

# MONEY MATTERS

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## Debt Advice and Over-Indebtedness in Europe







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„Over-indebtedness is a multifaceted phenomenon with a negative impact on different stakeholders and society as a whole. Debt advice benefits all involved actors: it is a powerful tool to help over-indebted people, who face an unsustainable debt burden and economic distress.“ This is the key finding of the Debt Advice Stakeholder Forum held by the European Commission in October 2018.

The complexity of the phenomenon was the reason for this issue of Money Matters magazine. It is important to recognise how different the supply of debt counselling still is and the situation of over-indebted people in Europe. The examples from eight European countries illustrate this vividly.

It is somewhat surprising, therefore, that despite its economic success in the last decade, Germany still has a largely constant high rate of over-indebted people (10%). Poland (8,8 %) and Finland (8,1 %) have also a high rate but less than Germany.

Much of the household debts in Finland is made up of mortgages, in France and Germany indebtedness mainly stems from loan agreements. In Denmark the tax authorities are the largest creditor. In Switzerland debts and arrears of payment are owed first and foremost to tax authorities and health insurance funds.

In The Netherlands and Germany a „typical“ client is a single man with a lower education and low income, renting a small flat in an urban environment. The biggest challenge in Iceland is advising young people who have gone off to a rocky start with their personal finances.

The Netherlands have made interesting experiences with the contribution of volunteers to debt support while Luxembourg has to face the problem of cross-border loans.

The Swiss and German contributions point out in particular that at present only a small proportion of over-indebted persons are advised by a debt counselling office.

In the articles of this issue different national legal and social policy proposals are made to improve the situation and risk of vulnerable groups. These recommendations show that there is still a long way to go before debt counselling benefits all affected persons in Europe.

Dieter Korczak  
Editor



# Special characteristics of over-indebtedness in Finland

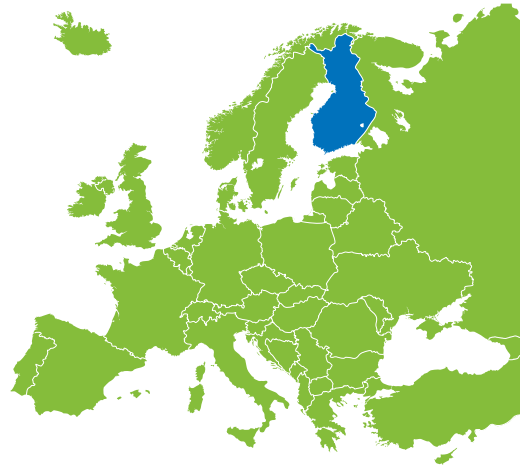


by:

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**T**he number of problems related to debt and personal finances has risen sharply over the past decade in Finland. Almost all indicators show this trend, and almost all experts agree on its development. But how many people in Finland have financial problems or are over-indebted?

Determining the number is a difficult task.



So-called positive credit data – which could be used to assess the actual financial situation and repayment capacity of Finnish households – is not collected in Finland. Instead, only negative credit data, which only describes whether a person has previously had difficulties with repayments, is collected. According to the latest statistics, 383,500 Finns have a negative credit rating, which corresponds to 8.1 percent of the adult population.

It is also a well-known fact that many people with financial problems try to avoid a negative credit rating at any cost because it could cause a variety of other problems for them. In its present form, the Finnish credit market also offers a great deal of opportunities for this avoidance as there are many unsecured payday loans and quick loans available with larger loan amounts and longer repayment terms. It can thus be assumed that there are significantly more people with financial problems than the number of bad credit ratings indicates.

Another type of data that can be used to describe the scale of the financial problems faced by Finnish households is enforcement statistics. In 2018, a total of 577,000 people were debtors in enforcement. However, the enforcement statistics only describe financial problems from one perspective. Some debtors in enforcement repay their debts through enforcement for quite some time because there is only a limited number of debt adjustment procedures and they are very difficult to implement. Finnish households have continued to be more heavily burdened with debts for more than 20 years. In recent years, the household indebtedness rate has been around 125-130 percent. Much of the household debt is made up of mortgages. Almost 60 percent of Finns live in owner-occupied homes. Although the indebtedness rate of Finnish households does not appear to be enormously high compared to the other Nordic countries, it should be noted, however, that mortgages in Finland are granted for a significantly shorter period than in the other countries. Mortgages have traditionally been paid off before retirement.

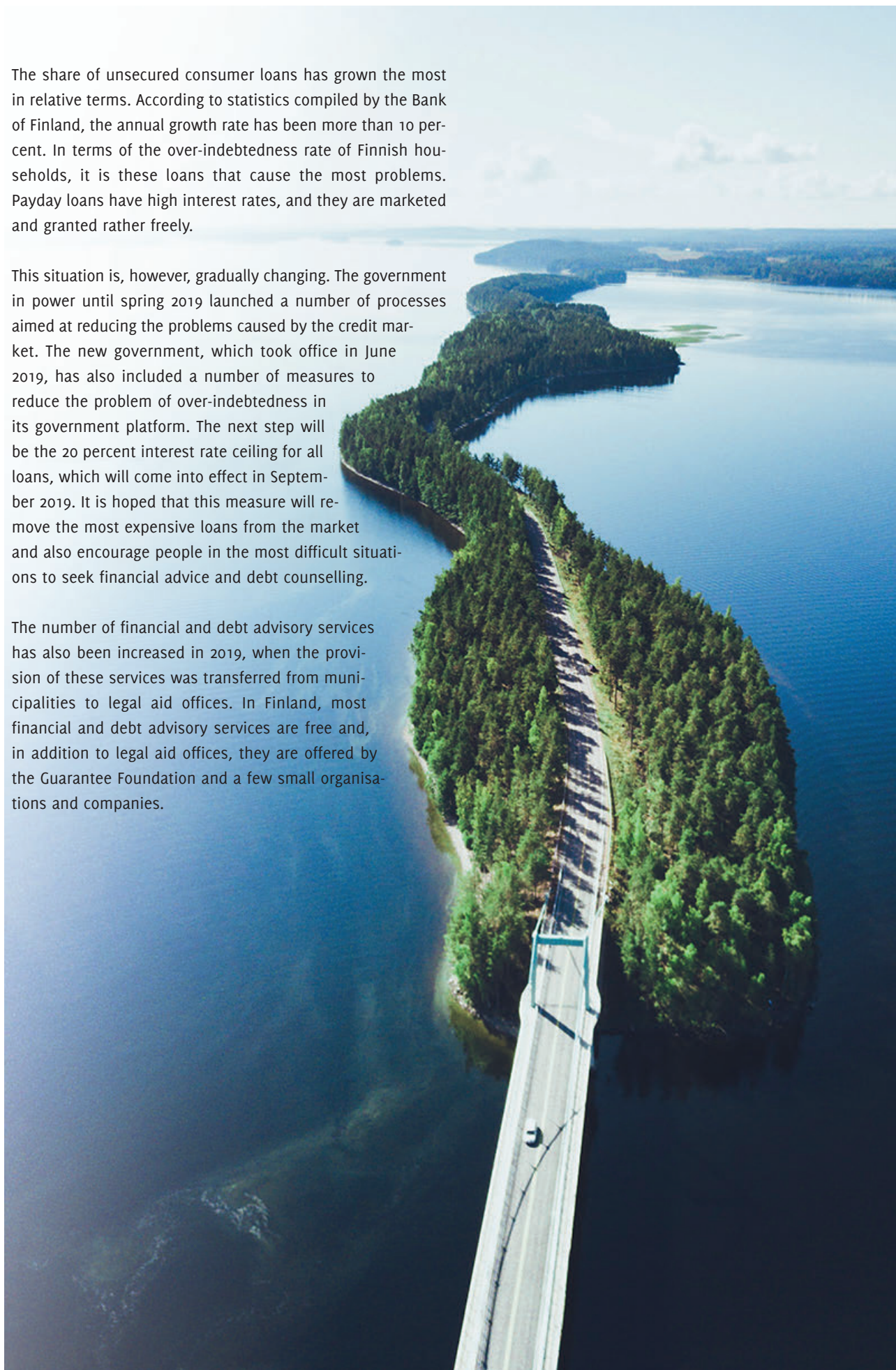




The share of unsecured consumer loans has grown the most in relative terms. According to statistics compiled by the Bank of Finland, the annual growth rate has been more than 10 per cent. In terms of the over-indebtedness rate of Finnish households, it is these loans that cause the most problems. Payday loans have high interest rates, and they are marketed and granted rather freely.

This situation is, however, gradually changing. The government in power until spring 2019 launched a number of processes aimed at reducing the problems caused by the credit market. The new government, which took office in June 2019, has also included a number of measures to reduce the problem of over-indebtedness in its government platform. The next step will be the 20 percent interest rate ceiling for all loans, which will come into effect in September 2019. It is hoped that this measure will remove the most expensive loans from the market and also encourage people in the most difficult situations to seek financial advice and debt counselling.

The number of financial and debt advisory services has also been increased in 2019, when the provision of these services was transferred from municipalities to legal aid offices. In Finland, most financial and debt advisory services are free and, in addition to legal aid offices, they are offered by the Guarantee Foundation and a few small organisations and companies.





