

# Money Matters

The Consumer Debt Net newsletter December 1996 **No 4/96**

## European Debt Problems



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# Message from the Editor



**W**elcome again to Money Matters, it never ceases to amaze me how quickly the next edition of Money Matters comes around and the unbelievable level of expertise and knowledge available on the issues surrounding debt problems. This issue brings to you the first in a series of articles looking at the types and levels of social welfare in different European countries, these will provide an overview and background information which will hopefully prove invaluable to you. This venture follows a suggestion at the "Pitlochry" conference that more could be gained from such conferences if delegates had at least some background information on the existing social welfare systems, we have taken this suggestion on board and we hope it proves helpful. We also include up to the minute information on the "Finland 97" conference and the first news on Conference 98.

I will of course continue to urge and encourage all readers and colleagues to put pen to paper or should that be fingers to computers and send me any interesting articles, the deadline for the next issue is January 15th. I look forward to hearing from you.

Best regards for a happy Christmas and a Peaceful New Year.

*Joan Conlin*

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**ICELAND**



## Debt Advice Services in Iceland

**I**celand has a population of just under 270,000, with 75 % of families owning their homes and unfortunately a rising level of unemployment. During the period 1945 -1991 unemployment ranged between 0.5 % and 1.0 %, five years ago it was 1.5 %, the increase has continued and today it stands at around 5 -6 %. During the last ten years the difficulties experienced by Icelandic households in repaying debt have increased. The root of the problem has been a severe shortage of loan capital, which has led people to attempt to buy their homes by taking a large number of short term loans. During this 10 year period the State Housing Board has operated a counselling service for people experiencing problems in repaying their loans. Its' activities have consisted chiefly of rescheduling debts, which are in arrears, to longer term loans. However, the reasons for people experiencing difficulties in meeting loan repayments have changed. The reasons that are now given include, amongst other things, unemployment and lower incomes as well as the fact that it is now much too easy to obtain loans. The market for credit has changed considerably during this period and the supply of loan capital now exceeds demand.

### Household Finances Advisory Service

For the last three years, the Ministry of Social Affairs, the State Housing

Board, pension funds and banks have co-operated on formulating common regulations for rescheduling debt. At the same time, these parties have looked for ways to solve the problems of repaying debt. They have arrived at the general conclusion that because these problems can be complicated and may consist of several interactive factors, it would be more effective if as many of the parties as possible, who are connected in one way or another with debt problems, could work together on the experimental project establishing the Household Finances Advisory Service (HFAS).

In February 1996, 16 parties signed a co-operative agreement concerning the operation of the HFAS. The service officially began working on February 23rd, 1996 and will operate on an experimental basis for a two year period.

The service is supported by the Ministry of Social Affairs, all lending institutions, local authorities, labour unions, farmers associations, consumer associations and the National Church of Iceland. These groups have financed the project, including six members of staff, who all have experience and expertise in the areas covered by the service.

### Who can use the Advisory Service?

The service works independently in the area of general counselling in co-operation with the parties involved with the project. The main area of



*Elín Sigrun Jónsdóttir, Iceland*

responsibility is primarily those people who are experiencing severe problems in repaying debt and who are no longer able to manage their personal finances, that is people who require counselling in order to achieve an overview of their situation and assistance in working out payment schedules, choosing between alternatives and negotiating with lenders. In addition to this the service provides free counselling and information on household finances by publishing and distributing educational material. The Advisory Service is open to all citizens, regardless of their place of residence.

There has been a great demand for our services, greater in fact, than the service has been able to meet in an adequate manner.

### What does the counselling consist of?

Great emphasis is placed on the users of the service preparing themselves well for their first interview with a counsellor. The applicant is asked to



fill out an application form, which is sent to him when he makes his first appointment and he is asked to bring documentation to support the information he provides regarding his assets, debts, income etc. It is stressed that people who are married or living together attend the interview together, as financial problems are the problem of everyone in the family unit and must be resolved through common effort.

After the first interview with the applicant, the counsellor's work is directed at drawing up a comprehensive picture of the applicant's income, debts and assets. This financial overview is presented on a special overview sheet.

The applicant's monthly financial position is used as a basis. Total disposable income is calculated, that is to say, not only earnings but also mortgage-interest subsidies, housing subsidies, child support, child benefits, other benefit payments and pension income. After that, the family's cost of living is determined. It is calculated on the basis of the Advisory Service's so-called provisional consumption norm, as well as the figures supplied by the applicant.

When the minimum cost of living has been subtracted from disposable income it is possible to see what remains to repay other obligations, including loan payments. The applications received by the service usually show a monthly situation of being in the red when the living costs, scheduled loan payments and other debts are taken into account.

The counsellor concentrates on bringing this figure down to nought and preferably putting it into the black. The problems are of many different types and the circumstances and causes are different in each case. There is no universal solution.

The aim of the Advisory service is to help people to help themselves. For this reason it has elected to turn over all information and all suggestions to the applicant himself, rather than to the institutions involved. The applicant must himself follow up on the suggestions made by the Service and put them into effect. However, the applicant is told that the Advisory Service would like to be kept informed and that it is concerned to see whether its suggestions bring results. The applicant is therefore asked to remain in contact and let the Service know whether he has had any success.

It is obviously possible to counsel and assist many people. Most of those who come to the Advisory Service do so at their own initiative and are prepared to try to solve their problems. Many come with the expectation that their debts will be cancelled with one stroke of the pen, it is of course, difficult to live up to this group's expectations. However, the vast majority of people come with realistic expectations and are very grateful for the services they receive.

There can be many difficulties in running a household and it is difficult to maintain a home in Iceland today, not only because of low wages but also because of the fact that not everyone is good at dealing with finances and household accounts. There are many examples of a sudden change in financial situations due to a government decision, such as a change in legislation relating to income and property taxes or because of illness, unemployment or loss of earnings for other reasons. Households are constantly presented with opportunities to place themselves in debt.

The Advisory Service believes that, apart from the solutions and advice offered, the service it provides in

helping people to draw up a comprehensive picture of their financial position is the greatest help which it is possible to provide, not only to the applicants themselves, but also to their creditors and the people closest to those experiencing the problem.

