MONEY MATTERS

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Reference budgets

Banks crisis

- consumers view

ecdn
european consumer debt network

This edition of the Money Matters focuses mainly on two subjects. The first part presents articles on reference budget issues while the other mostly deals with debt counselling. In the latter part of the magazine reader may find a summary of Dieter Korczak's article on the bank crisis as viewed from the consumer perspective. This analysis is still up-to-date despite the fact that it is based on the data from 2009. In spring 2014 an updated version of the report will be issued.

In the other part of this issue Albert Luten and Marcel Warnaar discuss the way the repayment capacity is calculated in the Netherlands and secondly how to make reference budgets, using the data available at Eurostat.

In their article, the NIBUD research group (M. Warnaar, C. van Gaalen and A. van der Schors) presents a completely new reference budget model and introduces conclusions of their research on changes in the way Dutch households maintain their savings in the times of financial crisis.

Birgit Bürkin from the German Society for Home Economics presents two interesting projects on the reference budgets. The first one discloses a new way of calculating a model reference budget while the other focuses on innovative initiatives and learning methods that aim to improve an elder person's ability to manage a low income and use "reference budgets" as an effective tool in budget information, counseling and advice.

David Hawkes from the National Money Advice elaborates on the conclusions of the evaluation of the pilot model of advisory service targeted at customers who do not have sufficient surplus income to enter into (existing debt advice models. Henri Hölttä presents his conclusions from the research on the consumers of the Debt Line, which is a part of the Guarantee Foundation.

Enjoy your reading!

Calculating the payment capacity with help of reference budgets

by:
Albert Luten and Marcel Warnaar
NIBUD,
Netherlands

In this article, we focus on the two points that were discussed in the presentation of Albert Luten during the conference in Athens. First, the way the repayment capacity is calculated in the Netherlands and secondly how to make reference budgets, using the data available at Eurostat.

Repayment capacity

To calculate the repayment capacity in case of a debt regulation, one needs to figure the non-seizable amount. The difference between income and non-seizabele amount is the repayment capacity.

Roughly there are three ways to calculate the non-seizable amount:

- the detailed budget method: a complete and detailed budget is made for the indebted household with the aim to maximize the repayment capacity. All basic expenditures are set on a minimal but fair level and all other unavoidable expenditures are secured. This is a very labour intensive method.

- the global budget method: standard figures for the total expenditures are used for different types of households and the surplus is the repayment capacity. For example,. a single person needs xx euros, a couple yy and for every child zz euros may be calculated. Personal exceptions must be taken care of. These figures must be updated regularly.

- the legal method: 95% of the social minimum per type of household is not seizable plus all necessities that cannot be paid out of this social minimum as high housing costs, health insurance a.s.o. This method is now used in the amicable and legal debt settlements.

All these methods need a certain kind of minimum non seizable income that is sufficient for the household to live on, during the period that the debt settlement lasts. In countries with a social minimum income (per type of household), this income can be taken as a starting point. The minimum wage is less useful, because it says nothing about the size of the household and its minimum needs. In that case, reference budgets can be used in order to get an idea of the minimum expenditures of households.

Reference budgets

Reference budgets are an overview of income and expenditures of private households of various compositions and income levels. They can be used to judge individual expenditures compared to averages. Which expenditures are (too) high, which are (too) low? By using these reference budgets, indebted households are treated equally and less dependant on the norms and values of the social worker. Reference budgets can also be used in prevention of financial problems[1].

Two ways

There are two ways to set up reference budgets. The first one is to postulate baskets of goods and services which are necessary for everyone in society. This can be done by experts and/or by consumers themselves. In the UK and Ireland, this is done with help of focus groups. See….

This is a very time-consuming and therefore expensive way to come to a reference budget.

The other way to make reference budgets is to start with the budget enquiries that are held in every EU Member State and are published by Eurostat [2] and the national statistical offices. These budget enquiries give empirical data on expenditures per type of household.

Drawbacks of using the averages

There are some disadvantages to use these data as such for a reference budget. In the first place, at lower incomes the budgets are unbalanced: households spend more than their in-

1 – See also: ecdn rapport

2 – See website Eurostat.

come. This is the real world because households dissave and take loans, but it makes these figures less useful for budget- or debtcounseling. Moreover, the figures are averages: the average amount for transport are the averages of people with and without a car. Figures of expenditures done by everybody like food and clothes are more reliable. Thirdly, the figures say nothing about the necessity of the expenditures. Lastly, sometimes the data are rather old: the most recent Greek data for example stem from 2005.

Despite these disadvantages the data of the budget enquiries can be very useful to make a start with the composing of reference budgets that are useful for budget- and debtcounseling However, they have to be revised. To do so, we take the following steps[3]:

1. Get the data of the budget enquiry of your country from Eurostat or the national statistical office. Normally, average spendings are presented by household size and income. Choose a type of household and take the data of the lowest income group. Be sure that the average income of this group is not too low, as the lowest income group can consist of households living in with others, students and entrepreneurs with a low (fiscal) income. You can also choose the level of detail of the expenditures. For example, you can choose for the category "food", but also for subcategories, like "bread and cereals", "meat", etc. More detailed budgets are better to work within the next step.

2. Update these figures from the past to the circumstances of the current year

There are several ways to deal with this problem. The data can be updated with a purchasing power index. More sophisticated models can take into account price-elasticities. In such cases, it is also recommendable to have focus groups to judge about the resulting reference budgets.

3 Probably, the average spendings of this group will lead to a deficit on the budget. To solve this deficit, skip all the luxury like jewels, cars, tobacco, electronic gadgets, holidays abroad etc. It depends highly on the habits and welfare in a country what can be skipped and to what extent. Keep the necessary expenditures in the budget, also some reservations for furniture a.s.o. This budget must be a minimum budget in order to get a maximum repayment capacity. Be reminded, that f.e. skipping a car in the reference budget, does not mean that for an individual indebted household a car cannot be added to its individual budget in case a car is absolutely necessary. This is for example possible if the car is needed to get to work, when public transport is not available. If the resulting budget is down to an extreme minimum, you can add a certain percentage or lump sum for other expenditures. This is done to cover expenditures to give some room for social participation, without choosing for the indebted exactly what he should do with that money.

4. Test the outcome. Note that a reference budget gives certain minimum amounts you need for all expenditures. The reference budgets must be realistic, so that people who do not face specific problems, like health problems can live on that without getting problems again during the period of the debt regulation. The result must be a balanced budget, with minimum expenditure levels that are sufficient. All the above decisions should be taken by experts. Debt counselors often have a very good idea of the circumstances of their clients and are well informed to take part in these decisions. Eventually, focus groups of several experts and / or consumers can verify the outcomes of a first round. This augments the reliability and adoption of the reference budgets.

An example: Greece

As the ECDN-conference was in Athens, an example of the method was presented for Greece. But it can be done for all countries of the EU because the budget enquiry is an obliged part of the European statistics. See note 2.

3 – See also: Marel Warnaar and Albert Luten, Handbook of reference budgets, On the desing and application of reference budgets, ECDN, 2009. Free downloadable on http://www.referencebudgets.eu or www.nibud.nl, page 81, the case of Spain.