# The debt situation in Denmark



by:

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## Target Group

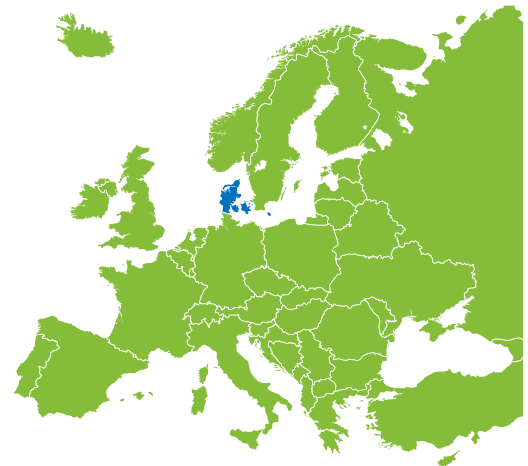
The data about the citizens and their debt in this report was gathered amongst The Social Legal Aid's (TSLA) own clients. Thus they fall within TSLA's target groups, 1) prisoners, 2) socially vulnerable people, 3) people whose income causes them to fall below the income threshold for free process. We can conclude that our clients come from all over Denmark, both small towns and larger cities. The majority of clients are men (66 %) and they usually live for rent in general housing. The vast majority (70%) is on public support and only 8 percent of them had a full-time job. Furthermore, most clients were single and without children living at home. Common to all the clients are that they are battling tough living conditions when they reach out to TSLA.

## Analysis

| Creditors    | Debt Sum<br>Euro mill. | Debt sum<br>in percent | Debit<br>items | Debit items<br>in percent |
|--------------|------------------------|------------------------|----------------|---------------------------|
| Public       | 17,2                   | 52,5                   | 1.212          | 25,1                      |
| Private      | 15,6                   | 47,5                   | 3.624          | 74,9                      |
| <b>Total</b> | <b>32,8</b>            | <b>100</b>             | <b>4.836</b>   | <b>100</b>                |

Table 1 – Debt distributed between public and private creditors

Table 1 shows that the 528 clients had a total debt of Euro 32,8 mill. This correlates to an average liability of Euro 62.000 pr. client. In total the debt was spread out between 4.836 individual debit items. A debt of Euro 62.000 doesn't sound extreme, if one accounts for housing and car loans, but it is important to keep in mind that the people who contact TSLA are either socially vulnerable, prisoners or people with a low income level. To them, Euro 62.000 is a lot, for some many times their yearly in-



come. Furthermore, it is important to note that the clients rarely have assets, i.e. a house, car, expensive televisions etc. that can be sold to amortise their debt. In 2018 TSLA's clients owed Euro 17,2 mill. to public creditors, corresponding to 52,8 percent of the total debt. The debt is divided between 1.212 debit items, corresponding to 25,1 percent of the total number of debit items. The average value of the debt to the public creditors is Euro 14.187 per debit items. The clients owed Euro 15,5 mill. to private creditors, which is 47,5 percent of the total debt. This debt is divided between 3.624 debit items, corresponding to 74,9 percent of the total amount of debit items. The average value per debit item is Euro 4.295.

| Creditors                                  | Debt Sum<br>Euro mill.  | Debt sum<br>in percent | Debit<br>items | Debit items<br>in percent |
|--|-------------------------|------------------------|----------------|---------------------------|
| Udbetaling<br>Danmark <sup>1</sup><br>(UD) | 0,68                    | 4                      | 143            | 11,8                      |
| SKAT <sup>2</sup>                          | 12,7                    | 73,8                   | 375            | 31                        |
| Municipalities                             | 0,61                    | 3,6                    | 306            | 25,3                      |
| Police                                     | 1,6                     | 9,1                    | 157            | 13                        |
| Others                                     | 1,6                     | 9,5                    | 228            | 18,8                      |
| <b>Total</b>                               | <b>17,2<sup>3</sup></b> | <b>100</b>             | <b>1209</b>    | <b>100</b>                |

Table 2 – Debt Distributed between public creditors

<sup>1</sup> A Danish authority whose task it is to disburse a number of public payments to the people.

<sup>2</sup> The Danish tax Authority.

<sup>3</sup> A total of Euro 773 is missing in this calculation due to difficulties in tracking the creditor.



Table 2 shows that SKAT is the largest public creditor holding Euro 12,7 mill., of our clients debt corresponding to 73,8 percent. This debt is divided between 375 debit items, corresponding to 31 percent of all the public debit items. The average value per debit items aggregates to Euro 33.854. The second largest public creditor is the police. Our clients owed them Euro 1,6 mill., corresponding to 9.1 percent of the public debt. The debit items to the police amounts to 157, corresponding to 13 percent of the public debit items. The third biggest public creditor is UD. Our clients owed UD Euro 0,68 mill., which is 4 percent of the total debt to public creditors. In 2018, our clients have 143 debit items at UD, equalling 11,8 percent. The municipalities are the fourth largest public creditor with Euro 0,61 mill. owed to them, this corresponds to 3,6 percent of the debt to the public creditors. What is interesting here is that although they only are responsible for 3,6 percent of the total debt, they are accountable for 25,3 percent of the debit items, corresponding to 306.

| Creditors<br>Loans for Consumption                   | Debt Sum<br>Euro mill. |
|--|------------------------|
| Payday loans provided by the Danish credit council   | 0,2                    |
| Banks, companies with banking license's payday loans | 1,7                    |
| Certain and uncertain bank loans <sup>4,5</sup>      | 5,5                    |
| Other payday loans                                   | 0,26                   |
| <b>Total</b>   | <b>7,7</b>             |

| Decayed bills for subscriptions<br>and products       | Debt Sum<br>Euro mill. |
|---|------------------------|
| Leasing and instalment                                | 0,62                   |
| Decayed bills for subscriptions, transport-fines etc. | 1,9                    |
| Insurance   | 0,38                   |
| TV/Internet/phone-bills                               | 0,65                   |
| <b>Total <sup>6</sup></b>                             | <b>3,5</b>             |

**Table 3 – Debt Distributed between private creditors**

Table 3 shows the debt distributed between the private creditors. Here we find that banks and companies with bank licenses hold the largest debt sum of Euro 5,5 mill. whereas payday loans only hold Euro 2,1 mill. The third largest creditor is the Decayed bills for subscriptions and transport-fines hold Euro 1,9 mill.

## Discussion

In total SKAT is the largest creditor among TSLA's clients holding a total of Euro 12,7 mill. of the debt. The reason for this is two-fold. Firstly our clients are prisoners and socially vulnerable people. Some of them might have an incentive not to pay taxes;

when they don't pay they start owing money to SKAT. Most of the clients might not know how to properly report and pay taxes, and for all the taxes that aren't payed, the people not paying will generate debt to SKAT. Secondly a large part of the debt to SKAT is due to the fact that all public creditors send debt for recovery at SKAT after some time, if the original public authority has failed to recover it, thus all uncollected debt will eventually end for recovery at SKAT. The most consistent example of this is the police, who send fines and other costs such as the court expenditures to SKAT if they know that they won't be able to recover the debt within six months.

## Conclusion

Debt is a huge problem for the socially vulnerable who just want to live normal lives, but continuously falls victim to aggressive creditors; but also for the prisoners, who just want to live normal lives once they're released, but can't do so because of enormous debt to both public and private creditors. To help these people back on their track and to prevent people from falling into the trap in the future, we recommend the following:

1. An appropriation should be allocated to the Finance Bill for free debt counselling, and creditors should also help finance free debt counselling.
2. Quality standards, including ethical rules and competence requirements, should be set by debt counselling organizations in order to receive the above funding.
3. A National Appeals Body should be set up, to which dissatisfied citizens can complain about bad debt counselling. Likewise, a compensation board should be established that can decide on possible compensation
4. New policy initiatives should hit the entire credit market and not the small part organized under the Danish Credit Council – they are only a relatively small part of the problem.
5. A national debt register should be set up to allow for a better credit rating of all citizens applying for a loan, so that before the loan is granted, they can discard non-eligible citizens.

## References

The reference list is available from the author.

<sup>4</sup> We have chosen to remove an outlier, one client owing c. Euro 4 mil. on a single debt item.

<sup>5</sup> Also contains companies with a banking license.

<sup>6</sup> We have chosen to remove c. Euro 308.000 c. 2 percent from the data; this is because we have not been able to track the original creditor.



# Structure of debt advice in Iceland



by:

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**D**ebtors' Ombudsman (DO) in Iceland was founded in 2010 following the 2008 banking crisis. Debtor's Ombudsman is an independent government agency and falls under the jurisdiction of the Ministry of Social Affairs, specifically the Minister of Social Affairs and Children. The DO is a welfare project and all of its services are free of charge. We like to say that we provide expert service with low threshold access. The DO currently has 17 employees and all of our advisers have university degrees, almost half of whom are lawyers.

The agency's predecessor was the Domestic Debt Advisory service that was established in 1996. The DO has the main goal of providing assistance for individuals facing serious payment difficulties with the aim of obtaining a comprehensive overview and control of their finances. We help our clients seek solutions, taking into account economic, legal and social criteria of each individual. The agency serves the whole of Iceland and is funded by levying financial institutions who have received an operating license as such in Iceland. In addition to that the DO maintains a standard budget criteria and provides objective financial education.

## Tools in debt advice

The agency has three main tools to assist individuals and families in getting back on track with their finances.

1. Financial counselling
2. Debt mitigation for individuals, Act no. 101/2010
3. Financial aid for bankruptcy proceedings. Act no. 9/2014

## Financial counselling

Financial counselling is often the first step individuals take when seeking assistance, it is important that this first step is an easy one to take and we make an effort to be approachable, offering various ways to contact our advisers, for example, an individual can drop in and meet with an adviser or request a phone call through our website. Following a conversation with an adviser, the individual can decide whether applying for assistance is the next step or not. Individuals applying for assistance at the DO's office fill out an online application, giving electronic acceptance for the DO to process the application and collect information about their debt in various places including tax reports as well as information about monthly income and other sources of income.





