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The Psychosocial Dimension of Debt Problems





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Editorial

Dieter Korczak
ECDN President

The new CCD II represents a major breakthrough in taking into account the concerns and needs of over-indebted people. Not only in the sense that the provision of debt counselling services has been made mandatory, but also in the sense that psychosocial counselling has to be part of the offer. „Personalised and independent assistance may include legal counselling, money and debt management as well as social and psychological assistance.“ (Article 81 of the DIRECTIVE (EU) 2023/2225 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 18 October 2023 on credit agreements for consumers)

„‘Debt advisory services’ means personalised assistance of a technical, legal or psychological nature.“ (Article 3 CCD II)

These legal innovations reflect the fact that over-indebtedness is not just a financial burden but a significant psychological issue. As the examples from many EU member states show, over-indebtedness has numerous psychosocial dimensions. The feeling of shame is striking. It even leads to the fact that over-indebted people are not able to confess their unfortunate financial situation to their family members. And as an extreme reaction it can lead to murder-suicide. But it is not only the shame of being over-indebted that blocks personal and social resources, but also fatigue, the feeling of hopelessness, chronic anxiety and depression. Over-indebtedness impacts self-esteem and evokes social isolation. The life of children in over-indebted households is massively influenced. The lack of money in the childhood increases higher risk for having mental problems as an adult. Learning disorders or attention deficit hyperactivity disorder (ADHD) are also limitations that have consequences for financial well-being.

A Swedish study proved that those with ADHD start adulthood with normal credit demand and default rates. However, in middle age, their default rates grow exponentially, yielding poor credit scores and diminished credit access despite high demand. Someone with ADHD and financial distress is associated with a fourfold increase in the risk of suicide. ADHD should therefore also receive increased attention in the psychosocial counseling of over-indebted people.

In this issue of Money Matters, the examples from France, Bulgaria, Finland, Italy, Malta, Slovakia and Sweden show that the stigmatisation of over-indebtedness has to be stopped. The (psychosocial) impact of financial problems must be taken into account in its full extent. Remedies must be developed, expanded and financed.

There are already some helpful initiatives, described in this MM issue. They demonstrate that empathy and humanity are important in dealing with over-indebted people. Those affected feel already a sense of great relief when they can talk to someone who listens to them. Because of their vulnerable psychosocial situation, over-indebted persons must be protected from abuse by others (e.g. illegal money lenders). The Italian example reflects on the need for psychological support in a debt case not only before and during the request for approval by the Court, but also, and above all, afterwards.

Summarizing, it cannot be said that today there are widespread and institutionalized services for psychological help for the over-indebted subject. Much still needs to be done to implement the CCDII's ambition.



The Psychosocial Problems of Debtors in Bulgaria: Comprehensive Analysis with Practical Solutions

Willy Pierre Abbal
Temida Foundation



Debt in Bulgaria is not just a financial burden but a significant psychosocial issue. This article explores the complex challenges debtors face, combining data, practical solutions, and insights from the Temida Foundation strategy report.

1. Psychological Stress and Anxiety

Debt-related stress is a severe psychological burden in Bulgaria. With over 30% of Bulgarians at risk of social exclusion due to poverty, the pressure to manage debt can lead to chronic anxiety and depression. Implementing stress-reduction techniques like mindfulness, regular physical activity, and adequate sleep can help. For example, using meditation apps or joining local yoga classes can manage anxiety and maintain mental well-being.

2. Impact on Self-Esteem and Identity

Debt significantly impacts self-esteem, particularly in societies where financial success is linked to personal worth. In Bulgaria, the volume of consumer loans has increased, leading to a cycle of debt. Focusing on small, manageable financial goals can help rebuild self-esteem. For example, a debtor could create a budget that includes setting aside a small amount for savings each month, gradually boosting confidence as they see their savings grow.

3. Social Isolation and Relationship Strain

The stigma of debt often leads to social isolation, straining relationships. In Bulgaria, 15% of households are single-parent families, primarily led by women facing financial fragility. To combat this, open communication with loved ones and joining debt support groups can alleviate isolation. For instance, a debtor might join a local or online support group to discuss their challenges and learn from others who have successfully navigated similar situations.





4. Intergenerational Impact

Debt also has intergenerational consequences, particularly on children. In Bulgaria, 30% of students live in poverty, and only 2% have accessed student loans, leading to financial insecurity. Parents' financial stress can create a tense home environment, affecting children's mental health.

Integrating financial literacy into education helps families manage their finances and reduce long-term stress. Parents can involve their children in budgeting exercises to teach them about money management in a controlled, non-stressful way.

5. Stigma and Social Perception

Stigma surrounding debt in Bulgaria is a significant issue, often viewed as personal irresponsibility. Some policymakers argue that cost-free advice is inferior and that over-indebtedness results from a lack of self-responsibility. This perception overlooks systemic issues such as economic instability, inadequate financial education, and predatory lending practices. Reducing stigma through public awareness campaigns and legal reforms can foster more compassionate societal attitudes. For example, awareness campaigns can shift public perception from viewing debt as a personal failure to recognizing it as a complex issue requiring support.

6. The Role of Social Support and Psychological Assistance

Social support is critical in managing the psychosocial impacts of debt. In Bulgaria, however, the access to tailored psychosocial support for debtors is limited. Organizations like the Bulgarian Red Cross and various NGOs provide some mental health services, but these are not specifically geared toward debt-related issues. Additionally, the Bulgarian Association for Psychotherapy and the Bulgarian Psychological Society offer resources and professional networks for psychological assistance, but they do not always address the unique challenges faced by those in debt. Integrating psychological support into their debt advisory services, recognizing the critical role mental health plays in overcoming debt-related challenges. However, the availability of such comprehensive services is still limited, making it vital for the Bulgarian government and other NGOs to expand these efforts.