Table 1 gives the data for Greece for food and beverages for the year 2005 as a global average. All budget items are presented in this way. These are average figures, not minimum figures. To get minimum figures we used several methods. First all some posts were skipped as non essential, like jewels (group 3 in the last column in table 1). For other items, we took 80% of the average as a minimum (food, clothing, housing and health) (group 1) and for the other items we took a lump sum (group 2). Table 2 gives the outcome. The Eurostat column gives the original data of Eurostat, the adjusted data are found in the column Starting point for reference budget. This is one general solution. Another possibility is that all basic needs count for 80% of the general average, non basic needs for 205 and luxury 0%. The result is a first attempt to get reference budgets. Control by focus groups and or experts is needed!

Table 1: example of the output of the budget enquiry Greece for food and beverages (2005).

Expenditure	Euros per year	Type *	Group
Food and non-alcoholic beverages	**4196**	**h**	
Food	**3973**	**s**	
Bread and cereals	514	ss	1
Meat	965	ss	1
Fish and seafood	333	ss	1
Milk, cheese and eggs	750	ss	1
Oils and fats	285	ss	1
Fruit	309	ss	1
Vegetables	505	ss	1
Sugar, jam, honey, chocolate and confectionery	259	ss	2
Food products n.e.c.	52	ss	1
Non-alcoholic beverages	**223**	**s**	
Coffee, tea and cocoa	69	ss	1
Mineral waters, soft drinks, fruit and vegetable juices	154	ss	1
Alcoholic beverages, tobacco and narcotics	**913**	**h**	
Alcoholic beverages	**175**	**s**	
Spirits	65	ss	2
Wine	66	ss	2
Beer	45	ss	2
Tobacco	**739**	**s**	
Tobacco (ND)	739	ss	3
Narcotics			3

* h = head post, s is a sub post and ss is a sub sub post

Table 2: Expenditures private households per month Greece (general average, 2005)

	Eurostat	**Reference budget**
Food and non-alcoholic beverages	350	279
Alcoholic beverages, tobacco and narcotics	76	20
Clothing and footwear	15 7	125
Housing, water, electricity, gas and other fuels	542	433
Health	133	106
Transport	235	50
Communications	86	40
Recreation and culture	94	20
Recreational and cultural services	26	10
Education	54	43
Restaurants and hotels	194	25
Miscellaneous goods and services	197	25
Personal care	58	20
Insurance	42	25
TOTAL	**2242**	**1228**

NOTE: this exercise is done as an example without any knowledge by the authors of the circumstances in Greece. The data should therefore not be seen as a reflection of nowadays Greece . Greek experts will surely come to quite another outcome, an outcome that could be a starting point for sessions with focus groups to get reference budgets for special groups that can really help people. As said before, this exercise can be done for every member of the EU.

A reference buffer for households

A study of Dutch households' net wealth and saving patterns

by:
M. Warnaar, C. van Gaalen & A. van der Schors
NIBUD, 2012,
Netherlands

In 2008 the Dutch National Institute for Family Finance Information (Nibud) developed a Buffer Calculator to give Dutch households a general idea of how much money similar households have in their savings accounts. The Buffer Calculator was based on 2006 figures. The recent economic crisis has probably changed households' financial behaviour – a good reason to recalculate the reference amount for households' savings accounts in the light of the most recent data. Households' saving patterns have also been examined.

The study is based on three sets of data: the ING Bank's Budget Barometer for the second quarter of 2012, the 2011 Household Survey drawn up by the Dutch central bank (DNB), and the data used for the study entitled *Geldzaken in de praktijk* ('Dealing with money in practice').

Saving patterns

The largest group of households (some 40%) report that they save irregularly, i.e. only if they have money left over, or in varying amounts. About a quarter save a fixed amount each month. One household in seven does not save at all; these non-savers are mainly single people and low-income households. Those that save a fixed amount set aside an average of 9% of their income each month.

Reasons to save

Reasons to save have three dimensions. The first dimension concerns the buffer, mainly in the short and medium term; the main reasons here are being able to cope with unforeseen expenditure, and avoiding dependence on other people. The second dimension concerns whether there are children in the household. The third dimension concerns one-off major expenditure, such as buying a home or starting up a business. What is striking about the first dimension is that the households involved have few features in common – maintaining a buffer appears to be a universal wish.

Size of the buffer

About 20% of households say they have no financial buffer at all; another 20% say they have a buffer of less than €2,000. Half of the people who say they find it hard to make ends meet report that they have no buffer.

Some 85% of households would like to have a buffer. Only the lowest-income households, young people under 25 and old people over 65 feel somewhat less of a need for one.

Net wealth

However, net wealth has increased considerably. Whereas in 2006 half of home-owners had more than €8,500 in savings accounts, by 2011 this figure had risen to €17,000.

Net liquid wealth has also increased. These form the basis for the reference buffer. They depend on age, the household's income, whether the household owns its own home, the value of the car and whether there are children in the household.

Households with a similar income save less and have a smaller buffer if they have children. The costs of children are so high that other spending is reduced, including the amounts that are set aside.

Method for calculating the minimum buffer and the reference buffer

Definition of the buffer

We define the buffer as the amount of money that a household has immediately available to cover major expenditure arising unexpectedly at any time over the next ten years (medium-term contingency expenditure). The main purpose of the buffer is to get through low-income or high-expenditure months, to replace furniture and household goods, to maintain or replace the car and to maintain or decorate the home.

That is why we use *net liquid* wealth as a basis for the reference buffers. *Liquid* means that the assets can be quickly converted into money to pay for whatever is required. *Net* means that allowance is made for any debts. If only possessions were considered, this would give a false picture of the household's financial position.

The reference buffer is thus not intended to absorb a drop in income due to such things as retirement, incapacity or unemployment. Nor is it intended to deal with emergencies that lead to major expenditure, such as fire or illness. In all such cases, insurance is a better alternative.

The reference buffer is intended for the whole household, whether this consists of one person or more than one. This is because the contingency expenditure that the buffer is intended to cover is often for the benefit of the whole household, rather than just one member of it.

A larger buffer in times of uncertainty

The current uncertainty have made many people spend less and invest less riskily. Fear of the future has probably led people to save more. Their expectations about their own financial situation over the next twelve months have become much more pessimistic. Higher balances in savings accounts have raised median savings. This applies above all to middle- and high-income households, and those that own their homes.

It is therefore fair to ask whether median net liquid wealth can still serve as the basis for the recommended buffer. On the one hand, balances in savings accounts will be larger than they used to be so that furniture and household goods can be replaced. On the other hand, they are a sign that people nowadays want to maintain a larger buffer than they used to. Because of the crisis, it is likely that potential uses of the buffer have increased in recent years. People no long save just to replace or repair furniture, household goods, the car or their home, but also because they are less certain about the future. A reference amount that fails to take account of this change is bound to be unrealistic. Nor is it possible to itemise the amounts involved. Since hardly anyone keeps separate savings accounts for the various types of contingency, it is impossible to tell how much has been set aside for each specific purpose. We have therefore decided to continue using the median as the reference amount, while emphasising its referential nature ('this is what similar households do') rather than recommending it for the aforementioned specific goals.

Measurable

We want to devise a method of calculation that will allow people to fill in a number of particulars and then see what an appropriate buffer would be in their own situation. This will quickly make clear to them how much money they should keep available for contingencies. They can then quickly work out for themselves whether they already have enough or need to save more.

Analysis shows that age, income, number of children, type of home (owner-occupied or rented) and value of the car affect the amount of net liquid wealth. These are all things that consumers either know, or can easily find out.

