

The title 'Debt Manifesto' is written in a large, white, serif font, centered within a semi-transparent white rectangular box. The background of the entire page is a photograph of the Houses of Parliament in London at dusk, with the building's spires and towers illuminated against a dark sky. A large, white, stylized graphic of a speech bubble or a similar shape is overlaid on the image, framing the title and the organization's name.

# Debt Manifesto

**THE CREDIT SERVICES  
ASSOCIATION (CSA)**  
Incorporating the Debt Buyers & Sellers Group (DBSG)

**“The Voice of the Credit Services Industry”**

This document aims to enlighten, raise awareness, express concern and suggest proposals to alleviate problems caused by excessive debt; to consumers, UK Industry and the Public Sector

# INDEX

## EXECUTIVE SUMMARY

Key points of the Manifesto  
Objectives

## SECTION 1: ABOUT US

- 1.1 CSA & DBSG - Their Functions
- 1.2 Aims & Objectives

## SECTION 2: EVIDENCE OF A GROWING DEBT MOUNTAIN

- 2.1 Debt and the management of default

## SECTION 3: MANIFESTO AIMS

- 3.1 To establish a level playing field
- 3.2 To improve access to information about people and their whereabouts
- 3.3 To work more closely with Legislators and Regulators

## CONCLUSION

Appendices  
List of Money Advice Liaison Group (MALG) Members  
Legislative & Regulatory Issues

# Executive Summary

## KEY POINTS OF THE MANIFESTO

This Manifesto is presented by the Credit Services Association (CSA) incorporating the Debt Buyers & Sellers Group (DBSG) and follows extensive research with Members of the Association and others.

There is increased recognition by creditors, Government departments and agencies, and Regulators of the high value of the debt service industry, in that it provides a safety net for the recovery of large sums of money which would otherwise be lost to the economy.

This Manifesto argues that there is a relationship between a regulatory culture which enables consumers to avoid their debts and the growing problem of overindebtedness.

## OBJECTIVES

### To establish a level playing field between Debtors and Creditors

Currently legislation and regulation concentrate heavily on the rights of the consumer and not on their **duties** to fulfil their financial obligations. A culture that ignores the rights of creditors, and encourages people to avoid paying their debts, can also encourage them to get into debt in the first place.

### To improve access to information about people and their whereabouts

The largest problem in the recovery of debt is the lack of access to information about people, and their whereabouts. There is no legal requirement for people to register their address with their creditors making it easy for people to relocate or disappear to avoid their debt obligations.

### To work more closely with Legislators & Regulators

The Industry aims to maintain and improve its relationship with Legislators and Regulators for the betterment of the economy, our industry, and to help provide solutions to the current problems of overindebtedness.

# SECTION I: ABOUT US



## 1.1 The Credit Services Association (CSA) & Debt Buyers & Seller Group (DBSG)

The Credit Services Association (CSA), dating from 1902, is the only national association in the UK for companies offering credit support services to financial institutions, trade finance companies, utility companies, local authorities, educational establishments, health authorities, government agencies and a wide range of commercial and professional companies.

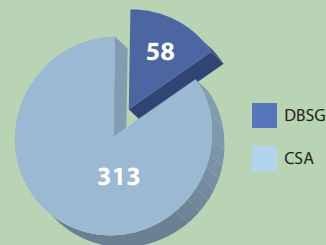
In 2004 the Association formed a new section - The Debt Buyers & Sellers Group (DBSG) - to serve the fast expanding debt sale market.

CSA and DBSG Members perform a vital function in supporting the UK economy by collecting large sums of unpaid credit accounts for their clients in finance, industry and the public sector. These sums would otherwise be lost and would have to be made up by increased interest charges.

- **Association Membership encompasses 95% of all creditor external collection**
- **The Credit Services Association has 313 Members**
- **The Debt Buyers & Sellers Group has 58 Members**
- **More than 20 million individual debt collection cases are handled by Association Members annually**
- **This represents some £15 billion in value terms**

Services offered by Members are principally those of debt recovery, debt purchase, debt management, tracing of absconded debtors, training on debt collection matters, credit investigation status enquiries, credit control expertise, credit insurance support and call centre and field support.

