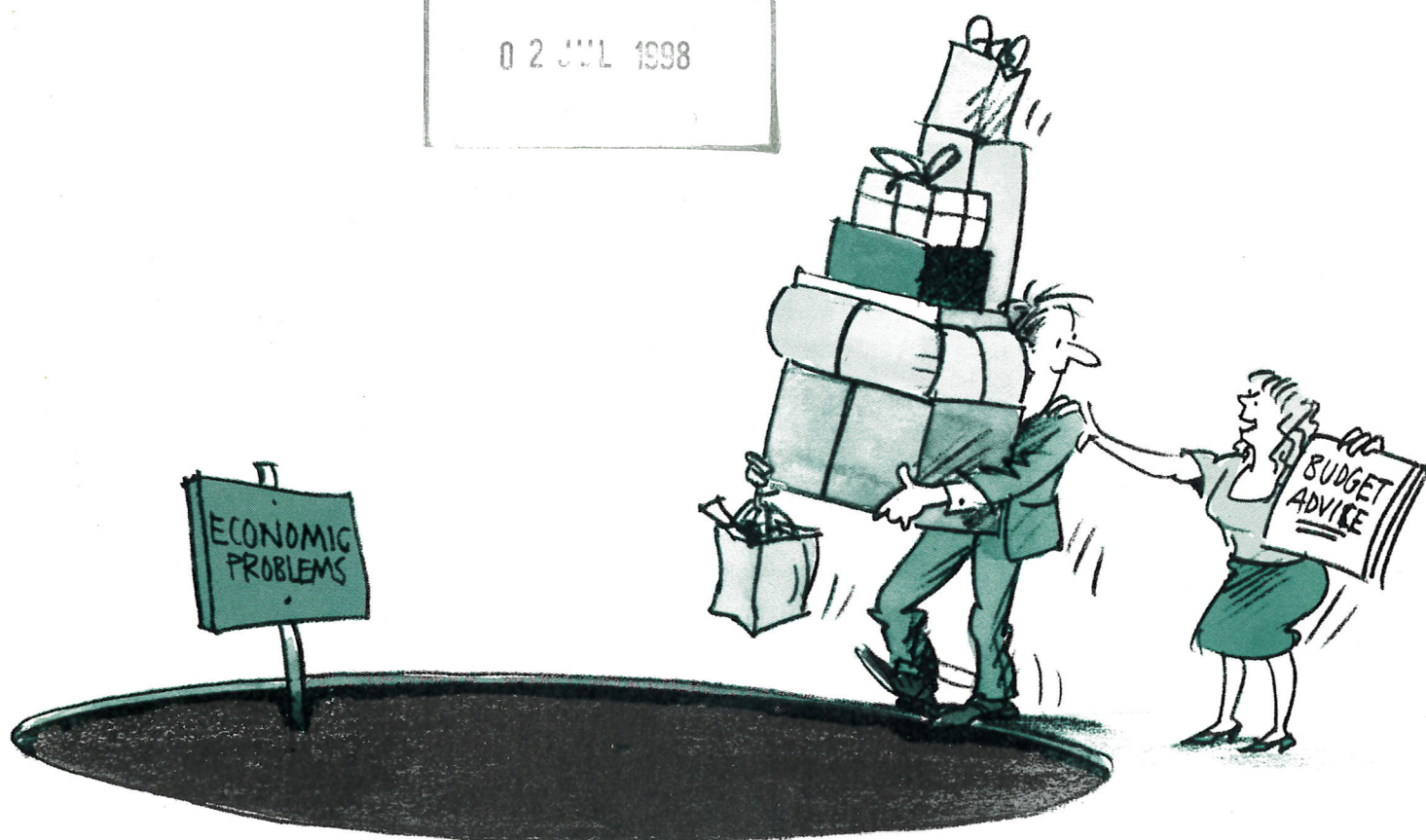
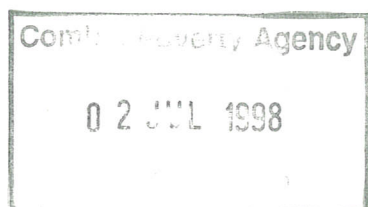


# Money Matters

The Consumer Debt Net Newsletter June 1998

No 2/98



**Contributions from:**  
**France ☆ Finland and Wales ☆ Germany**  
**Sweden ☆ Netherlands**



# Message from the Editor

Hello again and welcome to this issue of Money Matters.

One of the articles in this issue is that written by Dr. Dieter Korczak on Overindebtedness in Germany, other European states and credit counselling. This article is published in its entirety because it is an important reflection on the state of money advice in many European countries.

We also have news of the CDN/NSSB European conference taking place in Dublin on September 23-25 1998 with the theme "Consumer Debt Problems in a Changing Europe", look out for the flyer included with this issue.

Please remember I am always on the lookout for articles, there are lots of you reading this (hopefully) and I am sure you have some interesting issues, ideas or news to impart to your colleagues across Europe.

So, put pen to paper, fingers to keyboards, thinking caps on and get those articles to me by the middle of September please.

Regards to old friends and new.

*Joan Conlin*



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## FRANCE

# The Social Representation of Debt

Dr. Christine Roland-Levy the author of this text is an Assistant Professor at the Université René Descartes, UFR-Institut de Psychologie. Laboratoire de Psychologie sociale.

A team of French researchers, have been studying the financial behaviour of the individual; the research project presented here is located in the field of economic psychology and aims to study psychological variables that may influence adult conceptions of the economy. It focuses on the study of the social representation of money and debt along with personality variables.

Social representation of a social object is the description of how an object is perceived according to the subjects' social class or group; there is a strong relationship between this social perception of the object and the subjects' behaviour. The relationship between representation and behaviour is not necessarily causal, however the description of such a relationship between cognition and behaviour is, both theoretically and in practice, of much interest. Social representation serves as a basis to perceive and interpret reality. From Moscovici's initial formulation (1976), different theoretical orientations have been explored. Among them, Abric (1988, 1994) has elaborated a specific aspect of the theory of social representation based on a central nucleus surrounded by peripheral elements, the core being solid and rather unchangeable while the peripheral elements are moving elements. The results presented in this paper focus on the study of social representation, in relation to the degree of indebtedness and the degree of internality.

