Back to Square One

How poor debt advice is pulling people into inappropriate IVAs

citizens advice

Chloe Maughan, Jess Kleyn, Matt Vaughan Wilson, Eva Souchet

January 2025

Executive Summary

Individual Voluntary Arrangements (IVAs) are a type of fee-charging debt solution, widely marketed to people with unmanageable debts. But with around one third of IVAs collapsing before completion, leaving people in a worse situation than before they started, it has long been clear that too many people are being pulled into inappropriate IVAs.

Our previous report on this issue, Set Up to Fail, explored how this market is failing people in debt, and drew attention to how slippery marketing practices were being used to pull people into unsustainable IVAs.

This report provides up-to-date evidence on issues in the IVA market, and the impact of inappropriate IVAs. The findings are based on a survey of over 1,000 people who are currently in an IVA or who have been in one in the last 5 years, including those with terminated, complete, or ongoing IVAs. We report on how advice failings are widespread within the IVA market, finding that:

People are frequently being put forward for unaffordable IVAs

56% of people in an IVA had £75 or less leftover each month after paying for essentials

People are not being told about alternative debt solutions

14% of people in an IVA were not told about other debt solutions

People are regularly not being told key product information

66% of people were not told at least one piece of key information before entering an IVA

Too many people are not being given the right information about IVAs. Further to this, our research shows that worrying numbers of people are being pulled into IVAs where a more appropriate or less risky solution was available or where an IVA was clearly unlikely to be successful.

We found that:

1 in 5 people in an IVA had income made up from only benefits, making it unlikely that they could maintain payments for the full 5-year term of an IVA.

More than 1 in 5 (21%) people in an IVA would have met the eligibility for a Debt Relief Order, which would have offered a shorter and cheaper route out of debt.

15% of people were in a negative budget when they entered an IVA - meaning that not only would the IVA have no prospect of success but the payments could only be made through people cutting back on bare essentials.

These issues are driven by people not being given high quality debt advice covering all solutions, a failure of supervision to ensure compliance, and commercial incentives which create inherent conflicts of interest in this market. These issues are being exasperated by a messy regulatory regime that results in inconsistent advice standards and gaps between regulatory perimeters.

The failings in this market are driving a substantial amount of harm.

- Failed IVAs cost people in debt at least £48.8 million over a 5 year period in fees alone, with each person whose IVA failed losing on average £849.
- Inappropriate IVAs are pushing people into hardship: almost 1 in 4 people in an IVA went without everyday essentials, like food, energy, and toiletries, due to unaffordable arrangements.
- Worrying numbers of people are being plunged into further debt by inappropriate IVAs; almost one in three (31%) people in an IVA said their IVA has had a negative impact on their debt levels.

This research adds to a growing body of evidence that shows that issues in the IVA market are not isolated incidents but systemic bad practice, with recent research published by the Insolvency Service finding evidence of “poor take on” in over 60% of terminated IVAs. Our research builds on this picture, demonstrating that issues in the advice and information people receive before they enter an IVA are not just widespread among those with terminated IVAs, but are prevalent across the market.

Some changes are being considered in the IVA market, and debt solutions more broadly, through planned legislation to bring IVA firms into regulation, and through the Personal Insolvency Review. However, these changes will take time, leaving tens of thousands of people exposed to the risk of being pulled into inappropriate IVAs in the meantime.

Whilst we support ambitions for longer term change, it remains imperative that government and regulators take urgent action to fix this broken market and protect people from being driven into inappropriate debt solutions.

Recommendations:

1. **Drive up the quality of advice** - Government must ensure people are given independent and impartial advice before entering an IVA. This can be achieved by ending the IVA exclusion, which exempts Insolvency Practitioners from Financial Conduct Authority (FCA) rules on debt advice in certain circumstances.
2. **Strengthen supervision** - We support plans to bring IVA firms into direct regulation to give the Insolvency Service more power to set standards and take action against bad practice. Ministers must make passing the required legislation a priority. Meanwhile, the Insolvency Service and FCA should step up supervision efforts – driving increased compliance in the immediate term with all the powers they currently hold.
3. **Build an insolvency approach fit for the future** - In the longer term, the Personal Insolvency Review provides an opportunity to explore more fundamental questions and reform the suite of debt solutions to deliver better consumer outcomes. It's important this work continues at pace, but it must not be used as an excuse to delay changes that will help to prevent people from being drawn into inappropriate IVAs whilst longer term changes are being developed.

Contents

Introduction

Individual Voluntary Arrangements (IVAs) are one of a range of debt solutions available in England and Wales. They are currently the most common type of personal insolvency, making up 57% of personal insolvencies in the 12 months up to 30 September 2024.[1] But for years we've been concerned about high numbers of people being pulled into an IVA when it's not the best solution for their needs, resulting in considerable harm.

Other debt solutions available in England and Wales include bankruptcy, Debt Relief Orders (DROs) and Debt Management Plans.[2] In some circumstances an IVA may be the most appropriate available solution, but where they are not, they will often instead be a slower and much more costly route out of debt.

IVAs are also risky remedies. They typically take the form of a long term agreement, often 5 or 6 years, and their success relies on people being able to keep up with monthly repayments over the full term. But in practice high numbers of IVAs terminate before they are complete, leaving people with their debt issues unresolved, and often in a worse position than they started, having spent months or years paying considerable amounts of money in non-refundable IVA fees. This financial loss can be considerable, as IVA fees typically range from around £3,650 - £5,000.

In the last 5 years alone, over 70,000 IVAs have terminated early. We estimate that this has cost people in debt at least £48.8 million in fees alone.[3]

As a frontline organisation which helps hundreds of people each year with IVAs that are collapsing or putting them under enormous strain, we have unique insights into why this is happening and how people are being pulled into inappropriate IVAs. In 2024 we helped 870 people with a mis-sold or inappropriate IVA. At the heart of these cases is a common theme: poor debt advice pulling people into inappropriate solutions.

We reviewed a sample of cases from people who had come to us for help and found that issues of poor debt advice were commonplace. Common problems include:

- The person being given no advice on alternative debt solutions
- The person being given incorrect or misleading advice about other debt options

[1] The Insolvency Service, Commentary - Individual Insolvency Statistics, September 2024 (2024), Available at: https://www.gov.uk/government/statistics/individual-insolvency-statistics-september-2024/commentary-individual-insolvency-statistics-september-2024.
[2] Debt solutions - Citizens Advice
[3] See Methods for full details on this figure.

- The person not being informed about key details regarding IVAs - for example the impact an IVA may have on the credit record, their home or that there would be fees involved.

In addition to this, we found evidence of other forms of poor sales practice, including people who had been pressured to enter into an IVA and people who had been "coached" on what to say to get an IVA. Our case review is likely to underestimate the prevalence of these issues among those facing IVA difficulty as we can only report on information that was volunteered.