The CSA and DBSG, hereafter referred to as the Association, is the only Association of its kind in the UK servicing the credit industry - providing essential support, information, guidance and expertise to Members allowing them to carry out their business safe in the knowledge that their Association is at the forefront of Industry developments and changes that may affect their day to day activity.



*Personal debt is increasing by £1 million every 4 minutes*



## SECTION 1: ABOUT US

### 1.2 The Association is BIG on...

**Education • Fairness & Transparency • Driving Commerce • Consumer Liaison • Compliance**

**Education, education, education** - this is the key and has long been 'the winner' for many a politician over the years. The Association is no exception. Members educate staff to City & Guilds Diploma level and the Association provides constant reviews of training needs and resources and updates Members continuously on legislative and regulatory changes.

The Association believes strongly in educating young people in schools about the 'pitfalls' of debt, the credit industry as a whole and the way it will affect them in adulthood. It therefore fully supports the launch of the Qualifications & Curriculum Authority (QCA) new curriculum which includes a programme of Economic Wellbeing & Financial Capability.

**Fairness and transparency** - the Association aims to achieve a fair balance between the needs of protecting consumers and the needs of providing the credit economy with the means to recover its debts.

**Driving commerce** - there are many misconceptions about the debt collection industry. Debt collection agencies perform a vital function in supporting the UK economy by collecting large sums of unpaid credit accounts for their clients in finance, industry and the public sector. These sums would otherwise be lost, with businesses making up the shortfall by increased interest charges.

The Department for Business, Enterprise & Regulatory Reform (formally DTI)<sup>1</sup> confirms that credit is an important tool that drives economic activity by giving consumers and businesses greater control and flexibility over finance management. Debt has become an essential and vital component to our lives.

**Compliance** - the Association is dedicated to upholding the highest professional ethics and standards in an industry that is so vital to the UK economy. It has a comprehensive Code of Practice, which has been in place since 1984, and has become an Industry benchmark. The Office of Fair Trading (OFT) Debt Collection Guidance closely mirrors the CSA Code of Practice.

Fairness and transparency - the Association aims to achieve a fair balance between the needs of protecting consumers and the needs of providing the credit economy with the means to recover its debts.

**Consumer liaison** - the Association strongly believes that good liaison between those representing the creditors and those representing the consumers is of utmost importance. The Association is therefore a member of the Money Advice Liaison Group (MALG) (see Appendix 1 for full list of members) which promotes a better understanding between creditors, their agents and consumer groups.

*More than 80% of Britons admit to regularly overspending*

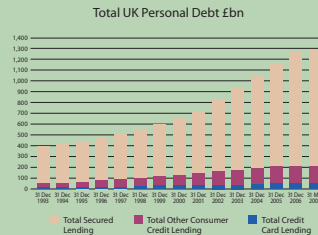


## SECTION 2: EVIDENCE OF A GROWING DEBT MOUNTAIN

### 2.1 Debt and the management of default

#### Consumer Debt

- Personal debt in the UK at the end of March 2007 stood at a record high of £1.318 trillion.
- There was a 10.5%, or £116 billion, increase in the previous 12 months alone.
- Total secured lending on homes during the same period rocketed by 11.5% to £1.104 trillion.
- Total unsecured consumer credit lending to individuals was £214 billion, an increase of 5.9% including credit card debt of a record £60bn.<sup>1</sup>
- Personal debt is increasing by £1 million every 4 minutes.<sup>2</sup>
- The level of UK debt now amounts to 104% of GDP, compared with 92% in the United States.<sup>3</sup>
- The UK is the world's second largest market in consumer debt, in which outstanding debt continues to grow at 15% per annum.
- Individual insolvencies, Individual Voluntary Arrangements (IVAs) and bankruptcies are increasing.
- In 2006, 107,288 Britons were declared insolvent.
- The number of people taking out an IVA has quadrupled since 1993.<sup>4</sup>



**Number of Annual Bankruptcy Orders and IVAs**

Year	Bankruptcy Orders	IVAs	Total
1998	19,647	4,902	24,549
1999	21,611	7,195	28,806
2000	21,550	7,978	29,528
2001	23,477	6,298	29,775
2002	24,292	6,295	30,587
2003	28,021	7,583	35,604
2004	35,898	10,752	46,650
2005	47,291	20,293	67,584
2006	62,332	44,332	107,288

- Levels of personal insolvencies are at an all time high and it is claimed that high street banks wrote off about £1.4 billion as a result of IVAs last year. This overwhelming rise in insolvencies will be a worrying factor, not only to lenders, but also to DCAs and debt purchasers.

