



The Farepak Collapse Northern Ireland Savers' Stories



THE NEWS

Farepak - an unfair deal for savers?

Farepak families left out in cold at Christmas

Many homes in Northern Ireland are facing hardship and misery at Christmas

Hamper company collapse hits many Northern Ireland households

An estimated 1,200 people in NI were affected when Farepak collapsed on 13th October 2006. Those affected are to receive 5p to the £1 in compensation - six months on they are still waiting on compensation

When Farepak collapsed in October 2006, more than 1,200 people in Northern Ireland lost £480,000. It was a bitter blow and caused hardship and misery for many families at Christmas time.

Farepak customers may only get 5p in the £1 in compensation - they have not received it yet.

The Government is conducting a confidential investigation into the circumstances surrounding the failure of Farepak.

The Consumer Council has taken a special interest since the collapse by providing practical help and advice to those people affected. This report tells the story of Farepak customers and agents. When Farepak collapsed these customers and agents were labelled victims. However, they took action and control. They are no longer victims but consumer champions.

We need to find alternatives so that this crisis doesn't happen again.

Introduction and background

1.1 The Consumer Council

The Consumer Council is an independent consumer organisation working to bring about change to benefit Northern Ireland's consumers. We campaign for high standards of service, protection and a fair deal for all. We also carry out research, give advice and publish reports and other information. We deal with individual complaints about electricity, natural gas, water, coal and passenger transport.

The Consumer Council is taking a special interest in the Farepak collapse which relates to our corporate themes of consumer education and protecting the interests of vulnerable consumers.

In November 2006, we made four commitments:

- To provide practical help for the people affected;
- To work with them (and people generally) to develop safer ways to save;
- To make Farepak agents and customers views known, heard and count in the Government inquiry; and
- To lobby for new legislation to ensure consumers are not at risk and are offered full protection by law.

To honour these commitments, we met with Farepak agents and customers in March 2007. Opinions expressed in this report are predominately based on the direct feedback given to us by them. In total, 30 people contacted us to share their stories. Respondents came from Waterside (Londonderry), Belfast, Castlewellan, Ahoghill (Ballymena), Portaferry, Garvagh, Coleraine, Carrickfergus, Lisburn and Newtownards.¹

1.2 Farepak Savers

The Farepak collapse was a bitter blow for thousands of people in Northern Ireland who were left out of pocket and facing a bleak Christmas. According to BDO Stoy Hayward, more than 1,200 local people lost around £480,000. When Farepak collapsed in October 2006, the company went into administration and BDO Stoy Hayward was appointed as administrators. Customers and agents can expect to receive compensation of around 5p in the pound. The Farepak Response Fund launched by the Government raised £7 million. This was distributed to those affected by the Family Fund charity and helped some 150,000 people across the UK. Savers benefited from an average of 16p in the pound², a small compensation for their loss.

Farepak savers were devastated by their losses. Despite their best efforts to avoid Christmas debt by taking responsibility, planning ahead and saving regularly, they were punished because their hard earned savings were not secure.

¹ The Consumer Council received research information from six people via telephone, two questionnaires were returned (one with a letter) and two people provided information via e-mail. Seven meeting attendees provided additional information in the form of completed questionnaires, letters or e-mails. 12 people attended a meeting in March.

² Based on information provided from Northern Ireland Farepak savers as part of Consumer Council research.

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Introduction and background

The home credit market is considered to be similar to the hamper savings market. Home credit customers are more likely to be in socio-economic groups D and E, be on low incomes, live in social housing and be female.³ Farepak victims in socio-economic groups D and E were left in an even more vulnerable and disadvantaged position, as a result of the collapse. To cover their losses, they faced the prospect of debt and loans, digging into savings and working extra hours.⁴

The voucher and hamper savings schemes' industry was not regulated⁵ and customers were unaware of the risks of paying up front for goods. Company law regulation did not work for Farepak savers. When a company collapses, customers are the last to receive a distribution of company's assets.

Farepak savers were victims when Farepak collapsed. However, they took action and control by helping themselves and others. They are no longer victims but consumer champions.