7. Financial Literacy and Education

Financial illiteracy is a key factor in the accumulation of debt. In Bulgaria, financial knowledge scores are among the lowest in Europe, underscoring the need for better education. Utilizing online resources or attending workshops can significantly improve financial literacy. For instance, debtors could take advantage of the Temida Foundation's digital tools, such as budget apps and financial literacy games, to better manage their finances and avoid future debt.

8. Debt Negotiation and Restructuring

Proactively managing debt through negotiation and restructuring can provide relief. Contacting creditors to negotiate better repayment terms or interest rates can help make debt more manageable. For example, a debtor might successfully negotiate with their credit card company to lower the interest rate, reducing monthly payments and easing financial stress.

Conclusion

The psychosocial problems associated with debt in Bulgaria are deeply rooted in both systemic issues and societal perceptions. While organizations like the Temida Foundation are leading the way in providing essential support, broader societal and governmental changes are needed. This includes improving financial literacy, reducing stigma, and expanding access to integrated debt advisory services. Expanding the role of psychological associations and NGOs in offering targeted support is crucial. By implementing these strategies, debtors can regain control over their finances and improve their overall well-being.

For further reading and to explore please refer to our website <https://www.temidafoundation.com/en/tips-and-tricks/>



Psychosocial consequences of indebtedness

Liina-Lotta Heinonen
The Guarantee Foundation

Indebtedness of a family or a person can have multiple consequences on the well-being of the individual and the family. Making ends meet is one of the key elements of coping and taking part in society.

Money related stress can lower the capability to take care of everyday duties. It can cause social exclusion and lower health. Also, research indicates that financial troubles can influence such extreme actions as murder-suicide in the family.

In addition, financial troubles are often due to lower income caused by illness, mental health problems or unemployment. Together with it can create strain on a person and his/her family. Together with indebtedness, these cause great stress for people and families.

The Guarantee Foundation's counseling is for people in financial difficulties

The Finnish Guarantee Foundation's anonymous Debt Helpline phone and chat is a low-threshold service where you can ask about any matter related to your own or a loved one's financial and debt problems. The advisors are professionals. Advice is nationwide and free of charge.



Last year, almost 7,000 people contacted the Chat and Debt Helpline. On average, they had 20,000 euros in unsecured debts, such as invoice arrears, express payments, consumer loans and installment payments. That's a lot, because in addition to these, many also had housing, student or car loans to pay.

The contacts have usually been in debt difficulties for one to five years. 14 percent of people say their debt cycle has lasted more than ten years. The longer the indebtedness period, the greater the consequences can be, both financially and emotionally.

In counselling, the mental and physical resources of the contact person as well as social relationships are just as important as money matters.





How do people themselves describe the consequences

The people we meet on the Debt Helpline and chat service describe various consequences that their indebtedness is causing. Shame and guilt are mentioned in most of the discussions.

People may have suffered from insomnia, stress and lack of motivation before contacting the service. They say that they have used a lot of energy and resources for trying to find solutions to their financial situation. They may have difficulties comprehending the bigger picture. Therefore, quick and short-term solutions such as quick loans may be tempting.

Some debtors report that indebtedness has also caused depression, which may have led, for example, to indifference to everyday matters. Own resources may no longer even have been enough to open invoices, for example, as debt has started to accumulate in numerous different places. Several types of factors are behind the indebtedness of a person. There is illness, unemployment, difficult life situations and even financial violence. Yet, people are also eager to take the responsibility of indebtedness to themselves. They blame themselves even though the situations have been very difficult to manage. Inevitably, these troubles together with the fact that one does not have enough money even for food can cause psychosocial strain.

Consequences to the family

Many of our service users are not ready to tell their financial situation to their spouses. The fear of abandoning if they tell is the main reason for such behavior. Unfortunately, it also narrows the possibilities that there are for debt solutions. For example a guarantee from the *Guarantee foundation* for a consolidation loan that combines all unsecured loans and bills, cannot be granted without the spouse's consent.

Studies indicate that lack of money in the childhood family creates higher risk for having mental health problems or indebtedness as an adult. It also has a link to lower education level and unemployment.

Parents' payment defaults have been found to have inter-generational effects on children's financial difficulties and mental health problems in adulthood. Debt problems can also affect children's participation to society. Parents we meet want to secure a materially normal childhood for their children and are worried about how their debt problems will affect their children.

Also, some people report that they have been working overtime or have multiple jobs to be able to pay their debt. Long working hours mean time away from the family.

Empathy and humanity are important in dealing with indebted people

Seeking help for debt problems can be especially difficult when they involve shame and experiences of failure in life. When the strength to sort out one's own situation is low, it is good to have help available with as low a threshold as possible.

Anonymous counselling services over the phone and online can facilitate the decision to speak out and seek help. As a result of the feedback received from the clients of the Guarantee Foundation's advisory service, those in debt have often been most grateful for the experience of being heard and for the empathetic and humane way of meeting them during the discussion. This also shows how essential psychosocial factors are in managing debt problems.

When the indebted person is seeking help, the experiences of being heard are essential to motivate them and give them the strength to continue managing their finances and finding solutions to debt problems.

„It was amazing how humane the advice was, I wasn't blamed and they were really understanding. It helped a lot when you didn't have to be ashamed of your own problems. And the advice was really good and the problem was thoroughly explained even in the chat, I'm really grateful for that. Feeling much more hopeful about the future.“ – Chat client

A new perspective to overcome bankruptcy stigma – A plea to theorize the stigma

Celia Magras
Fédération Française des Associations Crésus

“If you know the enemy and know yourself you need not fear the result of a hundred battles”¹

In this case, the enemy is strong. He was born in the first civilization and rests on a solid cultural foundation shared by much of today’s world. We can find him in many places and his weapons are numerous despites of all the fight started to destroy it. I will give you the reason of those difficulties but firstly I need to tell you his name: It’s the bankruptcy stigma.