In this first step of counselling the aim is to obtain a holistic overview of the applicant's finances and, if possible, assist him in balancing financial obligations and payment ability, often by mediating negotiations with creditors. Often the conclusion of counselling is to advise the individual to apply for debt mitigation. Counselling also aims at preventing debt problems, individuals may be advised on how to adjust expenditure to income.

## Debt mitigation for individuals

In the DO's founding year of 2010, Iceland's first act on debt mitigation for individuals was passed and has since then been the agency's main tool. The Act on debt mitigation no. 101/2010 is the first comprehensive solution introduced for individuals in serious financial difficulties. However, similar remedies have been available to individuals in the other Nordic countries since the nineties. The Act has been a significant improvement for indebted individuals in Iceland.

The objective of the Act is to enable individuals in severe financial difficulties to restructure their finances and to establish a balance between their debts and payment capacity so that debtors can realistically fulfil their obligations for the foreseeable future. The act sets forth certain conditions that individuals have to meet, upon meeting those conditions the DO can approve the application and seek voluntary debt mitigation with creditors. When an application is approved, a temporary moratorium on payment begins, the appointed debt mitigation supervisor then prepares to present a voluntary debt mitigation proposal which is drafted in consultation with the debtor. Note that a debt mitigation agreement is always voluntary – each creditor has to agree to the proposal. The debt mitigation period shall generally be from one to three years but can also be without a set time limit. Debt mitigation may provide for a complete cancellation of individual claims, their proportional

reduction, postponement of them, changes to terms, their payment with a share of the instalment amount to be paid at specific intervals during a specific period, change of payment of claims, or all of the above. Debt mitigation according to the act does not affect all types of claims, a number of claims are not covered by debt mitigation, and these excluded claims are listed in Article 3 of the act.

The most common ones are; tax claims, claims from the Icelandic Student Loan Fund and claims from the Child Support Collection Center. In cases where these types of claims constitute a great proportion of an individual's total debt, a debt mitigation agreement may not resolve an applicant's problem. In such instances the DO's advisers assist individuals in researching the next steps.

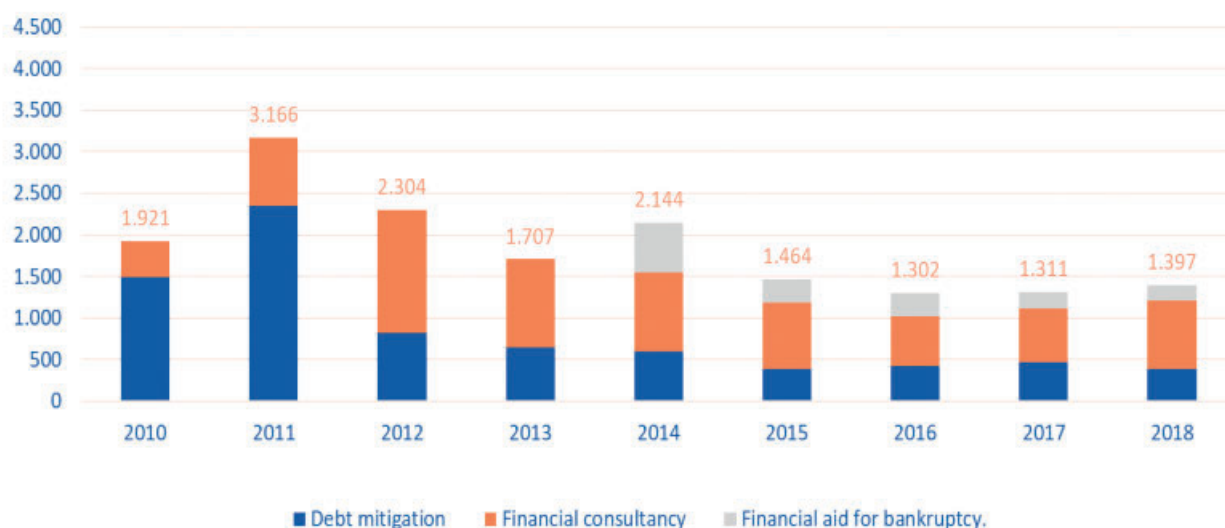
## Financial aid for bankruptcy proceedings

Financial aid for bankruptcy proceedings was introduced in 2014 with Act no. 9/2014. The objective is to assist individuals in paying collateral security for expenses related to bankruptcy proceedings. Similar to the act on debt mitigation for individuals, the Act on financial aid for bankruptcy proceedings sets forth certain conditions that individuals have to meet. One of them being that an individual has to provide proof that he has in fact exhausted all other means of reaching a balance between debt and payment capacity. Bankruptcy is always seen as a last resort, but this Act enables the DO to provide assistance to individuals who have in fact exhausted all other resources and cannot themselves pay the collateral security fee.

## Applicants today

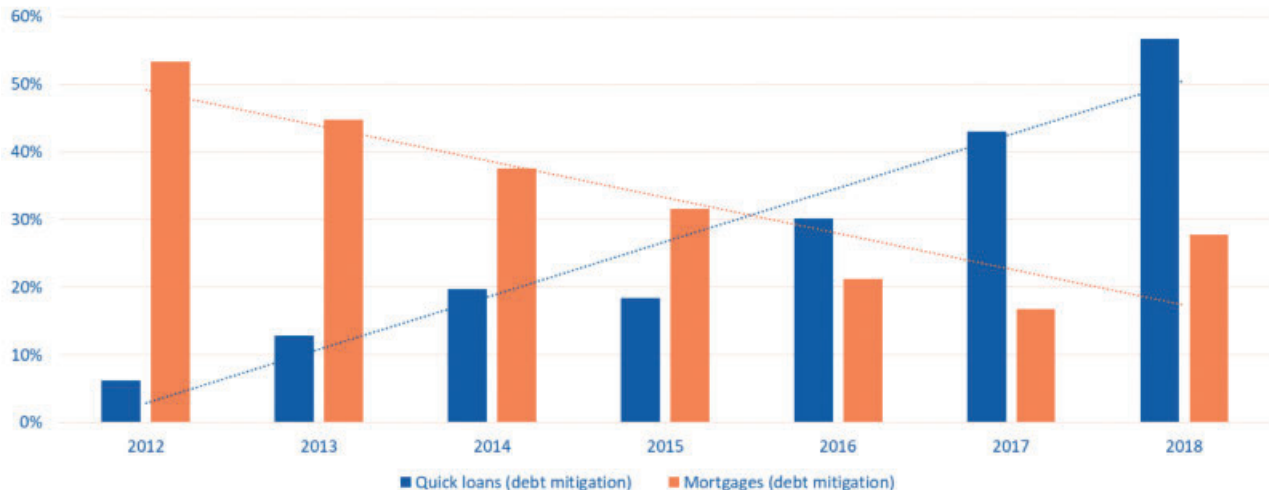
The agency receives around 100 applications from individuals each month. In the past two years the number of applicants seeking assistance has been growing slowly and in 2018 the

Number of applicants





Based on number of applicants with each type of debt



agency saw a 6.5 percent increase in applications from the previous year. An increase in the number of applicants is by itself worrying, while at the same time according to the Central bank of Iceland's Financial stability report from January 2019<sup>1</sup> there is little change in household's financial position.<sup>2</sup> Residential mortgage debt is rising, but other household debt is declining at the same time.

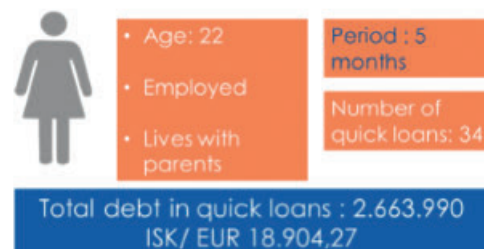
The biggest increase has been in applicants in the age group from 18 to 29 years old, that group has grown from being 5 percent of all applicants in 2012 to being 27.3 percent of all applicants in 2018. The type of debt has also changed drastically over the past 5 years. The number of applicants with so called „quick loans”<sup>3</sup> has risen to an average of 56 percent and when looking specifically at the age group from 18-29, 79 percent of applicants have some form of „quick loans”. To further emphasize this point, in 2012 the rate of applicants with mortgages was 53 percent and in 2018 it had gone down to 28 percent whilst the number of applicants with quick loans has gone from 6 percent in 2012 to 57 percent in 2018. Currently, the biggest challenge in debt advice in Iceland is advising young people who have gone off to a rocky start with their personal finances.

Access to money has never been easier in Iceland. Fintech companies offer a wide range of quick loans which are generally high cost loans. These loans are available to individuals without a comprehensive evaluation of their ability to pay back these loans. Currently in Iceland we do not have a comprehensive overview of the loan portfolio of these quick loan companies seeing as they are not regulated.

According to the DO's statistics individuals in the age group between 18 and 29 are more likely to find themselves in serious fi-

nancial difficulties if they take quick loans. The individuals seeking assistance usually tell a similar story, they started with one loan and without realizing they had multiple loans with multiple creditors, applying for a new loan to pay up an older one and so on, and soon they found themselves in a lot of debt to a lot of creditors, way beyond what they could ever pay back. The tools that the DO has to assist individuals in severe financial difficulties were not set up with this group of individuals and this kind of debt type and accumulation in mind.

The group generally has low income, lives with parents or rents a room. These individuals have their whole lives ahead and it is hard to say with certainty that they cannot realistically fulfil



their obligations for the foreseeable future, which is a condition an applicant for debt mitigation must meet.

