

ECONOMY, ENERGY AND FAIR WORK COMMITTEE

Debt Arrangement Scheme (Scotland) Amendment Regulations 2019

SUBMISSION FROM Scotwest Credit Union Limited

Scotwest Credit Union is pleased to respond to the committee's request for evidence in relation to the Debt Arrangement Scheme (Scotland) Amendment Regulations 2019.

Scotwest Credit Union is one of the largest credit unions in Scotland, serving over 32,000 members located throughout the West of Scotland. Scotwest has over £69m in assets with £62m in savings and a loan book of over £37m. Scotwest, as part of the wider credit union sector, has long been recognised by the Scottish Government as playing a vital role in ensuring access to affordable credit to the people of Scotland.

We know from both our own experience and from working with our colleagues, that there has been a worrying rise in delinquency throughout the sector. We absolutely accept that delinquency is an inherent risk attached to lending. However, we have become increasingly concerned about other factors that we believe are escalating this rise at an unprecedented rate, not least, the unscrupulous behaviours of some insolvency practitioners (IPs). Scotwest has been working in conjunction with a number of credit unions including the National Credit Union Forum (NCUF), Association of British Credit Unions (ABCUL) and the Scottish League of Credit unions, and we witness the same patterns of behaviour from some IPs throughout the whole sector.

Scotwest therefore welcomes and broadly supports the proposed changes to the Debt Arrangement Scheme (DAS). As a responsible lender and an ethical organisation that cares about the people it serves, we firmly believe that there needs to be appropriate debt solutions in place for consumers who find themselves in the unfortunate position of being unable to manage their debt. We believe that the proposed changes to DAS are a positive step in ensuring that DAS becomes the solution of choice for as many debtors as possible.

Impact on Consumers

The proposals to extend the Continuing Money Adviser (CMA) role to take payments distribution responsibility for their clients makes the process consistent and far simpler for consumers to deal with. Consumers by the very nature of having debt problems can be considered as vulnerable, therefore to have 'one point of contact' to see them through makes sense for their ongoing wellbeing and peace of mind. Furthermore, the proposals to make the DAS more flexible, are in the best interests of consumers. As a DAS can run for a number of years, it is reasonable to expect that circumstance may change and therefore, we strongly agree that regulations need to be sufficiently flexible to deal with such changes. As a creditor we fully support the move towards more flexibility and to reduce bureaucracy by introducing automatic approvals for DPPs and automatic approval for variations.

Impact on Creditors

As mentioned above, we are gravely concerned about the unprecedented rise in delinquency and this is mainly due to members entering Protected Trust Deeds (PTD). Statistically, PTDs are increasing at a disproportionately high rate compared to that of DAS as a debt solution. I have already touched on the fact that we are seeing other factors at play in regards to this increase in PTDs and this is having a worrying impact on our balance sheets. If you consider for a moment that credit unions help to bring affordable credit to those who are most vulnerable to high cost credit, then I'm sure you will understand the frustration that comes with being in the position of having to review our pricing based on the impact of such an unprecedented rise, especially given, that in many instances a DAS would have been a more appropriate solution for many of the members.

In Scotwest we have seen an average return on DAS of 92% compared to only 12.5% average return from PTDs. There is a massive gulf here between these two debt solutions and the financials indicate that the main reason we can see for this is the high level of fees which are attached to PTDs.

One of the key principles that underpins the debt management and debt relief system in Scotland is that those debtors, who can pay their debt, should pay their debts. As you can see from these figures, the DAS is definitely a solution that satisfies this principle. However, the PTD quite clearly does not deliver on this principle. To making DAS the debt solution of choice.

Role of the AiB

Scotwest wholeheartedly supports the proposed change in regards to the AiBs ability to carry out the payment distribution function for those cases which are generated by the non-CMA advice community or should any other payment distributor be unable to discharge their responsibilities. This change is necessary in order to support the move to allow CMAs to carry out PD as well as to protect debtors who are left without a PD. We understand that some might see this as sitting outside of the AiBs role, however, we feel that the AiB have been exceptionally clear and transparent in terms of the proposed change to their responsibilities and that, as a government department, there will be clear and robust oversight to ensure they remain within these parameters. Furthermore, the AiB engage regularly with stakeholders which means any concerns can be easily discussed and addressed in order to satisfy any concerns regarding this change.

In summary, Scotwest welcomes and supports the proposed changes to the Debt Arrangement Scheme (Scotland) Amendment Regulations 2019 and urges the committee to bear in mind the purpose of the DAS and the underlying principle that those debtors, who can pay their debt, should pay their debts. The DAS clearly delivers on this principle and any changes that can be made to make this solution more widely utilised and more appealing as a fit for purpose solution for consumers are surely a positive step in the right direction for debtors, creditors and more widely, the Scottish economy.