

# MONEY MATTERS

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## Tackling household over-indebtedness

Materials from the 6th European conference in Athens.





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## Introduction

In this edition of Money Matters magazine we present materials from the 6th European conference in Athens.

Hans Dubois reflects on the correlation between unemployment and over-employment in the light of the European level research, which was conducted by EUROFOUND. This article indicates that a combination of preventive, alleviative and rehabilitative measures is necessary when dealing with those problems.

Dieter Korczak clarifies the picture of financial education and prevention of over-indebtedness. Based on his own research and research done by OECD and PISA he indicates the need for European level evaluation of completed programmes and projects in the fields of prevention and financial education in general.

Michael Mulhall presents an innovative, independently developed, free, online planning tool for Irish households. The budgeting and money management software enables people to monitor their household finances at the push of a button, anticipate upcoming demands on their resources, and stress test possible financial threats such as a reduction in income or rise in interest rates.

Geert Lankhorst shows data and conclusions from the 8th debt adjustment report offered to the Dutch Parliament 2011.

Celia Tsekeris (GRE) and Catarina Frade (POR) elaborate on how approaching to solve over-indebted families' problems holistically and strategically may become detached from actual situation.

Celia Tsekeris discusses, using the Greek example, the lack of strategic vision on how to deal with over-indebtedness. The legal and program initiatives are often late and lack coordination. She emphasizes the necessity of support the European and national bodies should provide for consumer organizations in order to increase their capabilities to provide complex aid in financial education and many other fields.

Catarina Frade presents the drastically increasing indebtedness levels of Portugal households. In her article she describes the late and scattered actions undertaken by the central government, which also did not consider the social and economic reality that households have to face.

Enjoy reading!





# Over-indebtedness and unemployment in the EU<sup>1</sup>

by  
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## The relation between over-indebtedness and unemployment

Unemployment can lead to over-indebtedness. When someone becomes unemployed, the household this person supports may not be able to adjust its expenditure levels to the new income. The relation between unemployment and over-indebtedness can also be less immediate. Unemployment may for example lead to tensions in the household and divorce, which in turn can lead to over-indebtedness. When someone is unemployed for extended periods of time, debts which are taken-on to supplement unemployment benefits in order to sustain a decent level of living may spiral out of control. (Eurofound 2012a)

The impact of unemployment can go beyond the unemployed household. Sometimes entire social structures, usually among relatives, are based on the income from employment of a few persons only. (Frade et al. 2008) In fact, when Europeans were asked who would support them if they urgently needed around 900EUR<sup>2</sup>, very few would turn to a service provider. Most (70%) Europeans would ask a member of their family or a relative. Another 12% would ask a friend, neighbour or someone else, while just 8% would turn to a service provider or institution. One out of ten (10%) report they would not be able to ask anybody; this was particularly true among people in the lowest income quartile (15%). (Eurofound 2012b)

Causality can also be reverse, with over-indebtedness triggering unemployment, in particular because of the stress and mental health problems that can come with it. (Eurofound 2010)

## Long term unemployed & debts with family and friends

A large group of people struggling with debts consists of long-term unemployed people who have been living on low incomes, from benefits, during extended periods of time. They have often dipped into, and out of, over-indebtedness numerous times. When in need of money, they often have nobody to turn to, and if they turn to a financial service provider, they often borrow at high costs. Their debts are usually relatively small, rarely above twice the medium monthly wage in the country.

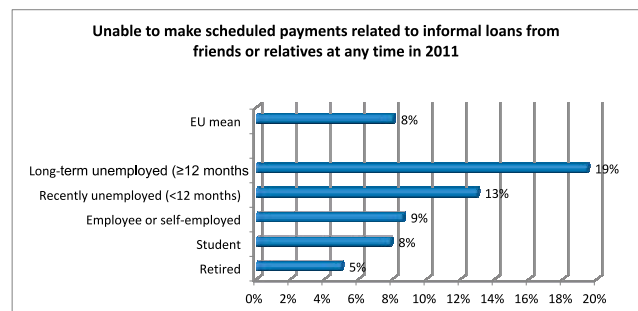
Eurofound's recent reports include an overview of research which has focused on over-indebtedness among low income households,

often long-term unemployed. Most research relates to the debts they have with social housing associations, utility providers, financial institutions and illegal money lenders. Nevertheless, as mentioned above, most Europeans would turn to relatives or friends when in need of financial support, and this is particularly true for long-term unemployed.

Debts with friends and relatives can provide relief when badly needed, and can actually avoid over-indebtedness, but they also come with specific risks when one cannot pay them back. First, they can lead to delayed detection of debt problems by authorities which could offer help. Second, they can harm social relationships, while such relationships provide badly needed social support when people struggle financially. Third, they can lead to a domino-effect of defaults, dragging friends and relatives into financial trouble, potentially triggering a chain of defaults on payments.

The latest European Quality of Life Survey (EQLS) asked Europeans whether their household had been unable to make, as scheduled, payments related to informal loans from friends or relatives not living in their household, at any time during 2011. As Figure 1 illustrates, the results of this survey confirm the importance of this type of arrears: 8% of Europeans reported that their households have defaulted on such debts. (Eurofound 2012b) Furthermore, they are particularly high among long-term unemployed: 19%.

Figure 1 Unable to pay back loans from friends or relatives



Source: Data analysis from Eurofound's "European Quality of Life Survey"

<sup>1</sup> Based on a section of the presentation for the 'Tackling household over-indebtedness' conference (co-organised by ECDN, Eurofound and EKPZO), which can be downloaded from: <http://www.ecdn.eu/ecdn/>

<sup>2</sup> Amount in the questionnaire differed somewhat among member states, and was 900EUR e.g. for Germany.



