Set up to fail

How the broken IVA market is failing people in debt distress

citizens advice

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Executive summary

People in debt crisis need good advice and effective debt remedies. With cost of living pressures bearing down on already stretched household budgets, this need is more urgent than ever. Our research found serious problems with one debt solution in particular - called an Individual Voluntary Arrangement (IVA). IVAs involve high risks but have limited safeguards, and we're seeing too many people entering into them when they're not suitable. This can push people further into crisis or leave them stuck in debt for longer.

The government needs to fix this by better regulating the advice people get before an IVA, so anyone entering into one can be sure it's the best option for them.

Holes in the debt safety net

The soaring cost of living has put a huge strain on household budgets. At Citizens Advice, we've never seen a higher proportion of people in a negative budget: **50% of the people we help with debt issues have more essential spending going out than they have income coming in, meaning they cannot repay their debts.** This is up from 36% in early 2019.[1] The average debt client now has £0 left over each month, compared to more than £15 in 2019.[2] With so many people unable to make ends meet, 2023 is likely to be the year debts start to bite, becoming unmanageable and forcing people into debt crisis.

In this context, an effective and well-functioning system for tackling problem debt is more crucial than ever. Leaving people mired indefinitely in debt benefits no one - creditors end up chasing money they'll never see, debt problems get more extreme, and the economy suffers as people are unable to spend.[3] That's why there are a range of different solutions available to give people a fresh start. Debt management plans enable people to gradually repay their debts in full, whereas Debt Relief Orders (DROs), Bankruptcy, and Individual Voluntary Arrangements - all forms of personal insolvency - allow people to legally write off

[1] Citizens Advice, Cost of Living Data Dashboard - Slide 32, Accessed: 8 February 2023.
[2] Citizens Advice, Cost of Living Data Dashboard - Slide 33, Accessed: 8 February 2023.
[3] House of Commons Library, Household Debt: Statistics and Impact on the Economy, 2022.

some or all of their debts. Often, insolvency solutions are the only realistic way forward for people in problem debt, but there are big issues with how they work.

Bad incentives, poor advice

Dealing with debt and navigating between different debt options can be extremely challenging. Most people don't have the sort of specialist knowledge needed to weigh up all the implications and make an informed decision - unless they get advice to help them. The impact of being in debt - stress and anxiety caused by being chased by creditors, fearing bailiffs knocking at your door, and struggling under the pressure of rising costs and interest - makes the process even more difficult.

Good, impartial advice plays a vital role in this context - but poor advice can do more harm than good. Taking the wrong course of action, or choosing a debt option that isn't fit for purpose, can leave people further out of pocket and further away from a lasting solution.

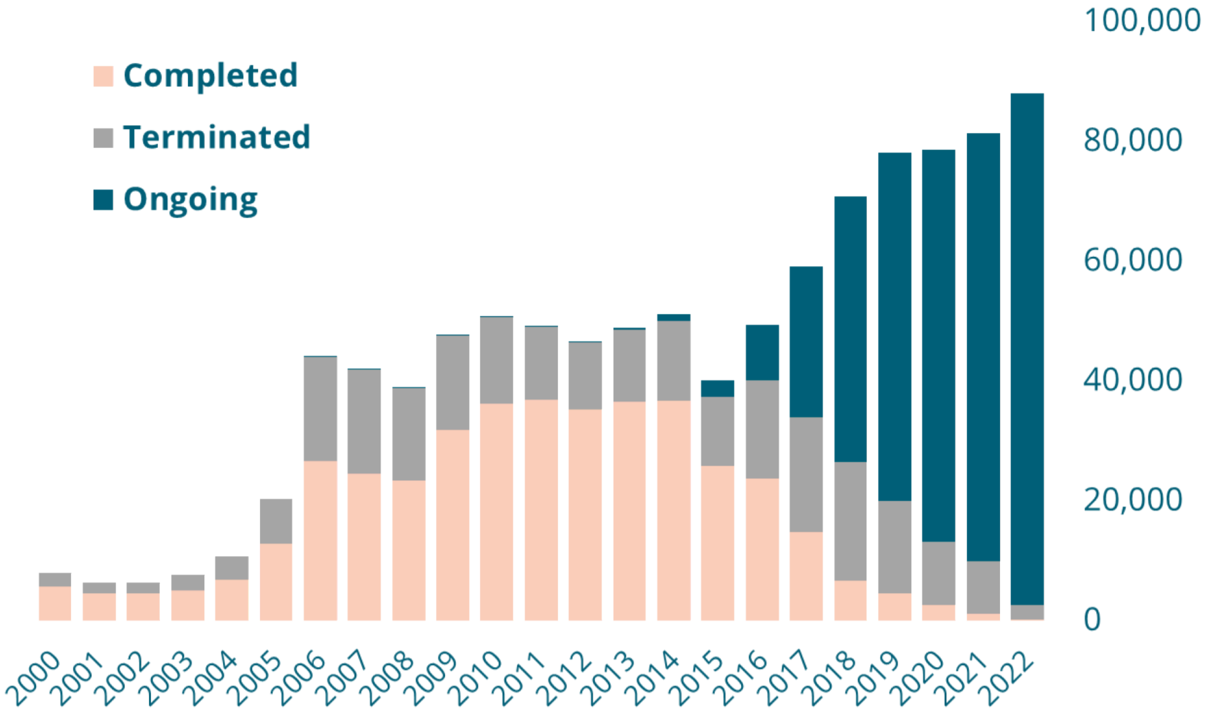
The risk of receiving poor advice increases when there are big financial incentives to recommend a particular debt option. Without robust regulation, incentives can distort advice and lead to mis-selling. Until recently, this was a major issue in the fee-charging debt management sector, but the Financial Conduct Authority (FCA) has made significant progress cleaning up and resetting this market. But IVAs - the most lucrative debt solution of all, and the only insolvency solution provided on a commercial basis - don't fall into the FCA's remit and, despite widespread concerns, the industry has expanded rapidly.

IVAs - a booming industry

IVAs were initially a niche insolvency solution, but they have mushroomed, especially in the last ten years. They are now by far the dominant personal insolvency solution in England and Wales.[4]

[4] IVAs are available in England, Wales and Northern Ireland. This report focuses on England and Wales, as the regulatory framework in Northern Ireland is different. Scotland has its own statutory debt remedies, including Protected Trust Deeds which are like IVAs but not identical.

Figure 1. Overall IVA numbers in England and Wales 2000-2022



Source: INSS, [Commentary - Individual Voluntary Arrangements Outcomes and Providers 2022](), 2023.

IVAs are aggressively marketed at people in problem debt, regularly using misleading claims that promise immediate relief without mentioning risks or fees. When searching for 'debt help' online, IVA ads crowd out alternative debt options and free advice providers. IVA ads are also pervasive on social media platforms such as Facebook, Instagram and TikTok.

While IVAs can work well for some people, they cost more in fees than other solutions - usually £3,500 - £4,000 - and involve a higher level of risk. In the worst cases, an unsuitable IVA can leave people struggling to make ends meet, being in debt for longer, or even going into more debt to make repayments.

73% of people who are or have been in an IVA said they **struggled to make repayments**

46% had to **cut back on everyday essentials** like food and heating to make their IVA payments, while **26%** had to go without

42% said they did not have enough money for **unexpected essential costs** e.g. a car breaking down or needing to buy new school shoes

39% said their IVA has had a negative impact on their debt levels

32% said they had to borrow money to make their IVA payments[5]

Sounding the alarm

These problems in the IVA market are not new. At Citizens Advice we regularly see people in unsuitable IVAs - experiencing real harm - and we expect this to get worse as the long-term effects of the cost of living crisis start to hit home. Advisers at the frontline are already sounding the alarm: in a sector-wide survey of more than 560 debt advisors, **84% said they have spoken to clients in failed or unsuitable IVAs**.[6]

> Our client was mis-sold an IVA 2 years ago. They were on benefits and had no assets, so have struggled to afford the repayments for the duration of the IVA and have had to use a credit card to pay for essentials like food and heating. The client is now looking at completing a DRO, which they were eligible for 2 years ago. If they had gone into a DRO straight away they could have been debt free a year ago and hundreds of pounds better off.
>
> - Citizens Advice evidence form[7], October 2022

[5] Based on polling by Yonder Data Solutions in 2023 with 724 individuals who are currently in an IVA or have been in one in the last 5 years. See Methodology section for more details.
[6] Based on a joint survey carried out in 2022 by Citizens Advice and other charities with 565 money advisers. See Methodology section for more details.
[7] Evidence forms feature anonymised real-life cases seen by local Citizens Advice advisers. See Methodology section for more details.