The will to fight the bankruptcy stigma is becoming increasingly powerful. Europe has been trying for ten years to overcome the stigmas of bankruptcy², and France now seeks to abolish them³. Regardless of the measures implemented to „encourage an environment conducive to initiative and business development“⁴, legislators and politicians face a powerful psychological obstacle: the fear of failure⁵. Anyway, the Eurobarometer in 2004 underline the fact that the greatest fear of European entrepreneurship is the “possibility of going bankrupt”⁶ and it’s in second position in the United State. This legitimate fear stems from what the European institutions have described as the „social stigmatization of bankruptcy”⁷. Even in the United States, there is a willingness to overcome the „bankruptcy stigma fear”⁸.



There is plenty of evidence of this phenomenon around the world, as well as a common desire to fight against it and promote a fresh start. Thinking about bankruptcy through the prism of stigma allowed us to see that “even in well-developed insolvency regimes [...] insolvency systems reveal pervasive and profound feelings of guilt, shame and stigma”⁹.



¹ SUN TZU, Art of war, Chapter 3, 18

² Opinion of the European Economic and Social Committee on the Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions – Overcoming the stigma of business failure – For a second chance policy – Implementing the Lisbon Partnership for Growth and Jobs, Official Journal of the European Union, 30/08/2008

³ Explanatory Memorandum, Law n° 2019-486 du 22 mai 2019 for the business growth and transformation act

⁴ Treaty on the Functioning of the European Union, Article 173

⁵ Result of the Flash Eurobarometer survey about entrepreneurship, 2004

⁶ Ibid

⁷ Treaty on the Functioning of the European Union, Article 173

⁸ ROULET, T., “What Good is Wall Street ? Institutional Contradiction and the Diffusion of the Stigma over the Finance Industry”, Journal of Business Ethics, 2015, 130 (2), p. 389-402

⁹ The World Bank, “Insolvency and Creditor/ Debtor Regimes Task Force”, Working group on the Treatment of the Insolvency of Natural Persons ,2013, https://siteresources.worldbank.org/INTGILD/Resources/WBInsolvencyOfNaturalPersonsReport_01_11_13.pdf

This feeling increases after filing for bankruptcy because the declaration alone is “stigmatizing or shame-inducing”¹⁰. Unfortunately, the minds sometimes evolve slower than the law and reform alone could not curb the global mindset. It’s really important to understand that “a purely legal focus on bankruptcy is far too narrow, it strips bankruptcy of its richness”¹¹. Originally, insolvency law and bankruptcy after it were used to construct a moral duty to pay off debts, so that social pressure could continue in the mind of debtors and be unstoppable during their life and after their death¹². Today, entrepreneurs who are unable to pay their debts are no longer cut into pieces or chained by their creditors like in Roman times. The wide array of infamous medieval rituals that were common in Europe during the Middle Ages have disappeared as well¹³. Moreover, many bankruptcy laws in Europe, encouraged by the European union¹⁴, are trying to provide more efficient help to innocent businessmen who can pay their bills. Despite the large “therapeutic apparatus”¹⁵ that was developed to facilitate the treatment of difficulties, many entrepreneurs are wary of commercial courts and try to hide their difficulties for as long as they can. If the reason for entrepreneurs’ fears cannot be found in the law itself, there must be another explanation. Entrepreneurs are not only worried about the legal consequences; they are also afraid from the social consequences of bankruptcy.

Entrepreneurial failure is perceived as different from other types of failure because those who cannot paid their creditor appear suspicious. Even if they are not rationally guilty. Not honoring debts has been regarded as a deviance since the first forms of social organization¹⁶ and consequently, insolvent debtors are automatically considered to be a danger for their social group. Even if they did not commit fraud, those who go bankrupt are very likely to be marginalized, especially in European countries.

The “fresh start”¹⁷ promoted by the European Union will be harder for them. There are institutionalized vectors of this marginalization, but it should be noted that they don’t create the stigma.



¹⁰ ONDERSAMA, C., “A human rights framework for debt relief”, Rutgers school of Law-Newark, Paper n°139.

¹¹ GROS, K., “Demonizing debtors: A response to the Honsberger-Ziegel debate”, Osgoode Hall Law Journal, N°37, 1999, p. 263-275.

¹² MAGRAS, C., *La constance des stigmates de la faillite de l'Antiquité à nos jours (The constancy of bankruptcy stigma from Antiquity to nowadays)*, Law thesis, Bordeaux University, under the direction of Bernard Gallinato Contino, LGDJ, Paris, 2019. And EFRAT, R., “The evolution of bankruptcy stigma”, op. cit.

¹³ MAGRAS, C., op. cit

¹⁴ Proposal for a directive of the European parliament and of the council on preventive restructuring frameworks, second chance and measures to increase the efficiency of restructuring, insolvency and discharge procedures and amending Directive 2012/30/EU. DIRECTIVE (EU) 2019/1023 of the European parliament and of the council of 20 June 2019 on preventive restructuring frameworks, on discharge of debt and disqualifications, and on measures to increase the efficiency of procedures concerning restructuring, insolvency and discharge of debt, and amending Directive (EU) 2017/1132 (Directive on restructuring and insolvency).

¹⁵ CHASSAGNON, A., « La réforme du droit des faillites : Un palliatif plus qu'un remède », Le Monde,

¹⁶ juin 1984.

¹⁷ MAGRAS, C. *La constance des stigmates de la faillite, (The constancy of bankruptcy stigma)*, op.cit., Preliminary chapter, Section I : Les fondements idéologiques de l'assimilation de la défaillance à une déviance.

