The case for Fair Share

As the demand for debt advice climbs and debt problems shift to reflect the increasingly hard-pressed nature of household finances, the funding challenge becomes more acute. With Peter Wyman's ongoing independent review of funding, now is the time to have an open discussion about how we ensure that the high-quality and inclusive debt advice needed in the coming years is available.

Although there are challenges to overcome, Fair Share remains a crucial part of this funding picture, not only to contribute to the cost of providing free-to-client debt management but also to strengthen client outcomes through collaboration between sectors. This paper presents the case that Fair Share should be retained on its own merits, and cautions against abolishing a mechanism that works well for its intended place in the sector, to tackle issues that lie elsewhere.

What is Fair Share?

Fair Share is a voluntary agreement to pay back a fixed percentage (typically 10-13%) of the amount received by the creditor in debt repayments distributed by a free-to-client Debt Management Company (DMC). This is to help fund the cost of providing debt management services in recognition of the beneficial impact such services have for the creditor and their customer.

Fair Share's role in the debt advice landscape

One in six people in the UK live with problem debt.[1] This is a social problem, the burden of which cuts across sectors. There is a well-established debt advice sector in the UK, which provides a range of debt advice and management services by private, public and charitable organisations. The variety of funding sources for debt advice is a key strength that has allowed this mix of services to develop to accommodate differing needs.

Alongside the financial services levy which is used for The Money Advice Service (MAS) commissioning, Fair Share is one of the primary ways that the credit industry supports the provision of free debt management. This recognises the part they play in creating problem debt and the gains to their business of helping customers manage their debts. MAS estimates that financial service firms contribute £50 million a year to debt advice funding through Fair Share, and some firms in other sectors also make Fair Share contributions.[2]

Distributors are facing the same challenges as the wider debt advice sector, but providing a debt management service does add a unique dimension due to the level of resource, security and continued investment needed to provide such services. The sustainability of debt advice funding does need attention and there is clear reason for other sectors to take greater responsibility for their role in the need for and provision of debt advice, yet the merits of Fair Share make a compelling case for retaining this as part of the funding mix.

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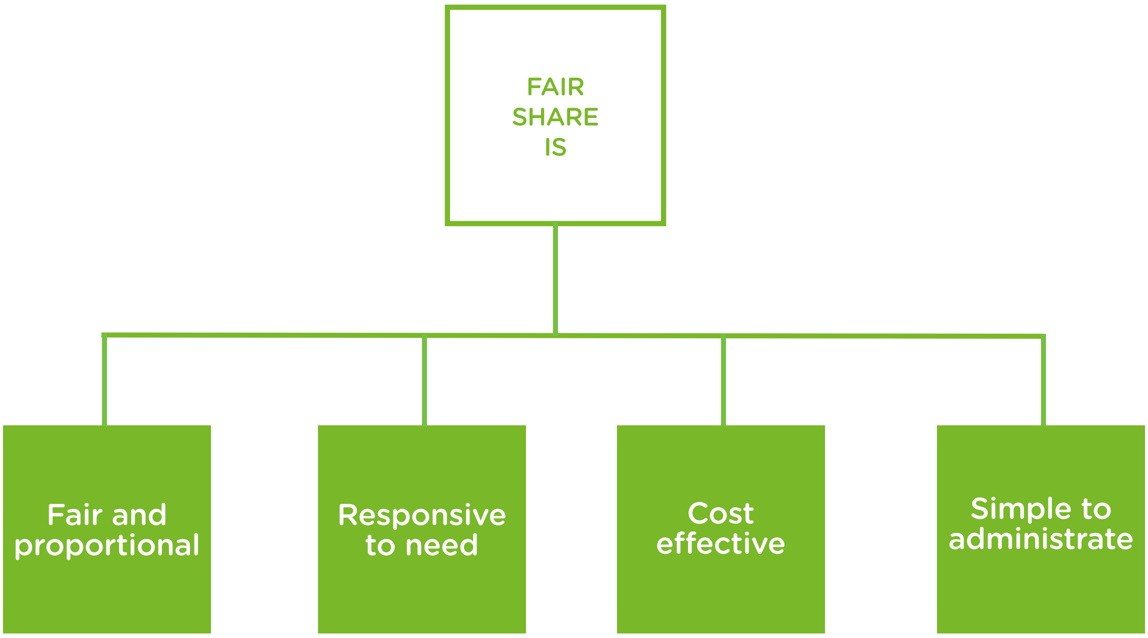
[1] According to research by the Money Advice Service (MAS) and CACI, 8.3 million adults in the UK are living with problem debt, up from 7.9 million in 2016. See moneyadviceservice.org.uk/en/corporate/one-in-six-people-in-the-uk-burdened-with-financial-difficulties