## Methodology

In our sample of French adults, between 30 and 65 years old, social representation is studied through free association tasks using word targets that refer to the sphere of the economy: *economy*, *credit*, *debt*, and *savings*. In this task subjects are instructed to freely relate words or phrases that come to mind after the target-word; this produces important information about the content and structural construction of the representation in relation to the economy in lay social thought.

Various indicators concerning financial behaviour were measured, including the number of credit agreements and the level of indebtedness of the household. The households were classified according to their degree of indebtedness, going from none to pluri-indebtedness (some of them had been declared personally insolvent and had been through a specific legal procedure established in France in 1989 – Law Néiertz). The degree of indebtedness was calculated using the revenue of the household compared to the number of loans declared.

A specific measure was also obtained with the *Locus of Control Scale* (Rotter, 1966), a classical tool used in a variety of studies; this is employed to provide a personality scale. It measures the extent to which one believes that reinforcements and rewards are a function of one's own behaviour (internal locus) or a function of chance, fate, powerful others, etc. (external locus). Each item proposes a



*Dr Christine Roland-Levy*

forced choice between two propositions. A high score indicates external locus of reinforcement and a low score indicates internality.

This paper, which compares subjects with various degrees of indebtedness, focuses on the differences between the groups according to results obtained using the locus of control test. In other words the rate of indebtedness and the degree of internality vs. externality are analysed jointly and might, either bring one main representation with the same central nucleus and possibly different peripheral elements or it might bring two different representations around two different nuclei.

Two hundred and thirtyfive questionnaires were undertaken and studied according to the various independent variables. It is interesting to note that the different connections emerging between terms, reveal for



example that the term "unemployment" is a shared term which links *debt* and *economy* together.

Four major groups are now going to be examined:

The first consists of subjects with "no debt" composed of 79 subjects, and those in "multiple debt" composed of 43 subjects.

The other groups are centred around the degree of internality of the subjects who are more oriented towards internality or towards externality. Only subjects who are clearly on one side or on the other, are considered; therefore we have 58 subjects who are "the most intern", opposed to 57 subjects who are "the most extern".

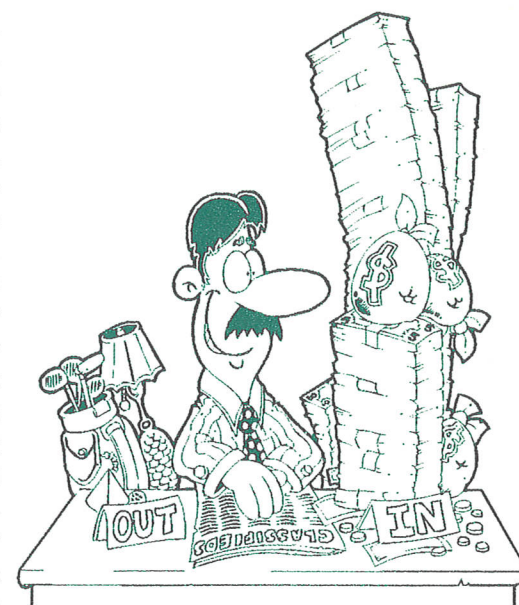
## First phase

The first phase of the analysis is centred around the degree of indebtedness with the two contrasted groups: the one with no debt opposed to the one with a high degree of indebtedness.

A first interesting difference among these subjects concerns the centrality of

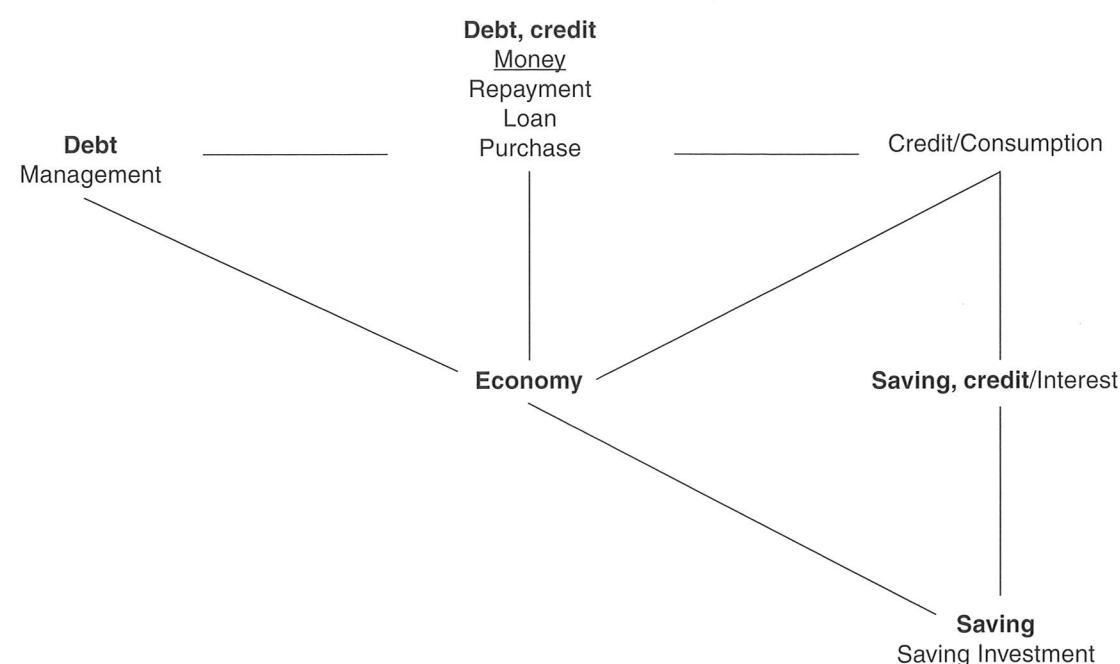
money; for example, although it is central for those in debt, the term money does not appear in relation to *savings* for those with no debt. On the other hand, for those who are in debt, it does not appear in relation to *credit*. Figure 1 shows the representation of the economy for the sub-group of 79 subjects with no debt. The link between *economy* and *debt* is the idea of bad management; in other words it seems that for those with no debt, debt appears to be something that should be taken care of, a problem which can be solved. Analogous to this, the link between *economy* and *savings* is obtained with the notions of investment and saving. The tendency seems to be to invest either in the stock market or by acquiring a house or an apartment whilst those with no debt tend to save with no real project in mind, mainly to have a reserve of money, bringing more money, just in case...