¹⁸ GROS, K., op. cit



In Europe, many laws banished bankruptcy stigma, and the European Union promote this way. So now, banks and credits organization can be blamed for “stigma markings”¹⁸. In fact, it’s only a way to bring the attention on a person; for instance, we can mention credit scores in the United States or FIBEN in France. The real rejection depends on the cooperation of individuals who decide to marginalize a bankrupt entrepreneur when they learn about his or her financial situation¹⁹. For a better understanding of this phenomenon, it’s useful to look beyond the specific case of bankruptcy. It leads us to understand that hiding the stigma is not enough to really remove its negative effects.

There are many different kinds of stigma: mental illness, obesity, homosexuality, shortness, blindness . . . Stigmatization in itself is a very common process, and law professionals are not the only ones to be disturbed in their work by the stigma process²⁰. It is also a terrible enemy for physical and mental health professionals because it disrupts treatment²¹ and impedes recovery. We encounter exactly the

same problems in the case of bankruptcy. Difficulties met by a company are often compared to a disease that can be treated by acting as soon as possible.

However, business leaders who are unable to cope with their debts fear and reject the diagnosis of legal professionals. To save the economic entity, one should first take into consideration the person leading it. In most cases, they are the only one who can initiate a rapid treatment.

The visceral reject of bankruptcy paralyzes all benefits from preventive treatments mechanisms: indeed, these depend on the debtor’s cooperation. It is thus necessary to understand their point of view in order to find new solutions. The vicious circle of self-stigmatization²² outside the law causes considerable suffering. It even insinuates itself into the mind of the manager, causing them to hide their difficulties like an infection which, if left untreated, can lead to the irreparable. Due to the moral disapproval²³ of unpaid debts²⁴, financial failure is still perceived as shameful and humiliating by entrepreneurs and by society.

The need to reconcile theory and practice is more pressing than ever, because it’s the only way to coordinate their action with the political ambition to overcome bankruptcy stigma.

It’s time to act against the origin of bankruptcy stigma to erase its consequences. With a solid theoretical basis, breaking this stigma will be a difficult task; without it, it will be impossible.

Each country has specific law about bankruptcy, but that we really need to know now is if people really think about bankruptcy differently. Every bankruptcy self-stigma is different and needs to be studied in its geographical context. Yet, the stigma process in itself is always the same and can be generalized, as the strategy to overcome its consequences in Europe and in the United States.



¹⁸ SIMMONS, S., WIKLUND, J. et LEVIE, J., “Stigma and business failure: implications for entrepreneurs career choices”, *Small business economics*, March 2014, p. 2.

¹⁹ *Ibid.*

²⁰ GARAND, L. Et al., “Diagnostic labels, stigma, and participation in research related to dementia and mild cognitive impairment”, *Research in gerontological nursing*, 2009, Vol. 2, p. 112–121

²¹ EARNSHAW, V. A., QUINN, D. M., “The impact of stigma in healthcare on people living with chronic illnesses”, *Journal Health Psychology*, 17, 2012, p. 157–168. 5 BERTINI, M.-J., « Usages épistémiques et sociaux de la stigmatisation. Pour une approche philosophique du concept de stigmatisation », *L’information psychiatrique*, 2008, vol. 83, p. 663–665

²² BROHAN, E., DOLORES, G., SARTORIUS, N., THORNICROFT, G., “Self-stigma, empowerment and perceived discrimination among people with bipolar disorder or depression in 13 European countries”; GAMIAN–Europe study, *Journal of Affective Disorders*, Septembre 2010, p. 56–63.

²³ We can mention LANGE, T., *Excommunication for debt in Late Medieval France*, Cambridge University Press, Berkeley, 2015. For further element MAGRAS, C., *op. cit.*

²⁴ “backed by the mysteriously irresistible force of religious injunction, the idea that not repaying one’s debts is sinful, rather than merely wrong” DOUGLAS, A., *The philosophy of debt*, Routledge, New York, 2016, p. 7.



The psychological condition of the over-indebted between therapeutic response and legal approach. the Italian situation in the light of CCDII – 2023/2225



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The problem of the psychological approach to over-indebtedness is particularly felt by operators in the sector in Italy. Without a doubt, even lawyers and crisis managers, who are used to a technical and judicial approach, must take into account the psychological profile during the first meeting with the overindebted applicant.

This is to be underlined both with reference to the consumer and with reference to the entrepreneur.

In fact, both categories are united, in the situation of over-indebtedness, by a general feeling of dizziness and a perception of the absence of solutions.

No less important, in dealing with the topic, is the deleterious joint action, on the psyche of the Over-indebted, of the two elements just mentioned and which we can reiterate in other terms: the lack of knowledge of the regulations that allow the over-indebted subject to get out of his situation and the absence of specialized listening centers.

This is widely proven by the fact that the over-indebted subject feels a sense of great relief even just in speaking with the lawyer or the crisis manager about the problem, even before receiving specific indications on the judicial solutions to the problem and therefore demonstrates the importance of the listening technique.



Considering our Organization's listening experience, the essential characteristics of the psychological profile of the over-indebted subject can be summarised as follows.



A) Over-indebted non-gambling addicts

The phenomenon of over-indebtedness brings with it a profound malaise that is often placed on an anxious-depressive continuum.

In particular, the mood appears to be low, with a loss of motivation and will to react.

Planning is completely flattened and people end up no longer having a future perspective while they continue to think about the past, focusing on any mistakes made, considering them irreparable. In such an introverted psychological framework, suicidal thoughts based on the loss of value and personal failure are frequently observed. This framework is associated with social phobia, with the anxious avoidance of public occasions motivated by deep shame. The feeling of shame is very deep, facing it, for these people, means activating personal and social network resources that often seem, in their eyes, unattainable or even non-existent. Alongside depressive symptoms, anxious traits such as panic attacks, insomnia, mental confusion and generalized anxiety can also be observed, also these mostly addressed with “*avoidant coping strategies*”.

B) Over-indebted gambling addicts

A separate analysis is required by the gambling addicts who come to the Association to solve the problem of over-indebtedness but tend to deny their problem.