*The average debt for a CCGS (the Debt Management Charity) client starting a debt Management plan in 2006 was £31,370*

## SECTION 2: EVIDENCE OF A GROWING DEBT MOUNTAIN

### Commercial Debt

- According to a new EPSRC report, total outstanding commercial debt in the UK is around £659 billion.<sup>5</sup>
- Bad debt and late payment are major problems for many businesses and one of the biggest causes of company failure.
- The average amount of money outstanding to Britain's smaller companies has soared by £5 billion in the last 2 years to a massive £16 billion.
- According to BACS Payment Schemes Limited,<sup>6</sup> an increasing number of small-to-medium sized enterprises (SMEs) in the UK are experiencing problems with late payments.
- A recent survey by Halifax Bank of Scotland showed that 68% of businesses regularly suffered cash flow problems as a result of delayed payments, while 43% of owners take legal action against a customer for non-payment.
- It is estimated that the culture of late payment accounts for some 10,000 business failures in the UK annually.
- Company liquidations, compulsory and voluntary, hit 13,133 for 2005 as recorded by the Government's Insolvency Service compared with 12,192 for 2004.<sup>7</sup>

### Public Sector

The public sector finds it more and more difficult to contain and collect its rising debt. As a consequence more and more Government agencies are resorting to external collection.

Local Authorities have long since used external collection extensively.

### Facts:

- Local Authorities use private collection agencies widely for all manner of collections including rent arrears, council tax, commercial rates, unpaid fees etc.
- The Department of Work & Pensions (DWP) first made use of private collection agencies to recover overpaid benefits in 2003.

- In March 2004 pilot projects involving about 2,000 Child Support Agency cases were referred to private collection agencies. Since January 2006 this pilot has been extended.
- In a recent tender document the DWP advised that in the 12 months up to June 2007 Benefit Debt and/or Corporate Debt worth £233m (400,000 cases) and Child Support Agency Debt worth £220m (44,000 cases) was referred to external collectors.<sup>8</sup>

<sup>1</sup> Statistics available from: <http://www.creditaction.org.uk/debtstats.htm>

<sup>2</sup> Ibid

<sup>3</sup> Pricewaterhouse Coopers report

<sup>4</sup> <http://www.accumagroup.com/bankruptcy-debt/2006/05/increase-in-number-of-ivas-causes.html>

<sup>5</sup> <http://www.epsrc.ac.uk/PressReleases/SpirallingPersonalDebtsTheUKToBeProbedByNewEPSRCFundedCentre.html>

<sup>6</sup> <http://www.peterborough.net/business/articles/latepayments100.asp>

<sup>7</sup> <http://www.insolvency.gov.uk/otherinformation/statistics/insolv.htm>

<sup>8</sup> <http://www.telegraph.co.uk/news/main.jhtml?xml=/news/2006/01/20/mcsc20.xml>

## SECTION 2: EVIDENCE OF A GROWING DEBT MOUNTAIN

### Amount of child support maintenance debt referred to debt collection agencies

2006	2007
July 112,951	January 12,914,223
August 2,314,650	February 30,748,063
September 13,340,556	March 29,439,756
October 12,845,655	April 42,983,965
November 16,910,770	
December 22,708,701	

- The Driver & Vehicle Licensing Agency (DVLA) has recently issued an external tender document for the collection of its fines and penalties.
- NHS use private collection agencies in the collection of unpaid fees.
- Universities and Colleges outsource their debt to private collection agencies, as does the Student Loans Company.
- Sale of Student Loans Bill - Amongst a number of new Bills announced by the Prime Minister today is the Sale of Students Loan Bill, the purpose of which is to enable the Secretary of State to conduct a programme of sales of the student loan portfolio.