The findings of our internal case review chime with recent research released by the Insolvency Service exploring terminated IVAs, which found evidence of poor quality take on practices in 60% of terminated IVA cases. Many of these issues relate specifically to advice and information that people received before entering into their agreement, with concerns raised with regards to ensuring the consumer understood the terms of their IVA and other debt solutions being incorrectly discounted.

To understand how widespread these issues are across the IVA market we commissioned a survey to find out more about people's experiences of IVAs. The evidence that follows is based on the experiences of over 1,000 people who had entered an IVA within the last 5 years, including those with IVAs which were ongoing, had been completed or had terminated during this period.[4]

This evidence lays bare how widespread advice failings are within the IVA market - showing that this is not about a few 'bad apples' but a systematic failure in this market.

We explore these issues in detail in the next chapter, and later discuss how the IVA framework is resulting in debt advice failings, and what actions regulators and government can take to stop people being pulled into inappropriate IVAs.

[4] It should be noted that people with IVAs that had failed were substantially under-represented among survey respondents - we therefore consider that the findings may underestimate the true scale of issues in this market, as we would anticipate that issues may be more prevalent where an IVA has terminated early. Please see the methods section for more detail.

Poor debt advice drives people into inappropriate IVAs

When someone needs help to get out of debt, there may be a range of solutions available to them. It is important that at this stage people have access to independent and impartial debt advice to ensure that they receive clear information about the different options available, and the benefits and risks associated with each solution. But too often we see evidence of failings in the advice people receive before entering into IVAs.

New research, drawn from the experiences of over 1,000 people who have entered an IVA in the last 5 years shows that:

1. People are frequently not being told about alternative debt solutions
2. People are regularly not being told key product information
3. People are regularly being put forward for unaffordable IVAs

We explore these issues in detail below.

1. People are frequently not being told about alternative debt solutions

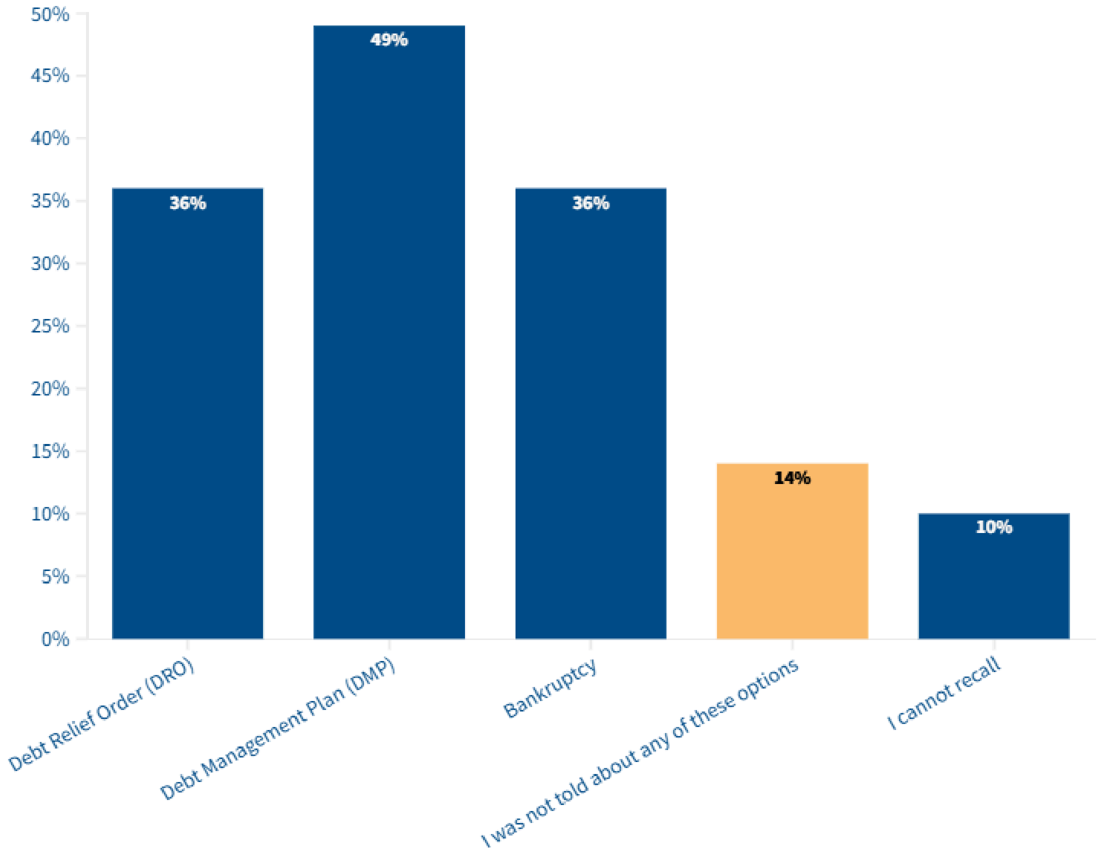
People who enter an IVA may be eligible for another debt solution, such as a Debt Relief Order (DRO), Debt Management Plan (DMP) or bankruptcy, but we found that 14% of people with an IVA in the last 5 years were not told about any other debt solution.

Meanwhile, just over one third (36%) could recall being told about DROs, just over one third (36%) could recall being told about bankruptcy and just under half (49%) could recall being told about DMPs.

It is the case that an individual may not be eligible for every solution, which may result in an adviser using their judgement not to share information about a solution that would just not be applicable. However, it is surprising that more than 1 in 8 people (14%) had not been told about any alternative solutions. There was no marked difference in this based on whether someone has entered their IVA before or after new rules on lead generation were introduced.[5]

[5] This intervention is discussed in greater detail later in this report.

Figure 1: Before you set up your IVA, do you recall being told about the following alternative debt solutions by an adviser?



The absence of advice on alternative solutions is an issue we regularly encounter when people come to us for help with an inappropriate or potentially mis-sold IVA. Often our advisers support people who are in an IVA where they are eligible for another solution, like a DRO or bankruptcy, which would be much more appropriate to their circumstances.

As Patricia's story below shows, the consequences of this are stark, resulting in people unnecessarily spending months or years more trying to resolve their debts, and in the meantime struggling to afford monthly repayments when an alternative debt solution would have been available to them.

Patricia's* Story[6]
Patricia's income is made up of state pension and a small amount of income from a private pension. Last year she entered an IVA, however she has no assets and her situation shows that she would have been eligible for either a DRO or bankruptcy. But when Patricia sought help with her debts she was not given advice on all her options. Patricia was in contact with an IVA firm who told her that an IVA was the "only" and "best way" for her to manage her debt. With her modest income, Patricia has not been able to afford both her essential outgoings and monthly IVA payments. She came to us for help one year into her IVA. If Patricia had been given information about alternative debt solutions she could have been completely debt free by now.

