



DEBT MANAGERS STANDARDS ASSOCIATION LTD

DEMSA

ANNUAL REPORT 2015

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REPORT OF CHAIRMAN

In 2015 we have seen a significant change in the operation of DEMSA in that during the early part of the year DEMSA held talks with the Debt Resolution Forum (DRF) with a view to a merger of the two organisations. In the event this did not take place but DEMSA successfully merged the operation with that of the Association of Professional Debt Solutions Intermediaries (APDSI) and as a result of the merger appointed a new Chief Executive, Kevin Still, who is well known and experienced in the consumer credit field.

Following the merger DEMSA membership has reached 70 members, spread over different classes of membership and now represents a very wide spread of activity in the market and a substantial proportion of the commercial market.

Throughout 2015 debt management companies have experienced a difficult year with the change in regulator to the Financial Conduct Authority (FCA) continuing to have a significant impact on firm's activities.

At the end of the year no debt management company had yet received full authorisation for their activities, despite the FCA by this time being outside their statutory limit of 12 months for processing applications.

During the year we have seen a continued consolidation of the market with several operators electing to exit the market and disposing of their client books to other firms. Whilst there has generally been a slowdown in the taking on of new clients due principally to the uncertainty surrounding the authorisation of firms some businesses have enlarged their books by the taking on of business from those exiting the market.

The new regulation regime has presented many challenges to DEMSA members and the sector overall and a substantial amount of data and information has been provided to the FCA to enable them to progress the applications.

All debt management firms have had to adapt to the new regime, particularly in the areas of approved persons and quality assurance and have had to concentrate on the quality of advice offered and the whole aspect of treating customers fairly.

The uncertainty has extended beyond the commercial sector as the major free to consumer operators have similarly not yet been fully authorised by the regulator.

In June 2015 the FCA published the results of their thematic review into the Quality of Debt Management Advice. This found that the quality of advice in the commercial sector was at an unacceptably low standard, particularly in the areas of assessing customers' financial circumstances properly and in exploring the range of debt solutions available

Taking the results of the thematic review as its manifesto, DEMSA, has produced a revised business plan to tackle these issues and is providing its members with a suite of facilities to help them in achieving a high level of service and to meet the FCA requirements through a range of training, quality assurance checking, satisfaction surveys, complaints handling support and consultancy. We believe that, once DEMSA members have achieved the appropriate authorisation they will continue to provide a fair and efficient service to those who require assistance.

A further issue has been raised towards the end of 2015 in that the debt management sector has been targeted by claims management companies who see

mis-selling of debt management plans as a way of increasing their business following the wind down of PPI claims. To date the claims received have been generally spurious, inaccurate and of a “fishing” nature and all of the ones which have gone as far as the FOS scheme have been rejected.

A recent report from the Money Advice Service suggested that over eight million people are over indebted and sensitive to any income shock or change in circumstances and with the possibility of interest rate increases in the near future this could be the catalyst to bringing a large number of new consumers seeking advice. It is clear that a strong, organised and viable market, both free to consumer and fee-charging is required to help these debtors with their problems.

**R Wharton
Chairman
January 2016**

DEMSA AND THE DEBT MANAGEMENT MARKET

DEMSA members represent approximately 80% of the commercial market in debt management plans as shown in the table below and overall 42% of the total market.

	Number of plans	Funds under Management	Repayments made	No of new plans taken on
DEMSA Members	173,531	2,411,502,795	252,727,013	32,576
Other Commercial *	41,500	576,684,000	60,444,020	not known
Total Commercial	215,031	2,988,186,795	313,171,033	
Free to consumer *	197,000	2,748,528,800	287,396,800	not known
Total Market	412,831	5,736,715,595	600,567,833	not known

* figures estimated.

As will be seen from previous figures quoted there has been a marked drop in the number of debt management plans in existence. There are several reasons why, we believe, this has occurred:

- A drop in activity in the marketing and selling of plans
- A thorough “cleansing” of the books of debt management firms to satisfy regulatory requirements.
- The activities of certain operators in offering IVA’s (Individual Voluntary Arrangements) to consumers with low disposable income
- The increase in the limits applying to Debt Relief Orders

Debt management plans are only a part of the overall debt solutions market which includes the solutions set out below:

- Individual Voluntary Arrangements – a formal procedure agreed by creditors where a debtor pays into a plan for a period of 5/6 years, at the end of which all outstanding debt is written off. In the past this has only been available to “higher value” cases but is now becoming available where the disposable income may be as low as £70 per month.
- Bankruptcy – a formal arrangement whereby all debts are written off. Only available where the debtor has minimal or no disposable income and insufficient assets to cover their debts.
- Debt Relief Order – limited to those with debts of less than £20k, less than £1k in assets and less than £50 in disposable income.
- Debt Arrangement Scheme (Scotland only) – a formalised debt management plan
- Protected Trust Deed (Scotland only) – similar to an IVA

All DEMSA members are bound to consider the customers’ circumstances before recommending a debt solution, which may be one of the above. Some DEMSA members will offer more than one type of solution or, alternatively refer customers on to another provider if appropriate.

Discussions have been taking place regarding possible new initiatives in the debt solutions market including the possibility of a 'statutory debt management plan' being introduced, a DAS type scheme being introduced for England and Wales and the provision of a statutory breathing space for debtors.

The market has been shrinking due to the reasons outlined above but latest research from the Money Advice Service shows that one in six individuals in the UK are over indebted (8.2m) but that, at the moment less than one in five of them seek advice.