The main elements of the Bill are:

- to take powers for the Secretary of State to assign his rights and obligations in respect of income-contingent student loans to a third-party purchaser;
- to take data sharing powers so that information on the loans held by HM Revenue & Customs can be disclosed to the purchaser

The Government indicates that one of the main benefits of the Bill will be for the Government to realise £6 billion in receipts over the next three years.

Current Student Debt stands at £18,116.3 million according to figures published by the Student Loans Company.

With the sale of the debt many now fear that the government has long-term ambitions to abandon the inflation-only interest rate, and charge higher commercial rates on their borrowings.

Nothing has been confirmed yet as to what the actual process will be however, but we do know that students have already borrowed £22bn since loans were introduced in 1991. Of this, just over £5bn has been recently recovered by the government.

*In 2006, 44,000 people took out an IVA, an increase of 118% on 2005*



## SECTION 3: MANIFESTO AIMS

### 3.1 To establish a level playing field

#### **A rebalancing policy approach**

The focus of recent regulation has been on protecting the debtor from undue persecution and hardship. The Association fully supports the importance of protection for those who cannot pay their debts. However, the current regulatory environment fails to adequately distinguish between the 'can't pay's' and the 'won't pay's'.

- For those who can't pay, there should be measures in place which seek to prevent them getting into excessive and unaffordable debt.
- For those who can pay but won't, Government should ensure efficient channels to help facilitate the recovery of monies and not prevent collection of those monies through restrictive and undue legislation.

Given that the normal process of lending and borrowing is an integral part of a free market economy, it is essential that lenders have the confidence to provide finance to borrowers knowing that there are the means to enforce repayment should this be necessary. Equally, those in debt should expect to be treated in a professional and reasonable manner. It is the task of Regulators and Government to ensure that this balance is maintained.

The Credit Services Industry plays a vital role in providing the means to recover monies in a professional and caring manner. The vast majority of debts are settled in pre-legal stages, reducing the burden on the courts.

There are of course some consumers whose financial fortunes have taken a downturn after taking out credit and these matters need to be sensitively handled. However, a distinction has to be made between those consumers that cannot pay and those consumers that will not pay. It is the Industry's task to determine this distinction and act accordingly.

It is the view of the Industry that Government and Regulators need to take into account these factors and be supportive of the legitimate right of the creditors to recover their monies.

#### **The Consumer Credit Act 1974 & 2006**

The CSA and DBSG strongly support the Consumer Credit Act (CCA) in principle as protection is required for consumers. However, certain parts of it are being used by some consumers to evade responsibility of debt, and this certainly was not the intention of the legislation. This debt evasion is seen by Members of the Association even though debtors have previously accepted they owe the debt and they may even have the ability to pay.

#### **Financial Ombudsman Service**

Since April 2007 the industry has become subject to the Dispute Resolution Service provided by the Financial Ombudsman Service (FOS). The Association is concerned about the proliferation of complaints to the FOS and the potential of 'blackmail' type situations. A major issue faced by Members is the case fee issued by FOS when a case is referred for investigation. Currently the case fee stands at £400 per investigated case; due to the difficult nature of a complaint, together with relationship issues between debtor and collection agency the Association estimates a high number of complaints will be referred to the FOS, which will not warrant investigation but still involve the agency incurring the case fee. For small businesses these case fees may impact severely on their business causing them to fold.

## SECTION 3: MANIFESTO AIMS

### • Consumer Websites

Consumer action websites were first introduced as a source of free advice to those consumers in financial hardship. As society and the granting of credit have changed, so has the focus of these websites.

Various websites now give detailed 'guidance' on how to avoid repaying debts (regardless of the merits of the argument) using inadequately or unclearly drafted sections of the CCA, which is detrimental to those consumers who are in financial difficulty as well as to commerce as a whole.

### Limitation Act 1980

The Association supports the wider industry stance that the current limitation period for debts remains at 6 years. There have been indications, during the recent progress of the Tribunals Courts & Enforcements Bill, that the Government is considering reducing the statute of limitation to 3 years. This would have a detrimental effect on commerce as a whole, with a likely large increase in the number of debt cases going to court very early on in the default collection process, as creditors will take court action to secure their claims. This will inevitably increase costs to defaulting consumers through court charges and add congestion in the courts with small claim debt cases.

