Trust, which suggests that provision through other channels is possible even amongst vulnerable groups.

(Recommendation 22) The future funding of the Money Advice Service through an industry levy will reduce government expenditure, but it runs the risk that industry may be unwilling to fund both the Money Advice Service alongside its existing financial support for the fair share model. The Government needs to be alert to any withdrawal of financial support for the fair share model. (Paragraph 140)

The fair share model is an effective model for matching demand and supply between creditors and free debt advice services. In its 'New Approach' document, the Money Advice Service set out how it will encourage greater participation in this system while maintaining the important principles of proportionate creditor contribution and a free service for customers. It will work with the fair-share funded organisations and creditors to encourage more comprehensive participation by creditors, including priority creditors, to complement work already in train. We expect that the proposed triage systems they will develop will lead to an increase in demand for ‘fairshare’ funded services.

(Recommendation 23) We are concerned by the high salary of the chief executive of the Money Advice Service. At a time of pay restraint we do not believe that the head of a comparatively small organisation should receive a salary £100,000 in excess of the Prime Minister. We look to the Government to raise this with the FSA as a priority. The perception of such extravagance does not sit easily in an organisation tasked with helping those in debt.(Paragraph 143)

The Government remains committed to public sector pay restraint, and believes that senior managers should show leadership in this area.

However, this is a matter for the Financial Services Authority (FSA) and the Money Advice Service (MAS).

The Board of the FSA is responsible for appointing the Chief Executive and Board directors of the MAS. It appointed the current Chief Executive, Tony Hobman, and set the term of his appointment for three years.

The MAS remuneration committee, on behalf of the MAS Board, determines the remuneration of the Directors, including the Chief Executive, subject to approval of the FSA. (The original salary of the Chief Executive was set by the FSA Remuneration Committee when the FSA Board appointed him, before MAS was fully established).

24 May 2012

Appendix 3

Response from Money Advice Service

We welcome the Committee's report into debt management and have considered its findings carefully. In its conclusions the Committee made four recommendations of direct relevance to the Money Advice Service.

Common to three of these four recommendations are concerns about the role of the Money Advice Service in relation to the continuing provision of advice by existing services.

We would like to assure members of the Committee and others of our overarching commitment to working constructively with all existing debt advice providers to ensure that people with unmanageable debt are able to access free, effective debt advice services that deliver, in a way appropriate to their specific needs, consistent and fair outcomes for them and their creditors. Having worked openly and closely with the debt advice sector, creditors and members of the public over the past nine months in preparation for our new role in relation to debt advice, our hope is that we have begun to demonstrate this commitment. We plan to use our levy raising powers to support the existing sector and our current plans are to continue to grant fund third sector providers of face to face debt advice.

More specific comments on the committee's four recommendations (highlighted in bold) are set out below.

(Recommendation 20) Without sight of the Money Advice Service's business plan it is difficult to accurately assess the impact of the Service and how it will operate. This is particularly worrying given the fact that it will be up and running by April of this year. At present, it appears to have a confused remit and one which overlaps with existing and highly respected brands like Citizens Advice. We do not believe that the Money Advice Service should enter into competition with Citizens Advice. It would better serve the public by supporting and promoting Citizens Advice. (Paragraph 130)

Our business plan for debt advice[6] was published on 30 March and defines our role in relation to debt advice as 'the coordination and provision of debt advice.'

This definition is consistent with Government's request in July 2011 that we play a central role in the coordination of debt advice services and the clarification in the Financial Services Bill (currently progressing through Parliament) of our statutory function in relation to debt advice.

As we detail in the summary response to our recent programme of research, 'A better deal for everyone',[7] our role is to act as enabler of high quality debt advice services, enhancing consistency of delivery and overall quality of advice, and introducing a new triage system to ensure over-indebted people reach the best source of advice, through the most appropriate

6 http://www.moneyadviceservice.org.uk/_assets/downloads/pdfs/mas_debt_advice_business_plan_2012.pdf

7 *A better deal for everyone: A new approach to debt advice from the Money Advice Service,* February 2012

channel, as quickly as possible. We do not envisage developing our own brand for this system but will harness the potential of those brands already in the sector to drive people towards it.

As a coordinator of debt advice services, working to improve standards overall, rather than a delivery agent for debt advice we do not envisage any overlap between ourselves and existing debt advice delivery services such as Citizens Advice, National Debtline and the Consumer Credit Counselling Service (CCCS). We do not envisage making changes to the overall funding landscape.

As outlined in our business plan, Citizens Advice and other existing services are essential to the aim of more people being able to access good quality debt advice during 2012/13 and beyond and we are providing over £30m of funding to the voluntary sector, including the Citizens Advice network to provide face-to-face debt advice services across the UK. We have signed new grant agreements with Citizens Advice which allow each of the bureaux that have previously been funded by BIS to deliver face-to-face debt advice and continue their excellent work. The grants we are providing for face-to-face debt advice from April 2012 mean we are now the single largest funder of Citizens Advice bureaux across England and Wales.[8]

(Recommendation 21) We are confused by the Minister's assertion that there will be no diminution of face-to-face debt advice when the legal aid budget for debt advice is being cut by 75% and the Government appointed debt advice coordinator, the Money Advice Service, is advocating moving people away from face-to-face advice provision to web-based help. Web-based advice is better provided by existing free providers—for example Citizens' Advice or moneysavingexpert.com—both of which have high levels of brand awareness. We believe that Government funds would be better directed at highlighting and supporting those services, leaving the MAS to concentrate on telephone and face-to-face support. (Paragraph 137)

With an estimated 2.1m households actively seeking help with unmanageable debt, it is an economic necessity in order to meet that need that effective self-help resources are promoted as widely as possible to people for whom it is appropriate. Our research shows that many people in debt are keen to help themselves in this way.