Gambling addiction is a “non-substance” addiction, but it manifests itself with the same personality characteristics as drug addiction. Gambling addicts are manipulative, deny their problem or belittle it, often refusing to ask for help from the competent Addiction Help Center. With this target

of users, the psychological support work offered focuses on the motivation for treatment and on the assumption of responsibility. Therefore, the primary objective is to welcome, support and motivate to change, with the aim of having a “taken charge” of the user, by the competent public service, which is only to be able to release the necessary legal documentation.

This last documentation appears to be of fundamental importance to demonstrate the innocence of the over-indebted person and his state of illness.

C) Common profiles for the compulsive and non-compulsive indebted person awaiting the court’s decision and subsequently the favorable sentence.

It seems, furthermore, necessary to stimulate reflection on the need for psychological support not only before and during the request for approval by the Court, but also, and above, all afterwards.

Waiting for approval represents, in fact, a long period of anxiety and tension. People, at interviews, report this wait as „of vital importance“ as if everything depended on it, even the recovery of their psychological and relational balance.

In reality, experience has shown us that, even obtaining approval and debt restructuring, emotional wounds do not heal as a result, but need more time and deep personal work to recover confidence in one’s abilities and to heal the tears related to self-esteem.

This last aspect demonstrates, once again, how debt restructuring, even after a favorable ruling, constitutes a path of *re-education* to a healthy financial approach that until that moment did not exist or had been lost for multiple reasons.

One of these reasons is, also, the ease of access to credit

that the debtor encountered on the market before the declared situation of over-indebtedness.

In other words, the debtor finds the same creditor, who until a few months before had easily granted credit, among his aggressive judicial counterparts.

It is no coincidence that one of the most important jurisprudential rulings in Italy, has considered financial ignorance and ease of access to credit as one of the causes of over-indebtedness considering the debtor himself not assimilable to the category of the so-called **“Well educated middle class consumer”** and, for this reason, blameless as he was unable to understand how easy access to credit would lead over time to a clear and structural indebtedness¹.

However, it cannot be ignored **that the new Italian crisis and insolvency code**² has taken into great consideration the assessment of creditworthiness by the subjects who have granted the credit.

In other words, if these subjects have not correctly assessed the possibility of repaying the credit granted, they cannot oppose the restructuring program.

D) The Current Italian Situation

Italy has certainly demonstrated a particular sensitivity to the problem of over-indebtedness by issuing law number 3 of 2012 and subsequently the crisis and insolvency code. Let us not forget that law number 3 of 2012 was originally called the **“suicide prevention law”**³ precisely because it was born in a historical period in which over-indebtedness and the closure of credit channels led many entrepreneurs to suicide.

However it cannot be said that, today, there are widespread and institutionalized services for listening and psychological help for the over-indebted subject.

There are, in any case, listening and help centers for compulsive gambling subjects and for the fight against the phenomenon of compulsive gambling which, often, leads to over-indebtedness but not directly provided for the over-indebted subject for reasons related to consumption or business activity.

The association **“I Diritti del Debitore”** has therefore decided to provide a psychological assistance service already available on our website precisely to meet the needs of over-indebted individuals and to support the debtor at the same time and in the same virtual and physical place in his path to financial and psychological well-being.⁴

This is an innovative service in Italy that can be accessed through a window called **“request psychological support”**, which allows you to take advantage of a psychological support program of 10 meetings that are absolutely free and can be ascribed to the category of debt counseling services that are held in high regard by community legislation.

Appointment booking is completely automated. We are proud to note that this approach is in line with the provisions of CCDII, which speaks, in art. 81, of the preliminary consideration, of assistance which may include **“social and psychological assistance”**.

Psychological counseling is placed, in fact, under the general **“umbrella”** of **“debt advisory services”**, and in the same subject area.

It is quite evident that the exchange of information between the psychologists and the lawyers of the association allows the latter to shoot the restructuring path and the judicial approach on the basis of the psychological needs of the applicant who therefore receives more complete assistance.

It should be emphasized that the service does not make use of any state financial contribution and is therefore provided in the perspective, that has always characterized our association, of aid and rebirth of families and businesses and of contribution to the vitality and health of the production system.

In conclusion, psychological support for the over-indebted subject is certainly one of the first problems to be addressed in parallel with the technical-legal approach. The National Organization **„I Diritti del Debitore“** is directly promoting this type of service, already available on the site, and, at the same time, is carrying out an incessant awareness-raising activity on the subject for the Institutions.

As they say: It is a difficult job, but someone has to do it!



¹ Court of Termini Imerese – sentence n- 8955/2017

² Legislative Decree 12.01.2019 as subsequently integrated

³ Law n. 3 - 27.01.2012, entered in force on 29.02.2012, published in the official journal on 30.01.2012

⁴ Service available on <https://www.idirittideldebitore.com/>

Psychosocial Effects of Debt

Helena Holland



Debt advisory is a concept which relatively few people know about in the Maltese islands. The people who have heard of it are generally those working in the social area or those who participated in PEPPi national network meetings. In fact, I had heard of it during a meeting between GEMMA and a non-governmental organisation facilitated by a partner organisation. That purpose of that meeting had originally been to ascertain what type of resources and services were available for the vulnerable persons and families assisted by St Jeanne Antide Foundation (SJAF) a registered social purpose non-profit organisation¹.

I still recall that during that meeting it was clear that there were gaps in the services of financial capability offered and that the service of debt advisory was one which would benefit those who were at risk of indebtedness or had already fallen into debt either through external circumstances or through their own actions. From a personal point of view the experience of indebtedness is one which leaves a person feeling isolated and ashamed. When services to assist the indebted are lacking, it feels like one has nowhere to turn, bills and debts start to pile up. It is a vicious circle: the more indebted one becomes and the more they feel unable to take action. With no friendly, helping hand to support and guide



them, the stress piles up inexorably and there is a desperate, often rapid slide into depression with the light at the end of the tunnel dimming until only dark is left. Every day for the indebted feels heavier than the one before: the worry and guilt, especially if there are dependents in the indebted household eat away at the person until they can only (barely) survive day by day.