### Analysis of an applicant's position

From the beginning of its activities, the service has had the objective of being able to provide information on the circumstances of people in financial difficulties to the authorities and to creditors, in order to make it possible to learn from experience and help solve debt problems. The statistical information provided may be used as the basis for lending activity as well as lender policy and government decisions affecting household finances. There has been an analysis of the position of 340 applicants who have received counselling and the service holds considerable information in relation to their problems. During the short time the service has been in operation it has presented an analysis of repayment problems which had previously been unknown. This analysis includes a breakdown of age groups, place of residence, marital status, income, assets and debts. A large proportion of applicants, some 57%, are married or living with a partner whilst unmarried individuals account for 23% and single parents represent 20%. The largest group of applicants live in the Reykjavik area (76%) and only 24% live outside the capital.

A total of 73% of applicants were born in the twenty year period between 1950 and 1969, this can be further broken down to show that 40% were born between 1950 and 1959 whilst only 23% were born between

1960 and 1969. The default rate was highest amongst applicants born between 1940 and 1949.

### Proposals for remedies

The Advisory service is now compiling a preliminary report which will be published during the autumn, it will present proposals by the service to remedy debt repayment problems as well as including examples of the types of difficulties experienced by people and statistical information on those who sought assistance.

In the opinion of the service there is an urgent need to introduce new thinking in relation to loans to individuals. The fundamental condition for granting loans and for borrowing money should be that the borrower is able to repay the loan he takes. Unfortunately, this is not always the prime consideration in Iceland today. An estimated 75% of all loans granted by banks to individuals are guaranteed by a third party and 25% of bank loans use real estate

owned by the borrower as collateral this applies to loans other than those granted by the State Housing Authority for purchasing real estate, which are all secured with a lien on the real estate purchased).

The Advisory Service considers that there is an urgent need for legislation which would make responsibility by a third party the exception rather than the rule. Legislation of this type were passed now it would be possible to change the attitudes of both borrowers and lenders within a very short period of time. The condition for borrowing would then be that the borrower could pay his debt himself, whether his relatives or colleagues are able to pay should not be of any consequence. We believe that, if the third party surety is to be abolished there will have to be realistic assessment of people's ability to pay. In order to make this possible a consumption norm which determines the cost of living for a household in this country must be

compiled and lending institutions must work together on the operation of an information centre which would gather information on individuals' debts and payment habits.

The Advisory Service has taken the first step in this process, with good results, this pioneering work must be carried on.

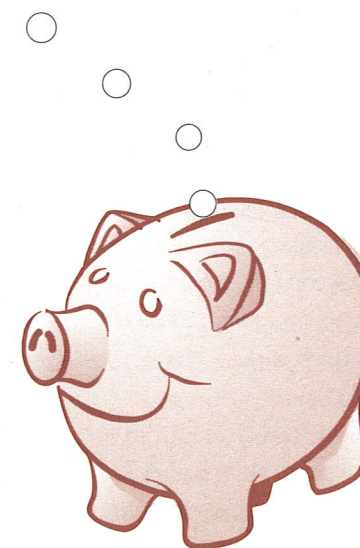
The Household Finances Advisory Service is the result of co-operation between many agencies previously mentioned, the service provides the proof that parties who are normally in competition with each other and who have different interests, can work together toward solving the problems of people suffering financial difficulties and in so doing encourage improvements in the financial position of households in Iceland.

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## The Market Behaviour, Levels of loans and overindebtedness among private households in the New Federal German States

**T**his article concentrates on the results of the longitudinal study with family households that formed part of the overall research and evaluation undertaken by GP Forschungsgruppe, Institut für Grundlagen und Programmforschung of Munich.

This research was commissioned in August 1994 by the German Ministry for Families, Senior Citizens, Woman and Youth in order to obtain an evaluation on "The market behaviour, levels of loans and over-indebtedness among private households in the new federal German states".

### Research methodology

The objective of this research was to provide a general idea of the situation in relation to debt and overindebtedness in the new federal states in comparison to the old federal state as well as to consider the advice given to debtors in the new federal states. Along with this an analysis was to be undertaken amongst the East German population as to the response to the range of loans and consumer goods on offer.

The results of the evaluation are based on primary data collected by

the GP Forschungsgruppe and on secondary analyses of investigations by other institutions. Our own investigations in 1995 were carried out among the following target groups and random samples.

- A longitudinal study of 301 family households who had already been interviewed in 1991.

- A full investigation among all known East German debt counselling centres (113 debt counselling centres with 13,650 clients participated in this study).

- A full investigation among energy-supplying companies in East Germany (21 companies with a total of 2.3 million households took part in this part of the study).

- A full investigation of all house building associations owning at least 1000 flats in Sachsen-Anhalt (24 associations with 175,000 tenants took part).

The most important secondary analyses that were taken into account included:

- A special evaluation of data supplied by Bundes-SCHU-FA concerning approximately 22.5 million loans.

- Various special evaluations, provided by a sample survey of

income and expenditure carried out in 1993.

- An analyses of the Gesamtverband der Deutschen Wohnungsbau-gesellschaften (the association of German house building associations) on overdue rent payments in the new federal states.

- The number of affidavits sworn in 1993 and 1994.

The main results of the evaluation and research is due to be published in Germany in December 1996.

### Consumer behaviour highlighted in the research

As there is a West German mentality, so, too is there an East German mentality. Both mentalities are by definition primarily interested in stability and the continuation of that which is known.

An important aspect in understanding the East German situation is their search for identity, which stems from the necessity of their having to come to terms with the country's biographical discontinuity. This process presents itself as an attempt at orientation within a new system and is in keeping with their biographical

past. This process of modernisation has had the result that all East Germans are on the lookout for new perspectives. This phase of orientation has already started to bring about different results and will continue to do so, there will indeed be "winners" as there will be "losers".

Devaluation of familiar norms and structures as well as redefinition are absolutely necessary. Moreover, East Germans have to learn to deal with the West German market economy and the value of trade on a monetary basis.