## Recently unemployed & mortgage arrears

From case studies of debt advisory services in Eurofound's recent report (Eurofound 2012a), it appears that the financial and economic crisis has created a 'new' group of over-indebted people. While it has recently become less common to own a house with a mortgage, the recent financial and economic crisis was preceded by a boom in mortgaged-based financing. The massive, unexpected job-loss during the crisis has left many people over-indebted with large mortgages which they cannot sustain. Many in this group of people have been used to being in employment and relative favourable living conditions. They are often uncomfortable with seeking help, and experience debt problems of types and magnitudes which are relatively new to many service providers.

The European Commission's (2013) recently released Social Investment Package warns for the increase in homelessness and the large number of people who are at risk of eviction. The EQLS data confirm an increase in the proportion of Europeans who find it likely they will need to leave their accommodation within the next six months because they can no longer afford it. This percentage has risen from around 4% in 2007 to almost 6% in 2011. While it is still highest among those living in people living in rented housing on the private market, the increase in the perceived likelihood of the need to leave accommodation has indeed come from households living in larger, mortgaged accommodation.

## Holistic responses with a focus on unemployment

While more comprehensive policy responses are discussed elsewhere (Eurofound 2012a), here we will focus on aspects which are specific for the unemployed. Overall, a holistic response is required, with a combination of preventive, alleviative and rehabilitative measures.

Generally, preventive measures include education, regulation, and early-warning systems. With regard to unemployment, social partners can play a key role. By being among those first aware that employees might lose their jobs, the social partners are in a position to guide people to available support services in the respective country, which can help in avoiding debts to spiral out of control.

Alleviative measures include debt advice and integrated social services for addressing multi-dimensional causes and consequences. For the unemployed, providing optimal support to find employment is crucial, with different strategies available for disadvantaged groups of potentially long-term unemployed (Eurofound 2012c). While the search for employment can be challenging, attention can meanwhile be paid to avoiding debt problems to jeopardise chances of employment. With housing costs being among the main elements of financial stress, bringing expenditure in line again with income by facilitating smooth transitions to better affordable dwellings can provide a solutions. In a recent case study of a Swedish debt advisory services, for example, a client reported about her debt problems *"The anxiety was so great. I could not support my child. In my imagination I saw how we would be forced to live on the street, as I had seen in the US.", but after moving said "I never thought I would move, had refused for so many years. But both me and my daughter are thriving in our new apartment. I feel calm and safe and have started to take more care of myself"*



Rehabilitation can be done through legal or out-of-court debt settlement procedures. The longer unemployment lasts, the harder it is to find employment. Thus, it is crucial to stimulate people to keep searching for employment and to enhance their employability. During settlement procedures, people often have to hand-over to the authorities or creditors all their income. This provides a strong disincentive to maximise income, and thus to find employment. It is important to adjust these schemes, so that for example enhanced payment is rewarded with reduced settlement periods, or that a share of income above the threshold can be kept.

Overall, it is important to keep in mind that there is heterogeneity even within the group of people who have become over-indebted because of unemployment, and within the two important sub-groups which have been discussed in this article. Furthermore, the unemployed might have become over-indebted because of reasons other than their unemployment. It is crucial to keep this heterogeneity in mind when thinking about solutions.

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# Prevention of over-indebtedness

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The financial world has become hard to understand for many people and consumers. It seems that even financial analysts, trained economists and politicians have difficulties to interpret the mechanism of the financial world. The market place, financial products and services, the range of providers and channels, the financial decisions concerning savings and interest rates, credit taking, retirement, pensions, health care, education have become more and more complex. There has been a risk shift from both governments and employers to individuals. The principle of the informed consumer burdens all the risk on the shoulders of the individual. Guidelines (and morals) are strongly needed to prevent the financial disaster of individuals, consumers and even states.

Due to these changes much emphasis is put on the efficacy of preventive actions and measures. Prevention can generally be done in two ways: either as social/structural prevention or as behavioural prevention.

## Social/structural prevention

In the case of financial activities and products the social/structural prevention consists mainly of laws and regulations concerning the rights of consumers, e.g. the free flow of truthful information, detailed information about products, advertising, sales and business practices, product branding, sound banking and truth in lending, and all manner of other types of consumer transactions.

Very important for all European States will be the new Consumer Rights Directive which will be set in place 13 June 2014. The new Directive will replace the current Directive 97/7/EC on the protection of consumers in respect of distance contracts and the current Directive 85/577/EEC to protect consumers in respect of contracts negotiated away from business premises.

The main social/structural preventive regulations in the new Directive are:

- An increased price transparency
- Traders have to disclose the total cost of the product or service, as well as any extra fees
- The banning of pre-ticked boxes on websites
- 14 days to change your mind on a purchase. The withdrawal period will start from the moment the consumer receives the goods

- Traders must refund consumers for the product within 14 days of the withdrawal
- Introduction of an EU-wide model withdrawal form
- Eliminating surcharges for the use of credit cards and hotlines
- Clearer information on who pays for returning goods
- Information on digital content will also have to be clearer, including information about its compatibility with hardware and software and the application of any technical protection measures.

The transposition of the new rules into the national laws has to be undertaken by 13 December 2013. The rules will be applied in all Member States at the latest by 13 June 2014.

In Germany, there are currently several paragraphs in the Civil Law which regulate contracting. These are e.g. general terms and conditions (§§ 305–310), door-to-door contracts (§ 312, 312a), distant contracts (§§ 312b–312d), contracts within the electronic business (§ 312e), consumer loan agreement (§§ 491–498) and installment contracts (§ 505).

By 11 June 2010 the Act implementing the Consumer Directive was set into place in Germany. It covers all financial loan agreements including overdrafts and tolerated overdrafts regulating advertising, information, cancellation, premature repayment, compensation and the calculation of the APR. The basic idea of the Consumer directive is the model of a responsible and self-reliant acting consumer.

## Behavioural prevention

The informed and self-reliant acting consumer is the role model and target of behavioural prevention. Behavioural prevention is intended to strengthen financial knowledge, resources, capabilities and competence.

Financial knowledge is provided by a great variety of different agents, e.g. parents, kindergarten, primary and secondary school and vocational education, by insurances and banks, by consumer associations, welfare associations and debt counseling agencies, by Federal and State bureaus, by print and TV media and by academic institutions. All these institutions feel legitimated to provide financial education.