The problem is not just limited to firms failing to advise people of the debt options available to them. On the frontline we frequently help people who have received misleading or incorrect information about debt options. This includes:

- **Where people have been given incorrect information about debt solutions** - this often includes IVA firms playing up the downsides of debt alternatives, whilst playing down the potential risks of an IVA, and cases where people were incorrectly told they were ineligible for a different debt solution. With bankruptcy in particular, we sometimes see that this is presented to people as a "worst case scenario", when in some circumstances bankruptcy may be a less risky and quicker route out of debt than an IVA. This is particularly likely to be true where an IVA has little chance of being financially viable for the full term.
- **Where people have incorrectly been told an IVA is "the only way" for them to get out of debt** - this may not be accurate and risks putting pressure on people in vulnerable situations.

The quote below from an adviser provided is illustrative of the types of issues we regularly see in this space.

"The client was - in their words - 'talked out of or scared off from the other options' through a combination of misinformation. They were told if they went bankrupt they would 'definitely lose their job' despite working in construction and not in a job affected by bankruptcy. There was also 'juggling' of figures to remove client's eligibility for a DRO. The client felt what they were being told was 'too good to be true' and called Citizens Advice to confirm what they had been told."

Source: Evidence Form, submitted July 2024

[6] All names changed to protect anonymity.

We also identified issues with incorrect or misleading advice in 19% of cases included in our internal case review. This is likely to underestimate the scale of this issue, as we only have evidence of this where clients have declared an issue that makes it clear this is the case. As debt advice is specialist, people do not necessarily recognise where they have been given incorrect information. This is one of the reasons why accurate and impartial debt advice is critical. Sometimes our advisers are able to intervene early where people have received misleading information - but this is only possible when people seek out independent advice before signing their IVA agreement. More often, we find people come to us for help months or years after they've been sold an inappropriate or unaffordable IVA.

Esther's story

In June 2024, Esther was contacted by an IVA firm after looking for debt help online. Esther had around £16,000 of debt, and no assets. She has a low income, and receives Universal Credit to top this up. Her circumstances indicate that a DRO is likely to be the most suitable debt solution for her, but the IVA firm never mentioned this option. They instead told her that she could have an IVA or apply for bankruptcy. During the call, Esther told the IVA firm that she has a mental illness. She was told to "play down" her mental ill health as otherwise she may not be accepted for an IVA. Someone later called her to set up an IVA, with repayments of £100 per month. In October, Esther contacted Citizens Advice. She was struggling to afford her IVA and her situation had quickly deteriorated as her mental health had worsened resulting in her having to take time off work, reducing her income.

Recent research conducted on behalf of the Insolvency Service also found issues with "incorrect information given" in 15% of all cases within their review of terminated IVAs, rising to 25% in cases with "poor take-on".

2. People are regularly not being told key product information

In our research we also identified widespread issues where people had not been told key information about IVAs before entering this debt solution.

We found 2 in 3 (66%) people were not told at least one key piece of information about IVAs before entering into one, whilst 1 in 3 (33%) were not told at least three pieces of key information. This included:

- 34% were not told that they would have to get permission to borrow more than £500
- 29% were not told that their payments could change during the term of their IVA
- 22% were not told they would have to pay fees as part of their monthly payments
- 21% were not told that their IVA would stay on their credit record for 6 years after it started
- 21% were not told that their debt would not be written off if they did not complete their IVA
- 18% were not told that it might be difficult for them to get credit whilst in an IVA

This shows that there are widespread issues in the quality of information being provided to people before they enter an IVA.

These findings are concerning as a lack of clear information risks people entering into the wrong debt solution.

It is particularly concerning that more than 1 in 5 people (22%) in an IVA said they were not told they would have to pay fees as part of their monthly payments. This is particularly shocking when considering that IVA fees are typically £3,650, and account for 45% of the total cost of an average IVA.[7] We routinely see evidence of this issue on the frontline. In some cases, people were not aware that their IVA would include any fees at all. We also see examples where people had not been made aware of how much of their monthly payments were being used to pay IVA fees in contrast to how much was being paid to creditors, only uncovering this at a point where the IVA had collapsed leaving their debt level very similar to before they started their IVA despite months or years of payments.

People are being failed when it comes to the communication of risks associated with IVAs. Given the high termination rate for IVAs it is of particular concern that more than 1 in 5 people (21%) were not told that their debts would not be written off if they did not complete their IVA. Given the high failure rates for IVAs, it is vital that this is corrected.

3. People are regularly being put forward for unaffordable IVAs

We also found evidence of a high proportion of IVAs being set up where they are likely to be financially unsustainable, putting people at high risk of IVA collapse.

IVAs offer limited flexibility once they are set up, but if a person's situation changes it's sometimes possible to lower the monthly payments, as long as creditors agree. But many IVAs start out at such a low level of monthly payments - relative to the fees - that further reductions aren't possible. At the point they entered their IVA, more than half of people (56%) who had been in an IVA in the last 5 years reported that they had £75 or less leftover each month after paying for essentials. And 15% were in a negative budget - meaning their essential costs were actually higher than their income, before any IVA payments were taken.

The relatively low levels of surplus income and prevalence of deficit budgets suggest that IVAs are being proposed in too many situations where they are likely to be unsustainable.

IVA payments are made up of both payments to creditors and IVA fees, with fees alone typically amounting to £3,650 over 5 years. Assuming that the IVA fee is apportioned equally across the IVAs lifetime, this would mean that around £61 would need to be paid each month just to cover the fees. This raises clear concerns regarding the viability of these arrangements, as in many of these cases people simply do not have the income

[7] The average monthly payment for an IVA is £136, making the total cost of a 60 month IVA on average £8,160.

to meet the cost of contributions. But even where people have enough surplus income to cover the IVA payments, the relatively low levels of surplus income risk leaving them with little to nothing to manage unexpected costs or rising bills. This is particularly concerning given the long term nature of IVA agreements, making it foreseeable that people will have to meet unexpected costs in this time.

High numbers of people with benefits only income are ending up in IVAs

We found that 1 in 5 people (20%) who had been in an IVA in the last 5 years had an income made up only from benefits, whilst a further 29% of people had income made up partially from benefits.