1.3 This report provides:

- An insight into how agents and customers in Northern Ireland were affected by the Farepak collapse;
- An overview of how savers covered their losses over Christmas 2006 and what their current saving habits are;
- A summary of savers' opinions on mainstream alternatives to voucher and hamper savings schemes and their preferred savings model; and
- Policy recommendations to the Government, consumer bodies, the financial sector and media.

1.4 A word of thanks

In the knowledge that they may never receive much or any of their savings back, Farepak savers were generous with their time and willingly participated in the Consumer Council's research.

We want to thank:

- Everyone who travelled across Northern Ireland to the Belfast meeting and those who gave their views by e-mail, phone, letter or questionnaire;
- The local media who played a crucial role in helping the Consumer Council make contact with Farepak savers; and
- Local politicians who worked hard at a local level with many victims of the Farepak collapse.

³ Home credit market investigation, Competition Commission, 30 November 2006. Cited in Review of Christmas Saving Schemes, HM Treasury Report, March 2007.

⁴ HM Treasury Review of Christmas saving schemes March 2007 indicates that although low-income households appear to make up the greater part of the market, there is evidence that some better off and more financially sophisticated households also use voucher and hamper savings schemes.

⁵ The voucher and hamper savings schemes' industry collects money in advance for goods. They are not a financial service and fall outside the regulatory remit of the Financial Services Authority.

Effects of Farepak collapse on NI agents and customers

2.1 Attractiveness of the Farepak savings scheme model

“The fact it couldn’t be easily accessible, that you knew you had to pay for it, you knew you had something to work towards and you knew you weren’t getting it until Christmas so you couldn’t spend it. It’s not like putting a card in the wall and lifting out money.”

“I am a disabled pensioner. It is hard for me to get round shops. It suited me to get hampers as they were delivered to my door. I cannot afford to lose £800 as I am on a state pension. I would like to know why the Managing Director and Chairman of Farepak did not do more to help people like me.”

Savers found Farepak attractive because:

- There were social aspects to saving with friends and family and trust in paying cash to an agent;
- Agents and customers trusted Farepak. One person stated that she had been an agent with the company for 18 years;
- ‘Feel good’ factors included; providing for children, the social aspects of saving among friends and family, choosing gifts from the catalogue, spending the vouchers together and agents’ satisfaction in helping customers to save;
- Customers found the system easy, since little paperwork or identification was required. However, agents found preparing and completing orders hard work. Collecting money from customers was time consuming but something that they were willing to do;
- Farepak savers paid into the scheme each week or month and their money was ‘locked in’ until the month before Christmas. Their savings were issued in the form of hampers or vouchers, not cash. Vouchers could be spent in high street stores. This system worked for this group of people who found it difficult to save or felt tempted to ‘dip in’ to cash savings. Vouchers could also be spent on family orientated gifts; and
- It was viewed as a better alternative to using credit cards and paying the bills and interest off over several months.

2.2 Consumer confidence in voucher and hamper savings schemes

“We’ve been bitten. We all have got burnt fingers now. “

“X [Farepak Agent] had been ill and had been in hospital and when she came home there was a letter from Farepak..... to say that she hadn’t sent that month’s payment, which she then got her husband to go straight to the Post Office to do. She actually sent two payments and four days later, it collapsed.”

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Effects of Farepak collapse on NI agents and customers

The Farepak collapse shook consumer confidence badly:

- Agents and customers said unanimously that they would not use a hamper or voucher savings scheme again;
- People who contacted the Consumer Council reported that 142 customers' losses totalled £53,344. This is an average loss of £375.66 per person. However, individual losses were as high as £3,000. Additionally, two agents paid customers back out of their own money;
- Agents and customers said they would not trust people from financial institutions calling at their door or work to collect money for a savings scheme - even if their money was secure and safe; and
- Customers did not get any notice or warning of the pending Farepak collapse. A customer said that she noticed that the Farepak catalogue hadn't been sent and she found this unusual. She told the group that these were normally sent out at the end of September. She also noticed that Farepak didn't have any new advertisements on TV, unlike another voucher and hamper savings company. She told the meeting that shortly afterwards, the news carried the story of the Farepak collapse.