Regulators have also been aware of problems in the IVA market for years.[8] Some steps have been taken to try and tackle aggressive IVA advertising[9] and to ban debt packagers from being paid to refer customers to IVA companies.[10] The government has also proposed changes to insolvency regulation, moving away from self-regulation, and extending regulation to cover more of the industry.[11] Despite this, we still see widespread poor practice and unacceptable levels of detriment caused by the IVA industry. This demands an urgent response which focuses on the quality and independence of advice provided ahead of an IVA.

The clock is ticking

The government has recently consulted on how the personal insolvency framework could be improved - for the first time in 40 years.[12] While it is welcome that the government has recognised major reforms are needed, we can't afford to wait years for change. There are clear and immediate risks to consumers in the IVA market, and the soaring cost of living means these risks are growing by the day. As debt piles high, it is ever more urgent that people get the right advice so that problems don't get worse.

Recommendation

The Treasury should bring pre-IVA advice under FCA regulation so that it is regulated in the same way as other debt advice. This will increase protections for consumers in the IVA market and ensure that anyone going into an IVA will have received debt advice that they can trust is in their best interest.

By pulling together fresh insights from debt advisers and people who are or have been in IVAs, this report builds a picture of what the failure to get a grip on the broken IVA market looks like for people in crisis, and what needs to be done - soon - to fix things.

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[8] FCA, The Woolard Review: A review of change and innovation in the unsecured credit market, 2021.

[9] Advertising Standards Agency (ASA), Enforcement Notice: Debt Management (IVA/PTD) Ads by Insolvency Practitioners and Lead Generation Companies, 2022.

[10] Debt packagers are providers of debt advice that refer customers on to providers of debt solutions, including to IVA providers. Unlike lead generators, they are FCA-regulated. See FCA, Financial watchdog proposes to ban debt packager referral fees to protect consumers, 2023.

[11] Insolvency Service (INSS), The future of insolvency regulation, 2022.

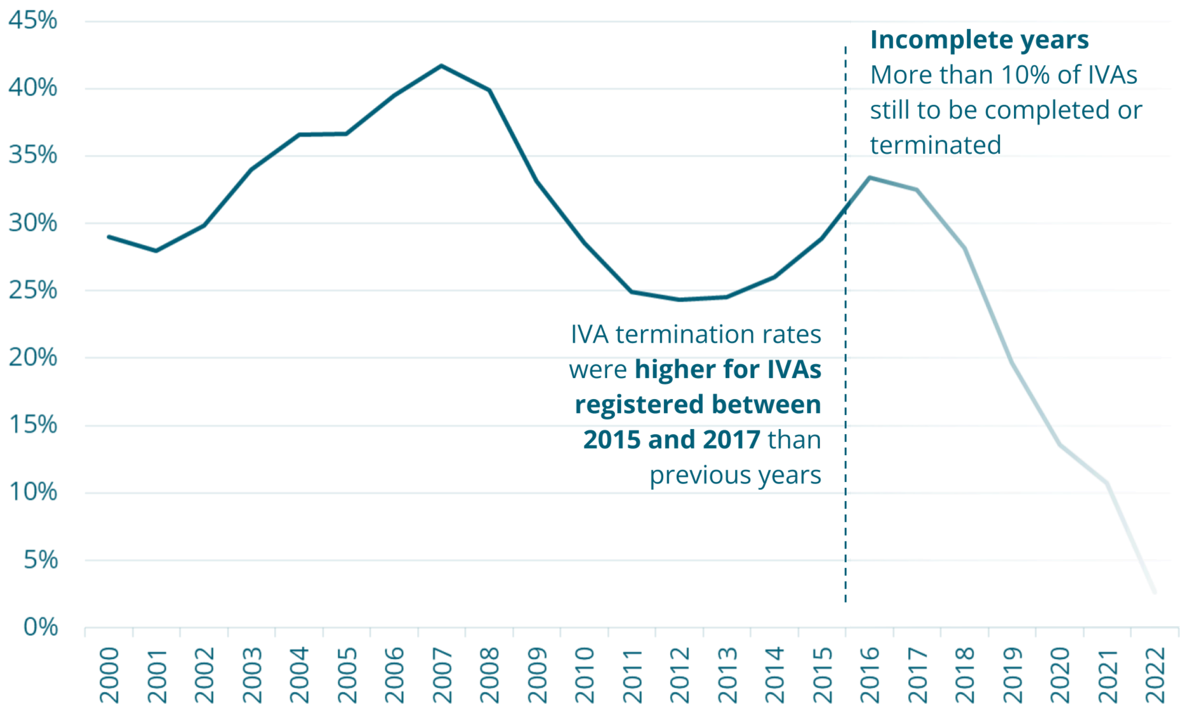
[12] INSS, Call for evidence: Review of the personal insolvency framework, 2022.

1. Why the IVA market needs fixing

IVAs - A risky fix

An IVA is a legally-binding agreement between an individual and their creditors to pay back a set amount of debt - usually monthly over 5 to 6 years.[13] Once an IVA is in place, creditors must stop charging interest and chasing for payments. Any debts remaining at the end of an IVA are written off, but only if it completes. If a person is unable to keep up with repayments, their IVA can fail.[14] Historically, between 25% and 42% of IVAs have failed before completion.

Figure 2. Percentage of IVAs terminated, by registration year



Source: INSS, Commentary - Individual Voluntary Arrangements Outcomes and Providers 2022, 2023.

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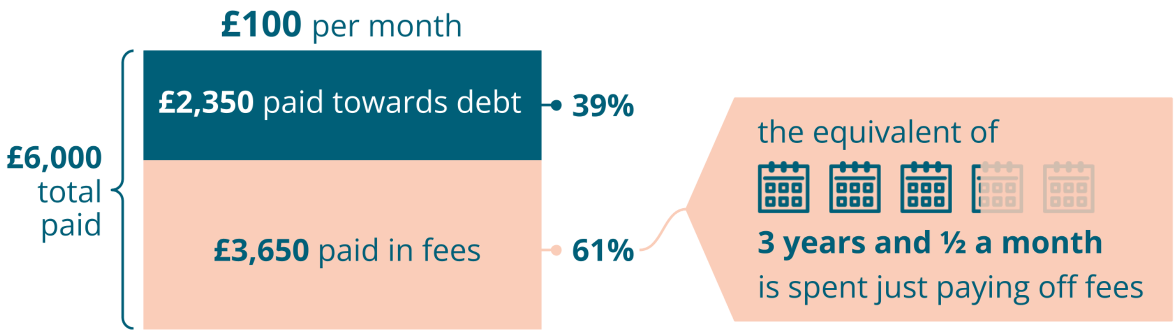
[13] IVAs were introduced through the Insolvency Act 1986. For more details see: L. Conway, House of Commons Library, Research Briefing: Individual Voluntary Arrangements (IVAs), 2021.

[14] Some flexibility, such as reduced payments or payment holidays, can be offered in response to unexpected life events or changes in circumstances, but these generally lead to an IVA being extended, meaning people are left paying back their debts for longer. Many people in an IVA do not realise that they can ask to pay less if their circumstances change. Furthermore, some variations involve fees and can in some cases be turned down by creditors.

Note: Because IVAs usually last between 5-6 years, termination rates for 2015-2021 are not yet known. The data so far for 2015-17 shows that rates are likely to be higher than in prior years.

If someone's IVA fails, they will again be liable for the full amount owed, minus any payments made to creditors, and will lose what they've paid in fees. Because IVA fees are so high - usually between £3,500-£4,000 - you can end up paying thousands of pounds into your IVA while only marginally reducing your debts.