The type of debt is different from what we have been dealing with before. It is more often accumulated over a short period of time and the total debt of these individuals is relatively low compared to mortgage debts. The DO has put focus on trying to reach agreements on a case by case basis so that these young applicants become able to pay back their debt with payment plans. This only works in a handful of cases, seeing as most of the applicants do not have any payment ability. Bankruptcy for this age group doesn't look like a feasible „solution”,

<sup>1</sup> [https://www.cb.is/library/Skraarsafn---EN/Financial-Stability-Report/Financial\\_Stability\\_2019\\_1.pdf](https://www.cb.is/library/Skraarsafn---EN/Financial-Stability-Report/Financial_Stability_2019_1.pdf)

<sup>2</sup> [https://www.cb.is/library/Skraarsafn---EN/Financial-Stability-Report/Financial\\_Stability\\_2019\\_1.pdf](https://www.cb.is/library/Skraarsafn---EN/Financial-Stability-Report/Financial_Stability_2019_1.pdf) page. 20.

<sup>3</sup> Debtors' Ombudsman has defined „quick loans” as loans that are obtained online using apps or websites.

These can be either purchase related loans or loans where the creditor transfers money into the applicants account, either way they are easily accessed, quick



starting one's adult life carrying a heavy load of debt is difficult and puts these young individuals at a disadvantage, potentially affecting them both economically and socially in the future.

It is clear that more education on financial obligations and the consequences of excessive borrowing is something that has to be promoted even more in Iceland.

In the past two years, the DO has increased awareness on the topic and the consequences young individuals are facing. The DO has put focus on offering a wide range of free and objective materials on the finances of individuals, focusing on young individuals and socially vulnerable groups. Connecting with social workers within each community has been a very successful project as well as working with rehabilitation projects available to individuals who are socially vulnerable. The DO has also advocated for more government interference when it comes to fintech companies that offer quick loans, suggesting 3 points of reform;

#### **1. National debt register**

#### **2. Limitations on marketing**

#### **3. Increased financial education**

A national debt register should be established so that individuals cannot take loans from multiple creditors without actually having real credit, this would also encourage and enable quick loan companies to practice more responsible lending. Limitations on marketing could for example prohibit advertising that emphasizes easy access and speedy deliveries of loans, targeting young, impressionable individuals. Increased financial literacy is a community project, a collaboration between the schools, home and the financial sector in Iceland. Increasing financial literacy must be an ongoing project in our society and each individual must be provided with equal access to financial education.





# Debt advice and over-indebtedness in Germany

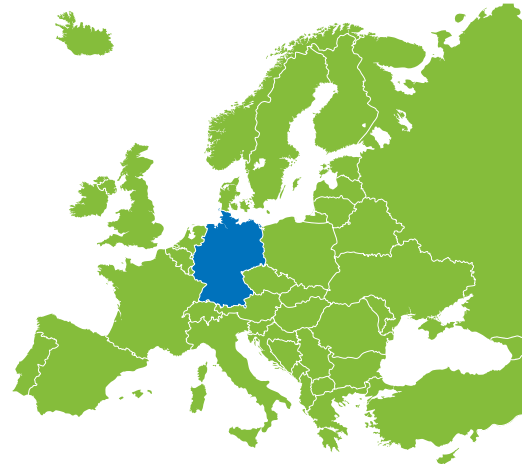


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## Debt advice

**D**ebt counselling can now look back on around 50 years of experience in Germany. The first counselling centre for people with debts was established in 1958. In 1970 there were already seven debt counselling centres in operation, currently there are 1.450 free of charge debt counselling centres in Germany. This ensures a nationwide network of debt counselling centres. There is a large number of agencies: church agencies (Caritas, Diakonie), municipal agencies (cities, districts), the Arbeiterwohlfahrt (Workers' Welfare Association), non-profit associations, consumer protection agencies and the German Red Cross. Debt advice is a form of consultancy which provides overindebted clients with assistance in clearing up their financial situation and in achieving psychosocial stability. (taking into account economic, legal and social criteria as well as the psychological and physical situation of the clients.) From the very beginning, debt counselling has been seen as part of social work.

The service ranges from a budget overview, (economic) crisis intervention, budget planning and psychosocial counselling through a legal advice in questions of law and preparation for the private insolvency. The areas of work of debt counselling can be subdivided according to the criteria of financial and legal counselling, practical life counselling, psychosocial help and preventive pedagogical counselling. Legal regulations have a major influence on the range of debt counselling services offered. In January 2005, the receipt of unemployment payments was newly regulated in Germany. Unemployment assistance

and social assistance were brought together to form a basic insurance scheme for job seekers at the performance level of the socio-cultural subsistence level (called Hartz IV). The introduction of Hartz IV has changed the guarantee of debt counselling. According to SGB II and XII, debt counselling is a municipal task and obligation and can also be derived from the obligation to provide services of general interest. The SGB II regulates the basic security for job seekers (Hartz IV recipient) and guarantees over-indebted job seekers according to §16a SGB II debt counselling for reintegration into the labour market. The SGB XII is aimed at pensioners and persons with reduced earning capacity. If it makes the life situation of the clients necessary, these can be granted according to § 11 SGB XII debtor consultation and budget consultation.

Another major change in the range of debt counselling services was the introduction of the Insolvency Act in 1999. According to § 305 InsO, debt counselling offices are involved in the insolvency proceedings at a prominent position as "suitable body". Their social status has thus been enhanced, and at the same time their psychosocial activities for the over-indebted have been restricted by their inclusion in the legal proceedings. One of the primary tasks of a „suitable body“, after debt and budget analysis, is to draw up a debt settlement plan. The debt counselling office contacts the creditors and tries to reach an out-of-court agreement with them regarding the repayments. In the process, a concrete repayment plan is drawn up based on the debtor's financial possibilities. If the out-of-court settlement with the creditors fails, the debtor must have the failed settlement attempt certified by a „suitable person or





body”, § 305 Paragraph 1 No. 1 Insolvenzordnung (InsO). In general, these are also debtor counselling offices.

Debt counsellors usually have an academic degree as a social worker or social pedagogue. However, there are also sociologists, psychologists, lawyers and bankers among the debt counsellors. Debt counsellor is not a protected professional title. The path to becoming a debt counsellor leads through special further training courses that prepare for the work and in which the necessary legal bases, knowledge of household management as well as necessary socio-educational approaches are imparted. There has been a discussion in Germany for decades as to whether debt counselling is a profession. If one evaluates debt counselling on the basis of the five professionalisation criteria a) handling of a significant problem, b) academic training and implementation of the acquired knowledge, c) autonomy of the profession and existence of a professional ethic, d) definition of the subject area and e) higher prestige in society and better remuneration, debt counselling is not yet an independent profession, but a work area that acts professionally.

In most of the advised cases debt counsellors can achieve a solution. Only in 23 percent of the cases the consultation is aborted. In 21 percent of cases the debts can be settled out of court. 41 percent can be transferred to the consumer insolvency proceedings. A court debt settlement plan can be concluded for 2 percent. 7 percent are self-employed and enter regular insolvency proceedings and 2 percent are referred to another counselling institution.

### The number of over-indebted persons and households in Germany

From 1988 until 2003 the number of over-indebted households was measured by an indicator system. The system was funded by the Federal Ministry for Family. The following indicators were regularly taken into consideration: the number of credit withdrawals, the number of sworn affidavits, rent and energy debts, number of wage and salary seizures. In 2003 Germany had roughly 3.13 million households (8,1%) which were over-indebted.

After 2003 the Ministry did not prolong the research funding. From 2004 up to now the commercial agency Creditreform delivers data on the number of over-indebted persons and households. According to Creditreform 6,93 mio persons (10,04%) and 3,46 mio households (8,5%) are over-indebted in 2018. When assessing the Creditreform figures, however, it must be borne in mind that they only reflect the lower limit of over-indebtedness. This is due to their access to data. Creditreform defines over-indebtedness as „when the debtor is highly unlikely to be able to pay the sum of his due payment obligations over a longer period of time and neither assets nor credit facilities are available to

cover his living expenses”. Creditreform uses publicly accessible data from official debtor registers and private insolvencies as well as from its own database to determine the over-indebtedness figures, undisputed debt collection cases and sustained payment disruptions (at least two unsuccessful reminders from several creditors). It is known from earlier studies that rental and energy debts, health insurance debts and tax debts play a major role in over-indebtedness. These sources of over-indebtedness are insufficiently covered by Creditreform. Over-indebtedness is not evenly distributed in Germany. For decades there have been regions that have been particularly affected by over-indebtedness. These include the Saarland, the city Pirmasens, the Ruhr area, the port cities of Bremerhaven and Wilhelmshaven and Saxony-Anhalt as a whole. This is due to structural problems in these cities and regions.

### The clients of debt advice centers

In 1988, representative sociodemographic data and causes of over-indebtedness by clients in debt counselling centres were recorded for the first time. It became clear that there is not only one form of over-indebtedness, but that there is a multifactorial structure of debt. (Korczak/Pfefferkorn 1992:271). Over-indebtedness takes place in the accumulation or interweaving of various factors. The flexibilisation and precarisation of work (unemployment, increasing work pressure, temporary employment contracts, permanent low income) plays an important role. In addition, the cost of living is rising, income is rising unequally and housing costs are high (destatis 2016b: 156). Divorces, separations, single as well as single-parent relationships and households aggravate financial situations. An ever more complex and impenetrable variety of products (e.g. credit offers, mail order, user contracts) additionally increase the risk of becoming over-indebted. The following table shows the development of over-indebtedness triggers over the course of 30 years. They are quite stable – with the exception of the increase of accident, disease, addiction and the decrease of unemployment. The possibility of naming several causes, as was the case in 1988, better illustrates the multifactorial context of over-indebtedness.