Their research shows that this indebted population is younger, more likely to rent and more likely to have children than the UK as a whole. It also feels the impact of macroeconomic changes more keenly and is more exposed to changes in the welfare system. This suggests that there will be an increase in demand for debt advice in the near future.

Both the Money Advice Service and StepChange Debt Charity have published information on their research into the demographic and lifestyle data of the over-indebted population and DEMSA is conducting a major data gathering exercise to see how our findings fit in with these studies, and will publish this information.

CODE OF CONDUCT

The DEMSA Code of Conduct was launched in 2002 and received formal approval by the Office of Fair Trading under the Consumer Codes Approval Scheme on 5 November 2008. Subsequently, following the closure of the Office of Fair Trading the Code was accepted. With effect from 1 April 2013 into the Chartered Trading Standards Institute Consumer Codes Approval Scheme. The CTSI monitors and audits the performance of approved organisations within the scheme and publishes the results.

With the FCA taking over regulation of the sector it has been necessary for the DEMSA Code of Conduct to be amended to fit the revised circumstances in light of the fact that DEMSA cannot be now considered as a quasi regulator as had been the case with the OFT.

The revised Code will be launched in the new year with the key areas covered including:

- Aligning of businesses and business models to the FCA Key Principles
- Treating customers fairly at all times
- The giving of best advice to consumers and acting in their best interests at all times
- The provision of clear, transparent and accurate information to enable consumers to make an informed judgement. Making available to all consumers the full range of options open to them.
- The early identification of vulnerable consumers and the treating of them in accordance with guidelines
- The provision of fair and easy complaints procedures.

MONITORING OF THE CODE

In order that member's performance against the Code may be monitored, members are required to:

- Participate in the DEMSA data gathering process which will provide important information on key outcomes and performance against those outcomes.
- Provide such information, on a confidential basis, as DEMSA may request
- Participate in the Customer Satisfaction Survey organised by DEMSA by involving an agreed percentage of their clients in the survey
- Provide evidence of independent quality assurance checking of cases taken on and reviewed. DEMSA provides a QA service which may be used by members to satisfy this requirement.

In addition DEMSA will:

- Conduct regular reviews of websites, marketing and advertising material
- Assess the compliance of new members applying for membership
- Assess the compliance of any member where this may be deemed necessary
- Provide consultancy support on a number of issues including QA Monitoring and Complaint Handling
- Monitor and report on the level and content of complaints handled and intervene with members where appropriate
- Provide regular reports back to members covering their performance measured against the Code.

CUSTOMER SATISFACTION

DEMSA undertakes a customer satisfaction survey which aims to review 10% of the members' customer base during the year.

The survey asks the consumer to give their views and experience on a number of different areas:

- Initial contact
- Information provided before contract
- Written information provided
- Operation of debt management programme
- Overall satisfaction

A weighted scoring system is used which is designed to give priority to fundamental issues covered by the Code of Conduct and this gives ratings from "excellent" to "poor".

For 2016 and beyond, the survey has been amended to accommodate the revised Code requirements and will now also be available online.

CSS Surveys Issued/Responses Received

	2013	2014	2015
CSS Surveys Issued	19571	19138	11018
Responses Received	1537	1502	1127
Responses %age	8	8	10

(2015 figures reflect a membership issuing the survey of 12 firms, as opposed to 22 in 2014)

Details of Ratings achieved under weighted scoring system

	2013		2014		2015	
	No.	%age	No.	%age	No.	%age
Excellent	865	56	861	57	599	53
Good	289	19	294	20	256	22
Satisfactory	167	11	144	10	125	11
Below Satisfactory	93	6	62	4	50	4
Poor	123	8	141	9	117	10
Totals	1537		1502		1127	

In 2015 85% of all respondents were awarded a weighted score of satisfactory or better (2014 – 87%)

However in the actual questions asked of respondents only 2.8% of all respondents (2014 – 2.0%) gave a rating of poor when answering the questionnaire. This apparent anomaly is as a result of the weighted scoring system where failure to achieve the required standard on one question leads to an increasing score on other questions in the section, with the intention being to highlight areas where less than satisfactory service is being provided

COMPLAINTS HANDLING

DEMSA has a laid down complaints handling procedure to which members subscribe. This does not preclude consumers from utilising the Financial Ombudsman Service scheme and is additional to this scheme. All members' internal complaints policies are compliant with FOS recommendations.

33 complaints were received and dealt with by DEMSA during 2015 which is a decrease from 96 in 2014. We believe that one reason for the decline is due to members ensuring that the FOS scheme is highlighted as the principal dispute resolution scheme, as required by the FCA.

A summary of the complaints handled is set out below:

	2013	2014	2015
Number of Complaints	114	96	33
Service Issues	66	45	27
Formulation of Plan	12	5	1
Ending of Plan	36	21	2
Adequacy of Information	0	25	3
Refunds Made (£)	3806	5663	301
Ex Gratia Payments Made	575	1996	0

Of the 33 complaints handled 24 (72%) were in respect of Debt Management plans and 9 (28%) relating to IVA's. 13 of the complaints received were considered justified and 20 considered not justified.

31 complaints were resolved following the intervention of DEMSA with 2 complaints which were not able to be resolved being passed to the Financial Ombudsman.

All DEMSA members are covered by the FOS scheme and during the year 129 referrals were made (2014 – 265) directly to the scheme. Of these 28 were upheld by the FOS scheme (2014 – 82) and in total an amount of £7,430 was paid by way of compensation (2014 - £29,622).