[2] Money Advice Service (2017) *A strategic approach to debt advice commissioning 2018-2023*, moneyadviceservice.org.uk

The merits of Fair Share

Fair Share is a contribution paid by creditors to fund the additional costs of providing a debt management service in recognition of the sustainable repayments, reduced collection and enforcement costs, and resource savings they receive. Research suggests that recovery rates for customers that have sought advice increase by around 20% and more than 95% of payment arrangements are maintained subsequently.[3] In addition, creditors receive reputational gains and increased customer engagement from working collaboratively with not-for-profit DMCs, which have long-lasting benefits. In light of the gains to the creditor, it is fair that they contribute to the funding of debt management services which results in the collection of 'bad debts' that would otherwise be unlikely to be recovered due to customers facing financial hardship and challenging life circumstances disengaging.

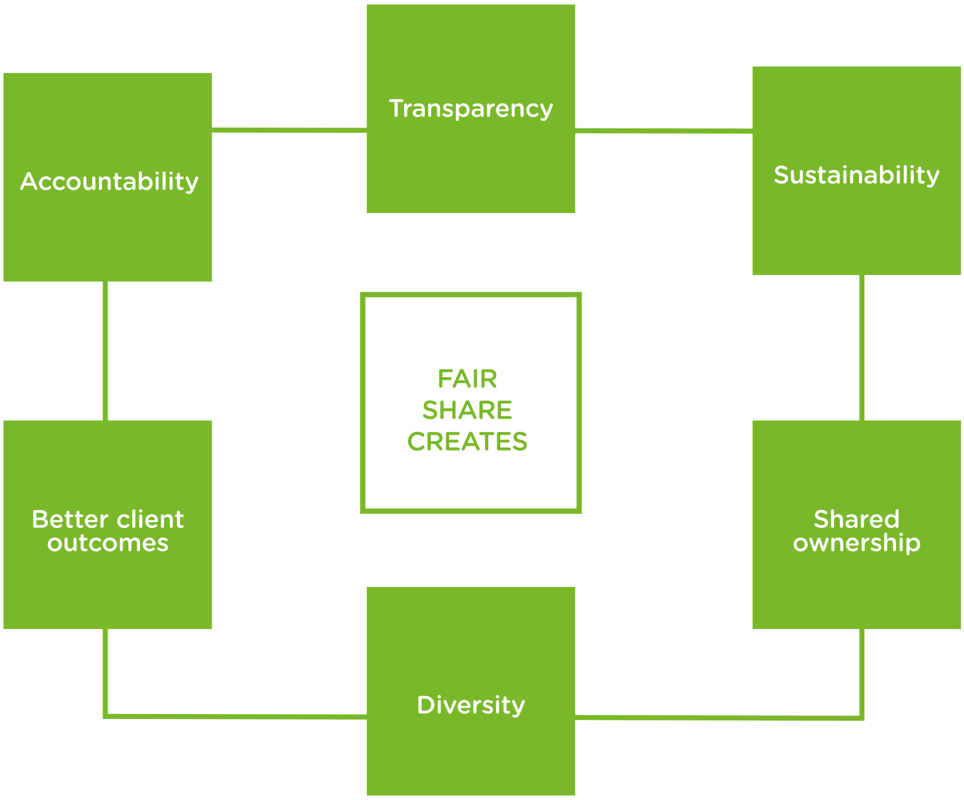


Furthermore, Fair Share being paid as a proportion of the debt repayments received by a creditor means that it is a proportional method of funding, as well as responsive to need. As the demand for, and take-up of, debt management plans (DMP) rises, the amount of funding received also increases comparably.