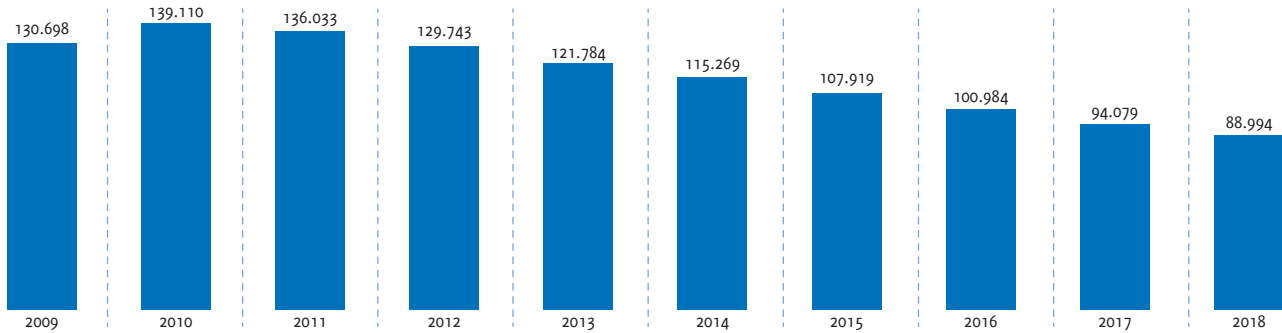
| Cause of overindebtedness       | 1988<br>(multiple answers allowed) | 2008         | 2018       |
|---------------------------------|------------------------------------|--------------|------------|
| Unemployment                    | 37,00 %                            | 28,20 %      | 20,00 %    |
| Problems with budget management | 36,00 %                            | 9,40 %       | 12,90 %    |
| Low income                      | 32,00 %                            | not raised   | 8,30 %     |
| Educational deficits            | 21,00 %                            | not raised   | not raised |
| Separation / Divorce            | 20,00 %                            | 13,80 %      | 13,10 %    |
| Household establishment         | 21,00 %                            | 1,8 % (2013) | 2,10 %     |
| Addiction                       | 11,00 %                            | *            | *          |
| Accident, disease               | 10,00 %                            | 10,70 %      | 15,80 %    |
| Failed self-employment          | not raised                         | 9,30 %       | 8,50 %     |

Cause of over-indebtedness – Client Statistic 2018 (N= 136.000)



## Debt Advice and Over-indebtedness in Germany

Development of private insolvencies in Germany, absolute figures 2009-2018, Source: CRIF Bürgel GmbH, 20.03.2019



**From 2008 one category with accident, disease (Source: Statistik zur Überschuldung privater Personen 2018, Statistisches Bundesamt 2019)**

It is interesting to point out some specifics. Nearly 50 percent of the clients are single households (30,6% alone living men, 17,8% alone living women) and 14,2 percent single mothers. The average debt amount is 29.008 Euro. 64.9 percent of under-25s seeking debt counselling in 2018 had outstanding liabilities to telecommunications companies (64.9%), public creditors (53,6%) and/or mail order business (32,8 %).

By contrast, the clear majority of debtors aged 65 and over were indebted to banks (62.9 %). Accordingly, at 43.740 Euro, the average debt of this age group was almost five times higher than that of debtors under 25 years of age (8.300 Euro). With an average monthly income of 1.051 Euro per person, older people would need about three and a half years to be fully debt-free. It would take around 22 months to pay off credit debts alone. Rental debts are becoming a growing problem. In East-Germany, almost one in three (31%) had advice from a debt counselling office for rent debts, whereas in the former territory of the Federal Republic this was the case for just under one in five over-indebted persons (18%).

### Another help for over-indebted people: The seizure protection account

If foreclosure titles are existing, the debtor should convert his bank account into a P-account. This special account offers special protection against attachment, so that the account holder has a monthly tax-free amount at his disposal despite the attachment. Prerequisites for a P-account are therefore always an existing current account with a bank and valid reasons, such as

- an imminent seizure
- an existing attachment: The P-account must be applied for no later than four weeks after the attachment has occurred.
- the overdraft of the overdraft credit on the current account

Since 2010, the leading financial institution has been legally obliged to set up the P-account for its customers in accordance with § 80 k (7) sentence 2 ZPO (Code of Civil Procedure). The conversion itself is free of charge, the account management must not be more expensive than before. The conversion takes four weeks. A flat-rate basic protection of 1.133,80 Euro per calendar month then applies to credit balances.

If a P-account exists, the bank is legally obliged to report this to Schufa. The P-account has no direct influence on Schufa's scoring and therefore also no influence on creditworthiness. Since a P-account is usually accompanied by a seizure, however, this fact will have a negative effect on the Schufa entry, so that it will not be easy for the credit seeker to obtain a loan despite a P-account. The introduction of P-accounts also seems to have an effect on the number of private bankruptcies. Since the introduction of P-accounts in 2010, the number of private bankruptcies has decreased. Since the average income of clients of the debt counselling offices is 1.072 Euro and thus below the seizure exemption limit, a private insolvency is possibly less frequently sought.

### Summary

The situation for over-indebted persons in Germany appears to be relatively good. There is a nationwide network of debt counselling services and a legal basis for the support of over-indebted people. Persons who, due to financial problems in 2016, had recourse to the help of a debt counselling centre waited an average of ten weeks for an initial consultation appointment. Although in 63 percent of all cases the counselling work is already started within the first three weeks after the over-indebted person makes contact, 16 percent have to wait more than three months. With 66 percent of the clients the consultation lasts more than 7 months. Besides, there are not enough financial resources for preventive work.

The debt counselling centres in Germany advise only 10-15 percent of the over-indebted persons. Little is known about the life situation of over-indebted people without counselling. Obviously, there is still a great need for research in this area.



# Making choices in the Netherlands



by:

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The yearly statistical overview of the Dutch debt relief branch-organization, NVVK, draws a clear picture of our main target groups and their specific profile. What does that imply for the services debt-relief organizations provide? How do we aim to provide debt-relief in the future?

The Dutch debt-relief branch-organization, NVVK, publishes a yearly overview of statistics that provides insight to over-indebtedness and debt-relief in the Netherlands. The NVVK believes that with this information a clear picture can be drawn of the volume and nature of the financial problems households face. But it also gives direction to policy decisions that affect the types of services needed in order for debt-relief to be effective.

## Facts and figures for 2018

Over the past year we noticed a reduction in the number of people that seek for help with their finances. The conclusion is, and it is supported by similar statistics on other fields, that middle-income households are returning to a more balanced financial situation. The financial crisis is over, there is a general economic recovery. We can now see more clearly what the core of clients looks like we as debt-relief agencies have a task in providing services for.

|   |                   |
|---|-------------------|
| Number of clients with NVVK members in 2018         | 86.200            |
| Average number of creditors per client              | 14                |
| Average debt per client                             | 43.300 Euro       |
| Total number of clients (2018 + all previous years) | 120.000 - 125.000 |

## „Mr. average“

The „average“ client of debt-relief agencies in the Netherlands is not part of the more traditional disadvantaged social groups. The average client is not a single-mom, not a youth, not an individual with migration background, not homeless or addicted. Our average client is: a (indigenous) Dutch man, aged between 26 and 45 years, single – often divorced – with a lower education and low income, renting a small flat in an urban environment. What is also increasingly clear, is that many of our clients have additional psychological or social problems that at one point in their lives led to the development of financial problems. As such resolving the financial issues can only be successful on a long-term basis if debt-relief agencies cooperate closely with their colleagues in the wider field of social services and health care. Many of our clients cannot function complete autonomous in the “market space” where consumptive choices have to be made, certainly need extra attention, often life-long financial services in order to maintain a healthy balance sheet.

|  |      |
|--|------|
| Light mental disabilities (IQ: 55-75)                                  | 19 % |
| Non-proficient literacy level  | 27 % |
| Formally diagnosed mental illness (depression, border-line, PTSS, etc) | 18 % |

So, what we have learned is, don't overlook specific target groups and be prepared to offer your clients additional services, financial, psychological, didactic, etc.



### Policy choices

With the general scarcity of resources available to the social domain, choices need to be made. How can we help as many people as possible and maintain high levels of service delivery? Increasingly a two-pronged approach is being developed. On the one hand we aim to increase efficiency through the use of IT applications and by coming to broad arrangements with the creditors. That adds to the efficiency and effectiveness of our services.

On the other hand we work on improving the knowledge and didactic capacities of our professionals. Armed with these abilities our professionals can support clients needs more directly and more personally. That adds to the depth of the impact our professionals have on their clients.

By choosing this two-pronged approach we will, in future, be able to handle the bulk of our case load fast in a standardized manner, while still having enough time to provide support to the most disadvantaged.

### A word on the creditors

The traditional top 5 of creditors in the Netherlands has remained almost unchanged for years. Apart from the private collection-agencies, mainly local and national (semi)government institutions stand at the top:

#### Top 5 most prevalent creditors\*

|  |      |
|--|------|
| 1. Private collection-agencies   | 29 % |
| 2. National Tax service  | 27 % |
| 3. Health Insurance  | 19 % |
| 4. Local government<br>(municipality/ housing/ water company)                  | 15 % |
| 5. Government Collection Agency<br>(traffic fines, criminal fines, theft, etc) | 11 % |

\* Just outside top 5: commercial banks (10%), mainly consumer loans

### A closer European cooperation

We understand that whatever developments we see in the Netherlands might be uniquely Dutch. It is difficult to compare social and economic developments in Amsterdam or the Hague with Bucarest, Dublin or Madrid. However, we know from our experiences in the ECDN, the European Consumer Debt Network, that we share many of the same developments, needs and worries. We in are also increasingly tied to one another by European law and the internal market. All the more reason to also share our knowledge and experience. We, as NVVK and ECDN, would like to invite you to engage with us.