Figure 3. Percentage paid towards debts compared to fees in a 5-year IVA with monthly payments of £100

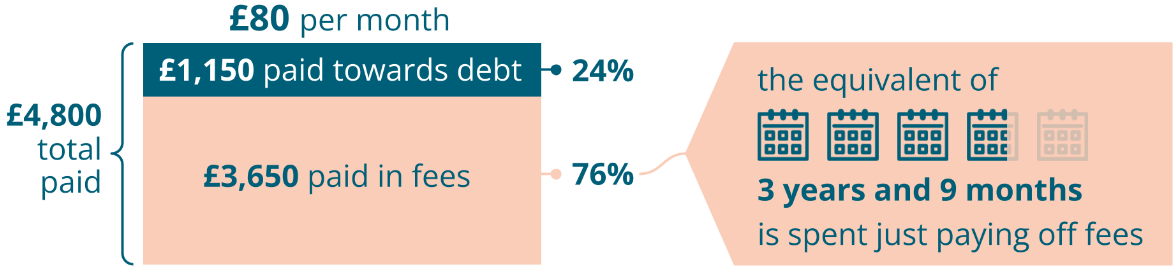


Note: A fixed fee of £3,650 per IVA is used by several of the largest IVA firms. Fees can be slightly higher or lower depending on the IVA provider.

In IVAs with low monthly payments - which is what our advisers often see - the share of payments that goes towards fees is significant. For example, someone whose IVA payments are £80 per month will pay approximately £4,800 into their IVA. However with typical fees of about £3,650, only £1,150 (less than 25%) of their payments will go to creditors. Since fees are generally frontloaded, if their IVA fails after a year or two, their debts will hardly have reduced at all.[15]

[15] See Annex 6, INSS, IVA Protocol 2021, Accessed: 8 February 2023.

Figure 4. Percentage paid towards debts compared to fees in a 5-year IVA with monthly payments of £80



This all makes IVAs much riskier than the other two personal insolvency options available in England and Wales: bankruptcy and DROs. IVAs are more expensive, last longer, require more debt to be repaid, and involve a higher risk of failing before debts are written off. They're also the only profit-generating remedy, provided on a commercial basis by private Insolvency Practitioners and firms.

Table 1. Comparison of personal insolvency solutions

	DRO	Bankruptcy	IVA
Debt write off	Full	Full	Partial
Duration	1 year	1 year (3 if income payments required)	5-6 years
Costs	£90 upfront application fee	£680 upfront application fee	£3,500-£4,000 over IVA lifetime
Profit-generating for provider	No	No	Yes
Qualifying criteria	Debts below £30,000; Assets worth less than £2,000; Surplus income below £75/month.	N/A (but must be 'insolvent')	N/A (but creditors for 75% of the debt owed must agree)

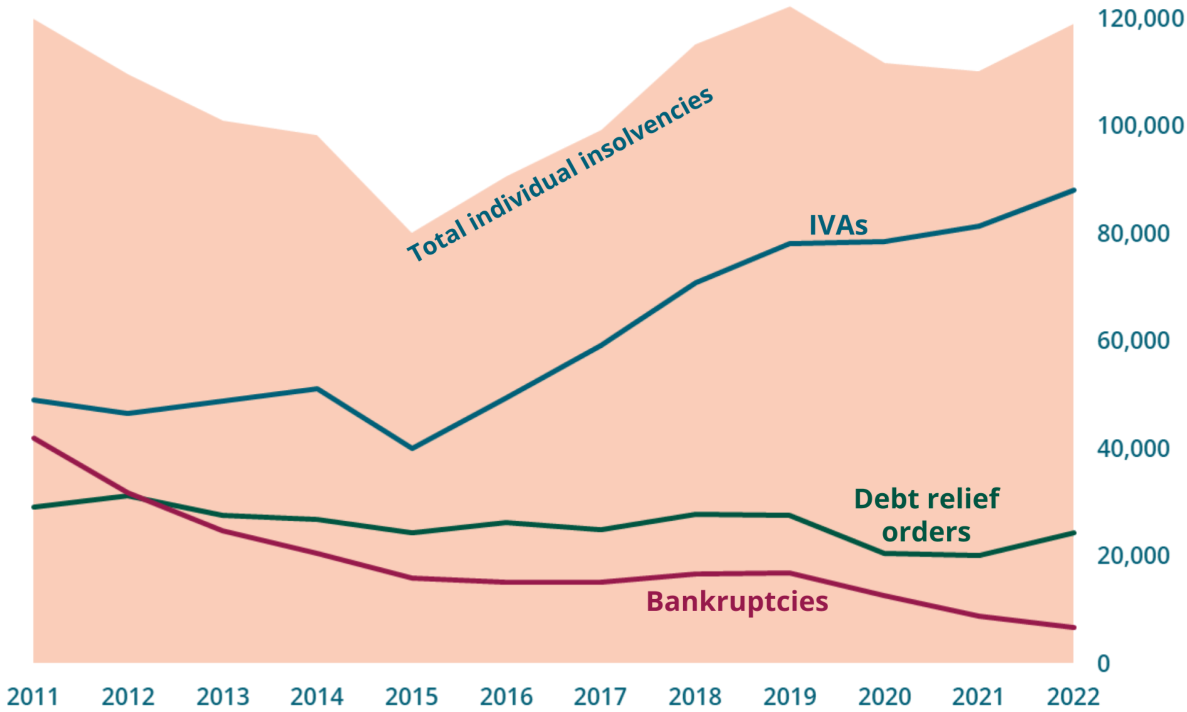
IVAs can work well for people with a regular long-term income that allows them to commit to the multi-year repayment period, and assets like a business or a home to protect from creditors. But for most people, their ability to keep up with payments can easily change over 5-6 years. This is especially apparent in the context of the cost of living crisis, where everything from soaring food and energy prices to rising mortgage interest rates are eroding people's finances. More worryingly, for some people we see in IVAs, the repayments were not affordable even at the time they entered the IVA. Given the huge implications and potential risks of an IVA, it's crucial that initial advice is regulated to a high standard.

The market has changed - but regulation hasn't

In the last two decades, the number of people in IVAs has exploded. Before 2003, there were fewer than 10,000 IVAs annually. This doubled within two years, and has since continued to grow exponentially, with nearly 88,000 IVAs registered in 2022.[16] IVAs are now the dominant personal insolvency solution in England and Wales, far above Bankruptcy and DROs.

[16] INSS, Commentary - Individual Voluntary Arrangements Outcomes and Providers 2022, 2023.

Figure 5. Number of IVAs compared to Debt Relief Orders and Bankruptcies in England and Wales, 2011-2022



Source: INSS, Commentary - Individual Voluntary Arrangements Outcomes and Providers 2022, 2023.

There are well-documented concerns that much of this astronomical growth is being driven by highly aggressive, profit-motivated selling.[17] To grow their business, IVA firms typically rely on intermediaries called lead generators - paying them per referral - and both IVA firms and lead generators aggressively market IVAs to people in debt.[18]

In this context, there should be strong safeguards to make sure people are getting good debt advice and not ending up in unsuitable solutions. But the way the IVA industry is regulated means this isn't happening.

- **Insolvency regulation isn't independent from the industry.** Most debt advice is regulated by the FCA, but pre-IVA advice is exempt. Instead, licensed Insolvency Practitioners - working within IVA firms - are regulated by membership bodies, who are regulated by the Insolvency Service. Membership bodies set standards, including on the advice given, but our

[17] INSS, 2018 Annual Review of Insolvency Practitioner Regulation, 2019; FCA, The Woolard Review - A review of change and innovation in the unsecured credit market, 2021.
[18] FCA, Debt Packagers: Proposals for New Rules, 2021.

evidence suggests this form of self-regulation doesn't provide enough protection for consumers.[19]

- **Insolvency regulation doesn't cover the industry's main players.** In the past, Insolvency Practitioners were often owners or partners in IVA firms, but as the market has grown, they are now more likely to be employees with little or no say over governance and controls.[20] These firms are often large 'volume providers' that set up and process thousands of IVAs each year. Each Insolvency Practitioner is nominally responsible for an average of 3,500 cases each at the largest 5 companies (see table 2), meaning they have little personal involvement in individual IVA cases. Volume providers themselves aren't directly regulated within the existing insolvency framework - only the Insolvency Practitioners - despite being the driving force within the industry.
- **Insolvency regulation doesn't do enough to protect consumers.** While FCA regulated advice has to be in the consumer's best interest, an IVA provider must only be satisfied that an IVA is 'achievable' and that it strikes a fair balance between consumer and creditor interests. An IVA provider should give information about all the potential debt relief solutions available, but it is assumed that consumers can make an 'informed judgement' about whether or not to proceed with an IVA. In practice, many people - especially when they're struggling with the stress and anxiety caused by being in problem debt - aren't well placed to make this decision. They often don't have the specialist knowledge needed and can't easily assess the quality of the information they've been given.[21] Without the protection provided by FCA regulation, there's a high risk that someone will end up in an IVA when it's not the most appropriate solution for them - either due to outright mis-selling or because their interest wasn't at the centre of the process.