Specific terms constitute the peripheral elements of a representation. It is therefore interesting to note a few particular terms which can be found only



in this group of people with no debt, for example, the term *savings*, produced terms given only in this group such as "small savers", "housing", "saving account", "precaution".

Figure 1: Representation of the economy of subjects with no debt (79 subjects)

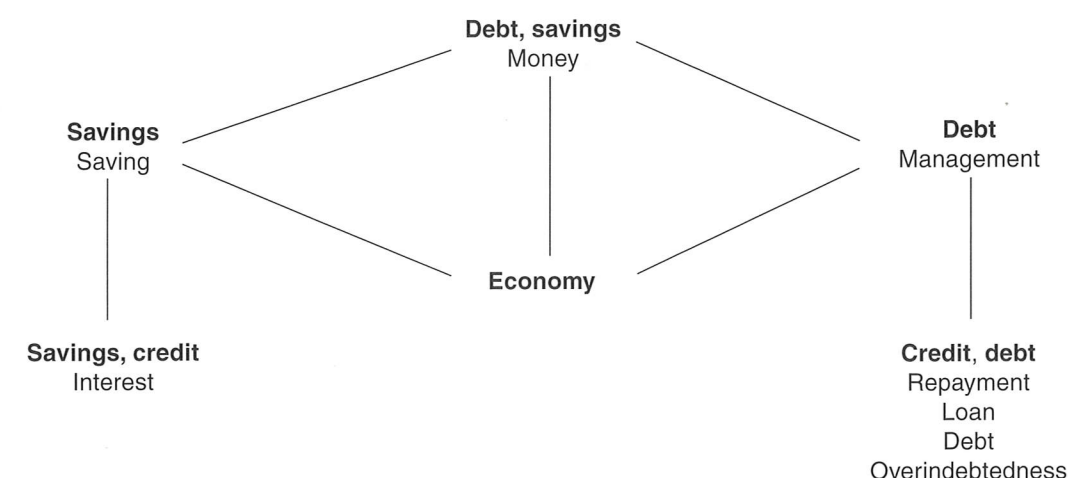


Looking at the 43 subjects with multiple debts, figure 2 shows that the particularity of this group is that, even though *credit* is mentioned, there is no direct link between the target words *economy* and *credit*, as if *credit* is necessarily something related to *savings* on one hand, or to being indebted on the other hand. The link between *economy* and *credit* has to go through the

evocations of *debt* and/or of *savings*, with the ambiguity mentioned earlier around interest which is either related to gaining or to spending money. Therefore, the link with *economy* seems more obvious around the term *debt* than around the term *credit*. It may demonstrate that *credit* is perceived only through *debt* or *savings*. A few particular terms can be detected only with the group of people

with debt, for example, the term *credit*, generates terms such as "project", "indebtedness", "real estate" and "credit card". With regard to the stimulus *debt*, "bad", "poor", "difficult", "spending" and "misery" are terms associated in this group and might constitute specific peripheral elements.

Figure 2: Representation of the economy for subjects with debts (43 subjects)



## Results

Based on Abric's theory, the main difference among our two groups should be in terms of different peripheral elements with a common central nucleus. This would lead towards a unique representation for each concept. In that sense, it was first of all observed that there are some differences centred around specific terms for each group producing different peripheral elements. Concerning the central nucleus, it appears that around the different concepts, part of the core varies. Specificity emerges around the core for those in debt for savings and credit, whereas part of the central nucleus changes for the concept of debt. For those with no debt, specificity emerges both at the periphery and in the core for the three concepts: credit, savings and debt.

It is clear from our results that according to your financial behaviour, with no debt or with debts, you will have a different central nucleus and different peripheral elements, which in turn implies social representations which are different. Nevertheless in the two groups, for each concept some common terms can also be found, but they are organised in a totally different way; this implies that an element which belongs to the centre for one group (High Frequency and Low Rank) will end up in the exterior for the other group (Low Frequency and High Rank).

The second part of the analysis of the terms produced linked to financial concepts, focuses on the relation of both the rate of indebtedness and the degree

of internality vs. externality obtained via locus of control task. When looking at the results shown on figure 1, compared to those of the group of "intern" subjects, one sees that the structure and the organisation are very similar; this leads to the conclusion that those with no debt and those with an intern locus of control have a comparable perception. Does this imply that if one has an internal locus of control he or she won't contract any debt? This question remains unanswered...

In the economic field, the major difference between the perception of the extern subjects and those in debt, is the emergence of the term "unemployment" as a connection between *debt* and *economy*. They are similar in different



ways, for example, "money" does not appear either for the extern subjects, nor for those in debt, in relation to *credit*.

## In conclusion

The social representations of the four samples are organised around two poles:

- ⊕ first the intern subjects are very similar to the non-debtors,
- ⊕ second the extern subjects who are close to the subjects in debt, their representation of economics being different.

Many elements allow us to propose the following hypothesis:

- ⊕ there should be a correlation between the rate of indebtedness and the degree of internality.

