



Information Release

27 February 2015

Central Bank publishes findings of first review of Debt Management Firms

- **Review finds lack of transparency on fees and charges and insufficient information gathering -**

The Central Bank of Ireland today (27 February 2015) publishes its findings from a recent review of how debt management firms were complying with consumer protection requirements. The Central Bank became responsible for regulating these firms in late 2013 and introduced standards in order to protect consumers who use their services.

The main findings of the review include:

Failure to meet *knowing the customer* requirements

Firms are required to gather and record sufficient information in order to be able to assess the needs, objectives, personal circumstances and financial situation of a consumer, so that they can provide the appropriate advice. Six out of 10 firms reviewed did not, in all cases, gather and record sufficient information as required by the Consumer Protection Code.

Poor information on fees and charges (and significant variations)

It is important that consumers are fully aware of the cost of using the services of a debt management firm. All firms are required to make their fees and charges publicly available including placing a schedule of them on the firms' websites. Only one of the 26 websites reviewed contained information on fees and charges for consumers. Transparency is of particular importance in light of the significant variations in the fees charged by debt management firms. The Central Bank found for example:

- initial consultation fees varied from free to €615;
- hourly fees varied from €125 to €246;
- some firms charged retainers of between €35 and €50 per month; and
- some firms required upfront payments (most included a refund).

Failure to provide Terms of Business Documents and/or inconsistent or lack of required content

Firms must give consumers a terms of business document which includes key information they may need including fees and charges, complaints procedures, details of the relevant statutory compensation scheme etc. However, just 12% of the online documents reviewed

contained the required content. In addition, just half of firms inspected were able to demonstrate that they had provided each consumer with their Terms of Business. The review also found that a number of firms were using different versions of the terms of business document. It is important that Terms of Business (in hardcopy provided in the office, in soft copy provided via email or online on their website) are consistent, up-to-date and updated simultaneously so that consumers have the right information at the right time.

Inaccurate status disclosure and potentially misleading information on websites

Regulated firms must provide information to consumers that is clear and not misleading, to enable better decision making. However, the Central Bank found a small number of cases where there was:

- out-of-date information on websites;
- an absence of warning statements and regulatory disclosure and;
- a regulatory disclosure being used in a manner which could be deemed to be an endorsement of the firm by the Central Bank.

Failure by firms to ensure that staff members were working towards getting the appropriate qualifications

Since 1 June 2014, persons providing debt management services must meet minimum competency standards. In eight of the 10 firms inspected, staff members providing debt management services had not registered for the first available sitting of the examinations required by the Minimum Competency Code.

Director of Consumer Protection, Bernard Sheridan, said “Debt management firms, for a fee, provide advice to consumers on how to deal with their debts and may negotiate with creditors on behalf of those consumers. Many of these consumers are struggling to cope with their debts and it is important that any advice or information they receive is of the highest quality. The Central Bank is following up with each firm on the issues identified and is taking appropriate supervisory action, including instructing firms to take down websites that cannot be amended immediately. We have also introduced additional rules since January 2015 to strengthen the protections in place including in relation to disclosure of fees and charges. Debt management firms have a responsibility to act in consumers’ best interests and we expect firms to be upfront and fully transparent about their fees and charges, including details on refundable costs - especially as there are significant variations in fees and charges.

Further information: Press Office 01 224 6299, press@centralbank.ie

Notes for editors:

Consumers can source free debt advice from the Money Advice and Budgeting Service (MABS) www.mabs.ie

Consumer Protection Requirements for Debt Management Firms

- Debt management firms provide debt management services, on a professional basis which are: *(a) giving advice about the discharge of debts (in whole or in part), including advice about budgeting in connection with the discharge of debts, (b) negotiating with a person's creditors for the discharge of the person's debts (in whole or in part), or (c) any similar activity associated with the discharge of debts.*
- The Bank assumed responsibility for the authorisation and supervision of debt management firms from August 2013. Firms who were already providing such services (and who had submitted an application for authorisation by 31 October 2013) were required to comply with the relevant provisions of the Consumer Protection Code, 2012¹ (the Code) from that date. Firms who were new to the industry were subject to the requirements from the date of their authorisation.
- 52 firms are currently authorised as debt management firms.
- Minimum competency standards were also developed (following a full consultation), which apply to persons providing debt management services and this came into effect as an addendum to the Minimum Competency Code, on 1 June 2014.
- The advertising review was completed in Q3 2014 and the onsite inspection was completed in Q4, 2014.
- On 1 January 2015, the Bank introduced a revised Code which included a new chapter for Debt Management Firms (Chapter 13). This Code includes requirements which provide additional protections for consumers of debt management firms.

About the Review

As part of the review, the Central Bank reviewed 66 consumer files from 10 selected firms as part of an on-site inspection and a desk-based review of 33 advertisements (including websites) of 32 selected firms.

- The firms were assessed for compliance with the requirements of Chapter 2 (General Principles), Chapter 3 (General Requirements), and Chapter 9 (Advertising) of the Code, in addition to Chapter 4 (Provision of Information), Chapter 5 (Knowing the Consumer and Suitability), Chapter 6 (Post-sale Information Requirements), Chapter 10 (Errors and Complaints Resolution) and Chapter 11 (Records and Compliance) of the Code.
- Of the 33 advertisements reviewed, approximately 82% related to websites and social media, 15% related to newspapers and 3% related to radio. Issues were identified in 24 of the firms reviewed (predominantly on their websites). All of the (small numbers) of general advertising (print, radio, social media) met with requirements.

¹ General Provisions of 2012 and provisions relating to Conflict of Interest, personal visit and contact with consumers, provision of information, advertising, errors and complaints resolution and records & compliance.