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[19] Steps have recently been taken to update some of these standards to improve practice across the sector. See for example the Insolvency Practitioner Association's Volume Provider Regulation Scheme, 2019, and the new Statement of Insolvency Practice 3.1, in force from 1 March 2023.
[20] INSS, Monitoring Volume Voluntary Individual Arrangement and Protected Trust Deed Providers, Accessed: 8 February 2023.
[21] Debt advice is seen as a 'credence good', meaning it's difficult for a consumer to assess the quality of the advice even after it has been received. See FCA, Debt Packagers: Proposals for New Rules, 2021.

Table 2. Number of new IVAs relative to the number of Insolvency Practitioners (IPs) at the 5 biggest IVA providers

IVA Provider	Number of IPs named on website	Number of new IVAs registered in 2022	New IVAs registered per named IP
Creditfix	7	21,373	3,053
Financial Support Systems	5	8,599	1,720
Anchorage Chambers Limited	3	8,329	2,776
The Insolvency Group Ltd	3	8,202	2,734
Hanover Insolvency	2	6,001	3,001
Average number of IVAs per IP at 5 biggest IVA providers			**2,656**

Sources: For the number of IVAs processed in 2022 by provider, see INSS, Commentary - Individual Voluntary Arrangements Outcomes and Providers, 2023. For the number of IPs per IVA provider, see the websites of each firm (Accessed: 28 February 2023).

A perfect storm for people in problem debt

At Citizens Advice, we're seeing the risks presented by IVAs, and the gaps in regulation of advice, are causing significant harm to people in debt. Our advisers are sounding the alarm that too many people are being set up in IVAs that aren't appropriate or sustainable. There are various factors that can influence the choice of an appropriate debt remedy. However, an IVA is very unlikely to be an appropriate option for someone with these scenarios:

1. **A very low or insecure income.** A person's income must be high and steady enough to allow them to afford IVA repayments and maintain a reasonable standard of living over the IVAs duration. The IVA Protocol

states that where someone's income is “solely made up of benefits or state pension, an IVA is very unlikely to be a suitable solution”.[22]

2. **Low levels of debt.** Due to the level of IVA fees, another debt option is likely to be more suitable for someone with low levels of debt.[23]
3. **A foreseeable change in circumstances** that will significantly affect income or expenditure, such as a pre-existing health condition affecting ability to work.
4. **No assets to protect.** An IVA can be a good option for someone who wants to avoid having to sell their home, vehicle or other assets. However, if there are no assets to protect, a DRO or bankruptcy is likely to be quicker and cheaper.

Often, when we see people in failed or unsuitable IVAs, their cases include a combination of the above factors. Here are 3 real-life cases[24] from our advisers:

[22] INSS, IVA Protocol, 2021

[23] The IVA Protocol 2021 states that, for an IVA to be suitable, a person's debts should be above £5,000. Citizens Advice says an IVA may not be suitable for someone with debts below £10,000.

[24] Names and any identifying characteristics have been changed.

This is **Helena** - it's likely that a DRO would have been a better option for her than an IVA. This is because she has less than £75 left at the end of the month and no assets to protect. Her **only income is from Universal Credit and Child Tax Credits**.

£1,090.33 income - benefits only
Universal Credit and Child Tax Credits

£63.02 monthly surplus

£1,027.31 expenditure

£6,630.00 **debt**

Assets: none

This is **Priyanka** - her IVA ended up being unaffordable because her **Personal Independence Payments (PIP) were incorrectly included as spare income** in her IVA assessment. PIP should be earmarked for specific costs related to disability and/or a health condition. A DRO would have been a better option.

£2,564.16 income - benefits only
PIP, child benefit, ESA, Carer's allowance, LHA, Council Tax support

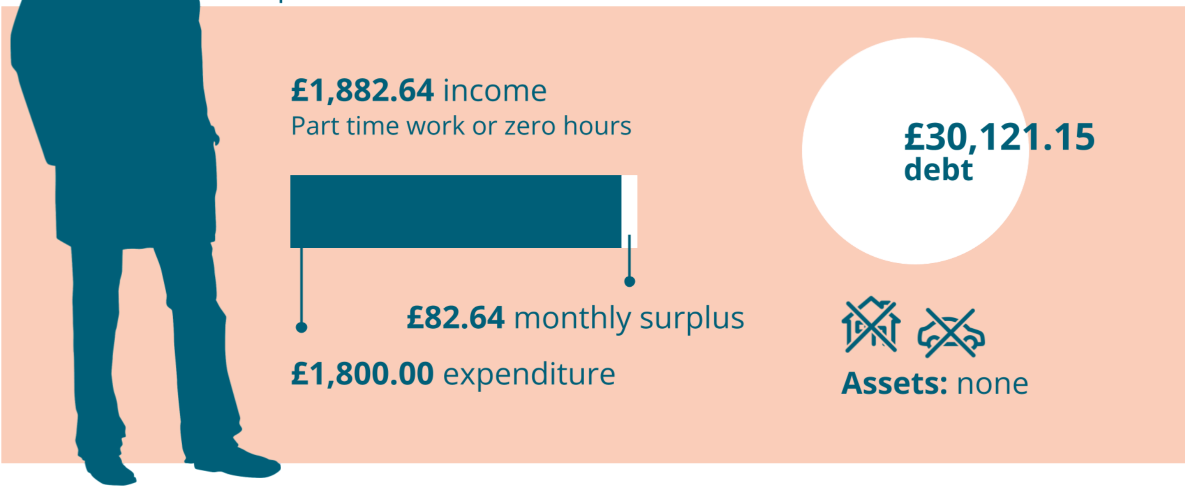
£66.08 monthly surplus

£2,498.08 expenditure

£12,190.25 **debt**

Assets: a car

This is **Keith** - he is on a **low and irregular income** and can't afford regular IVA payments. He also can't get a DRO because his **debts are over £30,000**. Bankruptcy may be the best option for him.



2. The harm caused by unsuitable IVAs

People who end up in a debt solution that doesn't fit their needs can experience significant harm. Where this debt solution is an IVA, they are either left to struggle - sometimes for years - with payments they simply can't afford, or their IVA fails and they are left thousands of pounds out of pocket in fees without getting the debt relief they so desperately needed.

> The IVA has left our client without enough to live on. She is unable to buy food and top up energy as well as maintain IVA payments.
>
> - Citizens Advice evidence Form, August 2022

Pushing people into financial hardship

Where IVA repayments are unaffordable, people can end up in serious financial hardship, forced to cut back on essentials like food and energy use to keep up with repayments. We found that **46% of people who were or had been in an IVA had to cut back on everyday essentials to afford their repayments**, while 26% said they had to go without them. Financial hardship inevitably affects the whole household, including people's children.[25]

> It makes you prioritise between things that are essential. You have to decide if things are 'essential essentials' or 'optional essentials' - the situation that lots of people are facing now in terms of having the heating on or eating, that sort of thing.

> We had vouchers for food banks, it was horrendous. And seeing your children - their friends have lunch and they have a sandwich and a banana for them both to share.

Even if people manage to scrape by day-to-day, sudden and unexpected expenses are often unmanageable: **42% of people who were or had been in**

[25] We carried out interviews with 26 people who were or had been in an IVA in the past 8 years. See Methodology section for more details. All direct quotes from people in IVAs throughout the report have been taken from these interviews.

an IVA said their repayments left them without enough money for unexpected essential costs like a car breaking down or needing to buy new school shoes.

> With what's left we buy what we can for food and there's no money after that, so you just try to get by.

This lack of a financial safety net creates a constant sense of anxiety, with clear impacts on wellbeing: **52% of the people we surveyed said their IVA has had a negative impact on their mental health**, while 35% said it has had a negative impact on their physical health.

> We have to make a one-week shop last for two weeks. I'm too scared and worried about if we miss a payment on the IVA - what happens? It's difficult sometimes to find the money for the IVA because other things have to be missed to make that payment.

The cost of living is making all of this worse. Over a quarter of the people we asked who are currently in an IVA are having difficulty making their IVA repayments as prices continue to climb - and nearly two thirds are worried they won't be able to keep these payments up as time goes on. People with ongoing IVAs have often already made significant sacrifices and cut down expenses to an absolute minimum, so there is very little else they can do to reduce outgoings.

Annie's story[26]

Annie is a single mother of one, and works part-time. She had been in debt for 3 years when she had her details passed onto an IVA provider. She **just wanted to get rid of her debts** and **reduce her stress about creditors at her door**, so agreed without investigating other insolvency options or receiving independent debt advice.

One month into her IVA, she began falling behind with payments. She found it incredibly difficult to manage the payments - she had to **"sacrifice**

[26] This and the other named stories reflect the experiences of people interviewed for this report who are or have been in an IVA in the past 8 years. All names have been changed. See Methodology section for more details.

everything" to make the payments, **borrowing money** from family and **sticking only to the essentials.**

Annie hoped an IVA would improve her situation, but ultimately it made things worse and she ended up **struggling with her mental health, and needing to take antidepressants.** She recalls the impact that struggling with **IVA** payments had on her health and mental wellbeing: **"I was just really low, miserable all the time. You feel like a failure."**

She eventually got her IVA terminated after a difficult, drawn-out process with her provider - ultimately deciding that a DRO was a better option for her after speaking with Citizens Advice.

Trapping people in debt for longer

When you can no longer keep up with your repayments, your IVA can fail. Even after several years of repayments, a failed IVA can bring you back to square one as your debts are only written off if your IVA completes. A failed IVA means you are again liable for the full amount of debt owed, minus any payments made to creditors. Often, especially in a 'low-value' IVA, a significant portion of repayments will have gone towards fees - which you do not get back - and very little will have been paid towards reducing your debts.

> Our client has been paying into an IVA for 4 years. All her payments appear to have gone towards the IVA fees, without reducing her debts at all. Her debts are now over £30,000, so she isn't eligible for a DRO anymore - and is being forced to look at bankruptcy instead.
>
> - Citizens Advice evidence form, February 2022

Over a third of the people we surveyed told us their IVA had a negative impact on their debt levels, and over a quarter said they had to borrow more money to keep up with their payments. If people are borrowing to make repayments and then their IVA fails, they will owe even more money than they did before.

David's story

David - a married father of three - found himself in debt for the first time after starting his own business, which unfortunately failed. He **didn’t know which debt-relief options were available** or where to seek advice - so when he saw a Facebook advert for IVAs, he **placed trust in an IVA provider**.

His **income assessment was inaccurate**, as his provider took his benefits into account and used his previous salary. His IVA ended up being **completely unaffordable**, so he had it terminated - **“They took an amount I couldn’t afford at all and at that point I ended it...I couldn’t look after my own family.”**

He’s now in an **additional £4,000 of debt**, and, despite now knowing about DROs through Citizens Advice, **doesn’t want to pursue this or any other debt relief options, as he has lost faith that they could work for him.**

3. Journey into an IVA

People searching for debt help are often at crisis point, having spent months or even years trying to repay their debts, but being unable to do so. When we spoke to people who were or had been in an IVA, they told us they felt high levels of stress, anxiety and distress when searching for a debt solution.

> I was so unwell with it. I was anxious, I felt sick every time a letter came. Every time there was a knock at the door I was scared - I didn't answer the door. I didn't want to even go out, just in case anyone saw me. I was scared. I was genuinely really scared that whenever a letter came through the door, there's something else that's got to come out. How on earth am I going to feed the children?

In this situation, people struggle to navigate the complex debt options available and are highly vulnerable to being misled. What they need is clear information about the options available and advice they can trust is in their best interest. But in reality many people find themselves on a different journey - targeted by aggressive advertising, or misled by poor advice.

Figure 6. An example IVA journey highlighting some key issues

At crisis point, looking for debt help.

Targeted online by IVA ads. Many are misleading and make unverifiable claims.

Initial 'advice' session with an IVA provider or lead generator. Both have a strong commercial incentive to recommend IVAs.

Suitability assessment session with an IVA provider. Focus is on IVA viability, not finding the best debt option.

Monthly payments into an IVA for 5-6 years. Fees make up a large share of these payments.

If the IVA completes, remaining debt is written off. If the IVA fails, you're often back to square one.

IVA websites and adverts: selling a false promise

Many people initially look for debt help online. In a typical internet search, websites and advertisements for IVAs crowd out most other debt options, as well as sources of independent advice. IVA ads are also pervasive on social media.

> I did seek help online, looking for myself, and trying to help myself get out of that rut. That's pretty much all I found online, was an IVA.

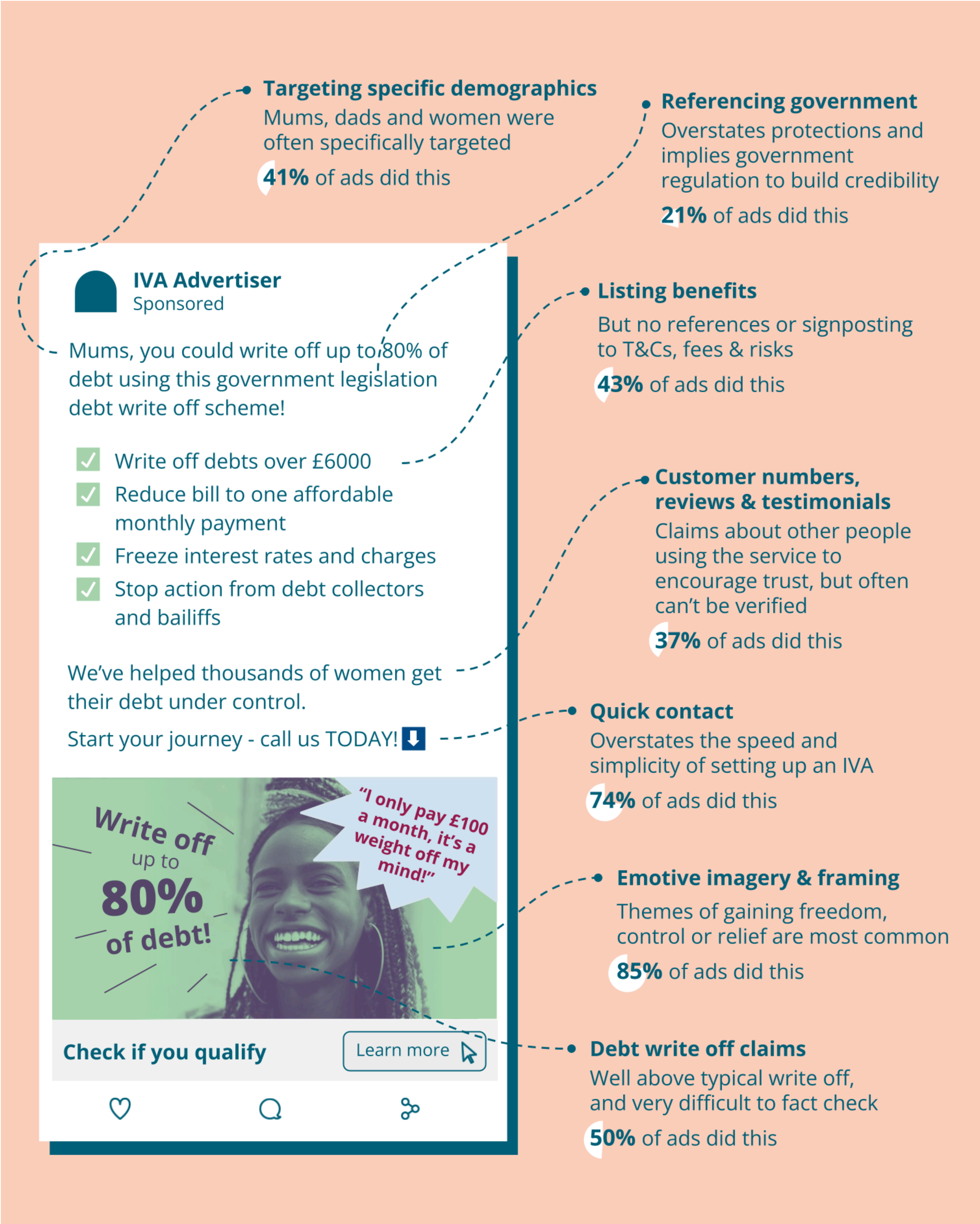
> Even on my Facebook profile, it would come up as an advert - that there's IVA's. [...] It was constantly everywhere after I'd been searching for it.