Where there is no holistic service without referrals for the indebted, where there is nowhere to go, where the indebted will find reassurance, understanding and assistance, people may fall into dangerous situations and become prey to those who wish to take advantage of them. Illegal money-lenders who will exacerbate their situation, other criminals or simply abusers. And someone who is desperate for any solution may be blind to abusers and find themselves into even worse situations, because even when they think that things cannot get any worse, they can and they will.

The problem with debt everywhere, but in this specific case in Malta, is that there is a lot of stigma and shame associated with it, whether this comes from financial abuse, domestic violence, some type of addiction, bad investments, fraud or other origins, most of the victims feel like they have to hide their situation. Sometimes they hide it from those who are closest to them: family, friends, colleagues. Indebted persons may avoid facing the problem at its earliest stages and seeking available assistance, until it is too late to repay their debts. The rising housing and cost of living

¹ <https://www.antidemalta.org/>

costs make it difficult for those on the brink of over-indebtedness to navigate their lives and avoid sinking. Life events such as sudden job loss, having to leave the marital home, legal fees, mounting utility and communications bills will compound the problems to a huge degree. Sometimes the problems cause depression and inaction which eventually lead to debt, while other times it is the debt which leads to stress and depression and further debt. In Malta assistance is available through the Foundation for Social Welfare Services² and NGOs like SJAF and Caritas³, which provide vital social support services and leverage their networks to negotiate better terms for their service users. However, not everyone seeks their help, and despite their dedicated efforts, they may be unable to address every case due to limitations in capacity, funding, appropriate services, and existing legislation.

Locally there is no legislation which regulates consumer insolvency procedures and over-indebtedness of citizens (Piscopo, 2023)⁴. For the indebted person this means that there is little legal assistance to be had when trying to seek advice from a lawyer and with the exception of the Legal Aid service (which may not be the most suitable), legal services would come at a cost. The stigma associated with debt is also apparent with the general approach of lawyers locally, when one looks up debt online it is only legal recourse to recoup losses and the debtor is viewed as a criminal. This was especially evident during a spoken presentation by a local lawyer during a national network meeting who viewed debtors as the guilty parties. This negative situation is exacerbated by the small size of the Maltese islands and how most persons in the community know and 'gossip' about each other. The blame of being indebted in Malta, is perceived to fall squarely upon the indebted person and this continues to demoralise and demotivate them. Those who had violent partners may return to them, those who are desperate may turn to easy and dangerous solutions such as usury, those who are addicts may spiral, mental health declines and some may consider suicide.

A debt advisory service is not a one-size fits all solution, but it certainly would go a long way in providing some peace of mind. A well-designed service, with appropriately trained and selected personnel which functions as a part of a network of assistance with the relevant connections to other entities and referrals for vulnerable indebted persons, would be the first step in giving them the tools to rebuild their lives.

² <https://fsws.gov.mt/en>

³ <https://www.caritasmalta.org/>

⁴ Piscopo, M., 2023. Household Over-Indebtedness in Malta. Idea Academy. Available at: <https://www.antidemalta.org/research.html> [Accessed 27 September 2024].





How the Debt and Scarcity Changes Human Behaviour

Peter Daniel
Debt advisory expert



Behavioural Finance is a field of financial theory dealing with the impact of psychological aspects on financial decisions. It's popular mainly since 2002 when Israeli American economist Daniel Kahneman was awarded the Nobel Memorial Prize for having integrated insights from psychological research into economic science, especially concerning human judgement and decision-making under uncertainty. Eleven years later Indian American researcher Sendhil Mullainathan together with Israeli American Eldar Shafir published their excellent book about scarcity and its impact on human behaviour. And here it all started: many different research papers were published about the behaviour of people feeling to be in financial deprivation and about the irrationality of their decisions. This article offers only a brief tasting of what it is all about and how people in debt to decide the way deepening their problems.

Over-Indebtedness and Relative Financial Scarcity

Although there are situations where people who feel themselves to be in scarcity situation are not overindebted (*e.g. despite of not having enough sources to cover their basic needs they avoided borrowing*), the opposite situation is

very rare – people who cannot manage their indebtedness anymore, are obviously feeling to be in scarcity situation. Over-indebtedness and scarcity go hand in hand. That's why we usually need to find solution for both simultaneously. As financial scarcity is the situation subjectively felt by an individual, we need to differentiate absolute financial scarcity from the relative one. **Absolute financial scarcity** comes when the lack of financial resources really exists, and the individual cannot cover the basic needs of live. In 2022 the World Bank limited extreme poverty by the income of \$2.15 per day¹. As the opposite, **relative financial scarcity** means feeling poor if comparing your situation with the situation of the others - daily income \$2.15 doesn't mean the same in the poorest country of the World^{2,3} – Democratic Republic of Congo, where 79% of population lives below the threshold, and something else in Slovakia, where only 0.1% has less than the threshold income. The EU statistical practice also uses the concept of relative financial scarcity – EURO-STAT annual publication SILC (*Statistics of Income & Living Conditions*)⁴ defines the income poverty risk as 60% level of the national median equivalent disposable income (while in Slovakia it's represented by €461 per month,⁵ in Germany the same measure means €1.236.⁶

¹ SCHNOCH, Marta – TETTEH BAAH, Samuel Kofi – LAKNER, Christoph – FRIEDMAN, Jed: Half of the global population lives on less than US \$6.85 per person per day. World Bank Blogs, 8. 12. 2022, <https://blogs.worldbank.org/en/developmenttalk/half-global-population-lives-less-us685-person-day>