Acceptable

The reference buffer is estimated from empirical data. In many cases this model will provide a fair estimate of households' current net liquid wealth. However, this does not necessarily apply to all households. Especially in the case of low-income or very high-income households, the model may yield unrealistic results. For example, the reference amount for a buffer must never fall below zero. To prevent this, we have calculated a minimum buffer in addition to the estimated buffer based on empirical data. This will depend on the household's situation rather than its income.

Minimum buffer

The minimum buffer is based on the minimum package of furniture and household goods drawn up by Nibud. It is therefore only intended for getting through low-income and high-expenditure months, and for replacing essential furniture and household goods. This means it cannot be used to finance such things as home maintenance or replacing the car.

Just as in 2008, the minimum buffer is set at half the value of the package. If purchases are spread evenly over time, this is a fair approximation of the current value. This means that the difference between the current value and the value of a new package will also be half. The aforementioned amount for furniture and household goods will be enough to get through low-income and high-expenditure months.

Table 1: Minimum buffer (in euros)

	Minimum buffer
Childless single person	3,550
Childless couple	4,000
Single parent with 1 child	3,950
Single parent with 2 children	4,350
Single parent with 3 children	4,950
Single parent with 4 children	5,350
Couple with 1 child	4,400
Couple with 2 children	5,000
Couple with 3 children	5,400
Couple with 4 children	5,900

Reference buffer

The reference buffer indicates the amounts that similar households have in their saving accounts. The size of the buffer is based on median, rather than average, net liquid wealth. Analysis shows that net liquid wealth does not have a Normal Distribution, and that the average is not a reliable yardstick for most households. For example, median wealth is € 30,000, whereas average wealth is over € 47,000. For the purposes of analysis we assume a log-normal distribution of net wealth. In this way, we can calculate the expected median.

In estimating the model for the reference buffer, we have only included households with positive net liquid wealth. This is because we want to offer advice on how large the buffer should be. Households with positive net wealth have something they can use as a buffer. Those whose liabilities exceed their assets do not, and in that case nothing meaningful can be said about how large the buffer should be.

We have decided to include all the households in the analysis, including over-65s. Including age logarithmically reduces the effect of older respondents, but in any case the results would be hardly any different if the over-65s were omitted.

Realistic: a buffer that anyone can achieve and maintain

The model should result in a realistic buffer that any type of household should be able to achieve and maintain. We expect our method of calculation to yield a realistic buffer for every type of household, for it is based on empirical analysis of net wealth in the Netherlands, taking account of differing circumstances (see the 'acceptable' criterion). We have also considered median rather than average net wealth. This ensures that the size of the buffer is not influenced by a handful of households with very high net liquid wealth. According to the model, half of similar households would have this amount available as a buffer.

This yields the following formula for calculating the reference buffer:

ln (reference buffer) = 0.303 - 0.873 (if owner-occupied home) - 1.746 (if rented home) + 1.023 x ln (age) - 0.485 x ln (number of children + 1) + 0.912 x ln (disposable monthly income) + 0.028 x ln (current value of car).

Time-related: the buffer should always be in place

The buffer is not restricted to a specific time – it should always be in place. Whenever it has been used to cover contingency expenditure, or if the household's situation has changed, the buffer must be topped up again as soon as possible. Changes in individual situations, such as changes in income, moving house or divorce, may affect the size of the buffer.

If the buffer is not yet in place, it will depend on the household's financial situation how soon it can be. Analysis of the current pattern of income and expenditure will also be needed to determine how much money the household can actually save. *Nibud's Persoonlijk Budget Advies* ('Personal Budgeting Advice') can be of great help here.

Committee counseling for household and consumption

By: Birgit Bürkin,
Beauftragte der dgh für die GRUNDTVIG Lernpartnerschaft
birgit.buerkin@dghev.de

Reference data for household budgets

The EU project "Reference Budgets for Social Inclusion" carried out by the ecdn 2008-2010 was the kick-off for members of the German Society for Home Economics (dgh) to develop reference budgets for private households. The dgh participated in the ecdn project as associated partner organization and started with a project on reference budgets for households on median level. This project was funded by DSGV (German Savings Bank and Giro Association) and was the basis for further calculations towards reference data for all income levels of households. Data source is the household budget surveys carried out by the Federal Statistical Office 2008.

From reference budgets to reference data for household budgets

The evaluation of statistical data by the dgh was done in several steps. Many decisions had to be made about the data structure in order to transfer statistical data into data suitable for budget and debt counseling. But finally in May 2013 the first edition of reference data for household budgets could be published. Reference data are available for twenty types of households and four income groups.

The workgroup decided to calculate medians instead of averages in order to avoid the influence of very high or very low extremes. But not every participant in the statistical survey had expenditures in all categories. Therefore median values could only be identified for those people who had expenditures in a category or for expenditures almost everybody had

regularly. That means that reference budgets can be only shown for regular expenditures, which most people have, but for those expenditures, which are not in everyone's consumption pattern, only the single data can be used for calculation individual budgets. Therefore we prefer to speak about reference data and not about reference budgets.

Practical use of reference data for household budgets

The reference data for household budgets are intended to be used in budget and debt counseling. They are a "toolbox" for various applications in the counseling processes. They can be either used to compare single data of clients or to validate them. Also it is possible to complete household data of clients for the

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budget analysis and to use them to calculate planning alternatives. The use in a quick budget check helps to a first insight in the budget and it can be extended to a complete budget counseling process by checking all different expenditures of the household. Also changes in the lifecycle can be calculated, the effects of income changes can be made transparent and consumption patterns can be discussed.

Further steps

The research and publication of reference data are first steps in the development of reference budgets for Germany. The involvement of focus groups and experts for calculations are further aims.

To achieve parts of these aims, the engagement in the GRUNDTVIG Learning Partnership "Social Inclusion and Dignity in Old Age – participatory approaches to use reference budgets" came at the right time.

In this project the dgh cooperates with the Bundesarbeitsgemeinschaft der Senioren-Organisationen e. V. (BAGSO), Germany.

Social Inclusion and Dignity in Old Age

- participatory approaches to use reference budgets

By: Birgit Bürkin,
Beauftragte der dgh für die GRUNDTVIG Lernpartnerschaft
birgit.buerkin@dghev.de

The project

This GRUNDTVIG-Learning Partnership involves eight organizations from Belgium, Bulgaria, the Czech Republic, Germany, Poland, Slovakia and the UK. The primary aim of the project is to improve levels of self-confidence and self-determination amongst vulnerable older people to enable them to maintain their dignity in old age. Through a series of five transnational workshops and a final "Round Table" in Brussels, the project plans to improve channels of cooperation between older people's organizations and all those involved in the field of social inclusion, debt prevention and consumer education. The project also explores innovative initiatives and learning methods that aim to improve an older person's ability to manage on a low income and use "reference budgets" as an effective tool in budget information, counseling and advice. The project is supported by the Lifelong Learning Program of the European Commission.