Depending on who is offering and providing the financial and/or preventive information the message can be conflicting and inconsistent. There is no consensus about the content, the necessary information elements and the effects of single financial activities.

The target groups for financial education are very diverse. Therefore different approaches and the development of different skills according to the specific needs of the single target groups are needed. Relevant targets are for example teenagers, young adults, newly married couples, young families, single-parent families, divorced persons, seniors and persons in pre-retirement and retirement. There are targets like persons in problematic (financial) situations e.g. orphans, migrants, prisoners, drug addicts. And there are persons who need special advice like unemployed persons, working poor, new entrepreneurs, self-employed persons/small business, inexperienced investors.

Graph 1 illustrates the relation between social/structural and behavioural activities and the prevention of over-indebtedness.

### Definition

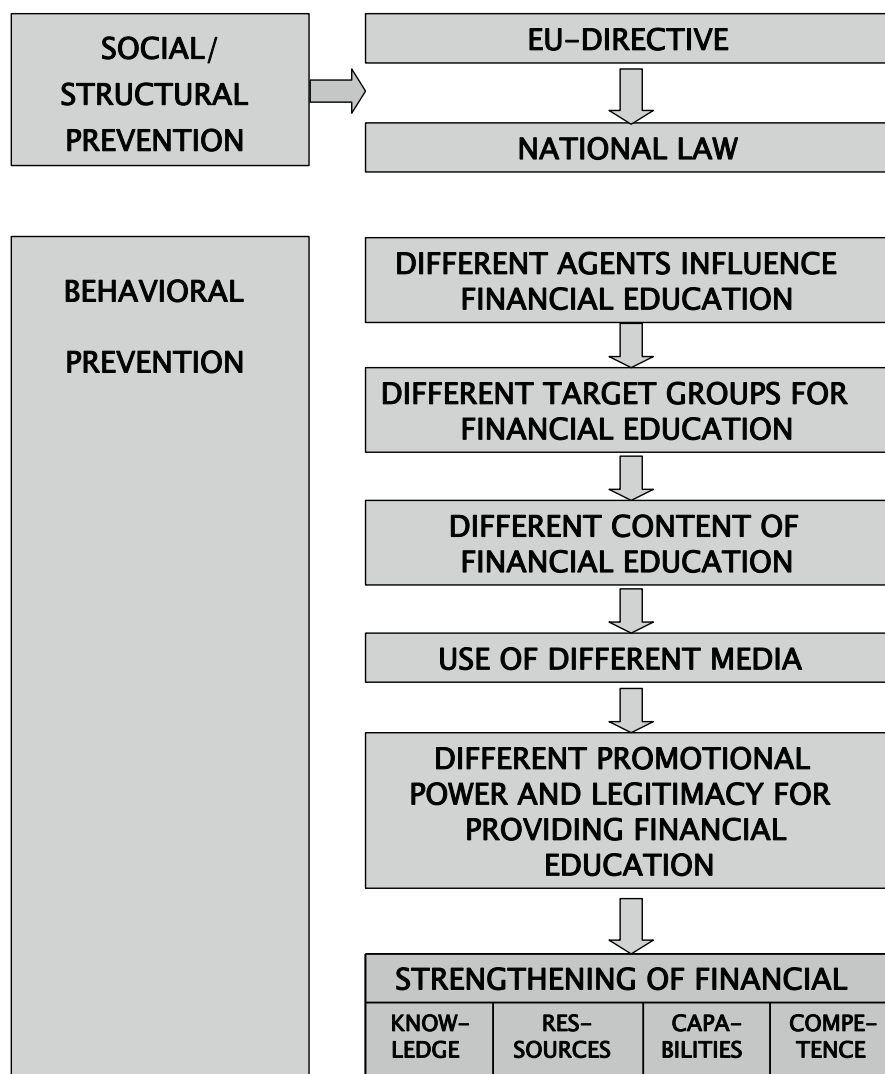
Though there are different target groups a kind of umbrella definition of financial competence is valid for all of them. Namely, financial

competence is the ability to understand financial things in general and handle adequately his or her own financial matters in an appropriate way.

If one wants to fill the above definition with additional elements to give a broader description of the phenomena, the use of the OECD definition is helpful: "Financial literacy is knowledge and understanding of financial concepts and risks, and the skills, motivation and confidence to apply such knowledge and understanding in order to make effective decisions across a range of financial contexts, to improve the financial well-being of individuals and society, and to enable participation in economic life." (OECD 2013:144)

Consensual definitions are necessary to compare the levels of financial literacy within one state and between states. The OECD definition has been developed to be used as a working definition within the PISA study. PISA 2012 is the first large-scale international study to assess the financial literacy of 15 year old students.

Graph 1: Financial Education and Prevention of Over-Indebtedness



Source: © Dieter Korczak 2013





### Results of PISA 2012

The financial literacy was assessed in 14 different countries, including the EU-member states Czech Republic, Estonia, Germany, Hungary, Ireland, Poland and United Kingdom. The three major components of financial literacy which have been measured are knowledge, behaviour and attitudes.

The results show that there still is a lot of room for improvement. Hungary gained the best results in knowledge skills. Estonia, Ireland, Germany, Czech Republic were closely behind and there differences between them were within standard deviation.

There were much greater differences concerning financial behaviour. The behaviour was measured by questions such as thinking before making a purchase, paying bills on time and budgeting, saving and borrowing to make ends meet. German students are much better in the long term, "I tend to live for today and let tomorrow take care their financial behaviour though their knowledge skills are just average. On the contrary, Hungarian and Estonian students who reach high knowledge skills have the worst financial behaviour skills.

The attitude score was measured by agreement or disagreement to three statements: "I find it more satisfying to spend than save it for of itself" and "Money is there to be spent". Disagreement to these statements is highest in Hungary, Germany and Czech Republic and lowest in Poland. A critical argument against these statements could be that they only measure the attitude towards saving. But generally it is interesting to see that knowledge and behaviour does not always have a correlation (e.g. Hungary, Estonia). That has to be considered in the set up of financial prevention programmes.