² Global Extreme Poverty. Social-economic portal QERY, Norway, April 2024, <https://qery.no/global-poverty/>

³ KATAYAMA, Roy – WADHWA, Divyanshi: Half of the World's poor live in just 5 countries. World Bank Blogs, 9. 1. 2019, <https://blogs.worldbank.org/en/opendata/half-world-s-poor-live-just-5-countries>

⁴ EU statistics on income and living conditions (EU-SILC) methodology. [https://ec.europa.eu/eurostat/statisticsexplained/index.php?title=EU_statistics_on_income_and_living_conditions_\(EU-SILC\)_methodology](https://ec.europa.eu/eurostat/statisticsexplained/index.php?title=EU_statistics_on_income_and_living_conditions_(EU-SILC)_methodology)

⁵ EU SILC 2023 – Indicators of Poverty and Social Exclusion. Statistical Office of the Slovak Republic, 31. 5. 2024

⁶ TOWFIGH NIA, Oliver: Over 21% of people in Germany facing risk of poverty: Report. 11. 4. 2024, <https://www.aa.com.tr/en/economy/over-21-of-people-in-germany-facing-risk-of-poverty-report/3188079>

Decisions of people differ a lot if we compare the individuals in **situational poverty** versus those in **generational poverty**. Changing their situation is closely connected to (a) activation of their motivational sources, (b) their economic habits. People living in poverty for several generations adjust their behaviour by preferring survival today rather than assuring their future. Their experience (to be socially & economically excluded) dictates not to trust to middle & higher class people even if someone offers the sincere support to them. As for generational poverty, their behaviour also differs a lot if you compare concentrated groups (living in a separated quarters of towns) and dispersed people (surrounded by majority population). In general, the generations of ancestors pass to descendants mostly four things: (1) financial & material capital, (2) human capital related to education and social behaviours, (3) environmental capital related to the quality of surrounding space, and (4) socio-cultural capital related to traditions and social values. The poverty concludes in serious limiting the freedom to choose which life the individual wants to live – he/she has limited choice of living the life as per his/her expectations and preferences – and this differentiate the starting line as well as future opportunities. At the end, as the result, we can see not only the transfer of poverty from generation to generation, but also the transfer of disadvantages (lack of chances) from generation to generation. It can be easily proved by the percentage of university-educated descendants in families of university-educated ancestors. It impacts also the level of future income, of course. For instance, in Slovakia 60% of children whose parents belonged to 5% of people with the lowest income, were earning also less than minimum wage. **Generational social mobility reproduction** (i.e. not moving between the social classes) can be much more seen in the lowest and the highest social classes in comparison to the middle class. EUROSTAT SILC statistics also showed that educational status is highly reproduced between generations: as an example, in Slovakia it showed for the age group of 25-59, that 90% people with only elementary education had the parents with only elementary education as well. As for the secondary school graduates it showed only 35% reproduction of the educational level of their parents.⁷



⁷ Podľa GERBERY, Daniel: O čom hovoríme, keď hovoríme o chudobe detí a medzigeneračnej reprodukcii chudoby? In: *K problematike chudoby a sociálnej neistoty na Slovensku v 21. storočí* (editors: KOŠČ, Ján a RUMAN, Ján). Equilibria, Košice, Slovakia, 2021, pp. 27–47, ISBN: 978–80–973614–3–3



Focusing on Today instead of Tomorrow

Behaviour of people in relative financial scarcity is caused by the feeling of being poor (in comparison to the others) and this can change the whole system of the values. The research showed that people in relative financial scarcity started to think less abstract way – they preferred survival today comparing to their abstract future status⁸ and they ignored strategic thoughts. Poor people emotions related to the future economic situation (fears, hopes, reliefs, trust, anger and sadness) were not able to explain the deviation from abstract thinking. If people think more abstract way, they can clearly imagine the risks related to the future and tend to more protective behaviour. The poor people, combating more for the survival Today, at the same time put less focus on the risks of Tomorrow (in comparison to the rich people). And the research showed that **relative financial scarcity works as an amplifier of the mindset shift from Tomorrow towards Today**. It means that not only the poverty itself causes the concentration on Today, but comparing ourselves to the others (feeling poorer than the others are) is pushing us even much more to be concentrated on Today instead of Tomorrow. **Thore poorer we feel, the more deviate from strategical to tactical mindset** – we prefer carpe diem regardless of the future consequences. Speaking in economic theory terminology – we undervalue the costs of our future liabilities (*e.g. we pay every month only the minimum credit card refund ignoring the high interest rates related the remaining debt*).

Young generation financial behaviour

The research repeatedly showed that significant part of the young generation ignoring their debts and its consequences in the future. For example, 53 % young people in Spain (under 21), 45% young British generation (under 36) and 14% of young

Slovaks (under 37) have indifferent approach to their debt – they either don't know or even don't want to know how much they owe.⁹ Research in Australia¹⁰ showed that 90% of young Australians had financial problems and 25% of them declared it's happening often or even very often to them.

At the same time 27% of young Australians used *buy now - pay later* method of purchase during last year. Many statistics show high self-confidence of young people (they strongly believe they understand finance) but on the contrary their level of financial literacy is relatively low. Their investment know-how is rather in their wish than the reality. Trusting crypto-currencies and earning money when investing to crypto doesn't mean they understand finance better – it's just relatively lower risk aversion based on their age. Financial world is much broader than crypto-investment or ETF funds. Understanding pension systems, bank loans etc., will impact their lives as well, and will impact voters' qualities in future elections.