Many consumers in the new federal states have learnt to control their consumption and adapt themselves to the change in the structure of supply and demand (e.g. by reading test reports, by adopting a critical view of advertising, by showing little loyalty towards brand names and products). However, there are still many consumers today who are bewildered by the variety of goods on offer in shops and who have trouble orientating themselves. We cannot determine a "consumer frenzy" in East Germany. East German households have raised their standard of furnishings to the standard found in West Germany. Telephones (92%), video recorders (74%), microwave ovens (48%) and PCs (40%) were among standard equipment in East German households by 1995. The East German population has bought itself a part of the West's identity by purchasing western consumer goods. However, it has already been noticed that loyalty towards East German products is on the increase (71%). The percentage of consumers who are loyal to brand names is quite low in the new federal states (29%).

The income of the households interviewed has improved significantly since 1991. The per capita income rose by about 39%, with 64% of family households who can be

rated as "winners" as far as their income development is concerned. However, the income of 16% has deteriorated, placing them in at least one income bracket lower than 1991. Furthermore, the increase in income is set against a considerable increase in expenditure. Since 1991 the cost of living of the interviewed families has risen on average in the following way: food (24%), rent (not including heating 70%), cars (40%), clothing/shoes (37%), insurance (59%) and childcare (27%). An average increase in saving contributions of DM71 to DM300 and in loan obligations from



Dr Dieter Korczak, Germany

DM231 to DM521 must be added to the increase in expenditure.

Every second household saves money, however every second household also has loan obligations. A total of 67% of East German family households has taken out a loan since the fall of the communist regime. Loans are primarily taken out in order to purchase cars (49%) or flats or to refurbish flats (24%). The trend to take out loans to purchase consumer goods such as furniture, household items and electronic equipment such as radios or televisions is on the decline. The

range of loan obligations is wide with the average loan level per household being DM46,625. Generally, households affected have to raise DM521 per month for the repayment of their loans (repayment and interest). However, for every second household the burden of loan and debt lies under the monthly sum of DM170.

Every fifth household can only manage on its income if it economises and makes a number of sacrifices, 4% of the households had to buy on credit or borrow money.

Among these families, monthly income alone was not sufficient to cover expenditure. A total of 30% of all families interviewed admitted that they had encountered financial difficulties at some point and that, as a result, certain expenditure could not be covered (in contrast to 10% in 1991). Unemployment is given as the main reason for financial difficulties. If there are no financial backups (true for 74% of those interviewed), loan repayments and instalment payments (among 50% of those interviewed) are stopped, i.e. rent, gas and electricity bills are no longer settled (9% of those interviewed). An increasingly large number of East German households (26%) use social networks such as relatives or friends to borrow money and cover the cost of living.

### Recommendations.

The results of the study on East Germany and new revelations in West Germany show various areas in which action needs to be taken.

The economic development in Germany, the efforts that are put into building up the East, structural faults, trends towards globalisation of the economy and the exhaustion of the quantitative growth model could intensify the excessive debt problem. Thus, efforts to reintegrate people and families with excessive debts and help



to assist them to settle their debts are urgently required. Therefore, preventative measures should be emphasised in the field of income and budgetary skills to prevent individuals from incurring excessive debts. The establishment of the EIBE in Rostock is a first, promising step in this direction.

People often incur excessive debt when they are made redundant. In the present economic situation it is almost impossible for those affected to have control over or to prevent this. Preventing excessive indebtedness by preventing unemployment is therefore clearly an economic and political responsibility. Other reasons for excessive indebtedness are also lack of experience, education and further education. At present there is no precise and comprehensive courses that teach people how to deal with money. Families whose main objective is to teach their youngest family members the value of money are often at the end of their tether, particularly in East Germany, where structural changes have altered the status and where parents themselves have to first learn the ropes. We therefore strongly recommend the introduction of curricular and extra-curricular courses to educate the young as well as the adults.

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**Further results of this study will be forthcoming in future issues of Money Matters in 1997.**

## SCOTLAND



# Monetary Union and some of its possible effects on the consumer

**W**e should not forget that every one of us is a consumer of services, those services may well be those of major banking or finance houses, multinational chains of department stores, small village shops, local government services, public utilities and even services provided by National Governments. We all use them at some time and if these services are affected by monetary union then we in turn will also be affected. Like it or not the every one of the 400 million consumers across Europe will be affected by monetary union, however it should be stated that many of them will not be greatly aware of the implications, whether they be positive or negative.

European Member States are already dealing with a massive level of consumer issues in relation to credit and overindebtedness. It goes without saying that the onset of European Monetary Union will serve to further increase these levels whilst raising many areas of debate and concern.

Monetary Union will bring with it a higher incidence of cross border transactions in many areas of commerce, including travel, mobility and movement within the labour force and of course in many aspects of the finance and banking sectors. These changes will in themselves generate the need for related areas to undergo change

and modification, we can not have a single currency without the necessary changes to introduce a common system of monetary transfer and with that goes the need for common tax policies and systems. Legislation relating to finance, credit and consumer protection differs from member state to member state, if we are to have monetary union then it must follow that we also should have a common legislation and jurisdiction to deal with those areas of law. If there are to be common practices and legislation then we must ensure that the consumers have equal access to justice and advice. Monetary union provides us with the opportunity to establish a greater degree of transparency to be required in all credit dealings, in particular, in the areas of credit agreements and contract terms, credit referencing and credit checking.