The IVA Protocol states that "where the consumer's income is solely made up of benefits or state pension, an IVA is very unlikely to be a suitable solution for the consumer". This does not prevent an IVA from being proposed in these circumstances, but we would expect this to be more exceptional, as an IVA is very unlikely to be successful in these circumstances. There may be circumstances where an IVA is the only solution available, but frequently people come to us for help with an unaffordable IVA when they would have been eligible for a DRO, which could have resolved their debt issue in just one year with much lower or no fees.[8]

4. Further issues at the IVA set up stage

We found further evidence of issues occurring during the set up stage of IVAs, which raise concerns about the quality and accuracy of advice given. For example:

- 16% of people in an IVA in the last 5 years reported that some debts were missed out of their IVA.
- 11% reported that their income or expenditure information was incorrect.

These mistakes pose serious risks. Where debts are missed out of the IVA this can worsen their situation, forcing people to find extra money for these debt repayments on top of their monthly IVA payments, and leaving them exposed to creditor action for these debts.

[8] Since April 2024, people incur no fee to enter a DRO. Prior to this date a DRO came with a one-off application fee of £90.

Danielle's Story

Danielle approached an organisation for help with her debts. She'd fallen behind on household bills and was struggling to make ends meet as her benefits were being deducted due to a Universal Credit advance and a housing benefit overpayment. She's a single parent, whose income is made up of Universal Credit and Child Benefit. She initially asked the organisation about whether she would be eligible for a DRO, but said that she was "talked over".

Despite having no assets and a very low income, Danielle was advised to take out an IVA. She told us that the adviser coached her on what to say to get an IVA, including telling her to lie about her situation. She was told to change the age of one of her children in her application and not to mention her Council Tax arrears. As a result, her IVA agreement didn't include this debt. It also didn't include the deductions from her benefits - both of which could have been dealt with through a DRO. Consequently, Danielle still has deductions from her benefit, making it hard to cover her bills each month, let alone the IVA payments. She's also been subject to enforcement activity, with bailiffs seeking repayment of her Council Tax debts. The stress of this has negatively impacted her health, and left Danielle with her debt issues unresolved.

Mistakes in incorrect income and expenditure can result in repayments being set at unaffordable rates and may result in IVAs being signed off when they are not genuinely viable, risking continuing hardship. These mistakes may also result in people being incorrectly discounted from DRO eligibility, when an accurate picture of their income and circumstances may find that this would be suitable.

Recent research published by the Insolvency Service exploring terminated IVAs also highlighted concerns about accuracy of income and expenditure information in IVA set up. In 45% of the terminated cases reviewed, they identified 'income and expenditure concerns'. This included issues such as "consumers having income derived solely from benefits, income and expenditure being manipulated to meet a certain distributable income level, and whether disposable income was within, or close to, the DRO limit".

Evidence from frontline advisers show that these inaccuracies are often the result of information being manipulated to make someone fit the criteria for an IVA. We also found other evidence of coaching, as illustrated in the following quote from an adviser.

> “There is one provider - where several clients independently tell the same story. Whilst IVA being discussed on telephone the client mentions how they are struggling to pay council tax - they get told “I’ve put the recording on hold - now you need to stop mentioning how you cant afford your council tax because if you keep mentioning it there's no way you'll get an IVA".”
>
> (Debt Adviser, Debt Advice Survey - October 2024)

It’s clear that there are widespread issues with the advice people are receiving before entering an IVA. These are resulting in high numbers of people entering into IVAs which may be unsuitable or unaffordable. In the next section we explore the impact this has on people who have been pulled into inappropriate IVAs.

The impact of being pulled into an inappropriate IVA

People in a debt crisis are in highly vulnerable situations. They may be facing persistent contact from multiple creditors and the immediate threat of bailiff action, which can leave them stressed, anxious, and desperate for a path out of debt. At such a critical moment, they need trustworthy advice to guide them toward the most suitable debt solution for their circumstances.

When that advice fails, and people are instead pulled into unsuitable IVAs, the consequences can be devastating. Each year we support people who are either facing the difficulty of IVA failure or struggling in ongoing hardship due to the unsuitability of this solution. Among the many clients we help each year who have been mis-sold IVAs, two common pathways emerge:

1. **IVA Failure**: People are left out of pocket due to non-refundable fees, lose protection from creditor action, and are back where they started – stuck in debt. This can happen from as early as the first month to years into an IVA.
2. **Ongoing hardship**: People face intensified strain, forced to cut back on essentials, and sometimes even having to take on additional debt, to keep up with their IVA payments.

We explore both of these in the following sections.

Failed IVAs and the aftermath

Previous data from the Insolvency Service has suggested that around **1 in 3 IVAs collapse before completion**.[9] With such a high failure rate for this debt solution, a significant proportion of people face dealing with the consequences of a failed IVA. Below we explore these impacts.

Back to square one with resolving debts

When an IVA fails, the prospect of the debt included in the IVA being written-off is lost and people become liable for the full remaining amount of their debt. Once more, they face the stress of creditor harassment, bailiffs, and the prospect of starting over with finding a solution to their debts.

Worryingly, we see this happening in cases where the client would have been eligible for a DRO in the first place and, therefore, they are simply back to square one.

> "One client was put into an IVA when other options should have been presented as more appropriate. He was struggling to maintain his IVA and was causing him distress and financial hardship. Client tried to maintain IVA for 12 months before ceasing to make payments. The client was stressed by waiting for IVA to terminate before applying for a DRO and worried about creditors contacting him and potentially enforcing the debts. The client's sole income is benefits and they are now proceeding with a DRO."
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> Source: Evidence Form, submitted November 2023

Financial losses for those already in debt crisis

Starting again also comes with losing fees already paid towards the IVA. A substantial proportion of people's monthly IVA payments go to IVA providers in fees, rather than going towards paying off debts. When an IVA fails, IVA providers keep the fees while the client is left out of pocket. The lost money from these fees can be substantial. We routinely help people facing IVA termination who have already paid hundreds or thousands of pounds in IVA payments.

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[9] The Insolvency Service, Commentary - Individual Voluntary Arrangements Outcomes and Providers 2021, Published March 2022. Available at: https://www.gov.uk/government/statistics/individual-voluntary-arrangements-outcomes-and-providers-2021/commentary-individual-voluntary-arrangements-outcomes-and-providers-2021#termination-of-individual-voluntary-arrangements

In total we estimate that at least **£48.8 million has been spent on fees for failed IVAs in the 5 year period between 2019 - 2023**, amounting to an average of £849 per person whose IVA failed. This individual cost will also be much higher for those who were several years into their IVA before it collapsed.[10]

Many of the people we see in unsuitable IVAs are struggling with food costs or paying for heating. This is a substantial amount of money that could have gone towards essentials, and avoiding unnecessary hardship.

What's more, IVA fees are typically "frontloaded," meaning that in the early stages of the agreement, most or all payments go directly to the provider rather than reducing the individual's debts. As a result, if an IVA fails early on, individuals may have paid significant amounts but made little to no progress in reducing their debts. We see this regularly on the frontline. For example, we provided advice to someone who had faced early termination one year into her IVA. She had made over £1,100 in IVA payments, but when she received her termination certificate found that only around £250 had been paid to her creditors.