Post-communist Europe has its own specific of financial behaviour, if speaking about young people. Research in Slovakia showed that the *financial behaviour message* inherited from generation to generation is rather based on bad financial behaviours – overconsumption can be seen in case of 72% of young Slovaks, 79% of middle-age generation and 77% of elderly people. Almost 60% of Slovaks have some bank loans but 1/3 of them have no clue about the bank interest rates. In this situation it sounds positively that 40% young Slovaks use media as the main source of financial literacy. In standard society it would be much better if financial know-how is part of the generational legacy, but in post-communist country you cannot rely enough on the financial knowledge of the older generation, as they were living in the world convincing them about the guaranteed future without the need of individuals taking care of their future financial sources.

⁸ CABALLERO, Amparo – FERNÁNDEZ, Itziar – AGUILAR, Pilar – CARRERA, Pilar: *The links among relative financial scarcity, thinking style, fatalism and well-being*. *PsyCh Journal* published by Institute of Psychology, Chinese Academy of Sciences and John Wiley & Sons Australia Ltd., vol. 11(6), 2022, pp. 885-894, Online ISSN: 2046-0260

⁹ KLÁSEKOVÁ, Martina: *Almost Half of Young Brits Even Do Not Want to Know How Much Is Their Debt. Young Slovaks Seem To Be More Responsible*. *Denník N Daily*, 8.2. 2021, Online ISSN: 2729-9198,

¹⁰ WALSH, Lucas – GALLO CORDOBA, Beatriz – CUTLER, Blake: *In 2022, 90% of young people had financial troubles, and 27% used buy now, pay later services*. *Monash University*, 2.2.2023

Tripple Effect of Financial Scarcity

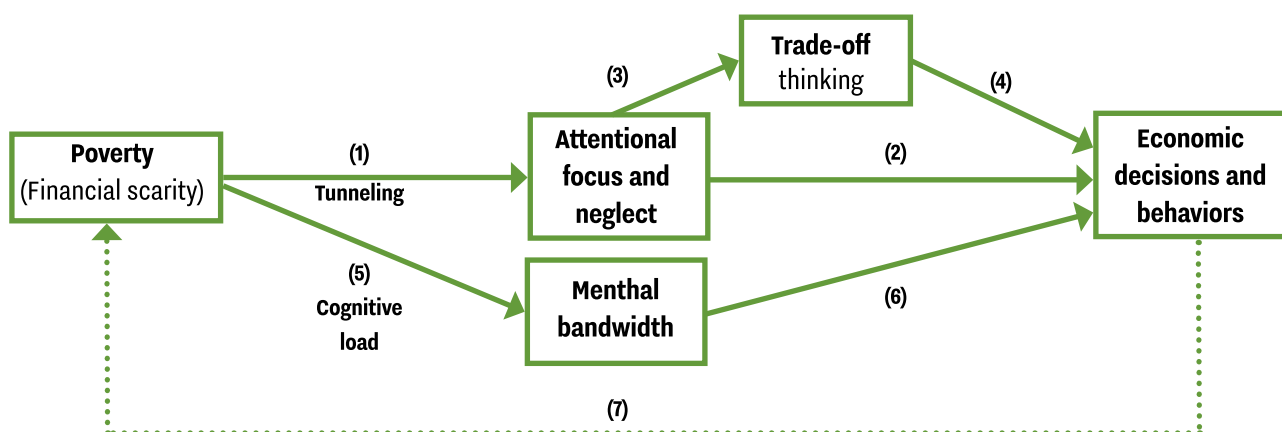
There is no doubt that the financial scarcity occurrence is impacted by socio-economic origins of the person and by his/her education. However, Laurel Ayne Cook, associate professor of marketing in West Virginia University, points out that our financial scarcity is based more on our mind-set than in our socio-economic origins.¹¹ The feeling of being poor amplifies the change in our mind and **financial scarcity directly reduces the disposable capacity of our brain**. It doesn't change the capacity of person's brain capacity but it impacts how much of this capacity can the individual

effectively use when feeling poor. Lauren A. Cook draws our attention to the fact that a standard consumer perceives the presence more than the future and this brings the triple effect of the scarcity – the feeling if someone is or isn't in scarcity is caused by three factors: (1) how much liquid assets the person has, (2) how more sensitively he/she perceives losses than profits, and (3) how many opportunities of borrowing the resources he/she has. Research of Laurel Cook with other co-author concluded that perceived **financial scarcity affects the consumer behaviour as well – the more we feel poor, the more we deepen our feelings of being poor and we base our consumer behaviour on these feelings**.¹²

Scarcity Theory

Sendhil Mullainathan and Eldar Shafir formulated the economic theory of scarcity¹³ which can be described by the following picture:

Obrázok 1: Teoretický model teórie núdze (scarcity theory)¹⁴



This theory is based on assumption that financial scarcity (lack of sources, poverty) causes so-called tunnel vision of the reality, and brings new constraints to the ability to be concentrated on anything else than scarcity itself (arrow 1). This leads to incorrect and/or irrational economic decisions (arrow 2), to trade-offs in consumption (arrows 3 and 4) when compa-

ring goods & services differently than before, and at the end it causes the reduction of disposable mental capacity and cognitive abilities, leading to wrong decisions under stress (arrows 5 and 6).

All-in-all it results in deepening his/her financial scarcity and poverty (arrow 7).

¹¹ COOK, Lauren A.: Triple scarcity effects of financial decision making. Online webinar, 20.4.2022, <https://consumerfinancialwellbeing.org/2022/04/25/online-event-triple-scarcity-effect-on-financial-decision-making/>

¹² COOK, Lauren A. – SADEGHEIN, Raika: Effects of Perceived Scarcity on Financial Decisions Making. *Journal of Public Policy and Marketing*. 37(1), pp. 68–87, Online ISSN: 1547-7207, <https://journals.sagepub.com/doi/10.1509/jppm.16.157>

¹³ MULLAINATHAN, Sendhil – SHAFIR, Eldar: *Scarcity – The New Science of Having Less and How It Defines Our Lives*. Picador Books, 2014, ISBN: 978-1-250-05611-5

¹⁴ DE BRUIJN, