

**Advice NI's response to the Financial Conduct Authority's debt packagers: proposals for
new rules consultation**

Deadline: 22nd December 2021

Advice NI welcomes the opportunity to respond to the FCA's debt packagers: proposals for new rules consultation. Advice NI is a membership organisation that exists to provide leadership, representation and support for independent advice organisations to facilitate the delivery of high quality, sustainable advice services. Advice NI provides our members with the capacity and tools to ensure the effective delivery of advice services. This includes: advice and information management systems, funding and planning, quality assurance support, NVQs in advice and guidance, social policy co-ordination and ICT development.

Membership of Advice NI is normally for organisations that provide significant advice and information services to the public. Advice NI has approx. 70 member organisations operating throughout Northern Ireland and providing information and advocacy services to over 110,000 people each year dealing with over 540,000 enquiries on an extensive range of matters including: social security, housing, debt, consumer and employment issues. For further information, please visit www.adviceni.net.

Responses to the consultation questions.

1. Do you agree with our assessment that the remuneration model for debt packager firms is driving consumer harm?

Yes, we agree with the assessment that firms, who have an invested interest to refer someone for a debt solution can cause harm. This sits outside best practice of giving proper advice based on the individual circumstances. To place someone in a repayment plan that is not best suited to their situation can have serious implications for them. Unfortunately, as outlined in the paper, that debt advice is a type of '*credence good*'. This means the person seeking advice is accepting that the advice they receive is correct and proper advice. They believe in good faith that they are receiving good quality advice, and in many instances debt

packager firms are not providing this, with some manipulation of information to make the person fit the solution. The barriers to debt advice are well documented and these firms only causes more harm to the reputation of the free debt advice sector. We are associated with them as the person does not directly pay them fees therefore assumes that they are part of the free debt sector.

One of our advisers has recently dealt with a client, who has had the unfortunate experience of being wrongly placed on an IVA via Debt Packager firm. The client has experienced a significant reduction in income when he was unable to foster anymore and his business came to an abrupt stop due to Covid-19. He responded to an advert that had popped up while he was using his mobile phone about writing off debt. He contact the firm and they convinced him that an IVA was his best option and referred him to an Insolvency Practitioner.

Client eventually came to our debt advice service as he could no longer manage. Our adviser noted that the firm had used his partner's income. It is important to note that this was not a joint IVA, therefore the financial statement was incorrectly completed. The firm also failed to mention that one of the debts included in the IVA was a joint debt and that his wife would still be liable for it. The budget was extremely tight and no allowance was made for his wife to pay her own debts, which has resulted in her struggling and she began receiving demand letters. Upon proper advice, the client has decided to step aside as director of his company to proceed with a DRO as he meets all the criteria, and his wife can then begin a debt repayment plan for the joint debt.

This is only one example and we believe that both the debt packager firm and the Insolvency Practitioner failed the client by providing incorrect debt advice, as an IVA clearly was not the right solution. Furthermore it was put his wife at risk and prolonged the journey for them both.

This example highlights the problem not only with debt packager firms but also Insolvency Practitioners, who also should have properly assessed this clients finances before entering into an IVA.

2. Do you agree that the only effective remedy is to ban receipt of remuneration for referrals by debt packager firms?

Yes we agree. Any debt advice provided to the client should be regulated and under strict quality reviews. We would posit that the revenue should be put into the free debt advice sector so clients get a good quality service from the beginning.

3. Do you agree that we should not include debt management firms or not-for-profit debt advice firms in our proposals?

Yes, we agree. With the evidence provided in the paper that the person is more than likely to receive full and proper advice, as these organisations fall under the FCA and MaPS quality framework. However, we advocate that the FCA/MaPS continues to monitor this to ensure that clients are being appropriately referred. We strongly believe that anyone who is providing any form of debt advice with solutions should comply with the required standards as Advice NI and similar debt advice providers.

4. Do you have any comments on our proposed obligation on debt management firms who act as principals?

We agree with the proposed obligations that have been outlined.

5. Do you have any comments on the draft rules?

No comment.

6. Do you have any comments on the planned implementation period?

Yes agree with the implementation period.

7. Do you have any comments on, or relevant additional data for, our draft cost benefit analysis?

No comment.