In fact, correlation between the two measures are observed for three types of subjects; there is a significant correlation on the whole sample (235 subjects), an other significant correlation for the debtor sub-group, and a third one for the non-debtors. Therefore the hypothesis concerning the relation between the degree of internality and financial behaviour seems to be validated. The analysis of the social representation of economics and financial concepts in relation to the rate of indebtedness linked to the score of the locus of control, allows

us to confirm the existence of two different representations according to the financial behaviour of the subjects. A possible explanation for the existence of two different representations of economics, one for each of the two groups opposed around debt, is that financial behaviour in terms of credit and debt becomes part of social practices. From then on, the link between the rate of indebtedness and the locus of control seems to be more evident, social practices being determined both by social and personal variables.

Also, it is recognised that a subject's social position has an influence on different domains, such as his/her social practices as well as personality variables. In that sense, a subjects' social position can influence part of their social representations and can generate a system of practices. One of the remaining questions is to determine whether social practices have an effect on social representations, and whether social representations have in turn an effect on social practices.

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# Overindebtedness in France – an update

Anne-Marie Angelique, a debt justice adviser from the Social Work Department in Le-Mée-sur-Seine, provides an update on the new debt legislation in France.

## Household Overindebtedness

The Government are currently in the process over drafting new legislation in relation to household overindebtedness. This legislation, due to be completed

within the first six months of 1998, falls within the context of the fight against social exclusion. This "stand alone" text will be presented to the Council of Ministers. The new legislation drafted to review the "Neiertz" law of 31st December 1989, modified in 1995, will



Anne-Marie Angelique

develop a system of dealing with overindebtedness that keeps up with social developments.

The aim of the legislation is to deal with "passive" overindebtedness (linked to a sudden drop in household income, where the drop is so great that the income no longer meets the costs of essential outgoings) in a more effective way rather than dealing with "active" overindebtedness (dealt with by having access to various forms of credit).

It is hoped the legislation will introduce:

- ⊕ 'a moratorium, of freezing debts for a period of three years' and in exceptional cases a 'cancellation of debts'. These outcomes have been based on proposals put forward by the National Consumer Council.
- ⊕ for households able to manage a debt repayment plan, the proposal is to

extend the repayment period from five to eight years. This will be backed by the right to open a bank account, it is important that this right is continued, if it is withdrawn the temptation to work in the black market economy and cash payments may become attractive and so reinforce social exclusion. However, it should be noted that some banks are actually disputing this right.

## House repossessions

The Ministry of Justice brought forward a proposal for legislation that would protect individuals who are overindebted. This proposal, which was adopted by the Senate on the 15th January 1998, with a minor amendment, gives the debtor time to sell his house at real prices in order to avoid the problem of negative equity.

The legislation also has three other objectives, these are:

- ⊕ to improve information to debtors about their rights (for example, legal aid)
- ⊕ to ensure better co-ordination between house repossession procedures and overindebtedness procedures
- ⊕ to introduce a fair procedure in relation to the price determination of goods, with the right given to the owner to dispute the price set on his house on the grounds of it being too low.

It is envisaged that this legislation will shortly be published in the official journal.

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## FINLAND AND WALES

# The European Network of Debt Research (ENDR)

Leena Aatola from the national Consumer Research Centre, Finland and Maria Adams of the Welsh Consumer Council, U.K have combined their talents to bring information about the newly formed network for those working in the field of debt research.

At the Consumer Debt Net Conference in Aulanko, Finland, held in September 1997, participants at the Researchers' Workshop established the "European

Network of Debt Research" – ENDR (cf: Money Matters No 3/97 pp. 14-15).

The workshop decided to establish a register of researchers which would enable researchers to exchange



Leena Aatola



information, plan research and co-operate in international research projects. It was also decided that this register would be made available on the Internet to allow maximum and almost instant accessibility to information. The site would allow anyone interested in debt issues to contact researchers personally by telephone, fax or e-mail for further information. The National Consumer Research Centre in Finland offered to develop a site on behalf of ENDR, and it is expected that the site will be up and running in the spring.

The information on the ENDR site includes contact information on researchers in different countries, their main research areas, actual research projects and other research areas of interest. Researchers specialise in various disciplines such as economics, home economics, law, psychology, economic psychology, health care, sociology and social policy. The site also includes debt advisors and people with competence in ADB-software used as a counselling tool. The common denominator for this site

is issues relating to debt and over-indebtedness and their impact on households.

The effects of debt and/or overindebtedness are profound and longer lasting than expected. Research findings across Europe indicate the need for greater cooperation between authorities and debt experts, whether they are researchers, advisors, counsellors etc. This entails greater cross-border networking and cooperation and this site has been developed with this intent in mind.

The ENDR site will be updated yearly and will serve as a forum for the international exchange of information on debt related issues. This register will also become an important source of information for researchers, academics and policy makers primarily in Europe but also around the world. Interest has already been recorded from two Canadian researchers wanting to join. In the beginning of March to date, the register includes 28 researchers and counsellors from 10 countries: Canada,

Estonia, Finland, France, Germany, Ireland, Netherlands, Norway, Sweden and UK.

The Internet site is running and can be accessed on the following address: <http://www.kuluttajatutkimuskeskus.fi/> Once accessed click on the Union Jack symbol (English version), then Research networks and European Network of Debt research will be on the selection menu. You may also have a direct link to ENDR data on your own Website.

If you are interested in research networking or if you know of someone in your own country wanting to join the ENDR list please pass on your information to Leena Aatola.

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## GERMANY

In Money Matters No 4/96 we published the interim results of a major research report on the debt situation in Germany. This report by Dr. Dieter Korczak is now available and we take the opportunity offered to us by Dr. Korczak of presenting to you fuller more detailed information in the shape of the following article.

# Overindebtedness in Germany, other European States and Credit Counselling



Dr. Dieter Korczak

## Indebtedness

Altogether 32.5% of West German households and 37.5% of East German households have bank type loans, whilst in addition to this the number of loans that are of a similar type to bank loans are as yet unknown. However, this figure is estimated at being around 2%.

Statistics for home ownership show that 50% of West German households and 27.7% of East German households

own their homes. In general, every second German household has either a bank debt or mortgage.