To better understand the role adverts play in shaping people's understanding of IVAs, and their journey into them, we analysed key messages and features of IVA ads. We looked at IVA adverts active on Meta's social media platforms (Facebook and Instagram) because they were open access and we heard from interviewees that they regularly saw ads on these platforms.[27] The adverts came from a range of companies - directly from IVA providers and also from third-party lead generators.

We found that many adverts shared similar harmful practices: appearing to offer impartial advice, failing to mention risks and fees, making unverifiable claims, and using demographic targeting. Here is an illustration of a typical IVA advert on social media:

[27] The adverts sample was collected using Meta's Ad Library, a publically available database of adverts on Facebook and Instagram. Based on 62 unique IVA adverts live on 2 November 2022. See Methodology Section for more details.

Figure 7 - Blueprint showing typical features of a social media IVA advert



Note: The content is based on common features of 62 IVA adverts on Meta in November 2022.

Adverts appear to offer impartial, government-backed debt advice, but are actually selling IVAs

We found that IVA adverts are often misleadingly framed, so that they falsely appear to be offering free debt advice, have government association or backing, or an affiliation with a known charity. Of the IVA adverts we analysed:

- **64% did not explicitly mention IVAs**, and those that did often hid it in the small print.
- **17% had 'advice' in the company name**, but were not in fact authorised by the FCA to provide debt advice.
- **17% referenced government legislation or regulation**, for example referring to an IVA as a 'government legislation backed debt relief scheme'.
- **11% used names that emulate charities.**

The risk is that people who see these adverts assume they are getting free and impartial advice when they are, in fact, being sold an IVA by a commercial provider. The references to advice, charities and government collectively create a false sense of trustworthiness in a context where people often feel overwhelmed by the number of adverts and providers they see.

Many people who have been in an IVA said they did not know which company to go with or how to judge who is credible. Many recalled language from adverts that referred to IVAs as being 'government backed' or cited the involvement of 'industry experts', saying that this affected their behaviours and choices.

Kate's story

Kate found herself in debt following a period of serious illness which negatively impacted her household finances.

She found the pressure from handling different creditors stressful, and didn't know what debt relief options were available to her. **She looked online, and found herself on an IVA provider website when clicking through to "a government page for help".**

She filled out a questionnaire and had a call with an IVA provider, but **found the mass of information on the website and in the assessment confusing**. She trusted the IVA company as they made it sound easy and straightforward, but felt **she didn't fully understand her options or the**

details she was being told about the IVA. They told her to use her overdraft as part of her income, and as a result her IVA payments were unaffordable.

Kate has since terminated her payments, and regrets taking out the IVA - she's now more stressed and in debt than she was previously - **"... I get a bit angry with myself that I let these people take over and I'm in more debt than I was at the beginning - I'm in a worse mess."**

IVA adverts offer a quick fix, but rarely mention fees and risks

People in need of debt help are often under serious stress, dealing with urgent financial worries, which can make it harder to think about long term considerations. Emphasising immediate benefits, particularly relief from stressful contact from creditors, encourages people to make quick and emotive - rather than considerate and deliberate - decisions.[28]

The majority of adverts (74%) highlighted the immediate benefits of IVAs, and emphasised a quick sign-up process. A significant number (29%) specifically claimed to offer swift relief from bailiffs or debt collection agencies. **This focus on immediate relief is at odds with the serious and long term 5-6 year commitment that IVAs represent.** It is also not necessarily accurate to the experience of setting up an IVA.

While these benefits were emphasised, there was very limited information on risks - **43% of adverts did not mention fees apply, any risks, or even eligibility criteria for IVAs**. Very few (only 8%) signposted people to more detailed information.

People looking for more information about fees directly from IVA providers are unlikely to find it on their websites either: **38% of the top IVA provider websites did not explain fees on their webpages, and only a quarter had a full breakdown of typical fees** (such as the total fees, how much of the regular payments go towards IVA fees, and how fees are distributed over the course of the IVA).[29] Instead, people are encouraged to get in touch to find out more.

[28] K. E. Stanovich and R. F. West, 2000, 'Individual differences in reasoning: Implications for the rationality debate?', Behavioral and Brain Sciences, Cambridge University Press, 23(5): 645–665.
[29] The top IVA providers were selected based on new IVA registrations data from: INSS, Commentary - Individual Voluntary Arrangements Outcomes and Providers 2021, 2022.

Adverts feature a range of unverifiable claims

Adverts often prominently featured bold claims about becoming debt free or writing off large proportions of debt, but the truth of these claims is hard to verify. **Half of the adverts (49%) used an upper estimate of debt write off e.g. 'write off up to 80%',** ranging from 72% to 90%. Yet, there is little publicly available information to support these claims.

Claims about potential debt write off seemed to capture people's attention and stick in their memory:

> [A]s I was thumbing through Facebook, it just went, 'Are you still in debt? Are you a dad over the age of 25?'. It said, 'Oh, we can write off 80% or all of your debt', and I was like, 'Oh, okay'.

Given the volume of IVA adverts repeating this claim - on websites and search results as well as social media - it sets a misleadingly high expectation.

Personalisation and demographic targeting help pull people in

IVA advertisements often target specific groups such as parents or families. This is concerning because it can falsely imply that an IVA is especially well suited to someone's circumstances, when it may not be. Of the ads we reviewed, 41% used demographic targeting - aimed mainly at women and families - in their branding, caption, and images. For example, **1 in 6 ads (16%) targeted families, and a number of companies included variations on 'mums' and 'dads' in their brand name.**

Many adverts (37% in our sample) also use features like testimonials and case studies to personalise and target their content, and review scores to show positive customer experiences. These features are often combined - for example, by claiming that they have helped thousands of mums get debt free.

People dealing with debt can feel isolated and stigmatised, so suggesting that someone like them has found help can be extremely effective. People we interviewed noted that the use of testimonials from 'normal' and relatable people that spoke directly to their own experiences created a feeling of being seen and understood, and a sense that an IVA was right for someone like them.

John's story

John ended up in around £20,000 of debt following a relationship breakdown. He was very stressed and **wanted to "take responsibility" for his debts**, so started searching online (including on social media) for support.

He found an "agency" just for dads, who he describes as being sympathetic and friendly at first. They told him the IVA was the best option for him, framing bankruptcy as "severe". John feels they "lured" him into the IVA - "**It all felt a bit like a sales pitch** [...] **they preyed on me when I was vulnerable**, selling me something when I was just trying to be responsible."

While his IVA was being set up, his child support payments were increased by £200, but **he was told not to disclose this** as it would be taken into account later. It never was, and this contributed to his payments being unaffordable.

John had to take on a second job and borrow from friends and family to make ends meet. He has "nothing but regrets" about taking out an IVA.

Bad ads give people a skewed view of IVAs and IVA advice

Targeting people in debt with misleading ads skews their view of IVAs - who they are for, what they can achieve and at what cost - and sets false expectations of the advice and support provided by IVA providers and intermediaries.

Issues with IVA advertisements and websites are well recognised. The Insolvency Service published enhanced guidance in response to concerns about lead generators in 2021.[30] More recently, the Advertising Standards Agency issued an Enforcement Notice for the sector as whole, as well as several rulings against specific IVA ads.[31] Google has taken separate steps to limit IVA advertisements by requiring anyone advertising debt services to be FCA regulated from January 2023.[32] Despite these actions, many IVA adverts still slip through the net and fall well below expected standards.

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[30] INSS, Guidance on monitoring insolvency practitioners: Advertisements, marketing and debt advice, 2021. Accessed: 21 February 2023.
[31] ASA, Enforcement Notice: Debt Management (IVA/PTD) Ads by Insolvency Practitioners and Lead Generation Companies, 2022; ASA, Search by 'IVA', filter by 'ruling', Accessed: 8 February 2023.
[32] Alison Lomax, Google, The Keyword, 'Continued investment in measures to help fight financial fraud in the UK', 2022.

While regulating and monitoring the content of IVA ads is important, it needs to be paired with effective regulation of pre-IVA advice so that people get impartial support to cut through the confusing online landscape, and find the right debt solution for them.

Initial advice and assessment: insufficient protections

Once someone has clicked on an IVA ad and shared their details, they will usually be contacted for an initial advice session and a suitability assessment. However, the customer journey is often confusing and inconsistent, with patchy protections around the quality of advice. Anyone going into an IVA will eventually speak to an IVA firm, at which point certain standards apply.[33] But, in the meantime, they may also have contact with one or more lead generators, who collect information from potential customers, which is then packaged up and sold to IVA firms. Lead generators are not covered by industry advice standards, so it is up to IVA firms to make sure customers passed on by lead generators have not been misled about their options and that an IVA is, in fact, appropriate and sustainable.

The guidance around pre-IVA advice and assessment states that clients should receive information about all the available debt options so they can make an informed decision about whether an IVA is right for them. This should - at a minimum - cover the advantages and disadvantages of each available option; the likely duration and cost of an IVA; the consequences of entering into an IVA; and what happens if an IVA is not successfully completed. A client's personal and financial circumstances should also be thoroughly checked to make sure the IVA is 'viable'. However, we've found that the current approach to regulating this pre-IVA advice is not sufficient to protect people from harm.

Misleading advice: pushing people towards IVAs

Testimony from our clients, advisers and interviewees show that there are significant issues with the initial advice process. **Half our interviewees felt that they didn't get all the information they needed before going into an IVA.**

[33] Standards for Insolvency Practitioners are set out in a series of guidance notes called Statements of Insolvency Practice (SIPs). The New SIP 3.1 - effective from 1 March 2023 - includes updated guidance on the initial advice and assessment processes. These standards apply by extension to IVA firms.

Many felt they were heavily sold on the benefits of an IVA, with very little mention of the downsides - such as how much they'd pay in fees.

In several instances, IVAs were presented as the only viable option, with DROs and bankruptcy either not mentioned at all, or misleadingly portrayed. These are not isolated incidents - according to a sector-wide survey, **72% of debt advisors often see IVA cases where the client has not been given advice on alternative debt options**.

> It was the only option given to me, so I felt I had nothing else to compare it to. That was all I had so I had to be happy with it.

> They were basically saying, "Well if you don't take it out there's nothing else anyone can do for you and you'll end up [with] bailiffs at your house. This can stop it."

When looking at examples shared by frontline advisers at Citizens Advice, we found that **45% show people receiving misleading information about other debt solutions**.[34] Several people we interviewed had been wrongly informed that a Debt Relief Order involves a much higher level of surveillance than an IVA.

> The DRO seemed more strict. It was like if you had a certain amount of money left at the end of the month – if you have more than a certain amount of disposable income - they would take that away. They do a review of you every single month. If I can't prove that I need to be on it, am I back to square one?

> The DRO was going to be my favourite option until they said how much they look into your bank statements. If you went to Tesco's twice in a week, they'd ask why. It felt intrusive.

Interviews also show that pre-IVA advice regularly plays into the stigma and negative preconceptions that are widely held about bankruptcy. These perceptions should be actively corrected, but instead we saw them encouraged.

[34] We analysed 119 IVA evidence forms submitted by our advisers in the six months from 1 April 2022 to 30 September 2022. Each case features some form of poor practice in the opinion of the adviser submitting the report. See Methodology section for more details.

> I did [feel pressured to take out an IVA] because the word bankruptcy was brought up a lot and that was my biggest fear. [...] When I think about it, I think that's a kind of ploy, because that's like the bogeyman.

Accurate and full information about IVAs and alternative debt options matters because without it people cannot make informed decisions, and they may miss out on a more suitable debt option. In more than a quarter of the IVA evidence forms we analysed, advisers specifically noted that they believed their client would have been eligible for a DRO - a quicker and cheaper way of dealing with their debts - at the time of entering their IVA.

> Our client spoke to an IVA company who advised her that an IVA would be the most suitable option to deal with her debts. She wasn't advised that she would be eligible for a DRO which would clear her debt - and said this option was never explored at all.
>
> \- Citizens Advice evidence form, March 2022

Manipulating the suitability assessment: making the shoe fit

Before an IVA is set up, the provider should carry out a thorough income and expenditure assessment to ensure affordability, and a check for vulnerabilities or foreseeable changes in circumstance that could impact whether someone can keep up with their repayments. But we're seeing evidence of problems here too.

The IVA Protocol, which is endorsed by all insolvency regulators, explicitly states: "Where the consumer's income is solely made up of benefits or the state pension, an IVA is very unlikely to be a suitable solution".[35] Yet, **66% of debt advisers often see cases where a client had a low income or benefits-only income at the time of entering into their IVA**. On top of this, almost half of the evidence forms we looked at involved clients on a low income, including people in very low-waged employment and students. In more than 1 in 5 cases, advisers specifically stated that the client's income was solely from benefits.

[35] INSS, IVA Protocol 2021, Accessed: 8 February 2023.

Our client says that she was accepted into an IVA with [IVA provider] whilst her only income was from benefits. Now her income has reduced even further due to losing tax credits/child benefit as her son has moved on to University. She asked her IVA provider to reduce her payments but they won't consider this. Now perhaps facing bankruptcy and wants a DRO.

- Citizens Advice evidence form, January 2022

It is clear from the sheer number of people we see in unsuitable IVAs that income and expenditure assessments are not being carried out appropriately. This is also what advisers on the frontline are explicitly telling us: **64% say they often see cases where the assessment for an IVA exaggerated a client's real surplus income, making it more likely to fit an IVA.** More than a third of people we interviewed said they had been advised to change their income and expenditure figures as part of their IVA assessment process.

> They'd mess about with the figures to make it work – I wasn't happy with that but I trusted them...looking back I should have questioned it but you don't when you're in the situation.

> It wasn't accurate. There were a few things they told me to increase or decrease to assist with the claim. I can remember it wasn't accurate because I think if it had been accurate, it would've left me with less than £50 a month spare. Whereas, by [adding] a few little increases or decreases in values, it left me with £75 a month spare.

Several participants had money that should have been excluded from the assessment incorrectly counted as income. For example, benefits that should have been ring-fenced for housing or disability, their partner's income, fuel allowance, and mileage payments for work.

> I remember the person I spoke to from [IVA provider] - he was very helpful but he didn't fill in all the figures, he was quite vague. I'm looking at it now and he didn't put everything in. It basically conveyed what I had, including housing benefit, which I don't get paid directly - it goes directly to the council.

They added fuel allowance and PIP [Personal Independence Payment] onto my wages as income - wrongly - and said I wasn't eligible for a DRO because of it.

Julia's story

Julia lives with her husband and two young children. Her son was ill when he was born, and she fell into debt after using a credit card to pay for their essentials at the time. She's currently unemployed, having left her job because of ongoing mental health problems.

She found the rising debts, phone calls and letters from creditors very stressful, and just wanted someone else to handle everything. She couldn't afford the upfront fee for bankruptcy, so instead had to look into an IVA.

Her IVA provider took her husband's income into account despite all debts being covered by her, as **her only source of income was Universal Credit** - "They kind of misled me that the IVA was based on a household but then it was only coming to me - having Universal Credit taken out as an income doesn't feel right... it wasn't really spare cash."

To afford her IVA payments, Julia had to use **food banks**, and **ask her family for financial support**. One year into her IVA, she terminated her payments, and, after receiving advice from Citizens Advice, entered into a DRO - **"After I'd done my DRO I actually slept for the first time in a really long time."**

Beyond information and viability checks: the need for proper advice

It is important that people get the full and correct information about different debt options, and that IVA viability checks are done properly. But, crucially, this alone is not enough to prevent unsuitable IVAs. Most people - let alone someone under significant pressure and stress from being in problem debt - will need help and specialist knowledge to weigh up the different debt options and choose the one most suited to them.