It is accepted that monetary union will open up the finance and credit markets still further, providing greater access to funds and increased credit dealings, this will inevitably result in an increased level of default. However, there is a possibility that whilst the consumer will be dealing with larger companies they may be fewer in number because of greater market control by reduced number of finance providers. If this is the case

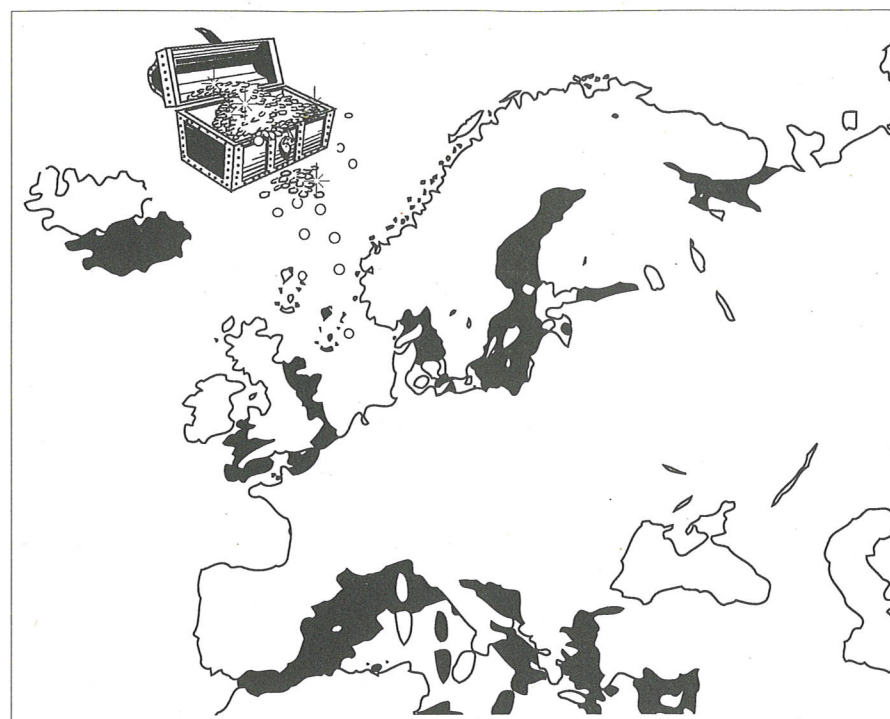
then there is also the possibility that the larger companies will inevitably resort to providing computerised services rather than retaining the personal access to service that the consumer so often needs and deserves. Consumers may well benefit from monetary union if increased competition between banks, finance houses and insurance companies

and the reduction or elimination of transfer costs result in reduced prices being passed on to them.

A single currency could lead to price stability which would in turn assist and benefit the consumer, however there is also the argument that it will restrict the ability of a National Government to vary interest and exchange rates and of course prices which could in the long term have a negative effect on the consumer.

We need also to be aware of the dangers of restrictive trade practices and the damage that could follow if they were allowed to cut across a single market, there is also the added danger of monopolies and mergers resulting in the smaller credit providers being swallowed up by a few major credit providers who would in effect control the market. This is already happening and it is common to see the same companies trading in several countries across member states.

From an anti-poverty perspective it could, with a lot of goodwill, planning and commitment, provide us with a



golden opportunity to develop social banking structures across Europe to facilitate low interest credit whilst providing access to banking facilities that are so often denied to those consumers deemed less credit worthy by many of the major banking institutions because of their reliance on state benefits or low incomes. It should also be recognised that it could also provide those same banking institutions with the possibility of consolidating their assets and targeting their services on what they may well view as the richer, more financially viable areas resulting in the withdrawal of banking services from impoverished areas and thus worsening the circumstances of consumers already living in poverty.

The issues mentioned only represent a few of the areas that will no doubt effect consumers, however, if we are aware of them we should be preparing to deal with them and address those issues as a method of ensuring that consumers get the best possible deal out of European Monetary Union. There will be a need for

greater public information on monetary union and what it means, this should be readily and easily accessible to the ordinary consumer. We need to ensure that consumer protection is enshrined into any changing legislation along with the duty to provide information at the point of sale and sufficient access to independent advice for the consumer on related issues.

Money Advice Workers and Debt Counsellors are already dealing many millions of consumers suffering the emotional strain and often the physical consequences of over-indebtedness. We must ensure that monetary union does not worsen their situations but that it allows us to provide parity of justice, with common legislation for dealing with debt issues in a humane manner that remembers that debt is not just about enforcing a legal contract, it is also about addressing the social and economic consequences of that debt.

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# Social welfare – national background information

*This is the first article in a series which we hope will provide readers with an overview of the Social Welfare systems in European Member States. This overview will, we believe, allow colleagues to gain a better understanding of the issues surrounding over-indebtedness, poverty and household budgeting in individual countries and will prove to be an invaluable aid for future European discussions and conferences. This article is written by Genie Hendriks, Policymaker at the Association of Netherlands Municipalities.*

## Social welfare and the struggle against poverty in the Netherlands.

A large scale system of social security was built up in the Netherlands in the second half of this century, this included the passing of special laws for many different groups with different characteristics: e.g. over 65 years old, disabled, unemployed and former small businesses. The laws were fitted, as much as possible, to the special situations of the groups and related their support amongst other things, to their former income situation. The cost of this system was met from taxes and loans, this of course resulted in a growing difference between the gross and take home pay, the so called "wedge". The growth of the "wedge" was seen as a threat to employment policy and consequently in the eighties and nineties politics changed their point of view. The relationship between the former and current income was no longer the central issue (i.e. society being responsible for keeping the individual at the financial level he was used to). Instead the new standard is a guarantee for a socially

acceptable minimum income. It is a persons own responsibility to make provision for a higher income, for instance, by buying individual insurance or by remodelling collective bargains obtained by unions (group-wise). The former level of a person's income has become far less important in the Dutch social security system.

Of course, this change in policy has not occurred in isolation, at the same time the Dutch government concentrated part of its policy on creating new chances for the unemployed and the disabled. This policy is still going on and includes among other things the creation of jobs which are paid at the highest point of minimum wages. Employers are also encouraged, by tax reductions, to create low paid employment opportunities.

Based upon the above, the conclusion that there is a growing number of households which have to live on the level of the social minimum seems to be justified. It is well known that living on that level is not easy, the longer that people are in that situation the more

inflexible it becomes. Little incidents, such as a fridge breaking down can pose a serious problem for the individual.

The social minimum is not enough to allow for money to be saved despite the fact that formally it is considered that 90 % of it is sufficient for daily life and 10 % can be saved. In these circumstances problems such as poverty and social exclusion become more visible. In order to deal with these problems an adequate policy must be realised. The main question is "Who is responsible for doing that?" In the Dutch situation this responsibility is split between central and local government (there is a political issue around whether the central government abdicates too much of its responsibility to local government).