2.3 Feelings when Farepak first collapsed

"I remember seeing X [my partner], the distress she was in. She took the week off work. The distress she was in. The stress level alone was ridiculous and I don't think I can ever get that out of my head. It's a terrible experience."

"You cry for days, you don't eat, you don't sleep. You worry about close family members. You go to the doctor and you're depressed and you can't sleep at night.... It hit me hard; I actually went for sleeping tablets."

"I was hearing on the news that people had got the money and given it back to their customers. I didn't have that. I did not have £7,500 to hand to anybody and I felt rotten then."

Agents reported an overwhelming feeling of distress and isolation which ranged from:

- Plucking up courage to contact customers to inform them of the Farepak collapse;
- Feelings of guilt and shame in introducing family members to the collapsed scheme, 'stealing' customers' money, letting close friends and family down and ruining Christmas;
- Being unable to inform customers about the administration claims process and timescale, due to a lack of information from Administrator BDO Stoy Hayward; and
- Feelings that Farepak directors should have broken news of the collapse to customers (as opposed to agents).

Effects of Farepak collapse on NI agents and customers

Farepak customers reported feelings of distress. They felt:

- Personally and geographically isolated. BDO Stoy Hayward Administrators were operating from Swindon, where Farepak was based – hundreds of miles away from Northern Ireland;
- Unfairly treated under company law. (When a company fails, consumers bear a risk and often receive relatively little from the distribution of assets by the administrators). They questioned why banks, who they perceived were better able to cope with financial loss should receive their money before consumers;
- Punished for following the Government's instruction to save as opposed to borrowing;
- As if Farepak 'stole' their money;
- A lack of communication from BDO Stoy Hayward Administrators on the next stages of the administration process;
- Difficulties in understanding the terms and 'jargon' used by the administrators;
- Concerns that there was little apology and explanation from Farepak directors as to why the company collapsed;
- Offence at media branding them as 'underprivileged'; and
- Unhelpful and hurtful comments from work colleagues that they were stupid to use a voucher and hamper savings club.

Both agents and customers:

- Praised Alasdair McDonnell MP who they felt was helpful to Farepak savers in providing advice inside and outside his constituency. This broke their isolation;
- Suggested that other politicians (Northern Ireland and in Great Britain) could have been more proactive before Christmas and brought them together⁶;
- Believed that national media provided good coverage in reporting the crisis and informing people on what to do next; and
- Recommended that the local media should be more responsive in disseminating information to the public, should a similar situation happen again.

⁶ After the Farepak collapse, political representatives from DUP, Alliance and SDLP parties contacted the Consumer Council for information packs to help their constituents.

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How Farepak savers coped and their current savings habits

3.1 Meeting the cost of Christmas in 2006

"I would save with the bank anyway but it's money that we would save for everyday needs, like car, house, things like that. You could use it if you need to use it."

"I was distraught with worry and ended up having to use my X credit card to pay for Christmas last year. This was not an avenue that I wanted to go down."

Farepak Savers covered the cost of Christmas in a number of ways:

Two agents paid customers back out of their own money to cover what they had lost in the scheme. Coupled with their personal losses, this amounted to £4,250. One agent used existing savings to pay customers back. The other agent borrowed money from a family member and took on a part-time job to repay her loan. Here is her story;

"I am now in the process of being taken to court for bills I could not afford to pay at the time and now because of this company's collapse. I owe a total of £3,000 to people because I felt that as I asked them to be my customers it was up to me to pay them what they were owed... I am being taken to court because of £2,000. Why isn't the Company and its Directors being pursued in this way?"

"I took on a part-time job which was quite hard 'cause he [X] was in at ten to five and I was out the door at five o' clock until bed time. So I mean, I never saw the kids - maybe a couple of hours. They were away to school in the morning and that was it. I was never in and I'm still not in and still doing the same hours".