Adam's Story

Adam came to Citizens Advice because he was struggling to keep up with his monthly IVA payments.

When our adviser looked at his income and expenditure, they found that he had a monthly deficit of more than £200. And when Adam entered his IVA he had benefits only income and no assets. His circumstances mean he would have been eligible for a DRO. The IVA firm instead told him he should enter into an IVA, despite this being a more costly and unaffordable solution, with monthly payments of £110 per month based on a 5 year term.

In total, he paid £1,320 into his IVA which failed after a year. In this time, he built up £2,500 in additional debt as he could not keep up with his bills. One year on, Adam had lost the money he paid in fees and was left worse off than where he started.

[10] This figure has been calculated by combining the numbers of IVA terminations based on termination date, as reported by the Insolvency Service, with the average monthly IVA fee. Full detail is provided at the end of this report.

Struggling through an unsuitable IVA

Even when IVAs don't fail, many people feel trapped in unsuitable arrangements. They are desperately trying to keep up with payments to avoid being left in the situation spelled out above – losing the money they have already put in, or facing another visit from bailiffs.

Debt solutions must be affordable. People should always be able to cover essential costs first, before money is directed towards debt repayment.[11] If there is no surplus income, a DRO or bankruptcy would be the more appropriate option. However, as highlighted above, issues in debt advice mean that people are often put forward for IVAs that are unaffordable from the outset. For example, 15% of clients in IVAs were already in a negative budget, and over half (56%) of those in IVAs within the last 5 years reported having £75 or less left each month after covering essentials - before accounting for monthly IVA payments.

This suggests IVAs are being proposed too often in cases where they are unlikely to remain sustainable. If not from the outset, small changes in expenses, such as rent increases or replacing broken household appliances, will easily make these arrangements unaffordable.

This has a wide range of consequences, discussed below.

Cutting back or going without

Many clients cut back on essentials or go without entirely, sometimes for years, in an attempt to keep up with their IVA.

Almost 1 in 4 people in IVAs went without everyday essentials - basics like food, energy, and toiletries.

[11] This is recognised practice with a framework to support it through the Standard Financial Statement.

Carla's Story

Carla came to us because she was struggling to keep up with her IVA payments. She is a single parent with a 4-year-old child. Her income is from Universal Credit. She was advised by her provider to enter an IVA, even though her debts were small and she didn't have enough left over each month after paying for essentials.

The company that sold her the IVA didn't tell her about other options, including DROs. They set her monthly payments at £100. Carla told the provider this was unaffordable for her, but she felt pressured into the agreement because she wanted her debts sorted and for her creditors to stop contacting her.

To pay the £100 a month, Carla has become reliant on the local food bank. She also wants to take her child to visit relatives, but is unable to do so due the financial strain of her IVA. She has made 3 payments so far, but being unaffordable from the outset, her IVA is already at risk of failing.

Taking on more debt

IVAs are supposed to be an effective route out of debt. However, we're seeing too many people in IVAs ending up with more debt than they started with, either by having to borrow from family and friends to cover essentials, or falling behind on household bills as a result of trying to keep up with their monthly IVA payments.

Alarmingly, we found that **almost 1 in 3(31%) people said their IVA had a negative impact on their debt levels**.

To keep up with monthly IVA payments more than 1 in 4 (26%) people in an IVA borrowed money, whilst more than 1 in 5 (21%) put off or delayed essential payments.

Charlie's story below shows how when an IVA fails after someone has already fallen behind on other bills to afford monthly payments, they can end up with more debt than when they entered the debt solution.

Charlie's Story

Charlie came to us after being in an unsuitable IVA for two years. She has two young children and her only income is Universal Credit.

She was put into an IVA with monthly payments of £90, which was unaffordable from the outset. To pay for her IVA, Charlie has had to cut back on essentials, but as a result of unaffordable payments she's also ended up with more debt. Over time, she has built up £1,000 in energy arrears.

Her IVA is now at risk of failing as she can't keep up the monthly payments. If it does, Charlie will lose the money she paid in fees, still owe her debts, and be vulnerable to creditor action again. On top of that, she now has even more debt than she had before her IVA.

Eroding trust in debt solutions

Debt solutions should provide effective relief, but for far too many, unsuitable IVAs are creating more problems than they are solving. We're concerned about the impact of this on trust in debt solutions.

"The client's debt problems have not been resolved by the IVA. The client regrets taking it out in the first place and is starting again with debt advice."

Source: Evidence Form, submitted in February 2024

We found that **more than 1 in 5** people regretted entering their IVA. Of those who said they regretted their IVA:

- **33%** didn't feel like they understood what they were signing up for
- **27%** ended up paying more than they expected in fees
- **22%** said key information about IVAs wasn't shared with them beforehand

When key pieces of product information, which should have been made clear before entering an agreement, come to light later in the agreement, this can be deeply demoralising. The evidence form from one of our frontline advisers below shows this.

> “The client has been under the impression she has been paying off her debts for the last two and a half years, but now says she thinks she has been paying mostly IVA fees to the debt company. She says she feels very depressed about her financial situation.”
>
> Source: Evidence Form, submitted in June 2024

This underscores the importance of people receiving effective debt advice and clear information before they enter their IVA to reduce the risk of people ending up in IVA that will harm, rather than help their situation. In the next section we explore how the design of the IVA market is resulting in widespread advice issues.

How the regulatory framework is resulting in poor debt advice

In the previous sections we have demonstrated that there are widespread failings taking place in the advice people are being given before entering an IVA. To understand how this situation has arisen and why it has proved so intractable, it is helpful to look at how the IVA market emerged, and the main features of insolvency regulation and debt advice regulation.

Background to IVAs

Introduced as part of the Insolvency Act 1986, IVAs were initially something of a niche remedy - an alternative to bankruptcy for small business owners, home owners, and others with assets to protect. These were typically bespoke arrangements, set up and managed by Insolvency Practitioners (IPs) themselves. But in more recent decades, IVAs have developed into a booming industry, with commercial firms marketing them as a mass-market product.

The commercialisation of IVAs has significantly increased the risks to consumers, and consequently the need for robust consumer-focused regulation. But the regulatory framework hasn't kept pace with these changes.

What has been left is a messy regime with a range of gaps:

- **A hole in the reach of regulation** - IVA firms currently fall outside of regulation. IPs alone are subject to regulation, via membership of their Recognised Professional Bodies (RPBs).
- **Fragmented oversight of debt advice** - Debt advice currently straddles two different regulatory regimes, risking poor practices falling through the cracks of regulatory boundaries. We discuss this in detail below.