Central government deals with the income policy (i.e. the level of the minimum wage and provides for legal instruments and other means. Local government implements the National Assistance Act, other central policies and their own policies. They use money contributed by central

government and their own income (generated from taxes and the general fund from which every local municipality gets money).

### Implementing a local policy.

The local policy can be carried out under the condition that it does not interfere with the central income policy. This condition means that the local policy may not maintain a disincentive towards obtaining a paid job. The condition relates to the problem of the "poverty trap". Work! Work! Work! says the old adage but it is important in this context to realise that in the Netherlands the level of social assistance is related one to one to the level of minimum wages. A family that lives on social assistance has a net monthly income that is the same amount as a family receiving a minimum wage, the only difference is that the family who is receiving an income from a job can deduct some costs from tax and on an annual basis this results in that family having more than the family on social assistance. This is called the "net-net coupling".

Local government have some formal options that they may pursue to fight poverty and social exclusion (and related problems, for example debt), these can be roughly divided into three groups:

1. The possibility offered by the National Assistance Act to provide in individual situations for essential costs (the payment of these costs are dependent on the circumstances but can be paid for a variety of items).
2. Discharge of local taxes.
3. A local policy on income support.

The provisions of the National Assistance Act are often used to

provide financing for the purchase of washing machines, refrigerators or even for special diets, it is also possible to obtain a loan under this legislation allow for the purchase of the essential items. However, it should be noted that decisions on how these provisions can be used are decided at a central level, for instance they are not normally available as a means of paying debts but in very special circumstances this may be allowed.

The discharge of local taxes is also regulated at a central level. Local government can use this instrument only within the boundaries of the law. A main condition concerning both the instruments mentioned in 1 and 2 is the individual approach and only individuals can be supported by them. Local government are not therefore allowed to define categories to which the rules may be applied.

However, the third option available to them is different, it allows local government the opportunity to define the groups to which they will provide money or other means of support, but central government has of course developed some conditions. The most important conditions are that no money can be given without clear expenditure and that the legislation can not be used only for those groups who obtain their income from, for instance the National Assistance Act. The source of the income can not therefore be a condition but examples of acceptable conditions could be level of income and age of the recipient. This relatively new legislation gives local government room to provide a wide range of different kinds of, assistance to settle debts (called a debt settling fund), the entrance fees to a theatre, joining a football club, membership of a library, providing sportshoes for the children of single parents and so on.

### Approach to the "P" word

The struggle against poverty and social exclusion in the Netherlands has achieved major importance ever since Queen Beatrix mentioned the "P" (poverty) word in her yearly speech to the nation on the third Tuesday in September at the state opening of Parliament. People have not stopped writing or talking about it and a lot of activities have already been undertaken and more are to follow. Most of them are focused toward creating new, better more integrated policy that addresses the fact that poverty is not only a financial problem it is also linked with health, safety, local environment and numerous other things but they are also looking at a more effective use of the legislation mentioned above.

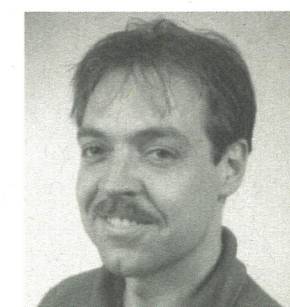
The results will, as far as possible, be monitored and discussed at Social Conferences, the first of which will be held in October. Based upon the outcomes of these conferences policy changes at a central and local government level can and will be considered. Whilst we are not able to predict what the outcomes will be it will be a worthwhile venture if the activities and interest lead to "best practices". Central and local government can only benefit from them.

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*This is the second article in the series on Social Welfare systems in Member States. It is written by Liana Adreini, Health and Welfare Dept. Regione Toscana and Cynthia Baker, Consumer Office, Regione Toscana.*

## Family Policy in the Health and Social Welfare System in Italy

### Health and Social Services

Public health and social welfare policies are for the most part assigned to local institutions and in particular to the regional and municipal authorities.

The 1978 health reform eliminated the previous welfare and health care system where the various categories (often with reference to vocation: public employees; industrial employees etc) had their own health organisations (mutua), a system

which developed out of work place solidarity and mutual aid. The reform instituted a national health service articulated in local health boards (USI/ Unità sanitaria locale) that provide the basic health services, hospitalisation and specialist care as well as public health and preventative measures. Originally the Region of Tuscany (3.5 million inhabitants) was subdivided into more than 30 local boards. A recent re-organisation has reduced them to ten, corresponding, more or less, to the ten Tuscan provinces.

The funding for the health system is realised through the direct contribution from citizens (payroll for employees and a health tax for the self employed) integrated with State (national government) subsidies provided by the general tax system.

In the social welfare sector there have been no real reform measures at the national level. Analogous to what has taken place in the health sector, after the constitution of the regional governments in the early 1970s, the national welfare institutions assisting the various categories (orphans, infancy, the blind, the deaf and dumb) were transferred together with their competencies to the local government level.

Incongruity in the phasing of the reform processes has not allowed a coherent re-organisation of health and social services at the local level. This has meant that while some services are administered in an integrated way (e.g. the maternity and child care programmes or those for the handicapped and the elderly who are no longer self sufficient), others are managed separately at the municipal level either by the single city authority or through an association of municipalities.

The current welfare state crisis, due in part to the inefficiencies of the social security system and to the

reduced number of employed, has made it necessary to rethink the various social service models and develop a much more flexible system in which citizens, families and non profit organisations participate as active partners in the promotion and carrying out of solidarity action, by supporting and integrating the services and activities provided by local bodies which, of course, still maintain basic responsibility for social welfare programs and activities.

### Family Policy in Italian Health and Welfare Services.

Up to the present moment social services have been focused to individual needs, even if these needs are collectively represented through social groups having the same kind of need. On the other hand, the affirmation of the right to determined services has proved to be a lengthy process which, from time to time, regresses when there is a shortage of adequate resources. Only in recent years has there been recognition of the family as an effective partner in the functions it carries out in child education, in the reciprocal care it provides for its various components and in managing its own specific needs and resources.