### Enterprise Act 2002

The intention behind this Act was to help entrepreneurs by removing the stigma of bankruptcy should their business fail and allowing them to start again. It was to make the impact of failure less onerous to encourage people to take the risk of starting a business in the first place or to start again having failed before.

However the impact of the Act has been, inadvertently, to offer bankruptcy as an 'easy option' for consumers. Increasing numbers have used the Act as an easy way out of financial obligations leaving behind their creditors with a shortfall. Bankruptcy is now much less of a deterrent for people from getting into excessive debt and in some cases can encourage debt and lack of responsibility.

### Companies Act 2006

The Industry is concerned about the ability to successfully identify and track down those company Directors who may be personally responsible for the payment of business debts. Although there is a register at Companies House, the Association calls for a better system of access to the Register of Disqualified Directors than currently exists, and for more consistency in the recording of Directors' data.

### Security Industry Authority (SIA)

There appear to be efforts by the SIA to create a licensing scheme for Investigators. The intention behind this initiative is to licence Private Investigators.

A large part of the work of our industry is that of tracing debtors who have relocated without informing their creditors.

This is mostly office based using telephone and various databases. The Association urges the SIA to be quite clear to what extent it wishes to licence Private Investigators, but more importantly it would first need to establish what constitutes a private investigator and which activities would be included and which would be outside any new licensing regime.

## SECTION 3: MANIFESTO AIMS

### 3.2 To improve access to information about people and their whereabouts

The largest problem facing the Industry in the recovery of debt is the lack of access to information about people, and their whereabouts. There is no legal requirement for people to register their new/change of address with their creditors making it easy for people to relocate or disappear to avoid their debt obligations.

Restrictions of access to the Voters' Roll and lack of access to data in general results in a number of mis-traces, resulting in innocent individuals being contacted over debt. Although recent research by the Association pooled a figure of just under 1 million trace cases which had been handled by Association Members, this figure is based on a relatively small number of respondents. Estimates place the actual figure of debt cases being traced in 2006 in excess of 3 million.

This presents a heavy cost burden to the UK lending industry and to utilities, public bodies and others. The Industry is very concerned about these factors and calls on Government to introduce a legal requirement, as part of the Consumer Credit Act, for debtors to register their new/change of address with their creditors.

Consumers appear to support the Industry in its request for easier access to information. The following link is to a Government petition website allowing citizens, charities and campaign groups to set up petitions that are hosted on the Downing Street website, enabling anyone to address and deliver a petition directly to the Prime Minister.  
<http://petitions.pm.gov.uk/>

The following link relates to a petition which has been created by an individual to allow better access to information on absconding debtors to avoid cases of mis-trace which cause frustration to those contacted:  
<http://petitions.pm.gov.uk/DebtCollection/>

### 3.3 To work more closely with Legislators & Regulators

The Association feels that working more closely with the Legislators and Regulators is the way forward for the Industry.

- The CSA and DBSG have an effective dialogue with all Industry Regulators - Office of Fair Trading (OFT), Information Commissioners Office (ICO), Ofcom and the Financial Ombudsman Service (FOS) - in respect of the different processes within the Industry. This has proven to be of great benefit to the Regulators, the Industry, and to members of the Association.
- The Association encourages members to work to the highest standards of professionalism and ethics. Each Association Member signs a declaration of compliance to adhere to the strict guidelines issued by the Association.
- The Association has a structured complaint handling procedure. All complaints are fully investigated and, in cases of serious or repeated breaches of the Association's code, members may be expelled and reported to the relevant Government body.
- The Association offers its members guidance and education on best practice. The City & Guilds approved CSA Diploma Course for example has more than 100 students attend annually.
- It is estimated that already some 95% (by invoice volume) of all debt referred to outside agents by creditors and the public sector is handled by Association members.