# Volunteers' contribution to debt support in the Netherlands



by:

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This study was sponsored by ZonMw, The Netherlands Organisation for Health Research and Development



In The Netherlands, municipalities are responsible for providing high-quality debt support services to their citizens. Finding a solution for problematic debts has always been entrusted to paid staff. However, in the late 1990's, volunteers started contributing to service delivery. They helped clients to organize their paperwork or taught them how to keep their earnings and expenses in balance. Around the turn of the century, Humanitas, a national volunteer organization, got involved, and in 2010, a second nationwide organization, Schuldhulpmaatje (Debt Support Buddy, SHM) was founded by churches. Both organizations now have well-developed recruitment and training programs for volunteers. Their volunteers have to earn a certificate before they can start working with clients. Besides Humanitas and SHM, there are a number of local initiatives, often belonging to local welfare organizations. The website of the LSTA, a national support center, lists about 270 volunteer organizations or branches (in 355 Dutch municipalities).

The volunteer role can vary widely, depending on the municipality and the organization. Some volunteers focus on preventing indebtedness, e.g. by organizing forms surgeries for people having difficulties filling out forms or understanding official letters. Others support people in debt settlement programs by providing moral support, teaching them financial and administrative skills or helping them to keep their paperwork organized. Some volunteers have an even more prominent role. Prior to a debt settlement procedure, they stabilize the client's situation by settling minor debts, assessing his debt position and collecting all documents needed for the application. In 2018, we studied 168 case files from Municipal<sup>41</sup> Bank East Nether-

lands (SON), a professional debt support organization working for 22 municipalities in the eastern part of the Netherlands. All cases were handled by paid staff. However, in half of the cases, a volunteer was involved as well. In all cases, the client had applied in 2014, or 2015. Both groups were matched on variables like marital status, age, and debt amount. As the term for a debt settlement in the Netherlands usually is 36 months, most of the settlements should have been finished or well on their way by the time we collected our data.

**Table 1. Outcome of debt settlement procedure (n=168)**

|  | Without volunteer | With volunteer |
|--|-------------------|----------------|
| Drop out/prematurely terminated        | 32,1%             | 22,4%          |
| Only stabilization, no debt settlement | 11,1%             | 7,9%           |
| Debt solved or referral to statutory   | 55,6%             | 52,6%          |
| Debt settlement still in progress      | 1,2%              | 17,1%          |

As displayed in table 1, we found that the drop-out rate was higher (though not significantly) for clients without volunteer support (32,1% against 22,1% for clients with volunteer support). On the other hand, the share of repayment schemes still in progress was considerably higher for clients with volunteer support (17,1%, against a mere 1,2% for clients without volunteer). We do not know the exact cause, but there was a striking difference in throughput time (i.e. the time to process the application) between both groups. This was mainly caused by the difference in time needed to collect all documents required to start the negotiations with creditors. Clients without volun-



## Volunteers' contribution to debt support in the Netherlands

teers on average needed 106 days to hand in all the necessary documentation. For those with volunteers, this took 150 days.

The difference in throughput time struck us, as we had expected that volunteer support would enable clients to more easily go through the application procedure. When we interviewed SON staff, however, we learned that often, a volunteer is called upon in the course of the procedure, because SON staff notice that a client is unable to retrieve and hand in the required documents. This makes sense, when we look at clients' educational background. Education was recorded in only half of the files, but we found indications that the share of clients with no or only primary education was higher among clients with volunteer support (20,4%, against 12,5% among clients without volunteer). As the Netherlands have compulsory education until the age of 16, we assume most of these poorly educated clients are immigrants or people with a mild intellectual disability. Against this background, it is quite an achievement that the drop-out rate is relatively low among clients supported by a volunteer.

Another advantage we found for clients supported by volunteers pertained to the repayments. As debt restructuring schemes cover a period of three years, full repayment is often unachievable. Repayment capacity is assessed and regularly recalculated according to a set procedure. We compared the actual repayments to the expected outcome, based on the initial assessment of the repayment capacity. We found that for clients without volunteer support the actual repayments were 1,59 times higher than initially calculated. However for clients with volunteer support, this was 2,4 times higher. The fact that the actual repayments were higher than initially calculated did not come as a surprise, as the initial repayment capacity on average was very poor for both groups. We have no explanation, however for the difference between the groups. Perhaps volunteers help their clients to apply for benefits, thus raising their repayment capacity. It is also possible that volunteers support their clients in finding a paid job.

We then interviewed the volunteers involved in the files we studied. We asked them which share of their time they had devoted to each of these activities: (1) moral and practical support, (2) promoting behavioral change and (3) advocacy. Two things struck us in these interviews. Firstly, we were able to contact volunteers in only 41 (of 84) cases. We learned that there is a high turnover in volunteers. A considerable share leaves the organization after two or three years. Secondly, volunteers spend almost half of their time (46%) on moral and practical support. Working on behavioral changes only comes

in third, with on average 20 percent of the time. This is surprising, as an important issue in volunteer training as well as in supervision is learning to „sit on your hands” and not to take over clients' responsibilities.

Finally, we interviewed 30 clients who had applied for a debt settlement procedure in 2014 or 2015, 19 of whom had been supported by both a volunteer and SON staff. We gave them 12 cards, each representing an aspect of financial literacy and asked them to score these on a scale from 0 to 100. Clients did this twice: once to score their financial literacy, in retrospective, on the day before they applied for help, and once for the current situation. The scores on the 12 aspects are displayed in table 2.

**Table 2. Increase in financial literacy during debt support, for clients with and without volunteer support**

|   | Volunteer (N = 19) |       |          | No Volunteer (= 11) |       |
|---|--------------------|-------|----------|---------------------|-------|
|   | before             | after | increase | before              | after |
| I realize how serious my situation is                           | 48,68              | 93,95 | 45,26*   | 63,36               | 92,36 |
| I choose my products deliberately                               | 49,32              | 89,74 | 40,42*   | 44,18               | 87,27 |
| I can calculate   | 85,16              | 88,58 | 3,42     | 80,91               | 94,09 |
| I take responsibility for my financial situation                | 47,42              | 85,05 | 37,63*   | 59,45               | 94,09 |
| I keep earnings and expenses balanced                           | 52,84              | 82,84 | 30,00*   | 36,00               | 86,36 |
| I keep my paperwork organized                                   | 24,16              | 82,63 | 58,47*   | 55,00               | 92,45 |
| I can communicate effectively with creditors and other agencies | 50,95              | 81,11 | 30,16*   | 60,00               | 79,55 |
| I understand letters and forms                                  | 57,68              | 78,47 | 20,79*   | 77,73               | 80,91 |
| I keep track of my earnings and expenses                        | 37,37              | 76,84 | 39,47*   | 42,82               | 89,73 |
| I planed my finances ahead                                      | 38,63              | 70,26 | 31,63*   | 18,73               | 60,91 |
| I stay informed about changes in laws an regulations            | 13,16              | 48,95 | 35,79*   | 50,00               | 65,45 |
| I grow a financial buffer                                       | 15,74              | 39,47 | 23,74*   | 7,00                | 40,91 |

We found that, on average, clients reported an increase in financial literacy of 33.1 points with and 30.7 without volunteer support. Although this is a considerable increase, the difference between both groups is only small. However, both groups differ in the aspects that changed. For people without volunteer support the most important increase in financial literacy had to do with keeping earnings and expenses in balance (50.4 points) and keeping track of earnings and expenses (46.9). People with volunteer support found that realizing the seriousness of the situation (45.3 points) and keeping paperwork organized improved (58.3) most. A worrying result we found was the fact that for both groups, growing a financial buffer scored lowest, even after the support process. This is alarming, as not having a buffer is a risk factor for indebtedness.



We also asked people which aspect of professional or volunteer support had been most beneficial. Most people, both with and without volunteer support, mentioned the fact that their situation was less chaotic and stressful than before. Their narrative came down to: „Once, I was able to manage my own affairs, then something happened that caused me to lose overview, but thanks to the professional's or volunteer's practical support, I regained control". This is in line with Mullainathan and Shafir (2013) who found that the stress caused by lack of money can seriously impair people's mental functioning. The support process was far more intensive for clients with volunteer support, because volunteers with their case load of one or two clients are able to provide more intensive support.

Acquiring new skills was also mentioned as cause for an increase in financial self-reliance. Sometimes paid staff as well helped clients to improve their financial and administrative skills. However, in most cases this was limited to giving clients some occasional advice. Volunteers had more time to really train these skills, even though, according to themselves, this was the least important aspect of their support.

Most people we interviewed were very satisfied with the support they got from their volunteer. One client even said that he would have perhaps committed suicide, were it not for the volunteer. However, sometimes the match was less successful. This was especially so when mutual expectations were not discussed. As already mentioned, volunteers are often trained to "sit on their hands", sometimes leaving their clients baffled what the volunteer is there for at all. At the same time, other volunteers are so eager to give advice, that their clients, feeling patronized, dismiss them after the first interview. Taking time to explore and tune in to the client's support needs is an important prerequisite for a successful support process. To facilitate this, we are now in the process of testing a tool that could help volunteers and their clients to map and discuss the client's needs.