In the past, family assistance has been provided essentially as maternity and child/infant care. The results of a survey carried out at the European Union level shows that Italy is one of the countries that sets aside the least resources for family support.

Contributions provided to integrate the income of working families with children are so small and the incomes that meet these benefits so low, that the amount apportioned annually in

the national budget is never entirely fully utilised.

The restructuring of family services in the general direction that social policies tend now to pursue, (in greater acknowledgement of the social functions the family performs), also aim at the acquisition, on the part of the family itself, of a more active role in the health service supply and demand dynamics, in the formation of more personalised programmes and in the building of new processes in mutual aid and solidarity.

Working guidelines at the present propose the development of programmes in the following sectors:

- development of services for infancy and child care which would provide greater opportunities in terms of the kind of services offered and the flexibility of time-schedules
- the setting up of socialisation centres for children, teenagers and families
- the activation of support actions and counselling in family crisis situations, in particular, in working out the problems children experience when their parents separate
- family counselling on access to services and social benefit programmes including housing, education, vocational and professional training
- development of actions aimed at providing the family with all the information on potential interests
- promotion of family associations

Guaranteeing correct information on the functioning and use of services, on available opportunities in housing

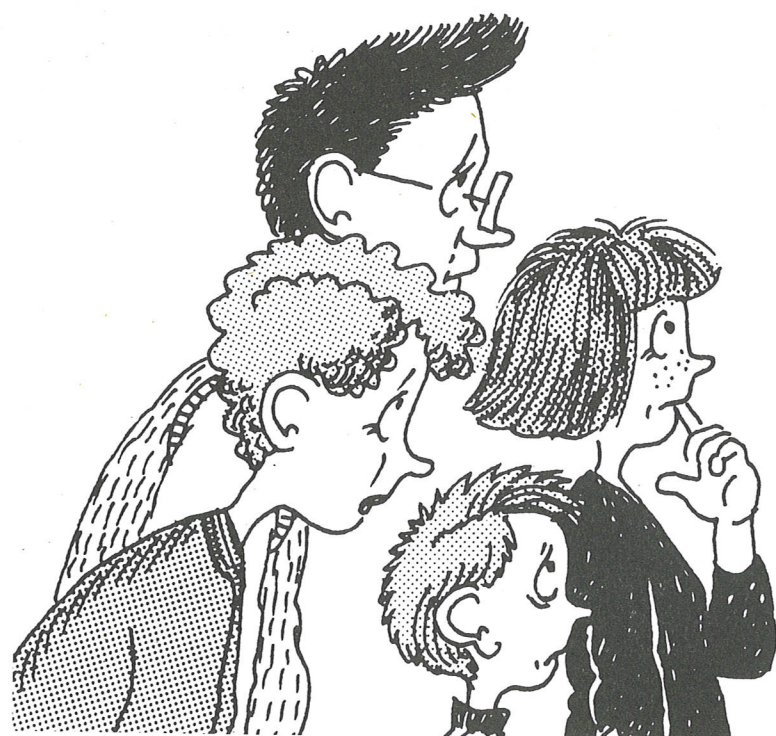
as well as access to home loans and consumer credit is a necessity when attempting to help families carry out their functions in the best possible way.

Information policies must exploit every possible channel and for aspects that require particular effort and complexity they should provide specific counselling services, for instance, for education, social assistance, family savings and budgeting.

Family associations represent a useful tool in helping families to make their problems known and in acquiring the necessary knowledge to negotiate the options available from local authorities as well as from private management of various kinds, including insurance and banking services. Although the family is wooed by the advertising industry as a direct recognition of the predominant role it plays in consumer society this role is still a passive one.

Adequate information policies and self help through associations can help the family play, not only, a more active and effective social and economic role but also assist it to acquire new skills to negotiate its needs and to identify the best choices in terms of goods and services offered by both the private and public sectors.

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# Debt Advice and Bankruptcy Proceedings in Austria

*"If breath were made to buy..."*

**A**s in many other European countries the main causes of overindebtedness are unemployment, divorce, poor household management and poverty in general (low income versus high living costs).

Scientific research has shown that 1.2 million people or 15% of the adult population have credit agreements with some 120,000 households out of 3 million estimated as experiencing debt problems. The greatest source of problems with credit agreements lie in the group where wages are less than 12000 ATS and instalment repayments are less than 2000 ATS.

There have been money and debt advice offices in Austria for ten years, at the beginning of the nineties we had no more than 20 advisors working in this field, today we have 74 advisors employed throughout all regions of the country. The advisors are employed in various organisations (all members of the umbrella organisation "ASB") who receive their funding from local government and the Ministry for Working Affairs (Arbeitsmarktservice). The total amount of overall funding is in the region of 60 million ATS.

## Bankruptcy Proceedings

The new code for personal bankruptcy came into force in January 1995, the following is a brief outline of how it works or how it should work.

### A. Extrajudicial Agreements (Außergerichtlicher Ausgleich)

As the first step to resolving the situation and settling the debts an extra-judicial agreement also known as an out of court settlement is suggested, this gives the debtor and his creditors the advantage of not having to pay the court costs of a court action. The regulations relating to bankruptcy allow for out of court proceedings and the basis of negotiation for a settlement in these terms is based on the debtors payment history during a "probationary" period where a certain part of the debtor's income is attached and distributed amongst the creditors for a seven year period. (See point D).

If the debtor is unable to pay the charge and he has no assets that can be submitted to court he is required to show evidence that he has tried to reach an out of court settlement. In the event, that such an attempt fails the debtor is free to ask the court to commence a bankruptcy action. Where a debt advice agency has been involved, it can certify that an attempt has been made and that it has failed.

### B. Compulsory settlement (Zwangsausgleich)

This type of settlement plan is more likely to occur with the more affluent debtor, where taking possession of property is to be avoided. Where the debtor does not own property then he is recommended to try to resolve the problem by using an instalment plan. The creditors (i.e. a majority of 50% of the present creditors and representing 75% of the total amount of outstanding debt) are legally obliged to vote on accepting the debtor's offer.