Table 1: High score on each of the financial literacy components

Proportion scoring highly on each component (Cell percentages by country)			
Country	Knowledge score	Behaviour score	Attitude score
Hungary	69%	38%	69%
Estonia	61%	27%	46%
Ireland	60%	57%	49%
Germany	58%	67%	63%
Czech Republic	57%	48%	62%
United Kingdom	53%	51%	49%
Poland	49%	43%	27%

Each of the columns reports % of respondents gaining a high score (6 or more on knowledge and behaviour, more than 3 on attitudes)

### The German situation

In Germany, there are numerous programmes and activities, especially to improve the financial skills of young children and adolescents. These efforts try to increase the individual capabilities to choose adequate financial services, to ask the right questions and to understand the given answers. They try to improve the knowledge base of the individuals and teach them criteria for the selection of financial services which have a justifiable benefit-cost relation and to understand the risks and benefits as well as the cost and duration of financial products and services. Besides the capabilities and knowledge skills the programmes intend to empower the individuals to be more careful and more self-confident. Though there are many programmes

other EU member states). Preventive measures are mainly done as a kind of universal or primary prevention but without controlling the efficacy and effectiveness of these measures.

One recent German study with more than 8.000 respondents analyzed the saving, expenditures, behaviour and attitudes of 14-25 year old students in Munich. The main result is that money expenditures and indebtedness are closely related to the specific developmental change from the adolescent to the young adult. There is a jump in the prevalence of indebtedness between 18 and 19 years when adolescents get the legal right capacity and contracting capability.



Table 2: Age and indebtedness (in %)

Students	No debt	High debts (500 -1.950 €)	Very high debts (2.000 + €)
<b>N</b>	(5.097)	(397)	(189)
15 -17 years (N=1.911)	83,4	2,3	0,3
18 years (N=1.524)	78,9	3,2	1,0
19 -20 years (N=1.949)	72,0	8,2	3,2
21 years and more (N=1.362)	65,9	10,6	7,7

Source: GP Forschungsgruppe Münchner Schülerbefragung 2005-2009

### Therefore:

- Preventive programmes and activities have to be evaluated.  
A common European project is needed which evaluates in a scientific way the efficacy and effectiveness of structural/social and behavioural prevention.
- There should be more consideration of the change of structural/social policies and their effect on the over-indebtedness of individuals and households
- It is important to support adolescents during the developmental change from youth to young with specifically targeted financial prevention

### Literature:

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# Taking Control

How MyBudget is aiming to empower consumers of financial services in Ireland

by  
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## About MyBudget

**M**yBudget is an innovative, independently developed, free, on-line financial planning tool for Irish households. The budgeting and money management software used enables people to monitor their household finances at the push of a button, anticipate upcoming demands on their resources, and stress test possible financial threats such as a reduction in income or rise in interest rates. All financial calculation functions are pre-programmed, the user has merely to record his or her income and expenditure. It can be used by the consumer alone (to evaluate spending and borrowing options), or to inform others (for example, to demonstrate the ability to afford credit repayments to financial institutions).

MyBudget is readily accessible, via the Internet or smart phone devices. It embodies a template, created with reference to Central Statistics Office data, suited to most Irish households. Minimum income standards are currently being incorporated into the software to enable people to benchmark their household needs against objective budget standard criteria. In short, it is designed to be an empowering, capacity building, money management tool for consumers.

## The Context for MyBudget

In recent years, there has been a paradigm shift in the way many Irish households receive, manage and transfer money. Whereas once money was tangible in the form of cash or cheque, it is now more

often than not intangible, existing as a number on a computer screen or as what is now commonly referred to as electronic money. In other words, for many, money has moved from being a physical commodity that could be held, divided-up and passed around by hand, to one

which is largely un-touchable, invisible and instantly transferable between parties at the click of a computer key.

Such a behavioural transformation has, however, been driven more by the needs of industry and policymaker than those of the consumer. European Union and Banking industry initiatives, combined with the development of the Irish Government's

National Payments Strategy and the creation of a related industry body - the Irish Payment Services Organisation - suggest that macro-economic, business and cost cutting considerations have been the key drivers of such a transformation, as opposed to the demands of financial service consumers.

Nonetheless, many consumers clearly enjoy the indirect benefits of electronic money such as increased convenience and greater choice; however, this does not apply to all consumers. Levels of financial exclusion in Ireland for example are relatively high. Concerns have been consistently expressed that without appropriate support, the move to electronic money may jeopardise tried and tested (cash) money management techniques frequently employed by those with the least resources; hence, policies promoting electronic money may place such households at increased risk of financial difficulty. There are also risks to those more comfortable with using electronic money.





## The Rationale for MyBudget.

The ability to transfer money to others, pay for things and even apply for loans at the click of a mouse, or by using a mobile phone may be convenient. However, instant, uninformed decisions may lead to subsequent financial difficulty if a consumer does not know where s/he stands in terms of their overall finances prior to making these choices. It is notable that there has been little policy emphasis in Ireland on ancillary electronic money management tools which might help to address some of the dangers inherent in these mechanisms.

Useful budgeting tools, developed by state funded bodies such as the Money Advice and Budgeting Service (MABS) and National Consumer Agency (NCA), are somewhat discrete or “stand alone” from the financial service products or services to which they relate. MyBudget aims to complement these resources by enabling consumers to have instant electronic access to a customised budgeting tool at their finger tips should they need it whenever a financial decision or issue presents itself.

## The Ethos of MyBudget

The facility to access an up to date picture of previous, current, and projected income and commitments, together with the option to test out “what if” scenarios, gives the financial service consumer information, knowledge and therefore more control in relation to their financial situation. The MyBudget view is that financial services providers have a social and corporate responsibility to provide their consumers with money management tools appropriate both to the age of electronic money, and as a counterbalance to the often intensive, financial marketing campaigns which promote the financial products and services that they provide.