- A third agent gave her and her fiancé's share of vouchers from the Family Response Fund to her customers. This amounted to approximately £150;
- Others borrowed from a credit union or a boss at work;
- There was general agreement that the group 'made do' with what they had or bought less. One person organised a 'Secret Santa' for the group, (where a person buys one expensive gift for one person, as opposed to buying many presents);
- Another saver took on a high interest loan, but said that she did not care as it was her only method of obtaining extra money;
- One saver approached a building society and asked for a 'payment holiday'⁷ [from her mortgage] to cover the loss of Farepak. She was refused;
- Working extra hours over Christmas;
- Using credit/store cards, ordering extra gifts from a catalogue; saving in the local butcher's Christmas club and buying savings stamps from a major food store; and
- One person commented that she saved during the year and in the two months following the collapse used two major supermarkets' Christmas savings account cards. She described this as her 'action plan B' for 2006 and spoke of her relief of having the card to fall back

⁷ A payment holiday permits borrowers to stop mortgage repayments for an agreed period.

How Farepak savers coped and their current savings habits

on. Comments were made that if the cards are lost, the customer would lose their money since the retailer does not keep a record of customer details. The card owner was aware of the risks associated with this.

Agents and customers also complained that additional costs were incurred in making a claim.

- For example, the Administrator's claim's line was charged at premium rate and this increased an agent's phone bill by £15 per month. The cost of sending claim forms by recorded delivery was also mentioned.

3.2 Saving habits for 2007

"I just get a tin now. See as far as Farepak, hampers and the rest of them is all concerned, I wouldn't go back into any of them. You are taking a big chance on all of them now. That's what put me off."

"I find it easier to pay things off than to save and I always found it a good way to save for me because I had somebody asking me every month for my instalment and I couldn't access it throughout the year. I have opened a Post Office account. I chose one which you have to write off to make a withdrawal, to make it more awkward for me to 'dip into it.' If I get any little windfall, I put them into it as well as a monthly sum, so fingers crossed I'll be alright this Christmas."

Early in 2007, savers are already considering the cost of Christmas:

- Some are buying vouchers from stores, using the credit union, an existing bank account, a retailer's Christmas savings account card or a Post Office account;
- Others have not started to save. They rate the temptation to 'dip in' to savings in an ordinary bank or credit union account as very high;
- Some Farepak savers said that they would turn to credit unions if they had money worries; and
- One in four savers said they would find it difficult to stick to a weekly routine of paying in their own money into a financial institution's savings scheme.

3.3 Savers 'circle of trust'

"If you've got someone in the family that you know has got a tight week next week, then you'll cover for them 'cause they will make it up the following week [and can't pay into the savings club]. But when it's not family and friends, you've moved out of the circle of someone you don't know. [You're not covered for it.]"

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How Farepak savers coped and their current savings habits

“That’s the thing I didn’t like about the Credit Union. When you put your savings in they always wanted you to take a loan out and not your savings. And that’s what I didn’t like about it. They have started this new account now where if you want to take your savings out you can or you can take out a loan.”

Savers showed remarkable trust among family and friends involved in voucher and hamper savings schemes but were less trusting beyond that group. They felt that:

- Savers would like to see customers’ savings with major voucher and hamper and savings companies ring fenced and guaranteed ‘right up to the last second’;⁸
- Systems should also be transparent to protect customers’ savings; and
- Before the Farepak collapse, Farepak savers said that they felt a ‘buzz’ when they saved all year. They said that it was too early to say if they would experience this when saving all year with a financial institution.

3.4 Preferred Christmas savings model

Savers had clear views on their preferred models of savings clubs.

11 out of 12 people said they would join a Christmas savers account where:

- Savings are regulated and protected with a financial institution, eg credit union, bank, building society or the Post Office;
- They can save - not borrow money for Christmas;
- The temptation to ‘dip in’ to savings is removed. Easy access to Christmas savings is not desired - even in a crisis;
- Savers can specify which month they would like to withdraw their savings and then save towards this; and
- Savers can deposit and save small or larger amounts of money, depending on individual circumstances. This would help them to focus on budgeting for other household bills, like water rates.

