



Provision of an European Platform for the Prevention of Over-indebtedness by the Increase Accessibility and the Improvement of effectiveness of Debt Advice for Citizens (PEPPI)



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WEBINAR 1

Return of Investment (RoI) in Debt Advice Services

26 October 2023

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What is debt-advice ? – the definition in the new CCD

In Article 3(22) of the new CCD we have a precise definition of debt-advice (in the text the reference is to « debt-advisory services »):

*<< debt advisory services' means **personalised assistance of a technical, legal or psychological nature**, provided by **independent professional operators** which are not, in particular, creditors or credit intermediaries as defined in this Directive, or credit purchasers or credit servicers as defined in Article 3, points (6) and (8), of Directive (EU) 2021/2167 of the European Parliament and of the Council, **in favour of consumers** who experience or might experience difficulties in meeting their financial commitments.>>*

What is debt-advice ? – the main elements of debt-advice

The first element to stress is that debt-advice is “***in favour of the consumers***” – i.e. is not neutral in its aims and must be addressed having in mind the perspective of the debtors.

The second element, consequence of the precedent point, is that the providers must be “**independent**” - and not only “independent per se”, but rather independent from the entities that are on the other side of the table, whose interests (although legitimate) may conflict with the interests of the debtors.

The third element is that it is “**personalised**” – it must consider the specific situation of the single overindebted (or potentially overindebted) consumer.

The fourth element is that it must be provided by “**professionals**” i.e. by people who have expertise and a specific preparation.

The fifth element is that it covers at least three different fields, namely the **legal**, the **economic/financial** and the **psychological** one.



Aims of the debt-advice in the new CCD

The aims of debt-advice are indicated in the Recital 81 of the CCD:

<< The objective of debt advisory services is to help consumers facing financial difficulties and guide them to repay, as far as possible, their outstanding debts, while maintaining a decent level of life and preserving their dignity>>

It is important to stress that the first aim remains “to help/guide consumers to repay their debts” – debt-advice does not abolish the principle that “*pacta servanda sunt*”.

However, we also have two fundamental caveats, namely that the repayment can be done “as far as possible” and that it must neither prevent a decent level of life nor hinder the dignity of the consumer.

Role and Obligations for Member States in the field of debt-advice

The main obligation for the MSs (Article 36) is to ensure that independent debt advisory services are made available to consumers, with limited charges.

This means that the MSs are not obliged to put in place and/or manage these services directly – although this is not prevented. However, they have to ensure that these services exist and work, whoever provides them.

This choice was done to help preserve and even reinforce the existing services – there was no reason to ignore the existing structures and their often excellent work.

Whatever solution is chosen, MSs will have to consider some financial efforts, either to support the existing providers or to put in place new solutions. However, as we can see in the next slides, these efforts may be easily repaid through the positive outcome of debt-advice for the society as a whole.



Role and obligations of the creditors

The creditors are excluded from the possibility to provide debt-advice, but nevertheless have an important role in this area and maintain certain tasks.

In particular, they have two main obligations, namely to have processes and policies for the early detection of consumers with financial difficulties and to refer consumers to debt advisory services easily accessible to them.

Moreover (Article 35), the creditors will have to exercise, where appropriate, reasonable forbearance measures before than the enforcement proceedings are initiated, taking into account, among other elements, the consumer's individual circumstances.

Also for creditors debt-advice may have a positive impact, because it facilitates the repayment of the unpaid debts in a feasible manner and with limited costs.

The added value of debt-advice

There are numerous sources which confirm how valuable is debt-advice, both for the single overindebted consumers, but also for their creditors and the society as a whole.

Among other sources, we can firstly quote our specific study on the Funding of debt advice, carried out in the context of our Project on debt-advice of 2020-2021.

The aim of this study was to carry out a quantitative analysis of the resources needed by debt-advisors, also including a cost-benefit analysis of the impact of debt-advice on over-indebted households.

Therefore, this study estimated the costs of the debt-advice services, the potential benefits that a possibly generalised universal debt advice service could bring and the data on the funding needs.

The impact of overindebtedness of consumers in the society

The impact of the overindebtedness of the single consumers is not limited to the private life of the impacted consumers.

There are numerous effects of consumers' over-indebtedness that have a deep impact at socio-economic level and correlated consequences on the lives of all the citizens.

We can quote, for example, the social exclusion of the overindebted people (loss of circle of friends and contact to neighbours), increased addiction problems, resignation and depressions, psychosomatic and other diseases, familiar conflicts, loss of quality of life, loss of access to financial services, loss of housing and poverty. Besides that, consumers often lose all their financial reserves and are confronted with legal procedures (bailiffs, debt collection).