The goals

The project's agenda fits within the context of rising poverty and social exclusion throughout Europe faced by people aged 65 plus; key issues discussed in recent European debates when considering the subject of active inclusion and the use of "reference budgets". The project advocates a participatory approach through:

- the creation of new channels for improving the coopera tion between senior organizations, debt counseling agen cies and providers of consumer education
- strengthening the role of senior organizations as drivers to motivate older people to acquire learning that will help them maintain an independent life led in dignity
- involving older people in social inclusion strategies deliv ered at a community grassroots level

Activities and the products

Core of the project is the exchange of the partners in five transnational workshops and partner meetings, a final round table and a final guide. To fulfill the aims of the project, the partnership will undertake to:

Lifelong Learning Programme

Deutsche Gesellschaft für Hauswirtschaft e. V. (dgh) - German Society for Home Economics

- provide a virtual platform that promotes participatory ap proach to the use of reference budgets
- discuss the findings of the project at a final "Round Ta ble" by presenting the lessons learnt and disseminating information around the value of integrated approaches in the field of social inclusion, debt prevention and consumer education
- produce a final "Guide" for wider distribution that show cases a variety of strategies, educational approaches and practices that highlight the particular needs of older vul nerable people

So far four workshops have been taken place in Belgium, Germany, Poland and Czech Republic.

At the kickoff-meeting in Brussels, October 2012, Bérénice Storms presented her project "Reference budgets for social participation" and the methods of valorization for senior citizens together with OKRA trefpunt 55+.

To introduce the project partners to the subject of reference budgets generally the workshop in Germany (March 2013) intended to give an insight on reference budgets used in Europe. One part of the workshop dealt with different methods of development and use of reference budgets. Speakers were Maria Kemmetmüller and Christa Leitner from ASB Schuldnerberatungen, Austria, Marcel Warnaar from NIBUD, Netherlands and Heide Preuße, Universität Gießen, Germany. The session was moderated by Bérénice Storms.

The Grundtvig learning partnership provides the opportunitiy to keep the discussion on reference budgets in Europe in progress.

A Viable Future? Findings from AdviceUK's Sustainable Debt Advice Project

By: David Hawkes
National Money Advice

Is it possible to find more sources of funding for debt advice? Can we improve the sustainability of clients' debt repayments?

In 2010 it was becoming clear that the free debt advice sector in the UK did not have sufficient capacity. Recession had led to demand increasing and cuts in public sector funding were on the horizon, likely to impact on supply.

AdviceUK was also concerned about those clients who were not well served by the normal range of debt strategies. Many clients seen by free debt advice agencies wanted to make debt repayments but did not have sufficient surplus income to enter into a Debt Management Plan (DMP)[1] or an Individual Voluntary Arrangement (IVA)[2].

AdviceUK therefore developed the Sustainable Debt Advice Project (SDAP) model to address both of these issues. The model has two main elements:

DMP / IVA referrals

In a debt advice agency, if a client decides on a DMP or IVA strategy their case would be referred to Payplan[3], taking advantage of all their systems and processes to set up and manage such cases, and easing the pressure on the agency. Client data would be sent across electronically.

When a DMP has been successfully set up by Payplan they receive 'Fair Share' contributions from many of the client's creditors. For IVAs, fees are received. We wanted to explore whether a proportion of this income could be passed back to the referring agencies, providing some funding for debt advice.

Low offer / token payments

For clients making low offers or token payments, we would implement Payplan's Paylink system in advice agencies, enabling clients to set up a single standing order for all their debt repayments, both priority and non-priority. We would also put in place a streamlined process for clients to set up a basic bank account, if they did not have an account that they could use for repayments. We also wanted to provide for debt repayments using a cash-based prepayment card.

The Pilot Phase

Friends Provident Foundation generously provided funding for our pilot phase, enabling us to test this model in practice. We signed up nine agencies to the pilot, with considerable diversity in their operations and size.

An advisory group was established to provide advice and guidance, including representatives from the advice sector, regulators, creditors and academia.

We defined our success criteria based on whether the model was practical, financially viable and ethically sound. This needed to be assessed from the point of view of all stakeholders, including clients, creditors, advice agencies, AdviceUK and Payplan. We would, for example, assess whether the SDAP options were easy to set up and keep going, and that the agency was continuing to provide impartial advice.

Results

The pilot ran from April 2012 to March 2013 with the agencies handling over 11,000 cases in that time. Of those cases, 162 clients successfully set up a DMP or IVA and started making repayments. These clients had £3.1m debt between them and £26,000 per month surplus income.

308 clients successfully set up a low offer / token payment arrangement and started making repayments. They had a collective £2.9m debt and £9,300 per month surplus income.

1 A Debt Management Plan (DMP) is an informal arrangement in which a debt client agrees with his/her creditors to repay all his/her debts. The client makes regular payments to a licensed debt management company. The company then distributes this money to the client's creditors, usually on a pro rata basis.

2 An Individual Voluntary Arrangement (IVA) is a formal, legally binding agreement between a debt client and his/her creditors to repay all or part of his/her debt. Regular payments are made, typically over a five year period, to an 'insolvency practitioner', who then divides this money between the client's creditors.

3 Payplan is a leading telephone advice provider of free-to-client debt solutions across the UK.

In summary, approximately 3% of cases resulted in the successful set up of low offer / token payments; 1% resulted in a DMP and 1% in an IVA. With the cases still in the pipeline at the end of the evaluation, these numbers would increase as they would result in successful repayment schemes after the end of the pilot period.

The evaluation concluded that, "with greater familiarity, improved systems and processes, the take-up could be much higher" and suggested that numbers could at least double.

Evaluation

Public Perspectives, an independent organisation specialising in research and evaluation, conducted an independent review. They analysed data from the agencies' AdvicePro case management systems and from Payplan's systems.[4] They conducted 109 client telephone interviews and in depth interviews with agency advisers and managers, creditors, clients and other stakeholders.

The client interviews indicated that SDAP was proving practical for clients, with improvements in their health and wellbeing. 90% of clients said their repayment arrangement was affordable, 93% said their repayment arrangement was easy to manage, and 97% said they were committed to completing their repayment arrangement. 89% felt more in control of their financial situation, 89% had reduced stress and worry, 72% felt better about life, and 67% said their personal and/or family situation had improved.

There was no evidence of agencies providing biased or unethical advice. 83% of clients said their adviser provided them with a range of relevant debt repayment options, 83% said they were provided with fair and objective advice, and 95% said they chose the repayment option that seemed best for them.

Technology

Our original plan had been to integrate fully the AdvicePro case management system used within the agencies, Payplan's DMP and IVA systems, and the payment disbursement system. This remains our vision, but the costs of implementing this would have been disproportionate for the scale of the pilot. This meant that the pilot did involve some rekeying of information into different systems and the use of some ageing technology. However, the streamlined electronic DMP / IVA referral process to Payplan was successfully implemented.

Positives...

The evaluation concluded that SDAP had generated considerable commitment and interest amongst the money advice and creditor sectors. There was evidence that clients had managed their debts effectively and improved their wellbeing from accessing the SDAP repayment arrangements. It had the potential to be financially viable for agencies and across the advice sector.

... and negatives

4 AdvicePro is a secure online case management system. See www.advicepro.org.uk for further details.

The low volume of referrals meant that SDAP is unlikely to provide a significant funding stream for advice agencies. SDAP had led to some increase in workload, caused primarily by the technological handicaps.

Continue with a rollout?

The evaluation concluded that it was a marginal decision whether to continue to a more extensive rollout of the model. SDAP has a clear potential to benefit some clients, but may only ever be a niche offer applicable to a relatively small proportion.

The problems with the technological implementation need to be addressed, particularly before a wide rollout. Investment would be necessary to enable SDAP to reach its potential. We should continue to develop and embed processes and systems, so referrals to SDAP options become a normal part of agency practices. We should also explore the potential for working with Citizens Advice and others who have been involved in related projects.

AdviceUK's response to the evaluation

AdviceUK accepted the findings of the evaluation and supported its conclusions and recommendations.