### Reference:

Mullainathan, S., & Shafir, E. (2013). *Scarcity. Why Having Too Little Means So Much.* New York (NY): Henry Holt & Co.



# Debt advice in France



by:

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**C**RÉSUS is a charitable organization founded in 1992 in Alsace by certified public accountant Michel Knoell and Judge Claude Beau. Their initial aim was to help people in need fill out their debt relief applications and submit them to the Bank of France's Strasbourg branch. Maxime Pekkip is a director of the CRESUS Foundation and a member of the scientific council of the „Observatoire de l'inclusion bancaire“. The foundation supports and treats overindebtedness in co-creation with more than 65 banking and financial institutions partners. The banking prevention platform has supported more than 15,000 vulnerable customers and has received several awards for its innovative nature. 83 percent of the Debts in overindebtedness files in France are financial debts (credits and bank overdrafts) for an average of 43,000 Euro. The lack of centralized credit information in France is clearly one of the main factor causing overindebtedness

## Access to debt advice

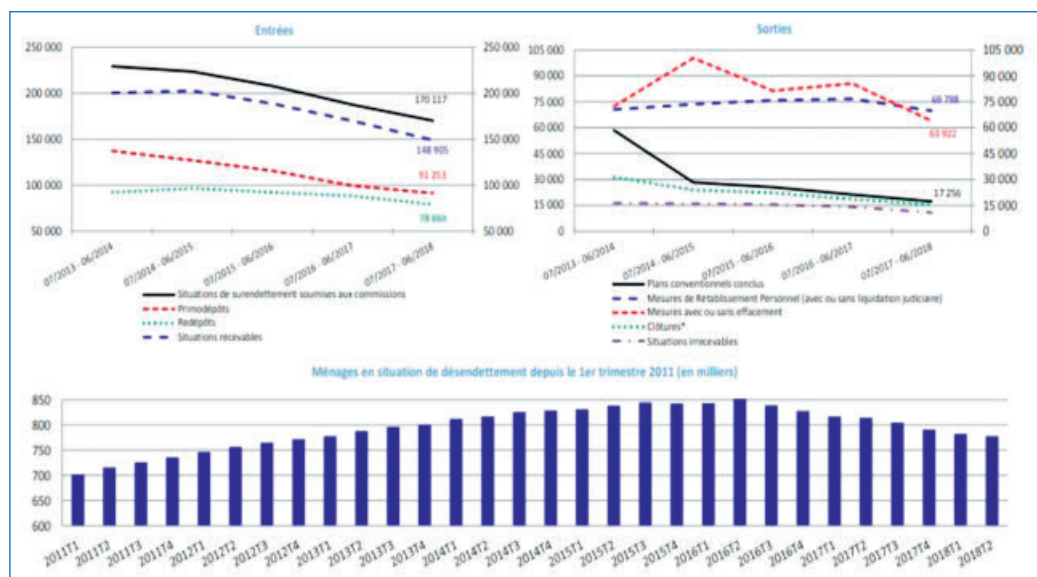
Since July 2013, Banks have the obligation to offer an offer for fragile customers capped at 3 Euro. But before offering them this offer, the first step is of course to detect customers in a fragile situation, and early enough! Thus, according to the charter, banks have the obligation to put in place early detection mechanisms for their fragile customers. Once the „fragile“ client is detected, the banks have to „by any appropriate means“ have an interview with this client in order to take stock of their financial situation and present them with „payment and management solutions“. Accounts or credits adapted to his situation. Financial institutions have to, if necessary, refer it to a third party, such as an aid association for over-indebtedness. CRESUS is one of these association. Thanks to the AFECEI Charta

more than 30.000 household are threatened on a preventive each year. And this contributes decisively to the decrease of over-indebtedness, since 57 percent of these households are treated without resorting to the classic over indebttness procedure.

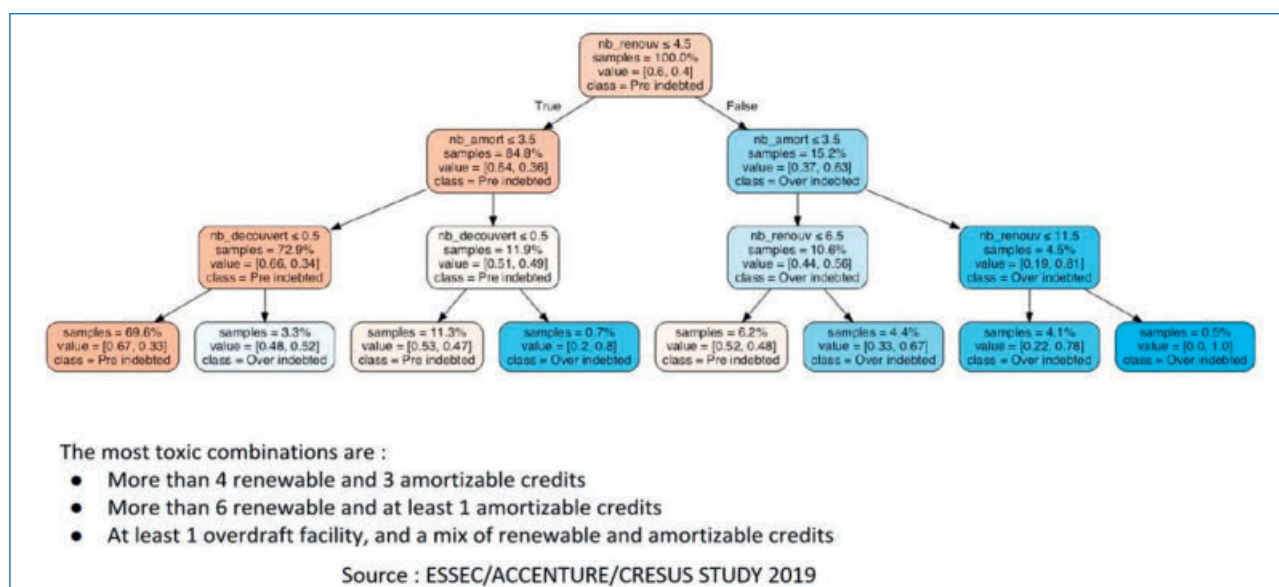
## Conclusion

Processes and legislation are not adapted to the evolution of over-indebtedness. This, the current procedure does not make it possible to deal with cross-border debts as well as self-entrepreneurs resulting from uberisation. However, the use of DSP2 (open banking directive) by CRESUS with the BGV application aims to meet the growing need for early detection.





Number of overindebted people and structure of the debt



Bank credit mix leading to over-indebteness



Typology of households detected preventively

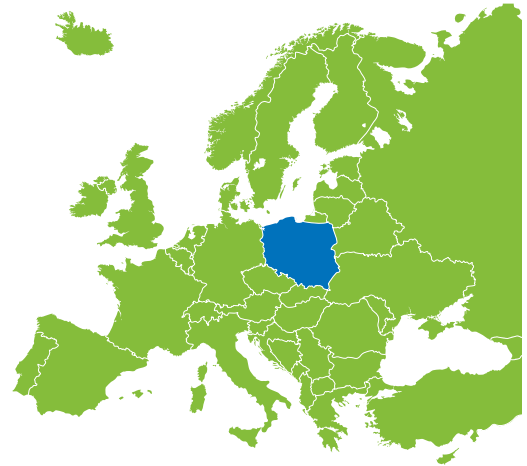


# Access to debt advice in Poland



by:

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Piotr Tokarczyk, SKEF  
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In Poland free of charge debt advice is provided by pro bono institutions and law offices, which help their clients for consideration.

Before 2015, there were a few institutions that helped over-indebted people free of charge and which had experience in debt advising. In general, from 2015 government funded free legal aid for those who cannot afford a legal advice for consideration. Free legal aid covered every area of law, until 2019. At the beginning of 2019 the big step was taken and civic counselling was separated from free legal aid. Civic counselling is described as an adjusted activity for each individual to raise awareness of their rights and obligations and support them in the independent decision-making process. Civic counselling includes debt advising, housing and social security. The access to the civic counselling is almost unlimited. Person who would like to receive help should sign a declaration which confirms that the client cannot afford a payable advice in law office.

There were opened 1529 civic counselling offices in 2019 throughout Poland. In most cases clients are obliged to attend the meetings in places indicated by local government. If client is disabled, adviser may visit client in his/her living place. Currently the efficiency of the new institution is not known, because of the short period from its foundation.

Apart from governmental help debt advice is also provided from 2001 by The Society for Promotion of Financial Education (SKEF) in so called Financial and Consumer Counselling offices. Everyone can receive debt advice, however one client has the

right to consult his/ her problem three times in one case. In the cases where more attention is required, clients are attended as many times as they need. In the four Financial and Consumer Counselling offices people receive help by email, post, telephone or during personal meeting throughout Poland. Monthly SKEF provides free debt advice for about 120 clients.

Legal offices also provide debt advice, however their help is payable. Legal offices try to attract clients by free of charge articles describing how to manage with debt collection companies, how to react on judicial verdict or how to declare bankruptcy. Although further professional service is for consideration. The prices for service depend on the involvement of the lawyer in each case and the reputation of the service. For 15 years Society for Promotion the Financial Education was the only institution in Poland which provided professional free of charge debt advising and for last 4 years has supported over-indebted clients in declaring bankruptcy. In 2018 counsellors situated in four cities (Gdynia, Warszawa, Białystok, Kraków) provide expert advice for 1621 clients.