Around 4.1 million households in the FRG show net monetary capital of under DM 2,500 and therefore represent the poorest part of the population. Whilst approximately 1.1 million households in both the old and new federal states (954,000 in the old and 167,000 in the new) are without any form of financial asset, i.e. they have no savings, no life insurance, no building society account and no stocks and shares. Over the last few years there has been an increase in the number of young debtors taking out loans repayable by instalment, with roughly 200,000 loans taken out last year by 20 year old adults.

Unemployment, difficulties with housekeeping, lack of experience in dealing with a wide range of products and loans and an overestimation of payment capacity are the fundamental causes of excessive indebtedness.

The reasons surrounding taking-out a loan correlate with needs that can be explained by the relevant phase of life or circumstances. During the trans-

formation process the typical problems of a developed social market economy were imported into East Germany from West Germany. These typical problems are structural, manifesting themselves in the form of high unemployment and low income levels, in addition to a deficit in the education of and experience in dealing with money and consumerism. The reasons for excessive indebtedness and the paths leading to it are complex and manifold. The conditions under which those affected are socialised are dependant not only on the personality of the individual in question, but also on his/her personal resources, the needs of his/her current life and in addition, the presence, knowledge and the use of offers or advice. A number of critical and in part dramatic circumstances in life be they concurrent or consecutive, can often bring about the leap from manageable debt to excessive overindebtedness and lead to the associated results. Those affected find themselves in a vicious circle and cannot see a way out of their dilemma. This is a result of the intensive marketing strategies of credit institutions on the one hand, and the consumer needs



of those affected plus their inexperience of dealing with money and the monetary system on the other. Those affected reveal a certain indifference towards their debts. This can be traced back to their experience during the communist regime when outstanding payments were tolerated without repercussions and manifests itself fundamentally in the field of primary debts i.e. rent, gas or electricity bills. The majority of those with excessive debts are willing to pay off their debts, in spite of economic, social and mental crises. However, a common problem, often pointed out by debt advisory centres, is that debtors seek out an advisory centre only when faced with imminent legal action and that their expectations are unrealistic, often believing that they will be provided with an immediate solution.

We expect that excessive indebtedness in East Germany will become identical in almost every aspect with that in West Germany. Preventive measures, public relations and educational work are greatly needed to keep the risks at a minimum.

## Overindebtedness

Since 1989 (4.2%) the number of over-indebted people in the old federal states has increased (4.9 - 5.3%). However, there was already a higher percentage of over-indebted debtors in the new federal states in 1994 (6.4 % - 7.6%) than in the old federal states.

The number of over-indebted debtors was determined by the following six indicators. Withdrawal of credit, affidavits, overdue gas or electricity bills, overdue rent payments, claims for garnishment of salary and unemployed people with excessive debt. These indicators are overlapping, consequently the real number of overindebted households was extracted by a statistical method giving consideration to the overlaps. The number of households with negative net assets was documented by a random survey of income and expenditure conducted by the Federal Statistical Office (Statistischen Bundesamt) in 1993 and was taken as an additional control.



At present there are approximately 1.96 million households with excessive debt in Germany. Of these 1.5 million live in the old federal states, 0.46 million in the new. A considerable portion of these excessive debts stem from overdue rent payments, 15 thousand people have been notified that they should vacate their premises. Collection orders were carried out in around 534,000 households to recover outstanding gas or electricity payments. Thus, the percentage of primary debt in the new federal states is very high. In the new federal states the number of unemployed with excessive debts lies between 100 and 200,000. The average number of withdrawals of consumer loans varies - related in turn

to new loans that are taken up within the year in question - between 2.2% and 3.0% with a mean value of 2.4%. By the end of 1994, 140,000 debtors in the new federal states and 680,000 debtors in the old federal states had been registered on the debt register. The central conclusions are; firstly, the situation of excessive indebtedness in the new federal states is already more serious than in the old federal states, and secondly, the number of over-indebted debtors in the old federal states has risen since 1989.

## European Overindebtedness

If a European comparison is made then Germany is exceeded only by the United Kingdom (see next table). The ability to carry out a European comparison of the different levels of overindebtedness is still limited. These limitations are due to the fact that:

- A** the term "over-indebted" is, in the European context a rather "loose" one,
- B** the empirical definitions of over-indebtedness are different and
- C** the quality and quantity of reliable data is diverse.

For example, if we consider the Norwegian data and we first look at families that are so badly off that they apply for debt settlement, the total number of cases handled by the court between January 1993–November 1997

Table: Overindebtedness in Europe

Country	Year	%	Households absolute number
United Kingdom	1992	11.0	2,500,000
East Germany	1994	7.0	460,000
West Germany	1994	5.1	1,520,000
Netherlands	1995	4.0	200,000
Finland	1994	3.7	85,000
Austria	1995	2.7	80,000
Sweden	1995	1.2	40,000
Norway	1996	5.5	90,000

Source: Personnel information by debt research network 1997

stands at 10,581 (0.6 of all households). The results of a representative household survey which measures the "inability to pay interest and repayments on their loans at the very last reminder" shows a figure of 90,000 households (5.5% of all households).

The clear message is :  
*A common European procedure to measure overindebtedness is essential.*

The results presented below therefore have to be interpreted carefully, but it still seems that in a European comparison, Germany is exceeded only by the United Kingdom.

East Germany is no different from many other European countries in that it is mainly the unemployed who are affected by overindebtedness.

The pending financial obligations of over-indebted East German people are significantly lower than in West Germany. However, the fact that the debtor frequently owes money to a large number of creditors makes matters more difficult.

## Debt Advisory Centres

The rapid development of debt advisory centres from 1991 to 1993 resulted in 440 centres in Berlin and the new federal states by December 1997, compared with 800 in the old states. As these centres are distributed in a disproportionate manner throughout the new federal states, we can only assume that the need for them is met in different ways. Although each administrative district has at least one debt advisory centre, when compared to the population of each region the overall distribution is very different. There are areas in which there is one debt advisory centre for 80,000 people and others where there is a centre to serve 16,000. In order to meet the rising demand, there would have to be one debt advisory centre with two advisors for every 40,000 inhabitants. The long waiting periods at the centres reveal that, at present, this demand is not being met. Only one third of the existing advisory centres manage their services without waiting periods.