We see that continuing with a rollout can be justified:

- Financially – SDAP has the potential to provide a modest income for agencies;
- Practically – the technology issues are resolvable; the pilot was not long enough to prove long term sustainability of payments by clients, but there is no reason so far to doubt this;
- Ethically – there are no indications of bias. It also fills a significant gap for 'low offer / token payment' clients.

Rolling out SDAP

SDAP will initially be made available to up to 25 agencies, with training and implementation planned from early 2014. This will include DMP and IVA referrals to Payplan, and the payment disbursement system for low offer / token payment clients. We will not be continuing with the streamlined applications for basic bank accounts or payment cards for the unbanked, as there was minimal take up for these options during the pilot.

There will be some improvements compared to the pilot, with more information sent electronically to Payplan for DMP and IVA referrals and some fine tuning of the referrals processes. We will continue to collect evidence, looking to justify further investment.

Challenges – the size and nature of the 'market'

The SDAP pilot raised a number of questions that we will continue to explore. Is the SDAP model a niche offer, or is there significant unrealised potential? Are DMPs and IVAs a declining market?

With the Money Advice Service funded by means of an additional levy on creditors, we have concerns that this could affect Fair Share contributions, given their voluntary nature.[5] What is a fair way for creditors to provide funding for advice? Are there opportunities to expand Fair Share contributions, e.g. will debt collection companies stand to benefit through SDAP from low offer / token payment clients so they should be contributing?

Issues for advisers and debt advice agencies

Successful implementation of SDAP is dependent on changes to working practices and culture, with advisers prepared to 'let go' of their clients as they refer them on to Payplan's telephone service. Advisers need to accept the use of different delivery channels.

We will continue to assess whether adviser workloads are increasing due to SDAP, and check that any payments to agencies for referrals do not result in any bias to the advice provided to clients.

Issues for the debt sector as a whole

Is a whole sector solution possible? For example, Citizen Advice has been running a pilot DMP project with StepChange Debt Charity. The Money Advice Service has a common data project. Can different initiatives be co-ordinated introducing, for example, common protocols for referrals? Could this be supported by a common technological infrastructure?

A sector-wide approach could introduce more partnership working, with organisations focussing on what they are best at, and the most appropriate delivery channels used with clients.

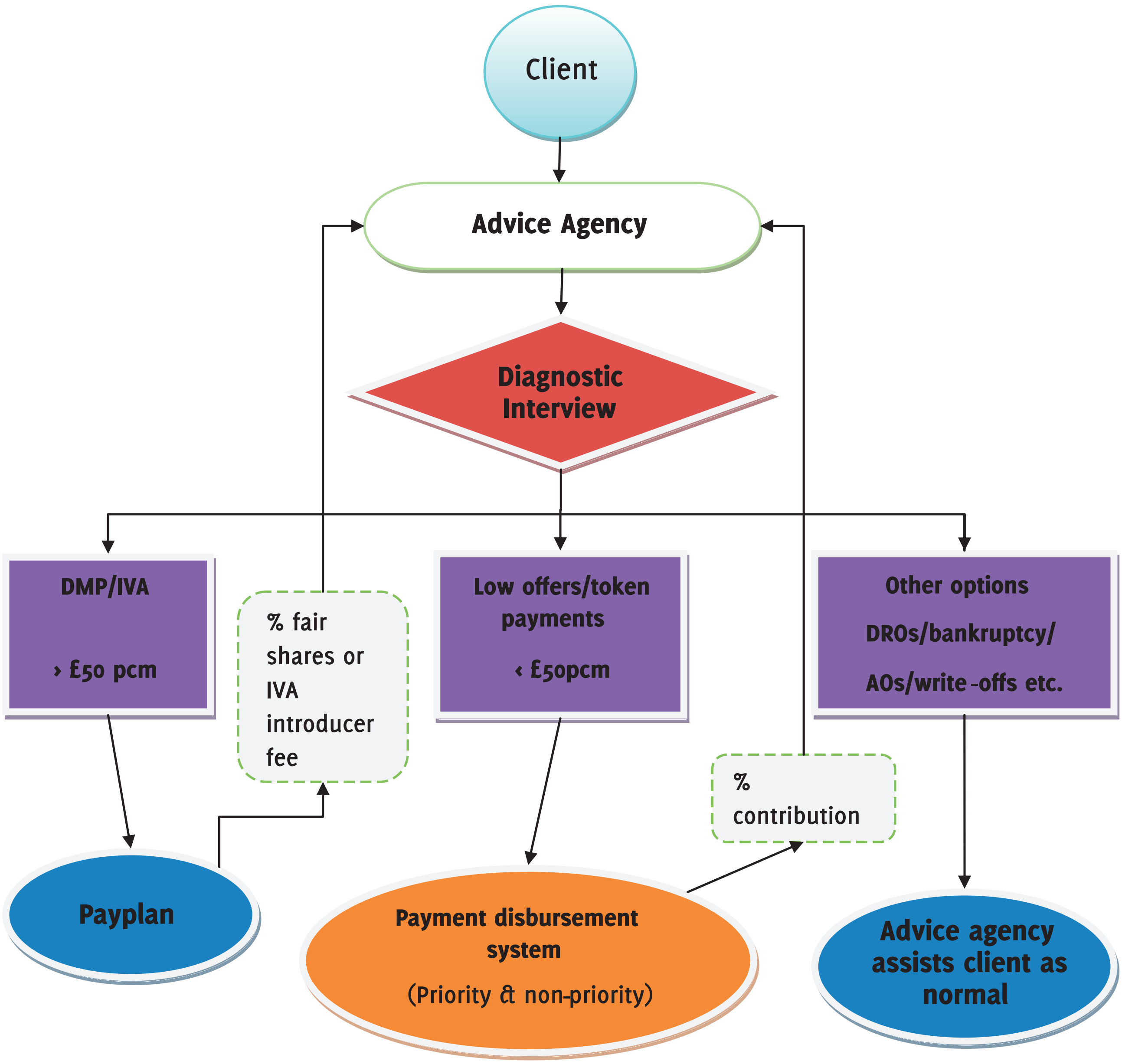
Further information

The full project evaluation report, a summary and our latest plans can be found on the AdviceUK website at: http://www.adviceuk.org.uk/sustainable-debt-advice-project/ .

David Hawkes is AdviceUK's National Money Advice Co-ordinator

5 The Money Advice Service was set up by the Government and has statutory responsibility for the co-ordination of debt advice in the UK

SDAP PILOT MODEL



Significance of The Debt Line helping over-indebted individuals – Callers' perspective from Finland

by:
Henri Hölttä
Guarantee Foundation

Even though most of the Finns are doing well financially, there is a lot of people having problems in paying off their debts. Both household indebtedness and over-indebtedness have increased in the last few years.

There are different kinds of means and services to help people with debt problems in Finland. Problems can be solved by different kind of voluntary debt restructuring or ultimately by statutory debt restructuring. We also have a statutory, nation-wide local money and debt advising. Moreover the third sector and social work done by a church assist The Money and Debt Advising by providing first aid, mental support and minor money and debt counselling. The Guarantee Foundation is one of the third sector actors. Along voluntary debt destructions it offers telephone counselling known as The Debt Line.