3.5 Other views expressed by Farepak agents and customers

“A couple of weeks after the collapse, the banks actually came out and said how many billion pounds profit they made for that year. I think that’s a bit of an insult really to be honest.”

Farepak savers expressed concerns on the possible outcomes of the Government inquiry. Agents and customers said they:

- Lack confidence in the Government inquiry and they want justice;
- Worry that people in Northern Ireland will not be heard;

⁸ Farepak was not a member of the British Retail Consortium (BRC). BRC represents a whole range of retailers, from the large multiples and department stores through to independents. In media reports, the British Retail Consortium called for proper scrutiny from the DTI into Farepak. DTI is now known as the Department for Business, Enterprise and Regulatory Reform.

How Farepak savers coped and their current savings habits

- Fear that the Farepak collapse will be old news when the Government inquiry is over and are concerned that the episode will be 'brushed under carpet';
- Fear that no action will be taken against company directors;
- Feel that Farepak customers and agents in Northern Ireland will be the last to receive money from the Administrators;
- Were unhappy that the Hamper Industry Trade Association (HITA) gave customers and agents a false sense of security regarding the protection of their money and that the insurance company underwrote Farepak but did not adequately cover the costs of major losses;
- Were unhappy with the behaviour of Halifax Bank of Scotland in the Farepak collapse; and
- Believed that Farepak administrators sold agent addresses to other voucher and hamper savings firms.

3.6 Communication

"One lesson that should be learnt from it all should be communication."

Customers and agents provided views on channels of communication during and after the period of the Farepak collapse. They said:

- Farepak savers stayed informed by checking the Administrator's website, using the Unfairpak website to get help in completing claim forms, reading a national newspaper and watching a national television programme for updates⁹;
- They found the Administrator's automated telephone service 'annoying' because there was a lack of information provided and the duration of the phone conversation in relaying customers' details was costly;
- There was a lack of understanding of the administration process and who was entitled to get their money first; and
- Agents wanted to know about the next stage of Farepak's administration process, timescales and when they were likely to receive compensation. They said they felt frustrated as they did not have this information to pass on to customers about the claims process. Also, they did not understand why BDO Stoy Hayward Administrators needed customers' bank details.

⁹ The Consumer Council provided details to agents and customers on how to make a claim by telephone and the Consumer Council website, through media interviews and by disseminating information through MLAs. At the request of Dr Alasdair McDonnell and the SDLP, the Chief Executive and the Senior Consumer Affairs Officer (Social Needs) attended a public meeting with Farepak agents and customers. Information packs were provided to those affected.

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How Farepak savers coped and their current savings habits

3.7 Gratitude for help received

"I got £145 in vouchers thanks to the charity who gathered money up from people. I also received two boxes with alcopops in them. I had not ordered alcopops but was glad of them to give a Christmas gift. I got two boxes of groceries which I was glad to receive."

"The Family Fund have been great. We received over £200 goodwill vouchers the week before Christmas and all customers were delighted..."

Agents and customers expressed gratitude to various organisations like the Family Fund, their employers (eg Homebase/Argos), their local church group and gifts from well-wishers.

Conclusions and recommendations

4.1 Conclusion

The Consumer Council's research concludes that:

1. 11 out of 12 Farepak savers would consider saving with a financial institution. They want to be able to control their money and specify the month for withdrawal. The system should allow for small and large amounts of savings. It would have to be safe, secure and protected;
2. Farepak savers want to save, not borrow for Christmas, special occasions or big purchases;
3. Major voucher and hamper savings companies should ring fence and guarantee customers' savings 'right up to the last second.' Systems should also be transparent to protect customers' savings;
4. Savers' trust in voucher and hamper savings schemes is very low;
5. Customers want justice from the Government inquiry into the collapse of Farepak;¹⁰
6. Savers want their voices heard and to be kept informed of what is happening by the Administrator;
7. If a Christmas savings account card becomes lost or stolen, consumers could lose their money, if the retailer doesn't keep a record of customer details;
8. Lessons must be learnt from the Farepak crisis. The media can play an important role in getting a consumer message across – who to contact and what to do in the event of a company collapse.