### C. Instalment plan (Zahlungsplan)

The instalment plan is applicable when the debtor has either, no assets or no assets that the creditor can or wants to take possession of.

All of the debtors' assets will be utilised. In order to be eligible for an instalment plan the debtor must make a reasonable offer that takes into account their expected income status for the next five years.

The debtor must guarantee to pay to the creditors a certain percentage of their entire debt within, at the most, a seven year period. There is no minimum percentage figure laid down and creditors must vote on whether to accept the offer.



Hans W Grohs, Austria

### D. Probationary period (Abschöpfungsverfahren)

If the creditors have refused the instalment plan the debtor is free to apply for these proceedings. During this process the debtor receives only the bare subsistence amount from his income, he also has to fulfil some criteria, i.e. to search for adequate employment, to give over any inheritances or grants and not to incur any more debt.

If, within seven years he has managed to repay, at least 10% of the total debt then the remainder of the debts are remitted. If he is able to repay more than 50% of the entire debts within a three year period then the process finishes early and he is discharged with the rest of the debts being remitted.

### E. Debt advice agencies

Debt advice agencies are mentioned in the bankruptcy code and advisors have a right to represent debtors in court. A debt advice organisation is recognised by the Ministry of Justice if it employs at least three advisors, provides successful and reliable debt advice for two years on a non profit basis and is equipped to the latest technological standard. The umbrella organisation has to comment on and

certify this before the agency can be acknowledged by the Ministry.

*"...poor man could not live"*

## Debt advice cases in 1995

In 1995 there were 16,000 new referrals throughout Austria, this represents an increase of 45% compared to the previous year. 8300 of these cases went on to receive counselling, that is an increase of 22% and half of the clients who contacted debt advice went on to a first interview.

The total amount of debts incurred by all of the clients who have consulted a debt advice agency in Austria amounted to 8.1 billion ATS. Upper Austria and Vienna are at the top of the league table with debts accounting for more than 1 billion ATS. The average debt stands at, approximately, 866,000 ATS, the previous year this figure stood at 650,000 ATS, showing an increase of 17%. The roughly calculated median was approximately 500,000 compared to the previous years 400,000, showing an increase of about 25%.

Over half (53%) of clients were in regular employment and the number of registered unemployed clients decreased slightly from the previous year, to 23%. The remaining 24% made up from housewives, pensioners etc. showed an increase of 6% compared to 1994. Interestingly, sixty percentage of those who came for advice were male. Research has shown that 50% of all clients are in the 20-35 years age group, with the largest proportion being aged between 20-35 years. This is the age group that are most likely to have started a family, building a household and buying the longer term type of consumer goods. The purchasing of

accommodation, a car, furniture etc. is nearly always financed by using credit, this of course, reduces the available monthly income. Most families underestimate their additional monthly expenditure and the possibility of an unplanned event, such as loss of a job, illness or an accident further reducing their income and creating problems in paying their debts.

The number of children living in the household are often an indication of the indebtedness, statistics show that, in relation to the population, households with more than two children are more likely to need debt advice whilst with families where there are more than three children the factor increases by more than a fourth. For families with two or less children the trend is exactly the opposite.

## Extra-judicial agreements and legal bankruptcy proceedings

In the first year of the legislation there have been 1638 extra judicial proceedings pursued by the debt advice agencies, almost half of the agreements offered by the debtors have been accepted. Out of the first 771 cases debt advice agencies guided 667 through all of the different stages. This meant giving the debtor the encouragement to begin and to support them in facing the hurdles for the "preliminary bankruptcy qualifying test", over 40 were represented by debt advice organisation during the process and 25% were represented before the court.

## Bankruptcy proceedings based on the publication in the "Weiner Zeitung"

By the end of 1995, 771 out of the 900 (86%) applications for bankruptcy at



the local court had been initiated, 11.4% of these were in the first quarter, 25.8% in the second, 28.7% in the third and 34.1% in the final quarter. The ratio for personal bankruptcy is highest in the regions of Upper Austria, Carinthia, Vorarlberg, Salzburg and Vienna, with one bankruptcy for every 10,000 inhabitants compared to the national average of one per every 10,400 inhabitants. This clearly demonstrates the importance of debt advice organisations and the need for continued expansion, particularly in these other regions.

The most common ways of settling a debt problem are the Instalment Plan, the Probationary Period and the Compulsory Period. Fifty percent of all commenced legal bankruptcy proceedings were settled by an Instalment Plan, 21% by a Profit Monopolizing Process, the probationary period and 15.6% by a Compulsory Settlement.

In almost sixty percent of cases the right of self administration has been withdrawn and a trustee has been appointed to administer the assets.

Of those who have submitted an application to commence legal bankruptcy proceedings 30% were manual workers, 37.11% were employees and the self employed, civil servants, unemployed, retired, housewives and those taking leave of absence all have less than a 10% share.

The law has only been in force for a short time and it will be interesting to see how the situation develops in the coming years.

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# Partners wanted urgently!!!

## Consortium "Societas"®

Project Title	Housing for overindebted people
Proposed programme ?	
Duration	3 years, 1997-1999
Target group	People with serious housing problems caused by overindebtedness
Aims	Arranging housing for overindebted applicants in co-operation with voluntary organisations and other authorities dealing with overindebtedness Prevent social exclusion
Methods	Setting up a new organisation for housing by: Creating a new local and international network Acting as a rental agent Buying apartments from overindebted people to be rented back for themselves
Total budget	500,000 ECU
Outcomes	A new network solving housing problems of overindebted people Empowerment of overindebted people A new financing system solving housing problems by assisting overindebted people assist themselves
Expected partners	Associations for overindebted people Authorities dealing with overindebtedness Local municipalities
Description	It is almost impossible for a person with unpaid debts to get rented housing from the private market, nor do the rented housing contractors, financed by public money, rent accommodation to an overindebted applicant. The amount of City and municipal housing is limited.
Contacts	University of Helsinki, Vantaa Institute for Continuing Education, Vantaa Social Innovations Network VSI® Debt Advice Association of Finland Kari Koskinen Project manager ☎ +358 908394829 Fax+ 358908394827 E-mail: kari.a.koskinen@helsinki.fi Address: Asematie 6A, 01300 VANTAA Finland

**SWEDEN**



## The need to continue food cost surveys

In a recently completed report to the Swedish government Konsumentverket (KOV) recommended the continuation expansion of food cost surveys. The report shows that cost of a model basket of food items used in the areas surveys have reduced on at least two occasions. Local consumer organisations working with KOV have repeatedly calculated food costs in an ever growing number of areas throughout Sweden. The latest survey undertaken in the Spring -96 covered 175 shops in 21 areas.

