

31 August 2011

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Dear Sir/Madam

### **Consumer Focus response to the OFT debt management (and credit repair services) guidance consultation**

The OFT compliance review into the debt management sector has shown that there is a high level of non-compliance and potential consumer detriment in this sector and Consumer Focus believes that standards must improve significantly.

We therefore welcome the revised guidance, which we consider to be very clear and aimed at dealing with the abuse found in the compliance review. We are struck, however, by just how basic the guidance needed to be in terms of describing to providers what would be considered to constitute unfair business practice. This indicates how low the standards in the debt management sector were found to be in the course of the review. This is particularly worrying considering that the OFT identifies debt management services as a 'distress purchase' and the sector as 'high-risk'.

As the OFT recognises, consumers will usually be seeking these services from a position of indebtedness at a time of financial distress. This makes it very likely that recipients of these services will be vulnerable by virtue of their difficult financial circumstances, regardless of any additional vulnerability as a result of personal characteristics. The guidance makes some limited reference to this possibility ('consumers...may tend to be over-indebted, vulnerable, in need of help, and/or may have restrictions available to them'<sup>1</sup>). Nonetheless, as it will probably be the case that the vast majority of clients seeking debt management services will be vulnerable in the way we have described, we consider this should be included more strongly within the guidance.

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<sup>1</sup> OFT, June 2011, Revised debt management guidance: a consultation p13

We are not in a position to comment on the proposed guidance in detail and acknowledge that the performance and practice of fee-charging debt management companies is not an area into which Consumer Focus has conducted research. However our knowledge of other markets and products coupled with the vulnerability of the client group and the sheer scale of bad practice identified by the OFT review have caused us to question whether debt management services on a commercial basis should continue to be permitted. It appears that in the vast majority of instances, the potential for fee-charging debt management companies to help consumers 'deal with complex and harmful financial problems'<sup>2</sup> remains largely theoretical. On the basis of the OFT review, fee-charging debt management is a market which, at the moment, is largely failing consumers.

Finally, for this guidance to result in improved consumer protection and to deal with the current widespread incompetence and abuse, effective monitoring and enforcement mechanisms will be essential. In order to achieve this, a pro-active mindset and the allocation of sufficient resources will be vital.

We would welcome the opportunity to discuss any of the issues raised in this consultation response further.

Yours faithfully

Marie Burton  
Senior Policy Analyst

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<sup>2</sup> OFT, September 2010, Debt management guidance compliance review p4