MyBudget is primarily a preventative tool. The fall out from the Global Financial Crash (GFC) in 2008 has resulted in a policy debate in Ireland almost entirely focused around mortgage arrears, forbearance and insolvency. Although MyBudget can assist debtors in this regard, its primary purpose is to help people to avoid becoming over-indebted in the future through being able to make more informed decisions than heretofore. It is also designed to be an evaluative tool, enabling the consumer to weigh up or “stress test” such things as the poten-

tial consequences of spending or borrowing decisions, and the likely impact of income shocks on their household budget. In this regard, the detailed list of spending items incorporated within MyBudget gives the user a comprehensive information base for contemplating difficult decisions such as those around expenditure cutbacks.

## Conclusion

Electronic money and credit embody both opportunities and threats for users - we believe that electronic budgeting can enable consumers of such facilities to use them more appropriately. The policy approach to personal finance in recent years has been predicated more on repairing the balance sheets of beleaguered institutions than on empowering financial service users. We believe MyBudget can make a contribution towards redressing this imbalance by placing more decision-making power literally in consumers’ hands.

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# Consumer bankruptcy and debts settlement procedures: recent developments in Portuguese landscape

by  
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The impact of the economic crisis and the austerity measures agreed by the Portuguese government with TROIKA (European Commission, European Central Bank and International Monetary Fund) in May 2011 has been increasingly felt in financial health of Portuguese families.

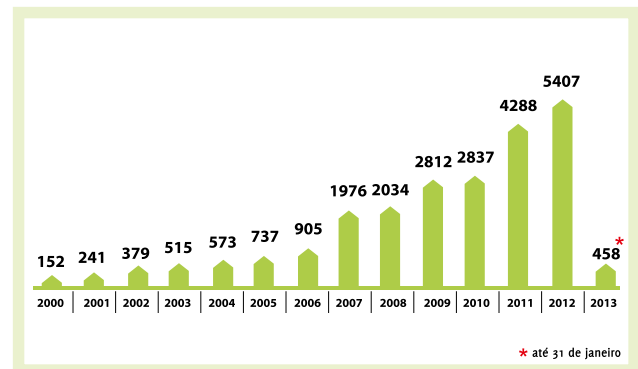
Families' financial constraints have been driven mainly by the loss of salaries. A direct loss motivated either by unemployment (17.6% in January 2013, with the unemployment among young people reaching 40%) and by the reduction in the value and duration of unemployment benefit (being that close to 50% of today's unemployed people do not even receive any benefit) or by cuts in wages and holiday pay and Christmas bonus for civil servants. An indirect loss translated into a much higher tax burden<sup>1</sup> and a sharp rise in prices of various basic services (gas, electricity, water...).

Data from the Bank of Portugal show consecutive records in both consumer credit and housing loans default. Data pertaining to December 2012 show that the overdue loans ratio of private individuals reached 4.1% (2.3% for housing loans and 11.8% for consumer credit). In terms of percentage of borrowers in the household sector with overdue loans, the total was 15.1% (6.1% for housing loans and 16.9% for consumer credit).

This deterioration of the families' solvency ratio is also reflected in the significant increase of support requests for extrajudicial debt restructuring and in the escalating bankruptcy procedures.

In 2012, the overindebted support offices of DECO, the Portuguese consumer association, followed 5,407 processes. In January 2013, the number of cases was close to the total number of cases recorded in the whole year of 2003 (458 compared to 515 cases). In a decade, the number of cases dealt with by this association has increased more than 10 times. This increased demand has intensified since 2007, especially in 2011 and 2012 (Chart 1). DECO is the main Portuguese organization dedicated to extrajudicial debt restructuring. According to this association, unemployment and wage cuts are the main factors of overindebtedness, being responsible for more than half

of the cases. Most overindebted households have an average monthly income of 1,500 Euros and five credits (housing loan, car credit, credit card and personal loan). Although the majority of credits in default relates to financial credits, there has been an increase in the number of families facing arrears in essential services, which was not so visible in the recent past.



Source: DECO

Chart 1 Number of overindebtedness files (DECO) (2000-January 2013)

The difficulties in renegotiating extrajudicial debt also rose. The credit consolidation that, before 2010, was frequent almost disappeared, since banks are less willing to take risks by purchasing credits from others. And the deterioration in job prospects makes credit restructuring less feasible in several cases, although this solution continues to offer some relief for many families.

As mentioned, bankruptcy has become a commonplace in the Portuguese legal and financial framework. About 62% of bankruptcies declared in Portugal in 2012 belonged to individuals, representing 12,545 people. Regarding these people, there is a huge uncertainty of what will happen to them at the end of the procedure. The 2004

<sup>1</sup> The Finance Minister, while presenting the State Budget for 2013, spoke of a "huge tax increase".





Insolvency and Corporate Recovery Code (CIRE) establishes strict criteria for granting a debt discharge after the 5-year period for the disposal of available income. And many courts have flatly refused that forgiveness immediately when the debtor applies for insolvency, because they understand that the debtor took too long to apply for it. Thus, many debtors lose all their assets in the liquidation and continue paying the residual debt. It's important to remember that maximum write-off period for debts is 20 years. And even when the debtor's residual debt is written off, families become totally deprived of the basic conditions for a decent life: homeless, often jobless and without social benefits, their future and their children is fully mortgaged to an existence on the margins of dignity and inclusion.

The government recently adopted legislation aiming to support overindebted families. However, the rules created, negotiated "behind closed doors", are nothing more than mere palliatives, reachable by only a handful of families.

Some of these measures consist on partially protecting the family's dwelling, allowing the transfer in lieu of payment upon the total debt settlement. The house is still sold, but the credit is extinguished. The main problem is that the criteria that need to be fulfilled by a debtor are so demanding that the majority of households in difficulties will have no access to this alleviation measure.<sup>2</sup>

On the other hand, banks are forced to renegotiate the repayment terms with the debtor during the first 90 days of default of a loan before applying to courts. This measure adds nothing to what was already being done by credit institutions. However, its mandatory character can at least force those more reluctant financial institutions to renegotiate.