**The main problem facing debt advisors in the new federal states is the lack of funds to secure their jobs.**

Every second advisor's and every second clerk's salary is paid by social transfer funds. In every second debt advisory centre with one employee, the employee is reliant on social transfer funds. It is therefore not surprising that of the 43% of advisors who changed their job, every second one did so because of lack of funds.

**Debt advice must become more professional.**

The present needs of the public cannot be met because of the current set up of debt advice centres (i.e the number of staff and their qualifications), where, for example 41% of centres have only one employee. As in West Germany, the employees generally come from a socio-pedagogic or economic background. Every third debt advisor has, however, acquired a special certificate, although such a certificate can be of use, the question arises whether a six-week crash course prepares an individual for the complexity of the work undertaken at the debt advice centres. In both East and West Germany interdisciplinary work is only required by every second debt advice centre. This reveals that more defined training standards, further vocational training, qualification to degree standard and a vocational association are necessary to make debt advice centres in Germany more professional. Professionalisation would also provide clear criteria for recognition as a desirable position in the sense of the new bankruptcy Act (§ 305 Abs. 1 Nr. 1 InsO)

**Debt advice centres do considerable social work by minimising the damage caused by debt, ensuring economic stabilisation and reducing welfare costs.**

There is a very high success rate in the debt advice centres, given the difficult job situation in them, with 30% of the debts dealt with being settled. The

amount that it costs to keep the debt advice centres in place (21 million marks) in East Germany is very low compared to the 495 million marks worth of debts incurred by their clients. Debt advisors believe they could achieve higher goals if:

- ★ their jobs were secured on a long-term basis,
- ★ they received better and more professional training and improved facilities were put at their disposal,
- ★ debtors and the credit institutions co-operated more closely.

**Debt advice is in a state of radical change.**

On the one hand, there are tendencies to distinguish between the different range of debt advice: advice on the basis of § 17 BSHG, "suitable" points within the framework of the insolvency act and advisory facilities with proceeds from debtor compensation. On the other hand, debt advisory centres will have to deal more intensely with mediation proceedings and the empowerment of their clients in the future. A breakthrough has also been achieved by receiving financial funding from savings banks.

Financial services are also undergoing modernisation at present. Preventive measures are therefore more necessary than ever.

Prevention has been one of the essential goals of debt advice practice since its very outset. However, due to the work-overload in the debt advice centres, active prevention is often restricted to the distribution of leaflets and an interview presenting the annual report. Prevention that, in reality, means advice concerning income development, use of income, financial and budgetary advice prior to incurring excessive debts is only offered by a few consumer advisory centres and "as a new model" by the "Einkommens- und Budgetberatung (EIBE)" in Rostock (income and budget advice).

Education for kids, youngsters and adults as an aid to prevention, in schools is at such a low level that it could be measured as a forgettable quantity.



## Recommendations

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

1. People incur excessive debts when they are made redundant. In the present economic situation it is almost impossible for those affected to have control over or 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 are 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, in particular in East Germany, where structural changes have altered the status of money and where parents themselves first have to learn the ropes. We therefore strongly recommend the introduction of curricular and extra-curricular courses to educate the young. We also suggest that adults receive training.

2. Excessive indebtedness primarily affects growing families. This phase is characterised by a greater need for investment and higher level of consumption. However, the needs of a growing family can often only be met if loans are taken out. When doing so families trust that they will be able to settle repayments. So-called unforeseen circumstances are in most cases the reason why families encounter financial difficulties through no fault of their own. A system of emergency funds ("Feuerwehrfonds") and routines should be developed particularly for families. These emergency funds are used to help people who need to take out loans because of financial difficulties not brought about by themselves thus preventing them from incurring excessive debts.

3. In today's modern life consumption and credit are taken for granted. Consumption and the taking out of a loan both appear to have uncomplicated

implications. This is emphasised and reinforced by the advertising and marketing activities of industrial, trade and financial service companies. In a complex society, currently undergoing modernisation, both consumption and credit bring forward chances and risks. As far as risks are concerned, borrowers and debtors should be provided with information and advice. The present EU efforts should be put into practice in Germany as soon as possible. We believe that this should also involve measures to ensure the staff of credit institutions are qualified and to give the lenders particular responsibilities when providing loans.

4. Over the last few years debt advice could fortunately be expanded to the extent that, at least within East Germany, each administrative district and each self-administrating town has its own debt advice centre. However, the number of these centres still does not meet the rising demand and reveals, as already shown, considerable regional disparities. We suggest two main improvements for the future: firstly, two debt advisors per 40,000 head of population instead of one, secondly, securing permanent funds to finance debt advice positions.

5. Developments in the field of debt advice have gained momentum through the passing of the Insolvency Act and will be confronted by new target groups as the problems of excessive indebtedness intensify. These developments require that the range of advice is differentiated and more clearly defined. However, the range of advice should not lose touch with its initial aim but should focus on the specific requirements of the individual target groups. This should also include a range of advice for those who are self-employed and freelance whose bankruptcy has resulted in private excessive indebtedness.



6. As there are currently no uniform and compulsory professional standards in the area of debt advice, the work is being carried out by people from very different professional backgrounds who put emphasis on different matters. The lenders negotiating with debt advisors are professionals. Uniform training and vocational standards as well as special schools and training centres are needed urgently in order to optimise and improve the efficiency of the debt advisory centres. It is also necessary to cater for a systematic range of further education courses.

7. Debt advice centres should use a uniform, compulsory, computer-aided statistical programme that provides the following information: age, sex, status, number of children, training, form of employment, income, debt, creditors, situations in which debts occur, causes of excessive indebtedness, repercussions of the excessive indebtedness and results from advice. These statistics would not only enable a professional and systematic registration of the client's situation, but also allow a competitive analysis of the problem of "excessive indebtedness".

8. Studies on the difficult nature of excessive indebtedness are presently conducted only sporadically. This is true on a national as well as on a European level. There is a demand for a continual flow of information regarding the development of excessive indebtedness. The set of indicators used in our study on the situation in the east has proved to be effective in the analyses of other authors. Therefore, we believe that a foresighted family and social policy would profit if more data were collected. Numerous developments and changes in the difficult nature of excessive indebtedness can then be recognised in good time and lead to socio-political action.

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## SWEDEN

# Budget Advice from a Swedish Perspective

One of the most common questions which I am asked is "How can you be so positive and involved in your work when the people you meet always have problems?" I have, of course, asked myself the same question on many occasions but I believe that I have the answer to the question.

I studied for a social work qualification with a vague desire to do something for others. Under Swedish law individuals are entitled to receive assistance that is in addition to their own efforts. This is exactly what budget and debt counselling provides, a hope and the possibility to be in control of your life and your finances.

Social welfare in Sweden is becoming more and more restricted with many families living on the basic guaranteed income that is much below the amount reserved by the executory authority.

I believe that budget advice should not be seen as a technical problem that can be solved in a standardised way. Every person is an individual and is therefore unique and consideration should be given to their individual needs and knowledge. I carry forward this view into my work by approaching my work with several basic principles.

## Voluntary Participation.

An individual cannot be helped to deal with their everyday situation and financial difficulties if they, themselves,



*Eva Skärvall a budget advisor in Stockholm tells how she approaches her job.*

do not wish to be involved. The fact that an outsider thinks you should be referred to a budget advisor is not sufficient motivation to participate actively in the budget advice process. The person has to have that personal desire to participate in the process in order for it to be successful.

## Confidentiality

The person using the service must be assured that confidentiality is absolute, that no information will leak out, that contacts are not made without their permission and that information is not disclosed without their authority. If information that is of a seriously

misleading nature is given, then it is up to the advisor to break the contact.

## Honesty

An absolutely honest approach is paramount and it has many different components. The debtor must be honest with themselves and recognise their own limitations. The consequences of trying to negotiate with creditors on the basis of "desired reality" can be devastating. If the agreement is not kept it will then be more difficult to reach a settlement in the future, when an instalment plan could be fulfilled.

It can also present a dilemma for the advisor. Even if the advisor is not responsible for the information provided and has only been there to assist, their credibility can be affected by repeated failures.

Last but not least in the honesty stakes is the principle that the debtor must feel able to tell the advisor what he does or does not want, what contacts he can cope with and what sort of help he really wants.

The advisor's proposals are not, in any way, compulsory. Only when this understanding is reached between the advisor and the debtor can the counselling have the potential to succeed.

## Personal Choice

Everyone makes their own personal choice in relation to their finances. No choice is right or wrong, but the choices must be firmly established and well



thought out. If, for example, you smoke a packet of cigarettes a day or choose to rent a TV and video then you must be prepared to give up something else.

## Continuity

Budget counselling is based on a long term approach to changing the situation. This situation cannot be hurried, the very length of the process gives the budget counselling a solid base for success. Remember, it usually takes a long time to build up the debts and that it may therefore take a long time to deal with and eventually get rid of them.

In order to provide the best possible service to the debtor it is important that the advisor's caseload is not too heavy and that the numbers are manageable.

It is important that the debtor has

regular contact with the advisor, particularly during the first stages of the process. The very fact that the person can contact their advisor for support and encouragement is of major importance. It is often the lack of support and encouragement that has, in the first place, resulted in the debtor not opening their letters and post or ignoring their growing problems.

## One stage at a time

Everyone wants to have their personal finances in order or to be free of debt. However, this wish is not always realistic or easily achievable. In these circumstances it is often wise to approach the work one stage at a time. This approach of concentrating on the work to be done in stages can help the

individual to gain strength and self-confidence.

It is important that these issues are brought up at the first meeting, in this way both the advisor and the debtor are aware of the limitations of budget and debt counselling. This gives them both the opportunity to speak out if they feel that something is not quite right. It should be noted that the contact between both parties may be broken for some time but that this will not necessarily mean that the budget and debt counselling has failed.

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# NETHERLANDS

## Networking in combating overindebtedness

This article is based upon the workshop, with the same title, held during the conference in Finland. The networks discussed are on a local, regional and national level and international networking is not discussed in this article.

### What is a debt problem?

Debt problems in the Netherlands are not regarded as just financial problems. It is recognised that Debt can be the cause and/or result of other problems. Of course there are the ordinary, one-off

debts, occurring as a result of, for instance, unforeseen circumstances. But there are also debts that result from a structural imbalance between income and expenditure as well as those that stem from an internal source within an individual. Examples of the latter are, an inability to keep hold of money



Genie Hendriks, Assoc. of Netherlands Municipalities

(known in the Netherlands as "having a hole in one's hand") and addiction to drugs or gambling.

It follows therefore that a debt problem can be a complex problem. This complex problem demands a multi-disciplinary approach. This solution developed in the Netherlands after the publication of the Boorsma-committee report in 1994. This report recommends an integrated approach to debt cases.

The central point of the report is the identification of the need for co-operation between organisations dealing with debt problems. This must mainly be done at local level.

