

Debt Managers Standards Association

Audit March 2014

Background information

The Debt Managers Standards Association Limited (DEMOSA) scheme was founded in 2000 by three debt managers. At the time the debt management sector was unregulated and standards were low. The founding directors set up DEMOSA in order to promote good practice in the debt management industry, and to protect the interests of the public and the lenders to whom they owe money.

The Office of Fair Trading approached DEMOSA in 2003 with an invitation to apply for an approved code of practice. DEMOSA consumer code was finally approved in 2008.

The Debt Managers Standards Association currently has 22 members and represents 80% of the commercial debt management sector by volume.

Financial Conduct Authority legislation changes, brought in 1 April 2014, will introduce further regulation to the debt management sector.

Audit Process

Two qualified trading standards professionals from the Trading Standards Institute (TSI) completed an onsite audit in one full day.

The audit focused on the following areas:

- Member application process including checks carried out on prospective businesses.
- Advice to members including general compliance with the code, staff training and dealing with consumer complaints.
- Sanctions for non complaint member businesses
- Marketing and advertising by member businesses – Terms and conditions and pre-contractual information including cancellation rights, deposits, delivery times and guarantees and warranties.
- Customer service provisions including support for vulnerable consumers
- Consumer complaints process including ADR
- Customer satisfaction, information/complaints from enforcement agencies, and how this information is used to develop and improve the code.

Audit Summary

Member Application Process

The audit noted the membership enquiry form and the application process, which included for effective checks on the providence of the applicant.

The audit examined:

- The procedure for appointing new members
- The records of audit of existing members
- The process for completing inspections of members
- The process of membership withdrawal

Summary

The member database is comprehensive, data was easily retrievable and no issues were found with missing records. The membership application process was comprehensive and well structured. The auditing and monitoring of members was appropriate and the process for withdrawal of membership was effective.

New Members

The member application process was examined.

DEMSEA membership is fairly static with one to two new members approved each year.

All applications are processed through an initial screening check against Companies House and credit and director's checks and other records.

The application process is followed by an audit carried out by the Institute of Chartered Accountants for England and Wales (ICAEW).

Several new applications were checked on the member database, websites and TSI approved code database and no issues were found. All the membership applications and records were retrievable.

Best Practice:

It was noted that the review of a new application includes an assessment of the skills, knowledge and experience of the staff within the company applying to join DEMSEA.

The applicant is given a schedule of compliance actions, which they have to sign up to.

Any case of major non-compliance must be put right before the applicant is admitted. The actions are followed up by DEMSEA, to ensure completion.

Existing Member Inspections/Audit

DEMSEA supports the [Debt Management Plan Protocol](#) introduced on 1 October 2013. The Protocol commits companies to no upfront fees for consumers and to spread the cost of setting

up a debt management plan over six months. Under the protocol, firms are required to tell consumers about other debt relief options available, including free debt advice, and to point them to the Money Advice Service website.

DEMSA members' audits, carried out annually by ICAEW, include checks against compliance with the Protocol.

The annual audits follow the same procedure as the initial audits. Any areas of non compliance are drawn up into an action plan.

The annual audits have never found any major areas of non compliance. Minor areas of non compliance generally relate to marketing materials or terms and conditions.

Each year DEMSA members are issued with a certificate of membership.

Several company audits were examined.

- All documentation was present: audit sheets, action plan (for minor non compliance). All actions had been followed up and completed. The evidence showed that members have to accept findings of the audit and counter sign them.

DEMSA uses mystery shopping company to check members on occasions, but due to the nature of the sector and requirements for personal details (identification, bank account details, creditor details), this is not easy to execute.

DEMSA's preferred method of ensuring members' compliance is to check recorded calls from members to consumers, which the auditors found to be comprehensive and well recorded.

Membership Withdrawal and Sanctions for Non Compliant Member Businesses

Non compliant members face a range of sanctions including suspension of membership, closer scrutiny or expulsion. The cases of members' non compliance can be referred to the Compliance and Discipline Panel. The Panel consists of no more than four members who are wholly independent of the debt management industry.

The Panel will hear and determine allegations of misconduct by a member of DEMSA arising from any of the following:

1. A consumer complaint.
2. In consequence of a compliance audit. In this context, DEMSA will undertake whether by internal procedures or by the services 20 of external professionals, regular reviews of members' compliance with key principles of the Code, the Debt Management Plan Protocol and Financial Conduct Authority requirements.
3. Information obtained from a mystery shopping exercise, or a consumer satisfaction survey.
4. A complaint from another DEMSA member.
5. A complaint from any other interested source, including (but not confined to) a lender.

The audit found that the Panel had convened on few occasions in the last few years.

Two companies had been ejected for non-compliance in last six years and a couple of members had been fined.

The audit examined an example of a company who were using "citizens advice" as a Google search term for their company's website. A comprehensive file of the issues and outcome of the Panel's hearing was inspected, and no issues were found.

The members who are expelled from DEMSA are formally written to and required to stop using DEMSA and TSI logos. (The same requirement applies to members who leave the scheme voluntarily.)

Three ex-members' websites were checked and none of them were listed in TSI Directory or displaying DEMSA or TSI logos or had any references to them on their websites.

Marketing and Advertising by Member Businesses

All members' websites, advertising and promotional materials are checked by both DEMSA and ICAEW at the application stage.

The audit found no issues of concern with marketing and advertising.

Terms and Conditions and other Pre-Contractual Information

These are all checked by DEMSA and ICAEW at audit to ensure their compliance with the relevant legislation and the DEMSA code.

DEMSA does not provide standard terms and conditions, however members do have to ensure their terms and conditions are clear, use plain English and comply with consumer legislation.

Members are required to use separate client accounts for pre-payments. The accounts are audited annually by a registered financial auditor. Members have to provide DEMSA with a certificate of compliance to demonstrate client accounts being operated correctly.

Customer Service Provisions

DEMSA operates a comprehensive customer service system with clear systems and procedures.

The audit found following examples of wide-ranging customer service provisions:

- Members of DEMSA invest heavily in their staff and systems to ensure that the quality of advice and services provided to their clients are consistently high. To complement this, in 2010, DEMSA launched a professional qualification in partnership with the Institute of Money Advisers (IMA), designed to demonstrate competency and help raise standards in the fee charging debt advice sector. The qualification is accredited by Staffordshire University (as equivalent to a first year degree/NVQ 4) and includes Continuing Professional Development.
- There are no premium rate contact numbers in use, all DEMSA members use 0800 free phone numbers and/or local numbers, if using a mobile phone.
- DEMSA's Code of Conduct bans cold calling – as banned under legislation. This is checked on audit. However, members do respond to "warm" leads, where consumers have provided their details to third parties.
- As required by the Debt Management Plan Protocol, all members are required to signpost consumers to impartial financial/debt advice services on their websites.
- Each member has to have written policies on how to deal with vulnerable consumers. The staff's ability to deal with vulnerable consumers is assessed at the application stage.

Consumer Complaints Process

The complaints process for DEMSA was examined. The complaint records were found to be comprehensive, with access to all of the relevant correspondence being provided. The customer complaint workflow was examined and found to be comprehensive and clear.

There did not appear to be any undue delay in the processing of any of the complaints reviewed.

The audit found out the following:

- The complaints records are kept on a spreadsheet.
- The main areas for complaints are:
 1. Service issues (50% plus)
 2. End of term of plan issues
 3. Beginning of plan issues
 4. Adequacy of information provided (generally pre-contractual)
- According to the DEMSA Code of Conduct (section 21 and 23), all members must disclose on their websites and on their paperwork that they are members of DEMSA and the TSI Consumer Codes Approval Scheme and show clearly how the consumers can complain.
- DEMSA members send leaflets to consumers with all paperwork outlining complaints procedure.
- Most complaints are received by phone and regard poor service. Consumers are directed to the member's company first to try to resolve the issue. If the complaint cannot be resolved at a local level, the consumer can refer it to DEMSA in writing.
- The audit examined DEMSA's complaints records from 2013/14 and found the complaints rate very low (0.04% of all transactions). Members had £4.7 billion of debt managed and £350 million had been repaid to creditors (slightly under 10% repaid).
- In 2013 members paid £4500 in refunds of fees and £230 in compensation.
- DEMSA uses Financial Ombudsman Services for ADR. In 2013/14 three customers complained both to DEMSA and FOS and were advised by DEMSA to pursue the issue with FOS. Only one complaint referred to FOS could not have been resolved at mediation stage by DEMSA.
- DEMSA carries out an annual analysis of complaints types and trends.
- General Secretary of DEMSA oversees the complaints process and investigates the more complex complaints.
- All members are required to respond to the allegations of the complainant within 10 days and to follow the Code of Conduct rules (section 23). Decision should be made within 21 days (many are resolved same day, or within a short time frame).

Customer Satisfaction and Feedback

All members have to issue consumer satisfaction forms once a month. DEMSA informs the members how many consumer satisfactions forms have to be issued (based on 10% sample of customer base). The response rate is around 20%.

The consumer satisfaction forms are currently paper based, but DEMSA is exploring how to move the process online and is considering the TSI Directory feedback mechanism.

The questionnaires are sent by members to customers in post (the member sending the questionnaire is recorded on the form). The forms are returned via freepost address to DEMSA. Any questionnaires with either positive or negative comments are sent back to the member.

If the customer feedback indicates an underlying issue, DEMSA will contact the member and ask to investigate.

Overall satisfaction levels per member are recorded and sent quarterly and annually.

The questionnaires are analysed annually to spot emerging trends and issues. Each question is compared with average rating from the year before.

86% of customers think the overall service is good or excellent (data from 2012 and 2013).

The audit examined a significant number of customer feedback forms and noted the high number of positive comments, regarding the debt management services provided.

Conclusions

DEMSA are fulfilling their obligations as a code sponsor and their member base is compliant with the CCAS core criteria and the DEMSA Code of Conduct.

DEMSA has a comprehensive and rigorous application process and an ongoing auditing programme for their members. The application process was particularly rigorous in assessing both the members' staff knowledge and capability to provide debt management services, and their awareness and skills in supporting vulnerable consumers.

The effectiveness of DEMSA's Code results in low levels of complaints and a high level of customer satisfaction.