An extrajudicial support network for overindebted families was also created. The goal was to have this network operating in early January

2013, but the ordinance regulating the network operation and the accreditation of network entities was only published on January 2nd. So far, the network is not operating. Nevertheless, this is clearly a missed opportunity. The law expressly forbids members of the network of making debt counselling, i.e., renegotiating with creditors on the debtor's behalf. Their role is almost passive, because is limited to counselling about the creditors' proposals sent to the debtor in financial distress. The whole negotiation is done by the debtor and not by debt counsellors. There is a blatant disregard and ignorance of the legislator regarding the real negotiating capacities of families in great financial distress and tension. The inequality of negotiating power that normally exists between an individual and a financial institution is greatly magnified here. It is not acceptable that, in order to protect the financial creditors from the "hassle" of an arduous negotiation, the protection of citizens and their most basic fundamental rights is neglected, including a decent life for them and their families.

The persistent stubbornness of national and European authorities of wanting to place the burden of the crisis and its overcoming on families (and small businesses) is leading countries like Portugal to a social and economic debacle. If nothing changes, this "scorched earth" model will consume everything on its path, even the next generation's opportunities. A few days ago, the CEO of a Portuguese bank said undisturbed that the Portuguese people can take more austerity. What about injustice? Can they take it?

<sup>2</sup> According to DECO, since January only 10 families supported by this association were eligible to this procedure.



# Financial education is a necessary building block for financial inclusion

by

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Pan-Hellenic Federation of Consumer Associations – PAREMVASI  
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**T**oday, many people – especially those suffering from poverty – cannot access the necessary financial services, deposit and transactional accounts but also saving, credit, insurance and payment service.

Access to financial services is essential for citizens to be economically and socially integrated in today's society. It is also a requirement for employment, economic growth, poverty reduction and social inclusion.

Prevention and treatment of over-indebtedness and financial exclusion are regarded as a major element of the fight against social exclusion and poverty. It involves multiple factors that include not only physical and economic barriers but also psychological barriers to financial illiteracy, and an understanding of low income money management patterns. In any case, important gaps still exist in terms of analysis and assessment of strategies of prevention of financial exclusion.

The measures adopted so far in Europe to tackle overindebtedness, despite the considerable cross country differences that exist, are typically either preventive or curative. The former seek to influence behavior on both the demand side (that is responsible borrowing) and on the supply side (that is responsible lending). Responsible borrowing measures mainly consist of financial education and debt counseling services designed to raise awareness about the implications of debt and to help individuals fix levels of debt that do not lead to financial difficulties.

In Greece, although the problem of over-indebtedness had been acknowledged by governmental social welfare bodies, the implementation of specialized measures was significantly delayed and, thus, failed to prevent the deterioration of the problem. Furthermore, the economic crisis, reduced the effect of the measures and distorted their nature. Instead of a self-existent policy, which would tackle a specific social problem, the implemented measures functioned as part of other general policies activated to protect vulnerable groups from the worst effects of the economic crisis. In terms of orientation and content, the national policy for the protection of over-indebted households is fragmentary, as it does not approach the problem in a comprehensive way and is limited to setting debt settlement procedures, favorable to the debtors.

In particular the steady and remarkable growth in domestic private lending, especially after 2002 when the adoption of the common currency took place in our country as well, created a systemic imbalance which was sustained as the growth rates were high, but was also threatening under conditions of economic recession.

Both the public debate and the regulatory intervention by the central administration were delayed significantly, compared with the initiatives which took place in other Member States, having as a result the measures adopted to follow rather than to prevent the rapid spread of the debt.

It is highlighted that the Greek National Strategy Report on Social Protection and Social Inclusion (2008-2010) makes no reference to indebtedness, contrary to the corresponding reports of other Member States and contrary to the fact that the adoption of a specific strategy for tackling debt must be included in national strategies for combating social exclusion (Korczak, 2004).

As a consequence of the lack of strategic planning in this area, the Greek government failed to plan and organize structures of systematic prevention of the problem. Similarly, at the local government level there was no significant activation due to the lack of the necessary financial resources.

The upgrade of the General Secretariat of Consumer into a coordinator and supervisor of the supportive network for indebted borrowers, in accordance with the lines of Law 3869/2010 and the legislative initiative for regulating the operation of the companies which inform borrowers about their debts demonstrate the late activation of the state towards creating a net which protects individuals and families who face the consequences of indebtedness.

Without neglecting the positive impact of that - however late it was - activation, it is impressive the fact that there is still a lack of policy and preventive actions aimed at the prevention of future recurrence of indebtedness and the consolidation of a healthy consumer culture.

Nevertheless, the existing interventions are essentially of regulatory nature with little emphasis on providing personalized social care services of advisory and supportive nature. The absence of the central administration and the local government in the field of debt

<sup>1</sup> - The terms 'financial literacy' and 'financial capability' are considered to be synonymous and are used interchangeably.



counseling could be covered by the voluntary sector and in particular by the consumer associations.

Many experts agree that significant elements of the economic meltdown could have been avoided, had the public at large been more financially literate.

Financial education refers to the process of introducing people to the knowledge, skills, and attitudes required for responsible earning, spending, saving, borrowing, and investing. By broadening people's understanding of financial options and principles, financial education builds skills to use financial products and services, and promotes attitudes and behaviors that support more effective use of economic resources.

While Consumer Organisations (COs) are already providing on-going financial advisory services to their consumers, their knowledge on financial issues is somewhat limited and is being challenged in the face of increased demand for advice. In order for their training programmes to remain relevant, it is now imperative that COs review their work against changes in consumer behaviour and responsiveness of the market. For this purpose they have to be supported on national and EU level.