There are proposals to address the first of these issues, through the planned Audit and Corporate Governance Bill which would bring IVA firms into regulation, and give the Insolvency Service new powers to set standards.[12] But whilst these are much-needed changes which will strengthen insolvency regulation overall, they will not fully solve the issues in the IVA market, particularly issues around advice, which are explored in greater detail below.

[12] The future of insolvency regulation: Government Response - GOV.UK

A messy landscape: Debt advice in the IVA market

Whilst the IVA market has evolved, the regulation of debt advice has developed along separate lines. Debt advice, or “debt counselling”, is a legally-defined activity which can only be carried out by firms authorised by the Financial Conduct Authority (FCA). This is true for non-profit providers and commercial firms alike - reflecting the high risk of consumer detriment that can result if firms fail to act with sufficient care. But an unusual exemption applies to the main providers of IVAs. IPs are placed outside of FCA-regulation for debt counselling when overseeing an IVA, or when acting “in reasonable contemplation” of an insolvency appointment. We call this the “IVA exclusion”. The result of this is that people can enter into an IVA from a range of front doors, and without receiving FCA regulated advice.

This distinction matters. FCA rules are designed to ensure that people receive whole-of-market, impartial advice, with any recommendation put forward considering the “best interests” of the client. Where the IVA exclusion is used no such test will apply. And as the industry has evolved and commercialised this has seen the exclusion being relied on by commercial firms, which is beyond the scope for which it was really designed.

The co-existence of these two different systems has resulted in a messy regime that is troublesome for both regulators and consumers alike.

Fragmented regulation and a messy market

The IVA exclusion means that key actors in the IVA market fall into different regulatory regimes, even when carrying out essentially the same activity. FCA-authorised firms are often part of IVA journey, handling initial contact with prospective customers and referring leads to IPs or IVA firms. But IPs and IVA firms can also give debt advice if the exclusion applies, without falling into the FCA’s remit. Prior to setting up an IVA, a consumer may well be advised by several different organisations, some of which may be FCA-authorised, while others will be relying on the IVA exclusion to give advice.

No regulator has jurisdiction over the whole advice journey, so it’s extremely difficult for regulators to identify and address the root causes behind poor consumer outcomes. Unscrupulous firms can, of course, use this to their advantage.

The interaction between FCA-authorised firms and IVA firms is also especially complicated. There are examples of IVA firms and FCA authorised firms which share a common parent company or shareholders and appear to operate a business model that straddles both regulatory regimes. There are IVA firms that are ‘appointed representatives' of FCA-authorised firms, which gives them blanket permission to provide debt advice (including in situations where 'reasonable contemplation' does not apply) but does not make them directly accountable to the FCA.

The common question across these examples is which regulatory regime applies to the advice a consumer receives? If a firm is FCA-authorised, the advice it gives should be FCA regulated. But an IP acting in reasonable contemplation of an IVA appointment can claim an exclusion. Where IPs and FCA-authorised firms work hand in glove, is advice FCA regulated or excluded? This has important implications for regulatory supervision and enforcement. It also has very direct implications for consumers, as discussed below.

A chaotic and confusing consumer journey

If this regime looks messy from a regulatory perspective, it is even more complex for consumers.

Our experience shows us that when people start their journey into a debt solution they are usually looking for impartial debt advice, from someone they can trust to help them work out their next steps. But the complexity of the IVA market makes it impossible for consumers to differentiate between genuinely impartial advice and companies who have a vested interest in them entering an IVA.

IVA firms and lead generators often crowds out independent debt advice when people search online for debt advice or help to stop bailiffs. And firms often present themselves as independent and impartial debt organisations, potentially with government backing or charitable status - making it all the more difficult for consumers to navigate this messy market. More detail on the various tactics IVA firms use to market their services is provided in our previous report Set Up to Fail.

In theory, where FCA regulated advice is being provided it *should* guarantee consumers access to impartial debt advice. But in practice, the operation of the IVA exclusion and the complexity of this regime means it is not clear how often consumers are genuinely being provided with impartial FCA-regulated advice, and where the exclusion is instead being employed.

This dual regime is failing to protect consumers

Above, we've demonstrated how the existing regulation has resulted in a regime that is challenging both for consumers and regulators. From our research, which finds widespread failings in the advice given to people before they enter IVAs, it is also clear that this regime is not effectively protecting people from being pulled into inappropriate debt solutions.

Concerns about the IVA market have led to interventions by both the FCA and the insolvency regulators over the past two years. Notably:

- **The FCA debt packager ban, which came into force in October 2023**. This intervention was targeted at FCA-regulated firms which fit a specific definition and business model. Debt packagers are organisations which are authorised to provide debt counselling, but do not provide debt solutions (such as debt management plans) themselves. They derived the vast majority of their revenue from referral fees to IVA providers, which are much higher than referral fees for other solutions, creating a very strong commercial incentive to recommend an IVA. Repeated investigations by the FCA found that these firms were not able to mitigate the risks posed by this commercial incentive, leading the FCA to ban such firms from receiving referral fees.
- **The Statement of Insolvency Practice 3.1 (SIP 3.1), which documents standards for Insolvency Practitioners with respect to IVAs, was revised in March 2023.** Key changes included increasing the emphasis on the IP's responsibility to ensure that the debtor has received suitable advice before entering an IVA, including making them aware of debt solutions available.

While these interventions are welcome, there is no evidence that they have really shifted the dial on IVA advice. In relation to the FCA's debt packager intervention, it's important to note that the debt packager model is only one of a number of possible models that can be used to source IVA leads. Rather than disappearing, IVA lead generation appears to have simply taken new forms.

The overall number of new IVA registrations has gradually reduced over the past 18 months. While it is tempting to see this as a sign that regulation has tempered the market, the data on individual IVA firms doesn't bear this out. Many of the 20 largest IVA firms registered more IVAs in 2023 than they did in 2022, hardly a sign of a declining market.[13]

Whilst IVA numbers may have slightly reduced overall, termination rates are still a concern. For example, 8% of IVAs that were registered in 2023 had been terminated by September 2024 - this number will continue to increase given the long term nature of IVA agreements. And in the 12 months since the debt packager intervention came into

[13] The Insolvency Service, Individual insolvencies, November 2024, Published 17 December 2024. Available here:
https://www.gov.uk/government/statistics/individual-insolvencies-november-2024