The model uses the concept of a shopping basket containing a selection of regularly purchased food items, sufficient for several weeks. Media coverage of the price differences in shops has provided consumers with the necessary information to allow them to make informed choices about the shops they choose.

KOV estimates that average costs have been reduced by 100 SEK (£ 10) per month for a four person household and that both the consumers and the sellers have become more aware of

prices and price differences. The timing of future surveys will be varied as well the food items in the shopping basket. This will ensure that not only the items regularly in the basket will be reduced in cost. The survey also takes account of the different types and levels of service in different shops. The costs and travel to the shops are also being calculated and these areas of interest will be further developed.

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## Sweden establishes an association for budget and debt counsellors

May 1996 witnessed a major step forward for budget and debt advisors in Sweden when they came together to form the Association for Budget and Debt Counsellors.

The intention behind the foundation is to raise the profile of the profession, allow it to achieve the professional status and occupational identity that budget and debt

counsellors need to allow them to work with a high degree of competence to achieve the best results for their clients.

The association, which is not a trade union, provides the opportunity for advisors to participate in an information exchange, to discuss mutual problems and to develop a network for advice, consultation and support. The objectives are

particularly important due to the fact that most of the social service departments throughout Sweden have only one budget-debt counsellor, which means that they often work in isolation. The introduction of the Debt Settlement Act has placed extra pressure and demands upon the counsellors. Membership of the association is growing, there are approximately 300 budget and debt



advisors throughout Sweden and already 100 from over sixty municipalities have joined.

The association has set itself some first year objectives, these are:

- to develop a local and regional contact network between budget and debt counsellors
- to work towards raising the profile of the association with other organisation, authorities and the media
- to regularly compile and distribute information to members.

In addition to these objectives they will discuss work procedures and ethics. The association has the urgent task to co-ordinate, improve and ensure the quality of not only the handling of debt settlements but the routines for contacting creditors.

The association is interested in hearing from other "sister" organisations in other countries.

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## Notice Board

### Debt Advice – Networking Ways

#### Forward

The Guarantee Foundation (Takuu-Säätiö) in cooperation with Consumer Debt Net is pleased to announce that it is planning an European Conference in Hämeenlinna, Finland on September 3-5, 1997. This Conference will be the latest in a series of such events which seek to address the issues surrounding consumer overindebtedness with special interest in research related to the theme. It is anticipated that the Conference will attract considerable interest from everybody involved at all levels in assisting the consumer.

#### Conference theme

Over recent years the social security budgets of almost every European country have been restricted or actually reduced. New social welfare legislation, redefining of need and targeting of benefits has resulted in many millions of people being excluded from social welfare provision. Many in this group are also experiencing the trauma of overindebtedness and a level of confusion and lack of knowledge that leaves them unable to deal with their situation. Advice, support and assistance are provided from many different agencies and from many different perspectives with diminishing resources.

The time has come for all of those working with consumer issues to consider new and innovative methods of providing their services. Could we use our European network and contacts to develop new systems and methods for example self help groups, or working with local municipalities and associations to establish working groups to deal with these consumer debtors?

This is a subject that is both complex and varied, whilst we are dealing with existing problems and issues we still need to develop and explore new solutions. Use this opportunity to discuss the issues; support your conference.

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### Events in Ireland

The Money Advice and Budgeting Services of Ireland (MABS) are planning to hold their first conference in the spring of 1997. This will be a major event in their calendar, it will bring together advisors, policy workers and other interested parties from throughout Ireland. The MABS is a relatively new service in the terms of Money Advice but the work they are doing is both innovative and effective. Watch this space for more details.

### European Conference on Debt Issues 1998

CDN Funding group are delighted to announce that Ireland has agreed to work with CDN to organise and host the 1998 European conference on Debt Issues. The first steps in the long planning process are beginning to be taken and we are sure that the event will be worth waiting for and will be well supported. Further details will be appearing other the next few months.



*We wish you  
 A Merry Christmas and  
 A Happy New Year*



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# Consumer Debt Net Aims and Objectives

***"The network shall deal with debt and budget advice, budget standards, household economic analysis, consumer and social problems due to overindebtedness."***

The main objective of the network is to encourage member organisations to provide practical action to prevent consumer overindebtedness and to facilitate consumer assistance by the provision of budget and debt advice. The network will also strive to achieve exchanges of information and research results which may provide more general knowledge of such practices and the way in which they are handled in various countries.

Consumer Debt Net will:

- establish and maintain an up to date list of contacts in each participating country,
- maintain regular contacts, in particular by means of an annual conference and exchanges of view on matters of topical interest through multilateral contacts of all kinds,
- mutually exchange information to enable members to gain an overview of each others methods, legal and administrative arrangements,
- to work towards better and commonly accepted methodology and definitions relating to debt advice, budget standards and debt prevention throughout Europe,
- collect information on creditors practice and procedures in relation to consumers and to co-operate informally at an operating level in preventing marketing malpractice's as they arise. Participants should use their best endeavours to assist each other, subject to national law and practice and availability of resources,
- organisation of special training for advisers,
- planning and realisation of collective actions in European countries,
- intervention on European legislation, for example in relation to debt settlement, credit rules and bankruptcy laws.

Participation is open to organisations from each European country, who would normally be involved with budget advice, debt settlement, debt counselling or budget standards, though for certain countries other arrangements may be necessary.

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## THE EUROPEAN CONSUMER DEBT NETWORK

**A project supported by the Nordic Council of Ministers**

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