Chartered Institute of Credit Management

Our ref. GB/SC/NH

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Sam Roberts
Policy Team
The Insolvency Service
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Dear Sir/Madam

RESPONSE OF THE CHARTERED INSTITUTE OF CREDIT MANAGEMENT (CICM) TO: THE INSOLVENCY SERVICE: Debt Recovery Orders : Consultation on changes to the monetary eligibility criteria

The Chartered Institute of Credit Management (CICM) is the largest recognised professional body in the world for the credit management community. Formed over 80 years ago, the Institute was granted its Royal Charter in 2014. Representing all areas of the credit and collections lifecycle, it is the trusted leader and expert in its field providing its members with support, resources, advice, and career development as well as a networking and interactive community. In addition, it provides a comprehensive suite of qualifications and learning opportunities, events and magazine 'Credit Management'. Independently, and through collaboration with business organisations, it provides vital advice to businesses of all sizes on how best to manage cashflow and credit.

CICM members hold important, credit-related appointments throughout industry and commerce, and we feel it appropriate to comment on this consultation. Our responses to the questions posed are attached.

If we can help in any further way please do not hesitate to contact us.

Yours faithfully

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Chair of Technical Committee

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1 Do you agree that changes to the eligibility criteria for DROs are necessary? Please state your reasons.

In broad terms, our members agree. The DRO works well in addressing the needs of a specific class of individual experiencing financial problems and it is right that the criteria is reviewed on a regular basis to reflect the current issues faced by these individuals. As will be seen in answers to questions below our members are of the opinion that not all the criteria limits need to be increased to the proposed figures.

2 Do you agree with the proposed increases to the debt (to £30,000), asset (to £2,000) and surplus income (to £100) levels? If not what do you think they should be? Please state your reasons.

Our members believe that the debt level of £30,000 seems too high. It would be useful to see some data showing how many potential applicants have debts between £20,000 and £30,000. There is a concern that by raising the debt level to the suggested figure debtors may not address their problems at the earliest opportunity. If the debt level were to be increased our members would suggest a figure of £25,000. This figure is in line with the Minimal Asset Process in Scotland.

The latest Stepchange annual report (March 2020) suggests that the typical debt owed by their clients is in the region of £15,000. It would be useful to see some data from the Insolvency Service on the number of bankrupts who have debts of up to £30,000 and assets below £3,000 to support the argument that the debt level should be raised to £30,000.

Our members are of the opinion that the asset level of £2,000 is too high and that the existing asset level of £1,000 should remain. The figure of £2,000 could be cash at bank and it does not seem right that an individual seeking debt relief should not do all in his/her power to repay something back to creditors. Again, it would be useful to see some evidence to support the argument that potential applicants are excluded because of assets between £1,000 and £2,000.

One member suggested that the value of the motor car be increased to £2,000 from £1,000. The increase in value of the car will give the potential for the debtor to have a more reliable car with the potential for savings in running costs and preventing large, unexpected, bills.

A number of IVA proposals are put forward where the monthly disposable income is between £50 and £100 with a number of IVA providers suggesting that a monthly disposable income of £50 is sufficient to put forward an IVA proposal. Whilst the IVA nominee is confident that the IVA proposal will succeed and return a dividend to creditors on this basis members feel that the IVA failure rate for this "class" of IVA is higher than average, causing more distress to the debtor and incurring unnecessary cost (account maintenance etc) to creditors.

Members overall support the proposal that the figure of £100 a month surplus income is a sensible increase to reduce the number of unsuitable IVAs and debt management plans as well as allowing an individual to rebuild their financial independence and reduce the possibility of further debt being incurred.

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3 Do the proposed changes strike the right balance between ensuring that the most vulnerable individuals are able to access low cost debt relief at the same time protecting the interests of creditors by maintaining the 'can pay, will pay' ethos? Would these levels of assets lead to a return to creditors in another debt relief solution? Please state your reasons.

Our members commented that the DRO does provide access to low cost debt relief. There is an argument that a monthly disposable income of £100 and debts of, say, £10,000 would provide a full repayment within an acceptable time frame when the Statutory Debt Repayment Plan is implemented. The likelihood is that a monthly disposable income of £100 will not result in any meaningful return to creditors.

4 Do you think that Government should aim to implement and commence any changes to the monetary limits for DROs to coincide with the introduction of breathing space in 2021? Please state your reasons.

CICM members feel that it would be generally sensible to implement and commence the monetary limits to coincide with the introduction of breathing space, but caution should be exercised. The implementation should not be at the expense of ignoring any proposed changes as a result of feedback to the consultation. Government should consider that this proposed timing may also lead to the consequence of prompting problem debtors to simply ignore the problem and continue to incur debt especially during the current crisis.

5 Do you think there are any other impacts that should be considered? Please state your reasons.

Members commented that there may be a negative impact on the income and costs of the Insolvency Service from the increased number of DROs and a reduction in the number of bankruptcy orders. There are concerns that the shortfall in income will result in increased fees and charges which will be paid by creditors.

The IVA market will be adversely affected with a large number of proposed IVAs being suitable for the new DRO monetary limits. This could affect the business model for these providers causing instability in the marketplace. It was commented that debt management plan providers are likely to be impacted as well.

Members also feel that the need to publicise the schemes and to ensure that they are "stigma-free" is vital if they're to succeed.

6 Are there any other comments you would like to make?

One CICM member commented that rather than just looking at the monetary limits it may be better to look at the whole DRO process. For example, an advisor will gather information regarding the individual's debts only to find out later that there is a large debt as a result of, say, benefit overpayment. This debt may not be included in the DRO or push the total over the monetary limit (hence the support for the increase in the monetary limit to £25,000). If the debt is not included in the DRO then the DRO may be revoked with the individual still liable for repayment of that debt.

Consideration should be given to the automatic inclusion of all debts incurred prior to the making of the DRO as in a bankruptcy. Should the total debts exceed the monetary limits then the DRO could be revoked and an alternative insolvency procedure be sought such as bankruptcy with the costs of a debtor petition being substantially reduced.