Of the people we interviewed, 2 in 5 said they were not in the right frame of mind to make a decision about entering into an IVA when they were searching for debt help. Others described feeling overwhelmed by the complex information they were receiving, and being unable to process it.

> I wasn’t in the right headspace to make that decision at the time, I was scared people would show up at the door.

> It was over my head [...] because it was so much info that they were throwing at me. I had to agree to pages and pages. I’d look at that bit, and as long as it said ‘yes, you’ve been accepted’, to be honest I didn’t take it in.

Many expressed a strong willingness to trust lead generators and IVA providers, and to put faith in their expertise. They assumed they were being given advice in their best interest.

> I trusted them, because obviously they're in that line of work - they must know what they're doing.

People in debt crisis should be able to count on the advice they’ve been given being accurate, and in their best interest. The government needs to bring pre-IVA advice under the FCA’s regulation to make sure this happens.

4. Ending the two-tier regulation of advice

> It would be massively helpful [if people got full debt advice]. The full advice on what was best for them, the benefits on what was best - an IVA or DRO. I didn't know anything about it. I just needed help and had to take the consequences on the chin. To have the full advice would be amazing; no one would get into the situation I was in.

Why the regulation of pre-IVA advice needs updating

The problems outlined in this report aren't new. Debt advisers have been sounding the alarm about unsuitable IVAs for years. The Insolvency Service, the FCA and the government have all recognised that action needs to be taken, but they haven't tackled the root cause of the problem - pre-IVA advice.

The government has acknowledged that insolvency regulation needs to be modernised as the market has grown, proposing a single regulator and other reforms.[36] But this reform will take years, and will still not address the quality of advice given by IVA providers.

As we've seen, IVA firms aren't directly regulated, and Insolvency Practitioners who work within them are self-regulated. They are explicitly excluded from FCA regulation, unlike most other debt advice providers.[37] While they still have advice standards they have to meet, these aren't as effective at protecting consumers as those set by the FCA. Within the FCA's framework, firms are required to have regard to a customer's best interests and act to deliver good outcomes for customers. Insolvency practitioners, on the other hand, are expected to put customers in a position to make 'an informed judgement' about an IVA, while simultaneously balancing the interests of consumers and creditors.

We've seen that in practice this can result in people being mis-advised to enter an IVA when a different solution might have been more appropriate. In the context of the cost of living crisis, this can't go on any longer. Ensuring anyone who goes into an IVA receives full advice from an FCA-regulated firm first would

[36] INSS, The future of insolvency regulation, 2022.

[37] Other than Insolvency Practitioners and IVA firms, the only really significant exclusion is for local authorities. This exclusion is not problematic since there are no commercial incentives to contend with and no evidence to suggest poor outcomes from local authority debt advice.

provide much better protection for consumers - so they can trust they're getting advice in their best interest, and have rights to recourse if things go wrong.

To do this, the government should bring pre-IVA advice under the FCA's regulation. In practice, this would mean that IVA firms can either seek FCA authorisation themselves, or work with existing FCA regulated debt advice providers.[38]

Recommendation

The Treasury should bring pre-IVA advice under FCA regulation so that it is regulated in the same way as other debt advice. This will increase protections for consumers in the IVA market and ensure that anyone going into an IVA will have received debt advice that they can trust is in their best interest.

To make this change in practice, the Treasury would need to amend the legislation that sets out who needs FCA authorisation to give debt advice, which includes an exclusion for Insolvency Practitioners acting in reasonable contemplation of an appointment.[39]

There is a precedent for this approach

When the FCA was created, there were serious concerns about debt management plan providers. The FCA's thematic review of the debt management sector identified major concerns with the quality of advice given, especially by commercial providers. Many of the issues identified there were the same as the concerns we and others have expressed about the IVA market, including that the "*advice provided was not always in the customer's best interests*" and the recommended solution was "*not always suitable, affordable and sustainable*".[40]

To address this, the FCA required debt management firms to apply for authorisation to continue operating. The sector has changed considerably as a result: a 2019 review found that FCA scrutiny and regulation has directly

[38] For these purposes, we regard local authority debt advice as equivalent to FCA-regulated debt advice. We do not propose that individuals who have taken advice from a local authority should be required to seek alternative advice.
[39] This would mean amending Article 72H of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001.
[40] FCA, Quality of Debt Management Advice, 2015.

improved the quality of the advice given, and changed company culture to be more focused on consumer outcomes.[41]

Similar action could help curb instances of poor advice in the IVA market. FCA regulation would set clearer standards for pre-IVA advice and raise the bar for consumer protection, especially with the coming introduction of the FCA's new Consumer Duty.

The government must act fast

We are already seeing too many people in unsuitable IVAs, and this number is only likely to grow. The cost of living crisis has put household finances under huge pressure and we expect 2023 to be the year that debts will reach crisis level. In January, the number of people Citizens Advice helped with debt advice was higher than before the pandemic, and the highest since March 2015.

Now is the time to get a handle on the IVA market - letting it run riot as more and more people are desperate for debt support is neither safe nor sustainable. Immediate, concrete and preventative action to bring IVA regulation into line is needed now, to avert an oncoming crisis.

[41] FCA, Debt Management Sector Thematic Review, 2019.

Methodology

This report pulls together data from several different sources:

1. **In-depth interviews**

Analysis of 26 in-depth qualitative interviews carried out by research agency Britain Thinks. The interviews were conducted between 14 September 2022 and 21 November 2022 with people who were currently in an IVA, or had been in one in the past 8 years. The interviews were conducted online and over the phone, and included a ‘pre-task’ where participants were asked to map out their IVA journey in advance of the interview, referring to any relevant paperwork or other documentation. Quotas were used to ensure a good spread of participants by age, gender, ethnicity, and IVA status (13 ongoing, 4 completed and 9 terminated), and to ensure people with disabilities and/or health conditions and with different housing situations (homeowners, social tenants and private tenants) were represented. All participants were living in England or Wales and all had struggled with their IVA repayments.

2. **Citizens Advice Evidence Forms**

Analysis of 119 evidence forms on the topic of IVAs submitted by local Citizens Advice advisers in the six months from 1 April 2022 to 30 September 2022. Evidence forms are summaries of real cases that advisers have seen.

3. **Polling of people who were or had been in an IVA**

A survey, conducted by Yonder Data Solutions, of 1,058 people who had been in one or more of the following debt solutions in the past 5 years: an IVA (727); Bankruptcy (129); and debt relief orders (330). The fieldwork was completed between 18 January 2023 and 31 January 2023. The survey was conducted online and data was weighted by age, gender and region to be representative of people in personal insolvency solutions based on demographic data from the Insolvency Service.

4. **Joint Money Adviser Survey**

A survey of 565 money advisers conducted jointly by Citizens Advice, Money Advice Trust, Stepchange Debt Charity, Christians Against Poverty, Institute for Money Advisers, AdviceUK and Community Money Advice. The survey was conducted online between 11 July 2022 and 31 August 2022. Of the 565 responses, 195 were from advisers working within the Citizens Advice network.

5. Content analysis of IVA websites and Meta's Ad Library

Analysis of the websites of the 13 largest IVA providers, and 62 IVA adverts on Meta's 'Ad Library' database, carried out by Citizens Advice researchers with research design support from the Behavioural Insights Team.

Meta's Ad library is a free open-access database of adverts on Meta's social media platforms - Facebook and Instagram. The sample was collected using the following search terms based on the most common search terms used to reached Citizens Advice debt advice webpages (accessed 2 November 2022): IVA, Debt, Debt repayment, Clear debt, Debt help, Personal debt, DRO, bankruptcy, bankrupt, bailiffs, financial advisor, IVA debt, debt advice, council tax, arrears, debt solution. We reviewed and collected all the unique IVA adverts available during the sample period across these search terms.

The websites of the top IVA providers were selected based on new IVA registrations data from the Insolvency Service's 2021 IVA Outcomes and Providers figures. These firms represent the vast majority of the market - 90% of new IVA registrations. The landing pages, contact webforms and the section of the website that describes what an IVA is (typically the FAQ page) of each website was reviewed (accessed 1-3 November 2022). Firms that have gone into administration or do not have a live website were excluded from the analysis.

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