Access to debt advice in Poland is still developing and the Polish government recognizes the problems of over-indebted people. On the other hand, there is a lack of widespread information about the possibilities of receiving professional and free of charge debt advice, despite the existence of institution which specialize in this area. Solving financial problems should be in the interest of the whole society so nowadays it is important task to disseminate this information.



# A specific „luxembourgish“ problem: cross-border loans!



by:

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In the Euro zone, Luxembourg is experiencing a rather special phenomenon, namely that of a pronounced recourse by a part of the population to cross-border loans. Or, it can be observed that this situation is limited almost exclusively to commitments made with financial institutions established in Belgium.

## The historical setting

After the customs and monetary agreement with Belgium establishing the Belgo-Luxembourg Economic Union (BLEU) in 1921, the Convention of 23 May 1935 between the Kingdom of Belgium and the Grand Duchy of Luxembourg defines a monetary association between the two countries, formalizing a de facto situation since the end of the First World War: the one-for-one parity between the two currencies and a free circulation of the Belgian franc in Luxembourg.

This parity between currencies has thus tacitly brought us closer to our Belgian neighbors and facilitated a privileged use of Belgian credits, especially by a population with a poor educational background, as annoying conversions became no more necessary.

## The miracle solution

In many cases, a trigger to apply for credit in Belgium is the sudden emergence of a more or less serious financial problem, while the use of „luxembourgish loans“ has already been exhausted.

## High interest rates

The Belgian lender for its part is not fooled and knows that he is in front of a questionable or risky customer profile from a financial point of view.

However, in economic theory, the interest rate also remunerates the risk taken by the lender, namely the risk of not being repaid. The interest rate therefore includes a variable risk bonus depending on the trust granted to the borrower, the more „risky“ the client is, the higher the interest rate!

## The ease of obtaining and anonymity

Given these high interest rates, which are increased in the case of denunciation of the credit by an interest on arrear and a default indemnity, there is a relative ease of obtaining these credits, the risk being largely covered.

It turns out that these lenders are twice winners:

- the basic interest rates are very high;
- in the case of denunciation, default interest and fees are added to the note.

In addition, people who use these types of loans believe that they benefit from some anonymity compared to the steps they would have to undertake in Luxembourg.



## A specific „luxembourgish“ problem: cross-border loans!

### The legal framework

The activities of these credit institutions, even if they are morally deplorable, do not violate the legal framework.

The legal obligation to mention in any advertisement the expression „CAUTION, BORROWING MONEY COSTS MONEY“ does not in any way influence the behavior of the consumer!

### Belgian credits outside Belgium

This „success story“ started with the introduction of credit cards by major supermarket chains offering their customers payment facilities for the purchase of electrical household goods.

These revolving, high-rate mini-credits have largely affected the budgets of households suffering already from financial difficulties who were forced to resort to these types of loans. Then proliferated the credits offered by car retailers such as Renault Credit, PSA Finance, Ford Credit, Opel Credit etc. Consumers often do not even realize that they are taking out a loan from a Belgian credit institution as they are situated in Luxembourg.

In addition, these types of credits are offered by simple car sales agents and not by credit professionals.

### Belgian credits and over-indebtedness

In the over-indebted population, many clients who consult the over-indebtedness service have used Belgian credits. On average, the situation can be summarized as follows:

- Percentage of people with at least one credit in Belgium: 54 percent
- Percentage of people who did not take out any credit in Belgium: 46 percent

Given the high interest rates, often people who have subscribed one or more credits in Belgium know about repayment problems in the short or medium term.

### How to remedy?

Even if from a legal point of view, this practice of consciously targeting a fragile customer base while anticipating massive payments defaults, does not violate the legal provisions in this area, this way of proceeding remains morally debatable and arises the question if consumer protection should be strengthened at this level.







# Limited access to debt counselling in Switzerland



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Even in Switzerland, a country known for its economic strength and social prosperity, the indebtedness of individuals and private households is a social problem. 40 percent of the population live in a household that is in debt. What is peculiar about Switzerland is that the debts and arrears of payment are owed first and foremost to tax authorities (10.3% of households) and health insurance funds (6.4% of households). While debts to banks, leasing companies and credit card providers do certainly exist, they play a minor role (cf. Mattes 2016). These figures, which came from a survey of „income and living standards in Europe“, also reveal that indebtedness primarily affects households on or below the poverty line (Mattes/Fabian 2018, 12). A study of the welfare system in Switzerland also indicates that 2 out of 3 of those who apply for social assistance have debts (Neuenschwander et al. 2012, 105). In Switzerland some 172,000 new applications for social assistance were made in 2016<sup>1</sup>. Of these, around 114,000 households are thought to be in debt.

Statistics from the Swiss Debt Counselling Association (Schuldenberatung Schweiz), on the other hand, suggest that only 6 percent of those counselled were in receipt of social assistance<sup>2</sup>. The 114,000 households that are receiving social assistance for the first time and are in debt compare with just 210 people and households who obtain advice from the 38 specialist debt counselling offices.

The obvious question is how this discrepancy between the number of „households affected by debt and in receipt of social assistance“ and the number of „people requiring social assistance and being advised by debt counselling offices“ in Switzerland arises. What are the criteria used to determine whether people seeking assistance are given or refused debt counselling?

To answer these questions, I would first like to outline the history of debt counselling in Switzerland, before going on to examine the political framework for debt counselling in Switzerland and finally taking a look at professionalism in debt counselling.

## The history of debt counselling in Switzerland

Long before specialist debt counselling offices were created in Switzerland, charitable institutions such as Caritas, probatory services or addiction advice centres were offering counselling for debt. Welfare offices too, though, were offering assistance to overcome debt situations if this made it easier to prevent spending on social assistance or to support the integration of those concerned into the labour market. In the mid-1990s Switzerland found itself in an economic recession allied to a sharp rise in unemployment and a concomitant increase in the numbers of people and households who were no longer able to meet instalment payments. This period also saw the establishment of the first specialist debt counselling

<sup>1</sup> <https://www.bfs.admin.ch/bfs/de/home/statistiken/wirtschaftliche-soziale-situation-bevoelkerung/einkommen-verbrauch-vermoegen/verschuldung.html>

<sup>2</sup> <https://www.bfs.admin.ch/bfs/de/home/statistiken/soziale-sicherheit/sozialhilfe.html>

<sup>3</sup> [http://www.schulden.ch/mm/Statistik\\_2014.pdf](http://www.schulden.ch/mm/Statistik_2014.pdf). The same figure is obtained from the statistics for 2016, which are only available as a data set.



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offices. Just a short while later, in 1998, the Swiss Social Assistance Conference (Konferenz für Sozialhilfe) incorporated into its guidelines the recommendation that cantons and communities finance debt counselling from the public purse.

During this period of recession, however, poverty and indebtedness were regarded as a passing hardship. In other words, it was assumed that the income situation both before and after the receipt of social assistance was stable, and the primary purpose of debt counselling was to work out a sustainable debt reduction scheme after coming off social assistance and returning to gainful employment.

While the understanding of poverty as a social problem in Switzerland has since undergone a fundamental transformation and it is becoming increasingly difficult to restructure the debts of clients seeking counselling, even today many debt counselling offices in Switzerland only offer advice and restructuring support to people with a secure and garnishable long-term income.

### Political framework

Switzerland is a country with a markedly federal structure. Twenty-six cantons regulate social assistance and the welfare services for alleviating and avoiding poverty largely independently of the federal government. This includes the configuration of debt counselling, who the target group should be and what those affected have to contribute in terms of cooperation and their own financial resources. This has accordingly resulted in 26 different social policy frameworks for debt counselling. While some offices have close ties to the public social services, especially in the francophone part of the country, others are committed to certain case volumes via subsidy agreements. This means that the criteria for inclusion differ from region to region, so that ultimately it is the place of residence that determines whether or not clients meet the inclusion criteria set by the relevant offices.

### The profession's understanding of its role and the resulting effect on access requirements

The final question is whether access criteria for inclusion in debt counselling can be derived from the counselling office's or the particular counsellor's understanding of their role: would the office like to offer counselling as a service helping people taking responsibility for developing their own solutions and coping strategies, or is its understanding of counselling characterised in that it is the expertise of the counsellor that is to be used or obtained? Counselling as a process with the aim of restoring the direct responsibility of the persons affected is an understanding of counselling that closely resembles social work (Stimmer/Ansen 2016). Such an understanding of counselling

does not recognise any predefined access criteria. Those affected take responsibility for the course, issues and matters of the counselling. Accordingly, they should also be able to decide for themselves whether to take up the option of counselling, when they want to continue it or whether even to break it off (Bamberger 2015). If, on the other hand, the priority is on providing expertise or debt reduction services, the counselling offices will determine which hurdles and access criteria are used to decide on the eligibility for counselling of those seeking assistance. Often the overriding normative aim here is a debt-free client. If this can be achieved, the door to counselling is open. If the circumstances of those affected by debt are dominated by poverty and a lack of garnishable income, access to debt counselling in Switzerland remains largely barred to them.

### Summary

Criteria for accessing debt counselling are largely governed by the attitudes, needs and professional positions of counselling offices, not the needs of those affected. In Switzerland specialist debt counselling is understood mainly as social work; according to its articles, the Swiss Debt Counselling Association is committed to counselling persons who seek assistance, regardless of their financial situation. Unfortunately, hurdles and access barriers, which differ markedly from one region to another, continue to prevent all those affected by debt, regardless of their income situation, from obtaining counselling services. In this regard counselling practitioners fall short of making a contribution towards alleviating poverty because they do not view indebtedness as an indicator of poverty.

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