We agree that web-based debt advice is currently provided well by existing organisations, which is why, when people need support with unmanageable debt, we signpost on our own website to the My Money Steps tool provided by Money Advice Trust and Debt Remedy provided by CCCS.

Our research also found that for a proportion of over-indebted people, face-to-face debt advice is the most effective option and we are committed to funding free face-to-face debt advice in the long term. This is where our funding focus for debt advice will remain.

We are clear, however, that face-to-face debt advice should be available on the basis of need rather than simply preference. We have an obligation to achieve value for money from our resources and we will be developing a system of assessment that will perform an important

8 BIS provide £20m per annum to Citizens Advice to cover their head office costs, we will be providing £17.9m directly to Citizens Advice led projects however 95% of all project participants are individual bureaux and so the bureaux network will receive £25.4m in funding from us to deliver face-to-face debt advice next year.

function to ensure—with appropriate redirection to excellent free telephone or online services—that those who *need* rather than simply *prefer* face-to-face advice are able to access it in a timely fashion.

We recognise the pressures that face-to-face debt advice providers will come under when the Government's proposed changes to the scope of Legal Aid in England and Wales take effect from April 2013. In preparation, we are working closely with Citizens Advice Bureaux and the other voluntary sector organisations we fund to find ways for them to support more people. This includes changes to the way in which people's needs are assessed, such as increasing the use of existing good practice tools like CASHflow[9] and a stronger emphasis, where appropriate, on one-off advice.

We will also introduce a new approach to triage by developing and procuring a system, or systems, that optimise the availability of face-to-face advice for those who need rather than prefer it to other options. We will work with existing trusted and well-known debt advice brands to ensure that this new triage system directs more people appropriately, and as effectively as possible, to their services.

This will mean more people can access advice and by 31 March 2013 we expect the number of people who have used the services we are funding in England and Wales to have increased by 50% to 150,000.

Legal Aid scope changes will not take effect in the same way in Scotland and Northern Ireland.

(Recommendation 22) The future funding of the Money Advice Service through an industry levy will reduce government expenditure, but it runs the risk that industry may be unwilling to fund both the Money Advice Service alongside its existing financial support for the fair share model. The Government needs to be alert to any withdrawal of financial support for the fair share model. (Paragraph 140)

We recognise and acknowledge the valuable commitment that the financial services sector makes to debt advice through the 'fair-share' arrangement and now additionally through the levy, and our business plan recognises the importance of maintaining both sources of funding.

Given our funding from the levy is being distributed predominantly to services providing free face-to-face debt advice, this will not duplicate services provided under the 'fair-share' arrangement which match demand and supply over the telephone and online.

As part of our co-ordination role, we will seek to encourage greater participation in 'fair-share' while maintaining the important principles of proportionate creditor contribution and a free service for people seeking debt advice. We will work with the 'fair-share' funded organisations and creditors to encourage wider participation by creditors to complement work already in train. We expect that the assessment systems we will develop will lead to an increase in demand for 'fair-share' funded services.

9 An assisted self-help tool developed in partnership by advice charities and creditors. It benefits people in debt as well as freeing up the valuable resources of advice agencies. See www.moneyadvicetrust.org

(Recommendation 23) We are concerned by the high salary of the chief executive of the Money Advice Service. At a time of pay restraint we do not believe that the head of a comparatively small organisation should receive a salary £100,000 in excess of the Prime Minister. We look to the Government to raise this with the FSA as a priority. The perception of such extravagance does not sit easily in an organisation tasked with helping those in debt. (Paragraph 143)

The terms of Mr Hobman's remuneration were set by the FSA before he was appointed. The Money Advice Service Remuneration Committee, on behalf of the Board, determines the remuneration of the Directors, including the Chief Executive, subject to approval of the FSA.

From 1 June 2012, his remuneration will be £250,000 with additional bonus and pension entitlements. This compares to a total annualised remuneration package in 2010–11 of £364,061 (of which £318,114 was paid pro rata) and £314,061 in 2011–12[10].

Mr Hobman has waived his entitlement for a bonus in 2011–12 and volunteered to move from his original FSA-based contract to a new one from 1 June 2012, thereby foregoing further benefits worth approximately £25,500 and an employer pension contribution of £38,018 annually. He is eligible to join a new contributory pension scheme with an employer contribution capped at 10% of salary.

The Board believes this level of remuneration is consistent with the need for the CEO to be a high calibre individual with financial services and change leadership experience and capable of establishing a new organisation to deliver ambitious objectives.

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10 2010–11 and 2011–12 figures unaudited