

Bulletin no1

Around 700,000 people are currently left off the official British insolvency figures, even though they are technically insolvent. Added to the official figures, this means the total of insolvent individuals in the UK is now approaching 1 million. These 700,000 'hidden debtors' are the latest estimate from a YouGov survey, conducted in consultation with R3, of the number of individuals in Great Britain who are currently in a Debt Management Plan (DMP). The 700,000 DMPs dwarfs the combined total of those in an Individual Voluntary Arrangement (IVA) and declared bankruptcy which amounted to 190,000 by the end of 2008. The number of DMPs has also jumped an astonishing 17% in seven months (from August 2008 to February 2009).

"The official figures are only the tip of the iceberg in counting the UK's insolvent individuals. If the government wants to take an accurate picture of our debt problem, DMPs should be included in the official figures," said R3 President Peter Sargent.

DMPs are unofficial but formalised agreements with creditors who often prefer this route to formal insolvency procedures, even though such people are technically insolvent. DMPs may not always

be the best deal for those in financial difficulty as unlike statutory procedures there is no debt forgiveness, no freeze on interest nor are DMPs binding on either creditor or debtor.

The survey reveals that 26% of those in a DMP had the terms of the plan changed, with 64% of these people seeing an increase in the amount of their monthly repayments. Moreover, 18% of those in a DMP stated the DMP was due to last longer than ten years, with another 27% didn't even know how long the plan was due to last.

"We hear of people being strong-armed in DMPs when clearly an IVA or bankruptcy was in fact the right solution. Sometimes people will then end up in a formal insolvency procedure anyway. While DMPs are appropriate in certain cases, they are not the only option and they come with strings attached, the most troubling being the length of the plan; effectively 'debt slavery'.

"The latest statutory measure, Debt Relief Orders (DROs) introduced in April will only take a tiny percentage of this group into formal insolvency procedures. DROs are targeted at those with low income and very low assets only," concluded Peter Sargent.