The overall objective of such strategy is to create an enabling environment towards empowering consumers to make informed decisions about their money and the financial products they buy. Specific objectives are to (i) strengthen the capacity of COs in the provision of financial education services and tracking of consumer behaviour change through Consumer Advice Centres (CACs) all over EU; and (ii) increase the quality and outreach of their financial education activities.

New INKA, a member of the Pan-Hellenic Federation of Consumer Associations – PAREMVASI., implements a generic financial education project (FEP), which could be also implemented by other European Consumer Organisations. New INKA through FEP, aims at empowering

financially disadvantaged citizens by providing financial education to unemployed and immigrants in order to assist them to take well informed decisions in order to be able to: navigate in an increasingly complex financial market, establish their own business, improve their chances of breaking out of the poverty cycle. In addition, FEP assists micro-entrepreneurs by providing them with information on: new forms of business, creating awareness of financial life cycle needs, examining attitudes towards money and asset building, proactive financial management, good practices for earning, spending, saving, lending and investing mitigating risks as well as understanding new financial services and products so they will be led to better informed choices.

Much of what is happening now is both exploratory and experimental. But consumers worryingly low awareness and understanding of financial concepts and overestimation of their knowledge and skills relative to financial products and issues is one of the prevailing challenges when designing a national strategy along with the rapid pace of innovation and growing sophistication of financial markets and the virtual explosion of new financial products. Building financial capabilities with a diverse array of financial education tools offers a rich choice of valid pathways for advancing both tackling overindebtedness and social inclusion. However, financial education offered by Consumer Organisations should be considered as an important element of national and EU policies to tackle household overindebtedness.







# How did debt adjustment perform in 2011?

## Facts and figures from The Netherlands

8th debt adjustment report offered to Dutch Parliament: monitoring the year 2011

by  
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### Introduction

Since 2005, a report on the implementation of the Debt Adjustment for Natural Persons Act (Wet Schuldsanering natuurlijke personen, hereinafter referred to as the Wsnp) in the Netherlands has been published each year. This Act forms part of the Dutch Bankruptcy Act as its third chapter.

Each year, the monitoring report is offered to the Lower and Upper House by the responsible member of government, by way of rendering account concerning the implementation of the Act. The 8th monitor report concerning the Wsnp consists of an update of a fixed data set concerning applications, inflow, offer, transfer and findings, and of data concerning compulsory compositions, cooling-off periods and preliminary relief.

Additional research was done regarding the (amount of) distributions and the administrators' attitude and performance of their duties. The monitor report was published by means of a letter of the State Secretary of Security and Justice to the Lower House (26 November 2012, TK (Parliamentary Papers) 2012-2013, 33 400 VI, no. 16). The investigation was performed by researchers of the Legal Aid Board (Raad voor Rechtsbijstand) and the Central Statistics Bureau (CBS). This article sets out the main findings of the 8th (2011) annual report.

### Applications and Rejections

In 2011, 21,114 requests for application of the Wsnp were submitted, which is 30% more than in 2010. The increase occurred at nearly all courts. The total rejection rate in 2011 was somewhat higher than in 2010: 17.1% versus 16.0%. There were considerable differences between the district courts as regards the rejection rates; this varied from 6 to 33%.

### Number of inflow

The number of debt adjustments pronounced in 2011 increased by more than 30%, to 14,722, when compared with 2010. This comes

down to an average of 112 debt adjustments per 100,000 citizens aged 18 or over. Between court districts, this number ranged from 45 in Dordrecht to 220 in Zwolle. In Den Bosch, the number dropped slightly when compared with 2010, while Rotterdam and Leeuwarden experienced a strong increase. In 2011, almost 840 bankruptcies were converted into a debt adjustment. These conversions made up nearly 6% of the total inflow of that year, which was approximately 1% less than in 2010.

The profile of newly-admitted debtors changed little in 2011: the ratio between private citizens and (former) entrepreneurs remained 80% versus 20%. The ratio between men and women also remained virtually the same. The average age increased slightly to just over 42. The average income of both (former) entrepreneurs and private citizens dropped slightly. The average debt burden of (former) entrepreneurs dropped, while that of private citizens increased.

### The creation of debt

For (former) entrepreneurs who were admitted to the Wsnp in 2011, a drop in income was the main reason for their debts. Overspending and compensation behaviour were important causes of debt for private citizens, in addition to a drop in income. Overspending became less important as a cause, while compensation has gained in importance in recent years. The share of debtors who were offered a composition during the amicable process was 73% in 2011 among private citizens and 62% among (former) employees. This percentage has increased strongly among this latter group since 2008. At 1.6% the percentage of cases where an appeal objecting admission was successful slightly higher in 2011 than in 2010.

### Court Administrators

The number of active administrators dropped further to 644 in 2011, while the number of pending cases increased to 35,500. The number of lawyers among administrators also dropped further. Lawyers handled an average of 9 cases. In 2011, the percentage of lawyers among active administrators differed strongly between court districts. The



lowest percentage was in Amsterdam (11%) and the highest by far in Assen (68%). Non-lawyers handled an average of 63 cases, while in 2010 this was still 54 cases. On 31 December 2011, the average number of pending debt adjustments per lawyer-administrator was the highest in the court district of Groningen (50 cases per non-lawyer). This number was the lowest in Arnhem, Leeuwarden and Zutphen.

## Findings

Of all cases initiated between 1998 and 2008, 71% ended in a debt amnesty – the so-called clean slate. Furthermore, 14% of these cases ended in bankruptcy and 3% in a composition. The share of other terminations was 12% for the entire period. A total of 10,600 cases were terminated in 2011, which is a major decrease when compared with 2010. A clean slate was granted in 8,160 cases, 25% less than in 2010. A higher number of settlements with creditors was reached: 245 settlements against 180 in 2010. In addition, 514 cases ended in bankruptcy. The total number of other terminations was 1,681.

