



If unemployment continues to increase as suggested by a number of independent forecasts, by mid-2011 demand for advice will exceed that seen at the peak of the financial crisis in late 2009.

A balanced forecast, which would take a path between these two scenarios, sees demand for advice rising steadily from current levels through 2011 back to approximately 1.6 million individuals seeking advice in 2013.

The UK economy is currently experiencing unsustainable record low interest rates which have caused the cost of credit faced by most consumers to fall. Consequently, in the period 2013 – 2015, if the cost of credit increases in line with OBR expectations, the debt burden on UK households and prevalence of problem debt will increase markedly.

Despite demand for debt advice currently being at near all-time high levels in the UK, the scale of potential need for debt advice among households remains much greater than the level of advice currently sought.

At any time up to 5 million individuals report unmanageable debt commitments. Of these, only 1 in 6 seeks advice from any source.



MAT is very grateful to advice sector partners for providing data on their client volumes and characteristics for this project.

These research findings are derived from the research project, "Demand, Capacity and Need for Debt Advice in the United Kingdom", undertaken by Dr John Gathergood from the University of Nottingham. The research is based on data provided by advice providers and the ONS Wealth and Assets Survey.



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Demand, capacity and need for debt advice in the UK

Summary of findings

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The University of
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During the financial crisis of 2008, the demand for consumer debt advice in the United Kingdom increased dramatically. Between 2008 and 2009 the number of individuals seeking advice from a free advice agency increased by some 350,000 to a record level of 1.62 million. Advice providers were overwhelmed with demand for advice beyond their capacity and the proportion of individual enquiries which advice providers could meet fell by approximately 30% before the sector subsequently expanded advice capacity throughout 2009. In 2010, it is likely that the free-to-client sector will provide advice to 1.4 million individuals.

More than half of the 2.6 million individuals who will seek advice in 2010 will do so from a free-to-client debt advice provider.

This research:

- uses data provided by advice agencies across the UK, together with individual-level survey data from the Office for National Statistics Wealth and Assets Survey to construct a reliable estimate for the number of individuals seeking debt advice
- uses econometric forecasting methods to model the impact of developments in the macro-economy on demand for advice. The report forecasts future trends in demand for debt advice based on the Office for Budget Responsibility's forecast for the UK economy

- investigates the profile of people who seek advice.

When individuals who have recently sought debt advice from some source are asked who they contacted for advice, approximately 1.4 million (55%) identify a free-to-client advice provider, three times the number who report asking friends and family for debt advice. Approximately 400,000 (16%) individuals report that they seek advice each year from an advice provider in the fee-charging debt advice sector. Fee-charging firms typically seek and successfully attract higher-income, higher-debt consumers.

The level of demand for debt advice is most closely associated with:

- the unemployment rate
- average earnings
- cost of credit.

A one percentage point increase in the International Labour Organisation (ILO) measure of unemployment rate is associated with an additional 60,000 debt advice enquiries per quarter.

A one percentage point increase in the quoted average interest rate on a £10,000 personal loan is associated with an additional 40,000 debt advice enquiries per quarter. The demand for debt advice has stabilised in 2010 because the unemployment rate and cost of credit have remained relatively low.

The outlook for demand for debt advice is highly sensitive to future trends in unemployment and the cost of credit.

If unemployment falls in line with Office for Budget Responsibility (OBR) forecasts for the UK economy, demand for debt advice will moderate over 2011-2012. However, many independent forecasters see an alternative scenario in which unemployment rises above the levels predicted by the OBR over the coming years.

OBR November 2010 forecasts for macroeconomic aggregates (forecasts in italics)

	2010	2011	2012	2013	2014	2015
Unemployment rate (%)	7.9	8.0	7.7	7.2	6.7	6.1
Average earnings growth (%)	2.3	2.2	2.4	3.8	4.4	4.4
GDP growth (%)	1.8	2.1	2.6	2.9	2.8	2.7
House price growth (%)	6.7	-3.1	1.1	3.7	4.3	4.3
Personal loan rate, £10k (pp)	10.6	11.1	11.9	12.5	13.1	13.7
Mortgage quoted SVR (pp)	3.5	4.0	4.8	5.4	6.0	6.6
Alternative independent unemployment forecast		10.0	11.3	9.4	8.2	8.0

This figure illustrates two forecasts for demand for debt advice from the free-to-client sector under alternative scenarios: a forecast based on the OBR's projections for the UK economy and an alternative forecast based on the highest projection for unemployment among independent forecasters. These forecasts are illustrated in the table above.

Forecast demand for debt advice from free-to-client sector, Q1 2010 – Q4 2015