4.2 Consumer Council recommendations

A collaborative and joined-up partnership approach is needed across the community, voluntary, private and public sectors, policy makers, the Government, administrators, regulators, consumer bodies and financial institutions.

These recommendations are based on the evidence provided by Farepak savers and aim to reduce short-term risks for savers and affect long-term change in law.

By listening and responding to the needs of Farepak savers we compiled this evidence-based report. As a result, the Consumer Council will:

1. Put the needs of Northern Ireland consumers who choose a savings club approach firmly on the financial capability agenda.
2. Work with financial institutions to develop and promote safe and secure savings schemes.
3. Educate and protect vulnerable consumers across Northern Ireland on risks associated with pre-payment.

¹⁰ The DTI (now BERR) is conducting a confidential investigation into the circumstances surrounding the failure of Farepak. Launch of the investigation should not be seen as an indication that the Department believes fraud was to blame for Farepak's collapse.

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Conclusions and recommendations

4. Work with financial auditors and administrators. Consumers need timely, simple instructions on making a claim and information when they will receive compensation. Information should be made available in a range of formats¹¹. It is essential that administrators do not charge consumers who want to make a claim. (Farepak savers were charged premium rate phone numbers). It is essential that consumers get information on their legal rights and responsibilities when a company goes into administration. Written communication to consumers should be presented in a jargon-free, Plain English format.
5. Use the findings and evidence in this report to lobby the Secretary of State for Business, Enterprise and Regulatory Reform and the Northern Ireland Assembly on the needs of local consumers and to effect legislative change for the people affected by Farepak. The Consumer Council welcomed the Government's positive and swift review of Christmas savings schemes and the commitment to improve awareness and information about these schemes and financial services¹². However, the Consumer Council acknowledges that there is much work still to be done. We look forward to seeing how this industry-led scheme will work in practice.¹³
6. Lobby Government to strengthen company law reform as suggested in the Office of Fair Trading's report¹⁴ in the following areas;
 - Bring about legislative change to protect consumers in unsecured savings schemes like Farepak by strengthening company law and regulations to reduce risk to savers;
 - Moving consumers up the list of creditors, if a company fails;
 - Holding directors potentially personally liable if they misuse consumers' pre-payments; and
 - Strengthening consumers' rights and ability to take representative action where potentially money is available, possibly through directors' personal liability.
7. Lobby the Government to consider refunding Farepak savers who incurred telephone and postage costs when contacting the administrator to make a claim.
8. Ensure that the voice of Northern Ireland consumers is heard in the Government inquiry into the collapse of Farepak.
9. Work with the Northern Ireland Assembly to gain commitment to the UK Financial Capability Strategy and its implementation in Northern Ireland. There is also a worrying lack of financial capacity to cope with a change in personal circumstances or for the long-term future. More resources are needed to champion financial capability here to benefit consumers, the economy and society in general. Only then, will the gap between consumers in Northern Ireland and the rest of the UK be closed.
10. Work with partners to develop a long term crisis management model on providing information to consumers when a company goes out of business.

¹¹ Research published by National Statistics August 2006 on Internet Access on Household and Individuals shows that 50 per cent of households in Northern Ireland have no access to the Internet. The higher an individual's income, the more likely they are to have access to the Internet.

¹² Review of Christmas savings schemes, HM Treasury, March 2007.

¹³ In future, pre-payments made to Christmas Hamper schemes will have to be held in independently controlled ring fenced accounts. This does not include Christmas Savings Clubs run by local shops, such as toy stores or butchers' shops.

¹⁴ Farepak: review of the regulatory framework, Advice from the Office of Fair Trading, December 2006.



The Consumer Council
Elizabeth House
116 Holywood Road
Belfast
BT4 1NY

Telephone/Textphone: 028 9067 2488
Complaints line: 0845 601 6022
Fax: 028 9065 7701

E-mail: info@consumercouncil.org.uk
complaints@consumercouncil.org.uk

Websites: www.consumercouncil.org.uk
www.consumerline.org

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