The aim of this article is to represent how The Debt Line callers view the importance and role of that kind of counselling and how they benefit from calling there in terms of solving their financial issues. The article is based on a qualitative Master's thesis made in the discipline of Consumer Economics at the University of Helsinki. The research data is based on 10 telephone interviews of indebted people who have called on Guarantee Foundation's Debt Line.

The Debt Line is a free of charge, nation-wide telephone counselling service for persons, or their family members, having trouble with debts and payments. In 2012 there were 26 550 call attempts in the Debt Line. It was about twice as many as in the previous year. 4 800 calls could be processed during the year, which was about one fifth of all calls.

During the telephone discussions the focus is to survey callers overall debt situation and payment ability. Additionally, the Debt Line will offer advising about debt settlements and restructurings, financial management and guiding in further actions. The counselors are professional employees of the Guarantee Foundation.

The importance of mental aid

According to callers the Debt Line's role was seen above all to give mental aid and to be a bellwether for in the field of domestic finances. The Debt Line should address the financial issues and provide someone to contact with in case debt problems occur. The call gave confidence for future and made the callers feel better, though few callers said the call did not give them any significant value. The main reasons why the caller felt better after call was that the counselor gave hope and faith for the future debt management.

Few callers were unsatisfied with the Debt Line's counselling and significant reason for that was the lack of concrete and explicit advices. They found the issues discussed during the call remained too general and felt that their individual situation was not noticed enough by the counselor.

On the other hand counselling was seen to bring more mental relief than dealing with the local money and debt advisers. Attributes, such as listening to problems and understanding indebted callers also received praise. Indebted individuals' listening and democratic treatment seems to increase their motivation to manage their debts.

Advantages of phone counselling

The threshold to take contact with the Debt Line was seen lower when compared to local money and debt advisers. Some interviewees told they did not have enough courage to deal with the local money and debt advisers though they already had an appointment.

Indebtedness could be such a sensitive issue that some interviewees might prefer anonymous phone counselling. Thus there is no fear to reveal their faces and it also reduces the

feeling of shame. That may explain why interviewees found it easier to speak with the Debt Line counselor than with the local money and debt advisers. The Debt Line's objective to be a low threshold debt advice service appears to be true according to interviews.

Furthermore, the Debt Line got credit for providing quick advices for debt problems At worst it may take quite a long time to get access to the local money and debt advisers. During that span the debt problems may get a lot worse. So it is important to have a chance to get important first-hand advices offered by the Debt Line already before consulting access.

Concrete influences and need for professional guidance

In the short run, the Debt Line call has no direct concrete influences in solving debt problems. On the other hand this can be due to the fact that nearly every interviewee was already familiar with their case well before their called. To make sure that one has done the right things was considered to be the main reason for contacting the Debt Line. Almost everyone also got new contact information to get in touch with debt problems.

The most tangible influence by the Debt Line call was that it put the caller to think more about the ways to handle his indebtedness. As a result of that it also activated caller more to take care of his debts and the economic situation.

The callers find it prominently easier to tell their debt problems to the Debt Line's counselor than to closest friends or relatives. Telling about debt problems to friends and relatives brings very likely shame, feeling of failure and fear on how the acquaintances would respond. The atmosphere is most soothing when counselor and indebted individual does not know each other and are not in the face-to-face situation. Speaking with an unknown person prevents any extra tensions between the two. The counselor's task is to focus on the facts and problem solving and thus can respond more maturely to debt problems than relatives, who tend to personalize the situation and debt details.

Many interviewees were facilitated by the knowledge they were not the only ones battling the debt problems. It seems clear that when indebted individual can identify with others who share his debt problems, it is far easier to accept and face the troubling issues.

The Debt Line and the Guarantee Foundation's activities were not previously familiar amongst interviewees. They felt that it is necessary to raise the awareness of The Guarantee Foundation's activities and also advertise it largely. However, it is not reasonable to hype The Debt Line while it is already extremely busy. The first step is to increase resources in telephone or other anonymous low-threshold counselling.

Fast facts about household's present debt situation in Finland:

- Approximately 59 percent of Finnish households had debt in the spring of 2013.
- Finnish household debt-equity ratio has risen steadily for the past 15 years. In summer 2013 the debt-equity ratio was approximately 118%.
- Household credit portfolio was a total of 115 billion euros at the end of December 2012 which was about 5% more than in the previous year. Almost 89 billion euros was home or second-home loans and about 15 billion euros was consumer loans.
- About 356 100 consumers, or approximately 8% of Finnish had payment default in the summer of 2013. The number has grown by about five per cent p.a. and it is verging on an all-time record already.

Source: Bank of Finland, Suomen Asiakastieto Oy, Statistics Finland.

Guarantee Foundation is a national social organization which assists private persons struggling with a financial crisis in solving their debt and payment problems. The Foundation provides telephone counselling, offers guarantees for bank loans of private persons, small social credits and peer support for running debtors finances. The objective is to improve management of personal finan¬ces and promote independent coping in the society. The operations are mostly financed by the Finland's Slot Machine Association (RAY).

Consequences of the bank crisis for consumers in Europe

by:
Dieter Korczak

Itroduction

In 2009, many articles, essays and books have been published dealing with the development, the causes, the originators, the culprits and the victims of the bank crisis. Regularly the terms 'bank crisis', 'financial crisis' and 'economic crisis' have been used idiosyncratically. But this use camouflages the domino effect which was initiated by developments in the banking sector which led to a bank crisis, then to a financial crisis and now to an economic crisis. Worldwide, 10 trillion \$ (7 trillion €) have been devalued.[1]

The CRISIS was not merely a result of the personal greed of bankers and the failure of regulators but a mixture of personal and moral failure, loss of control and systemic faulty design of the world economy The failure of investors to exercise due diligence with regard to their investments and to influence corporate governance at banks and other financial institutions is a further major contributory factor to the crisis.

The causes of failures were[2]:

- the boom in real estate prices additionally heated up by availability of subprime mortgages
- the conflictual involvement of rating agencies
- the boom in the stock market which led to a swelling of net equity
- the change from the accounting by the valuation of the initial asset's costs to the "fair-value-principle" (EU-Fair-Value-Regulation 2001/65/EG)
- the world wide selling of "mortgage-backed-securities" as hybrid instruments
- the permanent trade deficit of the United States of Amer ica
- the explosive increase of short-term speculation in equity derivatives
- the speculation in markets of commodity derivatives
- the trade in credit derivates swaps
- the change from investments into the real economy to the financial economy

The victims of these developments are the consumers worldwide. But adequate analyses are missing to describe the impact of the bank crisis on consumers. Therefore this paper highlights the consequences of the bank crisis for consumers as the situation was seen in August 2010. An updated paper will follow early Spring 2014.

1. Impact of the bank crisis on the mortgage market

There is little information published and not many figures available about the increase in arrears, foreclosures and repossessions due to the bank crisis. But some data suggest that there are real negative effects in Europe.

For example, the value of arrears of mortgages rose by 10% in the first quarter of 2009 in Poland and Italy. There is a moderate drop in property prices in the Czech Republic but there are expectations about a 15% increase in arrears and some 30% increase in repossessions.

In Italy, the supply of new mortgages has remarkably decreased, whilst several mortgages have been re-negotiated or transferred to different banks. The mortgages insolvency rate has been increasing also during the first quarter of 2009. Within the first quarter of 2009, the default percentage in the mortgage field settled at 1.9%, whilst within the first quarter of 2008 it was about 1.2%. In Germany in 2008, the number of

1 According to an analysis of Commerzbank research from 30.08.2009

2 see Krugman (1999), Batra (1999), Prechter (2003), Mandeville (2003), Roubini (2004), Arnold (2005) Stieglitz (2005), Otte (2009), Schulmeister (2009)

foreclosures remained stable around 90000 but the value of resulting auctions went down from 16.5 billion euro (2007) to 15.4 billion euro (2008).