*There are 300 new personal insolvencies every day*



## CONCLUSION

- The Association calls for a considered, balanced approach to any future Legislation and Regulation. We also call for current legislation and regulation, which is hampering the genuine process of collecting outstanding money owed to the economy, to be reviewed and considered in light of the difficulties highlighted within this Manifesto.
- The Association feels it is essential that current legislation and regulation is reviewed in order to bring clarity to the industry for those working within it as well as for consumers and debtors who are affected by it (see Appendix 2).
- The Association, due to its extensive knowledge of debt matters, feels it is in a strong position to assist Legislators and Regulators with the complex and difficult task of alleviating overindebtedness.
- A culture that encourages people to avoid paying their debts can also encourage them to get into debt.
- There needs to be a move away from the 'one-size fits all' approach to regulation that does not allow different strategies to be delivered to address the very different problems of the 'can't pay's' as distinct from the 'won't pay's'.
- Some current legislation portrays debtors as victims, when clearly not all debtors could be described as such. It ignores the fact that small businesses, single parent families seeking payments from partners, consumers who meet their debts but pay more in charges because of bad payers and others are all also victims and the balance needs to be redressed.
- It is recognised by the Office of Fair Trading (OFT) and the Department for Business, Enterprise & Regulatory Reform (formally DTI) that the Industry behaves in a professional and ethical manner.
- The Government's approach to regulation of the Industry should recognise the positive aspects of the Industry and maintain the right balance between enabling debt collectors to recover monies owed to UK Industry and the Public Sector without being hampered by excessively burdensome regulation, and providing the regulatory framework to protect consumers from bad practice.
- Given the tasks performed by the Industry and the enormous volumes of debt handled, the Association and its Members are well placed to assess indebtedness levels in the UK and the reasons for these.

# Appendix 1

## List of Money Advice Liaison Group Members:

- The Advice Services Alliance
- Advice UK
- The Association of British Insurers
- The Association for Payment Clearing Services
- The British Cheque Cashers Association
- The British Bankers Association
- The Building Societies Association
- Callcredit PLC
- Citizens Advice
- Citizens Advice Scotland
- The Civil Court Users Association
- The Consumer Credit Association (UK)
- The Council of Mortgage Lenders
- The Credit Services Association
- The Department of Trade & Industry
- The Energy Retail Association
- The Enforcement Services Association
- Equifax PLC
- Experian Ltd
- Water UK
- The Financial Services Authority
- The Finance & Leasing Association
- The Foundation for Credit Counselling
- Her Majesty's Revenue & Customs
- The Institute of Credit Management
- The Institute of Money Advisers
- The Institute of Revenues Ratings & Valuations
- The Mail Orders Traders Association
- Money Advice Scotland
- The Money Advice Trust
- The National Consumer Council
- National Debtline
- Northern Ireland Association of Citizens Advice Bureaux
- The Office of Fair Trading
- The Paylink Trust
- PayPlan
- The Trading Standards Institute

# Appendix 2: Regulatory & Legislative Issues

## **The Association feels it is essential that current Legislation and Regulation is reviewed in order to bring clarity to the Industry for those working within it as well as for consumers and debtors who are affected by it. The Legislation and Regulation the Association considers most in need of review:**

- Consumer Credit Act 1974 & 2006 - currently the Act is being used by debtors to avoid making payments on their credit agreements. Bad advice, offered within consumer action websites, is misleading those genuine debtors in financial difficulty. Sections 77 & 78 of the Act are being misinterpreted by these 'advisors' causing further distress and frustration to genuine debtors. The number of trace accounts has increased substantially in recent years. The Act should introduce a penalty to those debtors who fail to advise their creditors they have moved (either unintentionally or not).
- Companies Act 2006 - members have raised concern regarding the maintenance of the Register of Barred Directors. Processes are required to keep information up to date to avoid further indebtedness by barred directors as well as being able to locate those directors responsible for business debts which must be recovered.
- Limitations Act 1980 - it is essential that the Statute of Limitations remains at 6 years. Reducing this term would cause an increase in court cases as creditors will take legal action far earlier during their collection activity in order to recoup their money. This will have a detrimental effect not only on the debtor as they will ultimately have a County Court Judgment, but also the court system as more cases will be generated which will increase costs and thereby compounding the issue of overindebtedness.
- Enterprise Act 2002 - the intention of this act has failed. Consumers are using the act as an easy option out of paying their debts by going into bankruptcy.
- Security Industry Authority - the licensing of investigators by the SIA has not been carefully considered. Tracing agencies used to locate absconded debtors may fall under this category - the consequences of licensing tracing agents would be enormous as most tracing is office based. Each individual 'tracer' would have to be separately licensed which will have huge financial implications for creditors, clients and agencies.