Moreover, the overindebtedness of consumers produces negative effects on the demand of goods and services, with the obvious negative consequences on the unemployment.

Need for the society to reduce consumers' overindebtedness and positive role of debt-advice

A state has not only the responsibility to reduce consumers' overindebtedness for their own welfare, but also to minimise its general effects on the society as a whole, for genuine economic reasons.

In this regard, debt advice has largely proved to be one of the most effective existing tools to address over-indebtedness of households.

The debt advisors combine several services such as information provision, budget planning, support to debt settlement procedures and management of bank accounts, as well as a fundamental psychological support.

Therefore, the multi-causal nature of the overindebtedness and the necessity to tailor the interventions to the specific needs and circumstances of the households concerned is well satisfied by debt-advice.

The data collection of our study on funding

The data collection entailed two main activities: i) Desk research and literature review; and ii) stakeholder consultation through an online survey and some interviews.

In this regard, 503 responses have been received. The main contributors were charities (21%), public authorities (13%), NGOs (12%), consumer organisations (10%) and private professionals (10%) followed by company or business organisations (7%).

Moreover, 206 interviews have been conducted in 15 EU MSs, with debt advisors, companies, industry associations, public authorities, NGOs/Charities/Foundations, workers/consumer representatives, academics and other experts.

The results of the study: diffusion, need and demand of debt-advice

The study confirmed the results of the study by Eurofound of 2016, identifying three different levels of diffusion and quality of the delivery of debt-advice in Europe, namely:

- A first category of MSs with a satisfactory quality and adequate diffusion of debt-advice services (mostly in Northern and Western Europe),
- A second category of MSs, with an intermediate level of quality and diffusion, without a specific geographic concentration,
- A third category of MSs, generally in Southern and Eastern Europe, where the quality and the diffusion of debt-advice is inadequate and insufficient.

Concerning the demand, the study confirmed that, unfortunately, debt advice service is not accessible to all households that would need it, and even when it is generally available, its accessibility is often very limited.

Difficulties faced by consumers to obtain debt-advice.

One could expect that the cost of debt-advice could be an important reason explaining its inadequate diffusion among EU citizens. However, requested to explain the reasons why they faced difficulties to obtain it, their replies stressed that: 67% of consumers mentioned their lack of awareness, 26% their feeling to be ashamed to use it, 24 % the complete lack of the offer of this service, 20% the geographical distance needed to obtain it and only 18% its cost. As a result, the key element seems to be the lack of awareness and consequently the inadequate financial literacy.

In total, in 2019, the EU plus UK citizens needing debt-advice have been estimated to be about the 8,1% of the entire population, the citizens receiving the service only the 0,7 % while the unsatisfied demand concerned the 7,3% of the EU plus UK population.



Monetary estimate of the funding needs for debt-advice in EU plus UK

To arrive at a monetary estimate on the total costs of advice, the study has combined two different methodologies, namely the budget allocated to advisory services and the labour-cost per hour index of a worker.

Applying this methodology to the total number of households in arrears in 2019, so to have an understanding of the overall costs that would apply in the case that not only persons with unmanageable debts receive advice but also for households that might eventually become over-indebted, the total costs for the “**average**” debt-advice in the EU27 and UK would be about EUR 2 billions. The amount would be much higher, however (up to about 34 billions) if one considered the “complex” cases, i.e. the advice needed for the people with the most difficult situations.

In fact, not all households in arrears would require debt advice and the majority of cases are considered to be “simple” (i.e. less expensive than the average ones) – so, the amount needed for an “ideal” funding seems much closer to the first hypothesis.

Monetary estimate of the benefits provided by debt-advice

The debt-advice contributes in a decisive manner to a decrease of debt levels while generating an increase of quality of life of the debtor taking advice. There is large evidence that the clients include among such benefits their recuperated ability to find a new or keep their job or the improvement of their psychological and physical health.

In addition, debt advice can have a positive impact on creditors by improving the recovery rate and lowering the costs for debt collection. Moreover, it also reduces the risk of debtors to enter further debt cycles and facilitates their access to (new) credit.

According to the conclusion of our study on funding, the various estimations done based on various different parameters lead unanimously to conclude that substantial benefits can be expected – starting from a minimum of 1.4 euros of gains per one euro spent until a maximum of EUR 5.3 of euros of gains for the maximum ranges.

These amounts correspond to various other sources that have analysed this matter in the last years.





Thank you for your kind attention



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