Fair Share is also a cost-effective method of funding debt management services. Not only is the average amount paid per plan lower than in a similar fee-charging DMP, the set-up and administrative costs of Fair Share are minimal due to the direct and informal nature of these funding agreements.[4] Additional auditing costs are also kept low with assurance of the quality of service provided from FCA authorisation of DMCs. Costs are minimised further through the straightforward process of paying Fair Share for both parties. Using simple invoicing, reporting and informal agreements fits with existing processes and the amount due is easily calculated each month, which means the scheme is simple to administrate.

[3] Research by Arrow Global and British Gas, StepChange Debt Charity and Experian cited in MAS (2017) *Working collaboratively with debt advice agencies*, MAS London. Arrow Global found that customers who had taken debt advice were on average able to make payments 20% higher than those in similar circumstances who had not sought advice and only 4% of payment arrangements were missed by these customers. Similarly, British Gas' recovery rates increased by 22% for customers advised by StepChange Debt Charity with 97% keeping up-to-date with payments after seeking advice.
[4] Estimate based on Fair Share of 10% compared to a monthly DMP charge of £30-35 on the profile of the average CAP plan which consists of 10 debts and pays £129.33 to non-priority creditors.

As well as bringing transparency and sustainability, Fair Share also brings wider benefits. It increases collaboration between sectors, which facilitates diversity in service provision and realises better client outcomes. Six ways Fair Share has a positive impact are set out in more detail below.



TRANSPARENCY	SUSTAINABILITY	SHARED OWNERSHIP
☑ Creditors directly fund the services they benefit from ☑ The level of funding is proportional to customers using the service ☑ Funding is linked to results, with creditors able to see clear evidence of success through repayments received ☑ Those in DMPs can easily understand funding is provided by their creditors for debt management services	☑ Fair Share provides a predictable and consistent income stream for not-for-profit DMCs ☑ Funding lasts for the duration of a DMP, rather than short commissioning periods ☑ Fair Share agreements are open-ended, so provide stable and secure funding for not-for-profit DMCs to set-up, maintain and invest in debt management processes	☑ Creditors make an active decision to support debt management services through Fair Share funding ☑ Creates partnership between sectors to share ownership for resolving and preventing problem debt ☑ Increases incentives to promote debt advice to increase take-up and collection rates

BETTER CLIENT OUTCOMES	DIVERSITY	ACCOUNTABILITY
✓ Fosters mutual understanding across sectors of the issues experienced by customers ✓ Brings closer operational links to provide efficient services and achieve good customer outcomes ✓ Direct relationship between debt management services and creditors brings opportunity to influence best practice across debt collection	✓ Variety of funding sources brings diversity in the range of debt help services available, allowing for different client needs to be accommodated ✓ Provides for the additional costs of providing debt management services to those who benefit from payment disbursement ✓ Lack of restrictions allows freedom to provide services that address complex needs	✓ Fair Share funding builds stronger links between creditors and the advice sector ✓ Creditors are a direct part of facilitating the provision of debt solutions for their customers ✓ Operational links hold both creditor and DMCs accountable for fair treatment of those in financial difficulty and quality of service provided

Addressing the funding challenge

Fair Share is well established across most of the credit industry and paid by a variety of lenders and service providers. However, there are sectors where only a minority of firms contribute to the cost of debt management services through Fair Share or where financial support for such services lags behind. Furthermore, increasingly debt problems centre around priority debts; these now account for 32p in every £1 CAP clients seek help for.[5]

These gaps have raised the question of whether Fair Share is the right mechanism for funding debt management moving forward. Fair Share is designed for commercial creditors to contribute to the cost of debt management and payment distribution services, the quality of which is assured through FCA authorisation. There is a clearly a funding challenge that needs to be addressed for the whole debt advice sector, however it would not be prudent to abolish a mechanism that is working well within its designed niche to tackle issues that lie elsewhere.