Latest estimates in the UK suggest that the number of households in arrears or facing repossession will be even greater than in the early 90's. The Council of Mortgage Lenders (CML) estimates that the total repossessions for 2009 will be 65,000[3]. With regards to arrears, the CML estimates that the number of mortgages three months in arrears will rise from an estimated 183,000 in 2008 to 425,000 in 2009[4] (3.2% of all mortgages).

The situation in Spain is in a similar way dramatic. Foreclosures procedures have nearly tripled from 50,000 in 2007 to expected 140,000 in 2009. Regarding the terms of business for mortgages in Spain, there exists a so-called "floor convention" which means that the interest rate applied to 'renewed' mortgages can never be lower than 4%-5% no matter how low the Euribor is.

In Ireland, a study by the Central Statistics Office (Nov. 09) shows that two of the most prevalent forms of household debt arrears are mortgage, rent and utilities, followed by outstanding credit card balances of households. The latter is reported as being most prevalent among higher income households probably because of greater access to this form of instant credit and mortgages. Rent arrears are generally more common among low income households. There is an average of 100 applications per month to the courts seeking repossession of homes for failure to meet mortgage repayments with many more just struggling to stave off court action. There is yet no word of any government proposed funding mechanism to support such hard pushed families in stark contrast to the government bail-out of € 50-60 billion through the recently established, tax payer funded, National Asset Management Agency (NAMA) to take over at a discount price from the banks their toxic loans.

In general, the access to mortgages will be further restricted and exclude less affluent people. The lower income group of consumers will be probably mostly affected by tougher lender attitudes. The treatment of households with repayment difficulties becomes a matter of justice in comparison to the treatment of banks with default.

Our recommendation is **that the EU should thoroughly research and analyze the impact of the bank crisis on households.**

Possibilities should be proposed that less affluent consumers who can pay back moderate interest rates on mortgages are enabled to buy houses. This can include pilot projects for the development of alternative ways of providing mortgages.

Mechanism should also be explored to find ways of extending house debt as it has been arranged for banks.

2. Impact of the bank crisis on (unsecured) credits

To fight against the bank crisis the Central European Bank and the Central National Banks approved guarantee programs to secure the medium-term borrowing of banks and mortgage institutions and to lower the costs of borrowing for households and companies. Furthermore, the Central Bank key interest rate has substantially fallen in the last 12 months to an all-time low level (1%). But the banks did not react as has been intended by these measures. They did not reduce their interest rates. For example, the overdraft rates in Germany and UK are still between 17% and 18%. And the banks did not facilitate credit lending. On the contrary they used the low key interest rates of the ECB to invest that 'cheap' money into the financial market instead of into the real market. There are concerns that banks are making excessive profits on the back of risk free/ low interest rate loans in the capital markets. There are a few reasons to explain these excessive profits:

Banks may be taking excessive risks again and regulators are failing to pick this up (this would be worrying if it is happening but regulators claim they are much more on top of these risks and are monitoring the financial activity of investment banks much more closely).

The reduction in competition caused by the crisis means that certain investment banks are able to exploit the market inefficiencies outlined above.

Especially for small- and medium-sized businesses it has become more difficult to get a loan. By this the German banking sector has made 1.5 billion euro profit in the first half year of 2009 which is finally financed by the tax payers.

In many EU countries it has been already difficult in the past to obtain an unsecured credit. Normally for any kind of loans or credits securities have to be provided by the consumers. In

3 See http://www.cml.org.uk/cml/media/press/2108

4 http://www.cml.org.uk/cml/publications/marketcommentary/160 http://www.cml.org.uk/cml/publications/forecast

the case of unsecured credits, interest rates have been usually much higher.

In the Czech Republic, access to unsecured credits is still very frequently used. In France, more and more activities of non-bank institutions can be observed. In Italy, within the unsecured credit – consumer credit – field, the insolvency rate is increasing too; a little bit more than in the mortgage field. In the first quarter of 2009, the default rate settled at 2.7%. At the end of the first six months period of 2009, the total amount of loans in the consumer credit field was just over 29 million euro. By comparison to the data for the same period of the previous year, a gap of 11.2% can be pointed out. The most damaged loans are both the personal term loans and the loans to buy consumer goods.

On the whole, the request for credit by borrowers is decreasing and the lenders tend to grant less and less money.

There is no doubt that now the lenders are paying more attention to the total income of the consumer, to his level of indebtedness and to his repayment capability. But it is unlikely that, if and when the crisis passes, lenders will return to previous lending patterns.

There is a risk that consumers will be priced out of market/ denied access to mainstream credit or pushed into sub-prime sectors where there is a high price to pay. Credit scoring systems will be intensively used as a legitimising tool although the validity of such scoring systems is in no country scientifically substantiated. For example, one estimate in the UK suggests that between 200,000-400,000 'middle-income' consumers have now moved into sub-prime territory[5]. The fear is that this has had the effect of displacing an equivalent number of sub-prime consumers who were viable for licensed sub-prime lenders into unlicensed lender territory.

Therefore, access to fair and affordable credit for vulnerable households has to be assured . If an individual's financial ability is established to service loans and debts in a defined time then a bank should be obliged to provide loans and credits. The ability is established if the monthly net income is higher than the monthly expenditures. (For measurement tools, compare the Reference Budget approach www.referencebudgets.eu)

3. Impact of the bank crisis on savings

It seems that the savings of low and middle income consumers are safe in accordance with many national government's regulations.

But it is foreseen that the possibility of average consumer households to save money will decrease in the future as the disposable income will go down.

For example in Poland, the nominal value of citizens' savings is already low and has decreased in 2008 by minus 1.4%. In relative value, savings decreased from more than 60% of GDP at the end of 2007 to 54.5% at the end of 2008.

The remuneration (interest rate) of savings has decreased substantially, e.g. in France the leading saving account rate reduced from 4.25% in early 2009 to 1.25% since August 1st. In the UK as well there is a significant reduction in the interest rate paid on the average savings account (e.g. for a notice account from 3.07% in June 2008 to 0.23% in June 2009).

Many saving banks have taken part in the rush to attract deposits by paying high rates during the last few years and lost a lot of money in the crisis (e.g. in Germany WestLB, Bayerische Landesbank, HSH Nordbank). Some Spanish savings banks are facing financial problems due to their high exposure to the building activity. In March 2009, the Bank of Spain took the control of Caja Castilla La Mancha due to its bankruptcy situation and a merger with Cajastur has be undertaken to solve the situation. There will be more mergers and acquisitions in the Saving Banks industry.

Many saving banks are municipally based financial institutions which serve particularly the average consumer. Savings should be especially protected. It is positive that many Governments protect savings up to 50.000 or even 100.000 Euro. But this is not enough.

Saving banks should be limited in their ability to take part of risky investment activities. Therefore a special quality control of their investments should be institutionalized.

Especially credit unions have not contributed to the financial crisis. The savings of their member owners deserve as well appropriate legislative recognition and protection.

4. Impact of the bank crisis on pension funds

In several countries like Germany and Italy, the national institutions for social security assure the income for the pensioners.