## Networking on local level

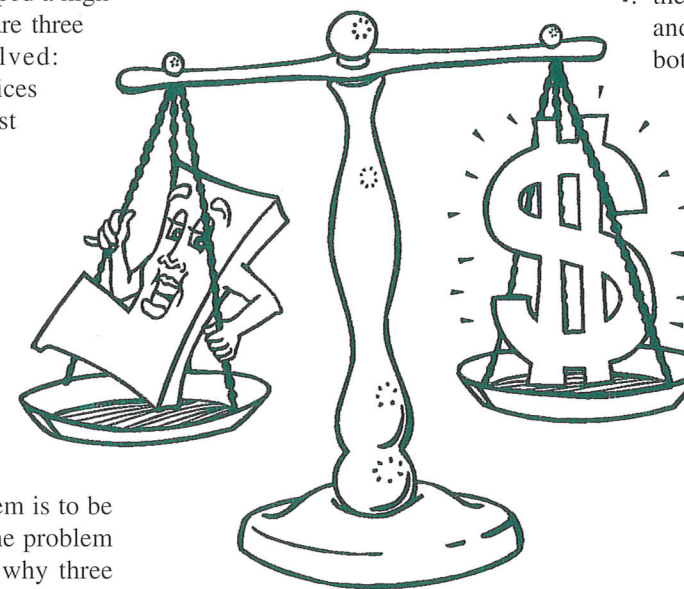
After the publication of the Boorsma-report debt assistance developed a high profile. On a local level there are three main organisations involved: municipal banks, social services and social assistance (the last because of the less material aspects of debt problems). The three organisations form a local system in which arrangements are made about the way a debtor will be referred and who does which activities. To enable that system to work it is important that a good analysis of the debt problem is made. If a problem is to be solved, then the causes of the problem must be identified. That is why three organisations are involved. These three organisations have between them the right skills and capacity to make an analysis. Moreover, they have the instruments to deal with the problems effectively. The co-operation between the three organisations is as a matter of course at the main root of the network.

There is also a form of second tiernetwork. This is made up of organisations who do not deal with debt problems as part of their activities, but who often pick signs from their clients. These signs can indicate that behind the problem the client is receiving

assistance for there is also a debt problem. Examples of these organisations are landlords, house doctors, centres for addicts, and so on. These organisations play a part in the debt assistance by showing debtors the way to the main network of debt assistance.

## Networking on national level

The umbrella-organisations of those organisations forming the main local networks meet on a national level, this enables them to advise the local networks and to identify barriers to solutions. Together with representatives from the Ministry of Social Affairs and Employability and The Association of Netherlands Municipalities they form a platform enabling them to meet frequently as a group to discuss the



issues, including the practicalities and actual process of debt assistance.

The activities of this group have already resulted in different products to improve the integrated local network approach to debt assistance. Another example of their activity is the discussion within the group about proposals for a new Bankruptcy Act in the Netherlands. The discussion within the group led to a particular point of view in relation to the proposals. This point of view has been the subject of some meetings between the Chairperson of the group and

the Ministry of Justice, who has responsibility for the Bankruptcy Act. It was as a result of these meetings that the proposals were amended before they went to the Dutch Parliament. These proposals, now being discussed in the Dutch Parliament, include a legal solution to dealing with debt problems. This example proves that the group is taken seriously. The recommendations that come from the views expressed above are:

1. debt problems must be approached as complex problems
2. to deal with debt problems effectively the different aspects of the problem must be taken into account
3. a multi-disciplinary approach established within a structured organisation (on a co-ordinated local network) is essential to allow different disciplines to meet
4. the structured organisation involves and encourages a local network at both first and second tier
5. the local level network can be supported by an umbrella organisation network, this increases knowledge and experience and provides an opportunity to lobby government.

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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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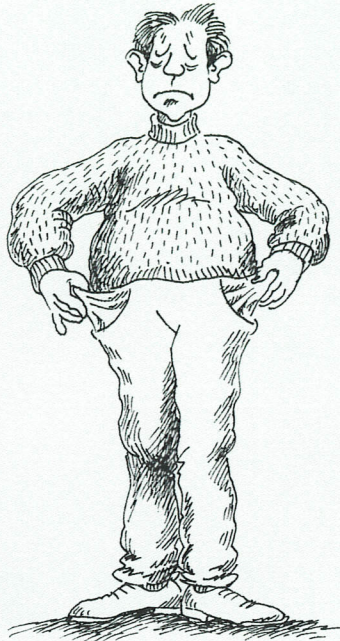
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## Germany

New German Insolvency legislation will come into force from 1st January 1999, however there are still some areas of uncertainty. One of the questions being asked is; will a debtor with no distrainable income be able to request a discharge without making payments to the creditors. Many of the debtors will only be able to access the insolvency law with the possibility of a discharge if they can get legal aid.

In general terms the bulk of debt counselling is carried out by non governmental organisations and some communities. It is interesting to note that in some of the Lander ( the regional level) the savings banks have been obliged to part finance debt counselling. More importantly, the call from across Germany for creditors to finance debt counselling is getting stronger.

There is a national alliance of the umbrella groups for debt counselling, this alliance, "AG-SBV" has agreed the national delegates that will attend the CDN conference.



## Ireland

## CDN Conference News

CDN is pleased to announce that it is co-hosting a European conference with the Irish National Social Services Board. The conference on "Consumer Debt Problems in a Changing Europe" has been funded by DGXX1V Consumer Policy Unit. Thanks are offered once again for their support and encouragement. Full details of the conference programme will be with you soon, in fact a preliminary flyer is enclosed with this newsletter. So folks, make a note in your diary for this important event.

**Date:** September 23 -25 1998

**Place:** Grand Hotel, Malahide, Co. Dublin.

**See you there!!!**

## Book Review

## Social Security Law in the Fifteen Member States of The European Union

Author: Danny Pieters in co-operation with a long list of others.

Publisher: MAKLU-UITGEVERS n.v.

I recently noticed an advert for this book in a periodical and was persuaded to purchase it. This is a very well written and extremely well researched piece of work. It gives a good detailed introduction to the social security system in each member state. The style is straightforward, easy to read, not the boring legalistic text it could so easily have been.

It will prove helpful to both expert and beginner using, as it does, a uniform description of the systems, information on the concepts and sources of social security law, the types of risks covered and benefits, administration of the systems, financial aspects of social security, the application of the system in terms of personal scope and the judicial review mechanisms.

A good book, interesting, informative, very welcome and I should imagine of great value to money advice and debt counsellors.

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