Fair Share cannot be the sole mechanism for funding the whole debt advice sector due to the variety of services. Equally this diversity means that a one-size-fits-all funding mechanism for debt advice will not be possible either. Instead, three ways to establish a more equitable and fitting range of funding streams for both debt advice providers and debt management services, whilst maintaining the benefits Fair Share brings to the debt management sector and those it helps, are:

1. Extending Fair Share and other funding for debt advice across all commercial sectors

As all commercial creditors benefit from customers in financial difficulty accessing debt management services, it is reasonable for the cost of supporting such services to be spread across sectors.

Increasing the span of commercial firms that contribute funding would give opportunity to reduce the current funding gap for both debt advice and management services. As part of this, extending Fair Share more widely would set funding levels proportionally to the debt owed to each creditor in additional sectors. This would also be fitting as all commercial firms stand to reduce their costs and increase revenue when their customers receive debt help.

This could be done on a voluntary basis in line with current Fair Share arrangements, or could be mandated. In Canada, for example, not-for-profit accredited members of the CACCS (Canadian Association of Credit Counselling Services) receive 'Creditor Contribution' from CBA (Canadian Banking Association) members as a matter of course.

2. Providing funding for Debt Relief Orders (DROs)

Fair Share is a results-based funding mechanism for DMPs, which is just one of the range of debt solutions available to provide debt relief. Funding for the provision of DROs is a key gap, the cost of which is currently shouldered almost entirely by the free sector. In addition to Fair Share, a results-based funding mechanism, whether through public or commercial sources, is needed for other debt solutions. This would ensure that, regardless of the most suitable option for the client, the right support is readily available.

DROs are distinct from bankruptcy in that to apply for a DRO someone must use an adviser who is a DRO Approved Intermediary (AI). Yet only £10 towards the cost of providing access to DROs is received by the DRO AI for each DRO submitted. One in two (51%) CAP clients who require a DRO need financial help to pay the £90 fee. Therefore, it is not realistic or appropriate to require those in need of a DRO to fund their provision themselves.

By design Fair Share cannot provide funding for the provision of DROs. Therefore, a complementary results-based funding arrangement is needed to recognise the cost of providing access to this statutory scheme, without which people with limited means who are the most severely over indebted would be trapped in a life sentence of debt.

[5] Priority debts made up 32% of the average total debt of a new client seeking help from CAP in 2016, see CAP (2017) *Client report: Partnership; the key to transforming lives*, CAP Bradford

3. Consider funding from central government to fill funding gaps

Over the past decade, the average level of priority debt owed by CAP clients when seeking help has tripled. Much of this type of debt consists of arrears on household bills and/or money owed to public sector creditors, such as local authorities, HMRC and DWP. This shift has changed the dynamic of debt advice in many ways and also driven calls for the funding of debt advice to shift in line with the type of debts advised upon.

While Fair Share would be a suitable mechanism for other commercial sectors to pay towards the cost of debt management services, this is not the case for public sector creditors. As these bodies do not make profits from providing credit or other services to consumers, and cannot make affordability assessments prior to granting 'credit', the increased returns generated by their customers accessing debt management services cannot be viewed in the same way. As the make-up of problem debt changes, the cost of providing not-for-profit debt advice can no longer fall solely on the commercial sector, but neither can it fall to local authorities who do not have sufficient budget capacity.

Nonetheless, the social benefit of providing debt advice cannot be ignored and if commercial sectors cannot shoulder the full costs of providing free and high-quality debt help, government support for debt advice may be needed. The public value delivered to both individual wellbeing and institutions make a clear case for public funding for debt advice and management services. An additional funding mechanism may be needed so funding for debt help services continues to be proportional to the profile of problem debt issues.

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