Regarding the retirement allowance, it is built up month by month by the employees and their companies. Obviously, the risk of default of the company involves a risk for the retirement allowance. The civil servants are guaranteed by the public assets, while the private employees suffer higher risks.

For different reasons, consumers and employees are turning to insurance companies to issue personal pensions, in addition to the usual one.

So far, it seems that pension funds and pension plans are safe (by the new regulation for 2nd pillar in Poland or the contribution corporate plan in France).

5 This is based on internal estimates by a leading financial exclusion expert

But there is still a lack of regulation e.g. in Poland, that allows to change the risk characteristics of pension investments depending on a length of period to retirement

The whole situation can be regarded as a huge time bomb: pension funds heavily invested in equities (UK) suffered massive capital losses and early recovery is very unsure, especially as they started to reallocate funds to fixed income at the worst possible moment. Pension funds heavily invested in fixed income assets (notably France) are and will be struggling to provide pensions with their real value not reduced by inflation. Already in France, the participants of the two biggest public employee's retirement funds have lost purchasing power for the last 6 years. One can fear it is only a beginning. See FIN-USE Response on the harmonization of solvency rules for IORPs (February 2009)

Pension funds profits are dropping heavily due to risky investments and by the volatility of the stock markets.

What is needed is a public debate on the possible problems of pension funds in the future. Many countries favor private pension management (besides the governmental guaranteed pension). The banks and the insurances which offer private pension managements should therefore be under specific observation and control of their related activities.

5. Impact of the bank crisis on over-indebtedness of private households

In the past, economic crisis led to an increase of unemployment rates and by that to an increase of the rate of households which are moving into over-indebtedness.

In the Czech Republic, there is already now a distinct rise of compulsory enforcements, personal bankruptcies and outstanding debts as a secondary result of the economic decline. As well the number of debt advice agencies' clients has been more than doubled.

The effects of the bank crisis on the development of over-indebtedness will be obvious in 2010 when the statistics on the over-indebtedness situation are available. There is always a time-gap between the incidence of unemployment and the appearance of over-indebtedness. A first indicator of an emerging over-indebtedness problem is the incidence of insolvencies. In Germany in the first half year of 2009, the rate of enterprise insolvencies increased by 15% in relation to the first half year of 2008. A strong growth of personal defaults is foreseen by many experts.

In the past the funding for money and debt advice and counseling was very often reduced in financially difficult times because the expenditures for social care and social support have been reduced. There is a big risk that this will happen again.

A stronger consideration of responsible lending in the future could help to reduce the risk of getting into over-indebtedness. Furthermore, an upgrading of the staff of money advice and debt counseling agencies is necessary to handle the upcoming demand. Furthermore, the procedures, regulations and laws which are in task for a so-called 'fresh start', should be made lean and easier.

6. Impact of the bank crisis on taxation

The help for the bank industry to survive their own crisis was mainly done by money given from the governments, plus a big increase of public spending occurred to try to minimize the economic impact of the financial crisis. By that, in all European Member States a big financial burden was loaded on the governmental household budgets. The public debt in the EC is already now close to 80% of the European Gross Domestic Product (GDP). In Spain the public deficit is forecasted to reach 11.2% of the GDP by the end of 2009.

Ways to keep the deficit spending under control could be the increase of taxes for the consumers (especially VAT and income tax) and the cutting of public spending.

It is for example already happening in France where the 2010 State budget will hurt further small individual investors by increasing taxes on small capital gains, and on death benefits from the very popular life insurances contracts. In Belgium it seems the Government is considering seizing the opportunity of the revision of the EU Savings Tax Directive to increase taxes on life insurance contracts.

It is common financial knowledge that the debts from today are the taxes from tomorrow. But an increase of taxes is always feared by governments because this usually leads to a defeat of the ruling political parties in the next election. Therefore the growing financial burden on the shoulders of the average tax payer is semantically hidden by fairytale like word constructions and explanations. The new German government just actually gives an example how dangerous facts lead to artistic deficit spending constructions to keep the election promise not to increase taxes. (Watch the public discussion on "Schuldenbremse" and "Schattenhaushalt" in Germany).

Though taxation is under national law, we recommend not to increase the taxation of consumers but the taxation on the revenues and profits of big enterprises and companies as well as to introduce a tax on the financial streams.

7. Impact of the bank crisis on social support and services

It is estimated that the increased pressure on public finances will put pressure on social benefits and social services as well. Furthermore, it can be expected that the need for social support and social security expenditures will sharply increase with a very strong impact on state budget and public debt. In Spain, the demand for help (e.g. food, clothes, medicine etc.) has already increased in the local social services by 65% and this demand is coming mainly from families which are affected by the bank crisis.

In Austria, the first reaction can already be noticed by the heavy public discussion of the so-called "Transfer-Konten" which intends to make the public expenditures for each single social transfer recipient more visible and transparent. A similar solution for the payment of tax money to the bank industry or other industries is not discussed.

In Italy and Ireland, the government is already reducing the social support in several relevant fields, even in the health and education fields.

The budget of the Ministry for Social Affairs in Germany has to shrink by 10% in 2010.

In Hungary, the age of retirement was raised from 62 years to 65 years.

The poor people have not been involved in creating the bank crisis but it seems that they are the first victims of the crisis.

Therefore the EU has to ensure that the payments for the bank industry and the deficit spending of the Member States do not take place at the expense of the poor and middle income consumer households. Measurements, activities and strategies for the effectiveness of such an engagement have to be immediately developed.

8. Impact of the bank crisis on future generations

The budget deficit has grown and will burden future generations. As the national/public debt will be more than three times higher in comparison to the time before crises, shorter state expenditures and higher taxation will surely burden our future. The negative impact on public finances (huge increases of public debt which will have to be paid back by our children and grand children), the negative impact on pensions and likely on the environment efforts will likely lead to a deterioration of the quality of life. Experts foresee also financial shortcuts and political negligence of environmental issues due to the bank crisis.

Therefore, the bank crisis has to be better analyzed and publicly discussed in its relevance as burden for future generations.

On the financial front, governments have yet to clearly identify the responsibilities for the financial crisis: the "twin peaks" financial supervision proposal of early 2009 seems to have now been abandoned due to the banks and insurers pressures.

There is no reform or even project to change listed companies' (especially banks) governance. Bankers have not been sanctioned at all and seem to be back to 'business as usual" and to have but one priority: to extract as much profit as possible, after having had the consumers, the individual investors and now the government and the taxpayers pay for their mistakes and excessive greed.

Many questions arise from the population of the EU. Who are the beneficiaries of the crisis? Why are they beneficiaries? Do they really deserve it? Why have consumer representatives not been involved in the decisions about the spending of public and tax money?

We recommend that the banks who benefit from the crisis – who are also the main parties responsible for the financial crisis to start with - put aside a relevant amount of their recent and coming profits to be used to reduce the burden for the victims of the crisis now and in the future.

Secondly, European law should be developed that precisely describes the liability of bankers.

August, 19th, 2010

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Château de Cartier, Place Albert Ier, 38
6030 Marchienne-au-Pont | Belgium
www.ecdn.eu

Editorial Office | Subscriptions:
SKEF Stowarzyszenie Krzewienia Edukacji Finansowej
Legionow 126, 81-472 Gdynia | Poland
mowkam@gmail.com

european consumer debt network

Editorial group:
Albert Luten NIBUD, Mariusz Mówka SKEF,
Vilhelm Nordenanckar Konsumentverket

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