## Causes of debt as regards debt adjustments that ended in debt amnesty

In 2011, a drop in income, compensation behaviour and overspending were frequent causes of debt adjustments of private citizens that ended in a clean slate within 18 months. As regards cases that ended in a clean slate with a term between 3 and 4 years, the share of overspending increased, while compensation behaviour in fact played a lesser role. Compensation behaviour among (former) entrepreneurs occurred in less than a third of the short-term debt adjustments. This applies in particular to clean slates that were obtained within 3 to 4 years.

## Causes of debt in debt adjustments ending without debt amnesty (“a clean slate”)

Private citizens who ended their debt adjustment within 18 months without a clean slate mentioned a drop in income as the cause of their debt in more than 50% of the cases. Overspending and com-

pensation behaviour occurred among, approximately, one third of these cases. Overspending was more often a cause of debt of private citizens as regards debt adjustments with a term of 3 to 4 years that did not end in a clean slate. The figures for private citizens did not change significantly as regards the longer-term debt adjustments that did not end in a clean slate. In 2011, a drop in income was the cause of debt most frequently mentioned by (former) entrepreneurs without a clean slate. Divorce, overspending and compensation behaviour were mentioned significantly less often.

## Compulsory compositions, suspension of payments and interim provisions (preliminary relief)

The Debt Adjustment Act contains three new legal remedies for debtors since 1 January 2008. The first remedy is the compulsory composition, whereby creditors who unreasonably refuse to agree to an amicable settlement offered by the debtor, can be ordered by the courts to agree to this debt settlement. This is provided for in Article 287a of the Bankruptcy Act. The second remedy is the amicable cooling-off period, whereby the court, at the request of the debtor, can order a stand-still period of at most six months, during this period debtors have to attempt as yet to reach an amicable settlement with the creditors, who will be temporarily unable to exercise their rights as a result. This can only be ordered in a limited number of cases of emergency described in Article 287b of the Bankruptcy Act, including imminent eviction or imminent disconnection of gas, water or electricity. The third option is the preliminary relief provided for in Article 287(4) of the Bankruptcy Act, which is intended as an emergency measure for the period between submission of the application for debt management and a court decision in respect thereof.

These three new regulations have proved to be quite a success. The number of requests for a compulsory composition, suspension of payments or preliminary relief in 2011 again increased significantly when compared with the previous year. The percentage of granted requests is 35% for compulsory compositions, 58% for suspensions of payments and 67% for preliminary relief. The rejection percentages of the three provisions are less far apart: 27% for compulsory com-



## How did debt adjustment perform in 2011?

positions, 17% for suspensions of payments and 16% for preliminary relief. 37% of the requests for a compulsory composition, 16% of the applications for a suspension of payments and 11% of the applications for preliminary relief were withdrawn.

The number of requests for a compulsory composition and interim provision was significantly higher in 2011 than in 2010. The increase was especially large among the compulsory compositions (more than tripled in 2011 when compared with the number of requests in 2008: from 426 to 1,477). The number of interim provisions was three times as high in 2011 than it was in 2008; from 278 to 884). The suspensions of payments for the first time displayed a decrease of 9% when compared with 2010; when compared with 2008 there was an increase by 74% (from 506 in 2008 to 880 in 2011).

In 2011, the percentage of requests that were granted was 30% as regards compulsory compositions, 56% as regards suspensions of payments and 64% as regards interim provisions. The rejection rates of the three provisions were less far apart: 24% as regards compulsory compositions, 18% as regards suspensions of payments and 15% as regards interim provisions. 41% of the requests for a compulsory composition were withdrawn. This was 17% for suspensions of payments and 13% for interim provisions.

As in 2010, there were major differences between District Courts in 2011 as regards the number of applications that were submitted, as well as regards the granting, rejection and withdrawal rates.

### Distributions

Distributions occurred in 93% of the cases in which a clean slate was granted. This percentage is roughly equal to that of private citizens and (former) entrepreneurs. The average distribution amount was € 10,673. Generally speaking, a lower distribution takes place as regards private citizens (on average € 9,809) than is the case for (former) entrepreneurs (on average € 15,134). On average, approximately 26% of the total debt burden is paid out during debt adjustments that end in a clean slate. It has become clear that private citizens have a higher distribution percentage (28%) on average than (former) entrepreneurs (19%).

Among private citizens, the nature of the estate plays a role in the amount of the distribution; whether it concerns a single or a double estate is of influence on both the amount and the percentage of the distribution. In addition, an effect has been found as regards the

gender of the debtor, both concerning the amount and the percentage of the distribution.

A connection has been found among (former) entrepreneurs between the amount and/or percentage of the distribution as regards 'single/double estates' (in both analyses, age of the debtor, type of household and budget assistance. The strongest influence on the amount of the distribution is, according to the administrators, the potential earning capacity of the debtor (80% of the administrators indicated this) and the attitude/discipline of the debtor. A third important fact that determines the amount of the distribution lies in the manner in which administrators enforce the obligation to apply for a job (50% mentioned this cause).

### Debt amnesty ("Clean slate")

The reasons that the debtor did not make it to the finish line were, according to the administrators: lack of discipline (78%), 'not enough effort to find a job' (63%) or the debtor incurring new debt (50%), provided inaccurate or incomplete information to the administrator or had problems making payments to the estate (both 40%).

### Tasks of the court- administrator

The administrators saw themselves more as supervisors than care providers. They claim that their goal is to act for the creditors more than for the debtors. They qualified themselves as fairly strict. In fact, the Dutch Bankruptcy law supports this view. Half of the administrators indicated that they would be willing to perform other activities in addition to their current duties; 32% were not. Other activities included: acting as case manager for clients with several problems or requesting assignment of legal counsel on behalf of a client for the purpose of an interim provision, a suspension of payments or, most often mentioned explicitly, a compulsory composition on behalf of the client. They also considered that there were advisory or care providing duties for them within the amicable process.

The deciding factor for the positive attitude towards the expansion of duties was most often 'an interest in other areas of work' (75% of the administrators indicated this) and 'additional income' (mentioned by nearly 50%). Administrators who did not want an expansion of their duties gave as reasons 'no time/enough work as it is' or in connection with a possible conflict of interest.





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