Financial Services Consumer Panel
AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES
Telephone: 020 7066 9346
Email: enquiries@fs-cp.org.uk

Sam Roberts
Policy Team
The Insolvency Service
1 Westfield Avenue
London
E20 1HX

19 February 2021

By email: Policy.Unit@Insolvency.gov.uk

Dear Sir / Madam,

The Financial Services Consumer Panel (FSCP) is an independent statutory body. We represent the interests of individual and small business consumers in the development of policy and regulation of financial services in the UK.

The Consumer Panel strongly supports the proposed changes to the eligibility criteria and believe they are necessary due to the increased financial difficulty and debt issues caused by the pandemic. The Panel would support increasing the debt limit further to between £40,000 and £50,000 given the rate at which household debt is likely to increase in future, and raising the £1,000 limit related to personal vehicles.

It is essential that consumers are made aware of these changes, such that those most in need can benefit from them. The Panel encourages the Insolvency Service to publish clear guidance for Insolvency Practitioners to outline additional information expectations around DROs and pathways for consumers to move between debt solutions, as well as temporarily waiving fees for Debt Relief Orders (DROs).

Responses to specific questions posed in this consultation are included in Annex A, below.

Yours faithfully,

Wanda Goldwag
Chair, Financial Services Consumer Panel

ANNEX A – Responses to questions

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

- We support changes to the eligibility criteria and believe they are necessary as a result of the increased financial difficulty and debt issues caused by the pandemic. We believe the changes are overdue as there has been no change to criteria or limits since 2015.

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.**

- We are supportive of increases to all of the limits contained in current DRO eligibility criteria.
- We feel the proposed £30,000 debt limit should be higher. The proposed £30,000 limit would accommodate the average household debt excluding mortgages as forecast by the Office of Budget Responsibility in November 2020. While this will be helpful to consumers requiring help today, assuming rates of debt continue to increase, possibly at a higher rate given the impact of the pandemic, the limit will quickly create a new barrier to supporting individuals in problem debt. We would encourage the Insolvency Service to 'future proof' the DRO system by introducing a limit of between £40,000-£50,000.
- The proposed limits for surplus income are reasonable based on current levels of inflation and assuming no major changes in inflation or consumer prices are anticipated in the next 3-5 years.
- We are supportive of the proposed £2,000 asset limit, however, we would encourage the Insolvency Service to review the specific limit of £1,000 related to personal vehicles. This limit is outdated, with the average price of a used car now over £14,000[1]. The limit can often force the most vulnerable with minimal financial resilience into owning extremely old vehicles which are significantly more expensive to operate. It also imposes additional costs on individuals such as the London Congestion and ULEZ charges as older cars are not compliant with new standards. There is an obvious environmental link here as well. Older vehicles do not support the Government's environmental objectives and deny the more vulnerable the opportunity to contribute to the fight against climate change.

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.**

- We appreciate that striking a balance between consumer needs and interests of creditors is important and is an area where the industry will likely voice strong opposition given the anticipated commercial impacts. Given the number of firms

[1] https://cardealermagazine.co.uk/publish/average-used-car-prices-up-for-eighth-consecutive-month-but-growth-slows-in-november/210273

who profit from the existing IVA regime, we would anticipate a concerted effort to maintain the status quo. One large scale IVA administrator estimates that approximately 34% of their current book would become eligible for a DRO following the adoption of the proposed changes. While there will potentially be a short-term commercial impact to creditors and those within the debt solutions ecosystem, we feel the proposed changes and the limits referenced in our response to question 2 remain the right approach.

- We believe the proposed changes may potentially lead to improved consumer outcomes if creditors are more aware of DROs and the impact on underlying returns. This impact may incentivise creditors to engage more constructively with consumers to reach suitable agreements or offer better forbearance terms allowing the consumer to fulfil their obligations, avoid long-term damage to credit files, and reduce demand on the debt advice sector.

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.**

- Delivering relief and additional support to consumers as quickly as possible is extremely important and we are supportive of any proposal involving relief sooner rather than later.
- In addition to supporting the proposed implementation timeline, we also would like to see a requirement placed on Insolvency Practitioners to review their lower value IVA cases and engage with consumers who could benefit from newly adopted DRO criteria. We would also argue that any fees paid related to the IVA be applied to cover any fees related to the DRO to avoid consumers being out of pocket for additional fees.

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

- Given the anticipated increase in consumers eligible for a DRO that may be in an IVA or other debt solution, we would like to see the Insolvency Service publish clear guidance for Insolvency Practitioners to outline additional information expectations and pathways for consumers to move between debt solutions.
- We would like to see fees for DROs waived to enable support for those most in need. While we would support a long-term waiver of the current £90 fee, we realise this may require a more extended consultation and cost-benefit analysis. Therefore, we would like to see a temporary fee waiver, of up to 2 years, implemented as part of wider pandemic support measures.

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

No.