

3 August 2006



## **DEBT FREE DIRECT GROUP PLC**

### **COMMENT ON GROWTH OF IVA MARKET AND MUCH NEEDED REGULATORY CHANGE**

There has been much comment in the press recently with regard to the dramatic rise in UK bad debts. Britain's largest bank (HSBC) was reported to have attributed this increase to the marketing of personal bankruptcies and insolvency agreements to consumers in financial difficulty.

Concerns were also raised with regard to "non-regulated advisors who are advising people, and charging for this advice, to suggest that people should file for bankruptcy."

As Britain's leading non-fee charging (ICAEW regulated) debt advice and solutions company, we wholeheartedly agree with HSBC on this point and have been lobbying for such regulation for a number of years.

We would comment in more detail as follows:

#### **Putting marketing to consumers into perspective**

In 2005 the UK banking industry spent more than £315m on advertising, encouraging consumers to borrow more money (which they did in ever-increasing amounts).

In 2005 Debt Free Direct spent (approximately) £3m making consumers aware that they had someone to turn to for (free) best advice and to help solve their debt problems.

#### **Individual Voluntary Arrangement (IVAs) or Bankruptcy?**

There seems to be some market confusion in this area. It has been reported that the growth in IVAs partly stems from the Enterprise Act, which was introduced in 2004.

In fact, the Enterprise Act was only aimed at bankrupt individuals and has not impacted upon individuals going into an IVA in any way. At the time that it was introduced there was much press comment that the Enterprise Act would mean the demise of the IVA and that bankruptcy numbers would increase dramatically as a consequence.

In fact, quite the opposite has happened. In the first quarter of 2006 (compared to the same period last year) the number of individuals going bankrupt grew by 51.2%, whilst the number of individuals entering into an IVA grew by 141.9%.

Clearly, the above increase in IVAs has not resulted from any changes in legislation. In fact, it has arisen as a result of the significant increase in the number of over-indebted consumers who have been encouraged (largely by advertising) to take on more debt than they can comfortably afford and are now facing up to the consequences.

## **Best advice to protect the debtor**

We fully concur with the views expressed by HSBC with regard to the activities of non-regulated advisors, charging for advice. We have long campaigned for Government regulation that would ideally enshrine the principle of providing the consumer with best advice. That would mean best advice for the individual with the debt problem, as opposed to what is best for the lender or those who are offering the advice.

At Debt Free Direct we help individuals find the best solution to their debt problems, based upon a thorough analysis of their particular circumstances (see appendix attached, which details our best advice process).

It is interesting to note that Debt Free Direct has never charged any consumer for advice.

Moreover, in the last 12 months we have recommended (creditor funded) debt management to over 18,000 individuals. These cases were referred to Britain's largest debt advice charity (Consumer Credit Counselling Service) and we received no fee income for those referrals.

Similarly, we have advised that bankruptcy would be the best option for over 6,800 individuals. Again, we have received no fee income for these cases.

By contrast, only 4,164 of our customers entered into an IVA (which represents approximately 4.5% of the individuals who contacted us for advice).

We believe that this demonstrates our commitment to providing best advice to the debtor, solely dependant on their particular financial circumstances, and not driven by our financial gain.

## **Better regulation to protect the lenders**

Notwithstanding the above, we are also strongly in favour of better regulation to protect the lenders.

An IVA allows the debtor to make a proposal to their creditors, whereby they make a monthly contribution, representing the maximum they can sustainably afford to pay. The Insolvency Practitioner on the case is there to protect the best interests of both the debtor and the lender.

Clearly, it is incumbent on the Insolvency Practitioner to go through a verification process to reasonably satisfy themselves that the debtor is paying their creditors the most they can afford. We take the debtor through an exhaustive verification process to ensure that the lenders' return is maximised. At Debt Free Direct we strongly believe that the debtor should repay the maximum that they can sustainably afford, however, we are aware that not all Insolvency Practitioners share this view and see themselves as acting primarily for the debtor.

The fact that Debt Free Direct (as market leader) provides a significantly higher return for lenders than the overall IVA market average clearly demonstrates the validity of our process. Equally, it demonstrates that not all Insolvency Practitioners adhere to the same process. We believe that they should be obliged to do so and would be pleased to work together with the banking industry and Department of Trade and Industry to help achieve this objective.

## Forthcoming conference

We will be hosting a conference in October 2006 (to which all major lenders will be invited). The theme of the conference will be: "Increasing IVA returns to lenders whilst treating their customers more fairly".

Andrew Redmond, CEO, commented:

"We welcome the recent comments by HSBC and wholeheartedly agree with the call for more regulation. As a best advice driven company which has never charged the customer for advice, we have been actively lobbying for increased regulation for a number of years.

We look forward to our forthcoming conference being a catalyst for change for the long term good of all debtors and all ethical lenders and debt advisors."

## APPENDIX : Best advice to protect the debtor

Financial information relating to the consumer is processed through a computer algorithm ("The Debt Free Direct Best Advice Model") in order to recommend the best solution suitable to address that individual's particular financial circumstances. The solutions offered range from basic advice, such as simply destroying credit cards and curbing unnecessary expenditure, to the following solutions:

	<b>Advised in last 12 months</b>	<b>Fee received</b>
• Consolidation loans and re-mortgages	3,500	Commission share
• Informal arrangements (DMPs)	18,000	None
• Bankruptcy	6,800	None

  

	<b>Cases in last 12 months</b>	<b>Fee received</b>
• IVAs	4,164	Fees paid by lenders

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