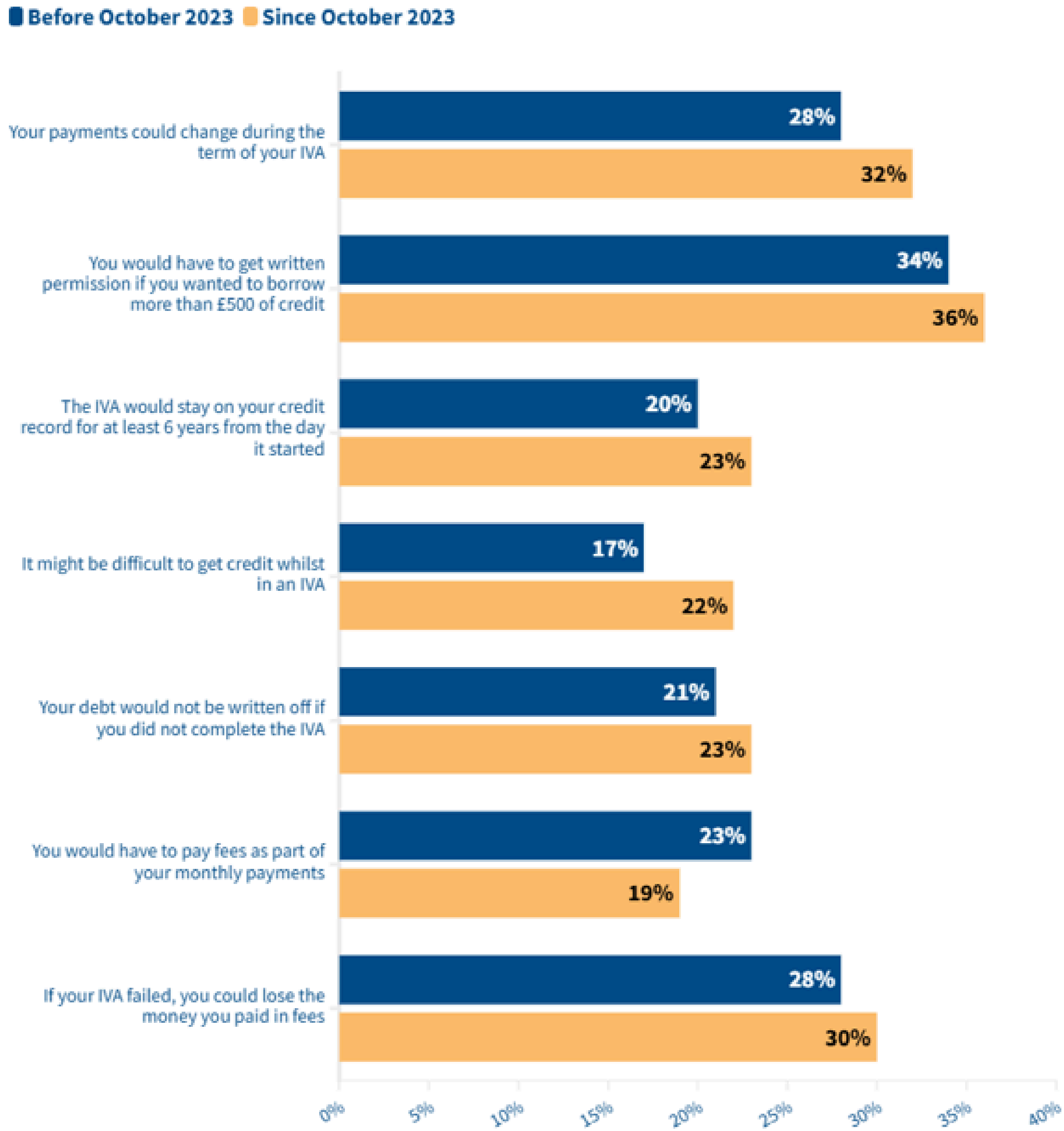
place, most debt advisers say that the number of people they are helping with failed IVAs has stayed broadly the same (47%) or increased (46%).[14] This makes it even more critical for government and regulators to take steps to reduce the number of people being drawn into inappropriate IVAs.

Our evidence also shows that these interventions have not led to fundamental improvements in the quality of advice. The numbers of people not told about key product information is broadly consistent, and in some cases slighter higher, among those who entered an IVA after October 2023,[15] compared to before this date. Figure 2 (provided on the next page) provides a detailed breakdown.

One of the key reasons that we think these changes have been unable to tackle poor advice is due to the continued operation of the IVA exclusion, which makes it easy for poor practice to fall between the boundaries of two separate regulatory regimes.

[14] This is based on a cross-sector survey of debt advisers. See the methodology section for further detail.
[15] The debt packager intervention came into effect in October 2023.

Figure 2: When you set up your IVA, do you recall being told about any of the following things? Comparison between people who entered their IVA before or after October 2023, when new debt packager rules came into force.



Conclusions & Recommendations

The current system of checks and balances on IVA providers is clearly not working. The Insolvency Service report exposes a catalogue of failings - with poor take-on practices occurring in 60% of terminated IVAs. Our research - which looks across all IVAs - echoes these concerns, and shows systemic failings in the advice provided for these risky debt solutions.

Should IVAs continue to be available as a debt remedy, given the risks noted above? In the long term, this is a question well worth asking. It's possible to imagine an alternative debt remedy that provides the same protections and benefits as an IVA, but which is structured and accessed in a way that poses much less risk to consumers. The government's on-going Personal Insolvency Review provides exactly the opportunity to explore fundamental questions like this.

But in the short-term, IVAs and the IVA market are here to stay, so we need an urgent focus on changes to drive up the quality of advice and reduce the number of people entering inappropriate, unsustainable IVAs. While there are many failings in the system, and it may take multiple levers to fully address the problem, we think action is needed in the following areas:

1. Driving up the quality of advice
2. Strengthening supervision of IVA providers and firms

We address each of these below.

Drive up the quality of advice

The evidence is clear that poor advice before entering IVAs is pulling people into unsuitable solutions. The consumer journey into an IVA should be one where everyone receives independent, impartial, and whole-of-market advice.

We think the quickest and surest way to achieve this is by **ending the "IVA exclusion"**. This would apply the FCA regime to IVA providers in relation to debt advice. The FCA's rules and approach, its expertise and the range of enforcement powers it possesses, make it a natural fit for regulating debt advice. In legislative terms, it is relatively straightforward to achieve this change, via secondary legislation to remove the exclusion that Insolvency Practitioners currently enjoy. This change would simplify the messiness of current regulation, and would help put the sector on the path towards a single front door for entering debt solutions.

An alternative approach would be to drive up quality by reforming the insolvency framework. Existing standards in the insolvency framework (SIP 3.1) are less consumer focused than the standards delivered through FCA rules, but in the short term this could be overcome through closer mirroring. However, the opportunity to effect change through the existing insolvency regime is also limited by the need for legislative change to be implemented to give the Insolvency Service stronger enforcement powers and oversight of IVA firms. Whilst legislation is proposed to bring about these changes, the need for primary legislation means this could take considerable time, leaving people in vulnerable circumstances exposed to continued harm. This approach would also not overcome the issue of dual regulation, leaving open the risk that poor practice continues to fall through the gaps between regulatory boundaries.

Strengthen supervision

The current evidence has exposed examples of poor practice that fall short of existing standards. However, the Insolvency Service currently has limited direct enforcement powers, as IVA firms themselves are not regulated, and IPs are regulated through RPBs.

We support the proposals to **bring IVA firms into regulation** and to give the Insolvency Service greater authority to set standards and take action against bad practice. Even in the event that pre-IVA advice moves under the FCA's remit, the Insolvency Service will still need stronger powers to get a grip of poor practice throughout the course of managing an IVA.

Under the planned proposals IPs will still be regulated by the RPBs, but the previous government did explore replacing them with a single regulator. While we recognise the rationale for maintaining the RPBs as regulators, it's important that the government follows through on plans for a legal power to establish a single government insolvency regulator if required in future. This will mean that the government is better placed to tackle poor practice if we do not see improvements. This is particularly important given the scale of poor practice across the market revealed by our research and that recently released by the Insolvency Service.

While reform is ongoing, this will take some time, so the **Insolvency Service and RPBs should be doing all they can with their existing powers** to ramp up supervision - such as:

- Requiring IPs to document and share the sources of leads and referrals with regulators, helping identify patterns in terminations.
- Ensuring that IPs retain call records as expected, with active enforcement from regulators.

- Increasing scrutiny, including initiating unannounced reviews to drive better practice immediately.

As highlighted previously, the messy regulatory boundary makes it difficult to determine under which regime problems are occurring. However, where problems *are* situated within the FCA regime, they have the regulatory tools and powers to take action, and so also need to step up their approach to supervision. As long as the IVA exclusion remains, this needs to include active supervision at the boundary line, to ensure the exemption is not being misused where FCA rules should apply.

Bringing an end to bad practice and building an insolvency approach fit for the future

We have been raising the alarm about failing advice and inadequate supervision in the IVA market for years. In this time, people in debt have lost millions of pounds in fees, they have gone without food and heating to make unaffordable monthly payments, and some have been pushed even further into debt by unsuitable IVAs. Without steps to drive up practice, more people are at risk of being pulled into inappropriate IVAs and spending months or years in the wrong debt solution that will, at best, put them back to square one. They cannot wait any longer for change.

In the longer term, the Personal Insolvency Review provides an opportunity for regulators to transform the journey into debt advice, including through proposals to create a single gateway for debt solutions, and to reassess the suite of solutions that are available to help people get a fresh start. It's important this work continues at pace to build an insolvency approach that is fit for the future. But the prospect of reforms in the distance must not be used to kick the can down the road, regulators and the government cannot sit on evidence of bad practice causing harm. They must take action now.

Methods

Review of Evidence Forms

Evidence forms are submitted by Citizens Advice advisers to highlight key cases of concern. Between 2 October 2023 and 31 August 2024, 182 evidence forms were submitted related to inappropriate or mis-sold IVAs. These cases were systematically analysed using a thematic coding framework, to identify common issues.

As this is qualitative data, the figures provided should not be considered an estimate of the prevalence of an issue. These figures instead demonstrate how commonly each issue was identified within the cases submitted for review based on the information that was volunteered.

Survey of people in debt solutions

Citizens Advice commissioned Yonder Data Solutions to survey 2,269 people in England & Wales who had taken action to deal with debt in the last 5 years, including 1,001 people who had been in an IVA in this period. Fieldwork took place in September 2024.

Responses were weighted to be representative of the profile of people in an IVA. People who had terminated their IVA were under-represented within the survey sample. Just 3% of respondents with an IVA in the last 5 years reported that their IVA had terminated. However, data from the Insolvency Service shows that 18% of IVAs registered between 2019 - 2023 have been terminated, so this group are substantially underrepresented in this survey. We expect that those with IVAs that terminated early are more likely to have experienced poor practice, and as such expect that this limitation will mean that some of the issues presented in this research underestimate the true scale of the problem.

Survey of debt advisers

Citizens Advice delivered an online survey exploring debt advisers experiences of debt solutions. This included several questions regarding experiences of IVAs. The survey was issued online and shared with other advice organisations. The survey ran from 25 September - 25 October 2024. 309 responses were received, with respondents from 10 debt advice organisations. Most respondents (58%) were Citizens Advice debt advisers.

Calculating how much has been spent on fees for failed IVAs

This figure is based on termination rates for IVAs recorded in the Individual Insolvency Statistics from September 2024 (Individual Voluntary Arrangements Outcomes) published by the Insolvency Service. To calculate the amount of money paid out on IVAs by each person we multiplied the termination period for their IVA by the average monthly IVA fee payment - the method for determining the average IVA payment is described below. As termination periods are reported in a monthly and sometimes quarterly format, we used a midpoint falling within the middle of the period.

It should be noted that this is a conservative estimate, that will underestimate the true scale of the costs, for the following reasons:

- There is a data reporting lag that affects the Insolvency Services' IVA Outcomes data. We have, therefore, excluded cases from our analysis where information is unavailable for the period in which the IVA was terminated. This means the true costs could be considerably higher.
- IVAs typically last for 5 years. Therefore, many IVAs are still ongoing. This means it is not yet possible to know the full total that will fail. The numbers in this output are based only on IVAs that have already failed.
- When an IVA is terminated this may follow a period where the debtor is in breach for up to 3 months plus 1 month notification period. Due to this, and to guard against overestimating costs, we have subtracted 4 months of IVA fees from each terminated IVA included in this calculation. However it should be noted that in practice Insolvency Practitioners may still be able to claim these fees. If these payments were included then we estimate that the total cost of IVA fees between 2019-2023 is likely to be closer to £62.7 million.

Calculating the average monthly IVA fee payment

IVA fees vary somewhat by IVA provider, and sometimes by agreement, with fees ranging between £3,500 - £5,000. For the purpose of this calculation we have set the IVA fee at £3,650 which is the most common fee reported by IVA providers for a 5 year agreement. We have then divided this figure by 60 months to obtain a monthly figure.

This makes our calculation a conservative estimate, that will underestimate costs for the following reasons:

- Several providers charge higher fees, with several advertising fixed fees in the region of £4,200 - £4,500.
- Many providers do not include disbursement costs in their advertised fees. Total IVA charges are therefore likely to be higher.
- As limited data is available on how firms distribute the IVA fees within monthly payments, we have assumed equal distribution. However, anecdotal evidence suggests that many firms front load fee payments, weighting them as a proportion of the total monthly payment, so this may underestimate how much people have paid in fees.

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Published January 2025.

Citizens Advice is an operating name of The National Association of Citizens Advice Bureaux.

Registered charity number 279057.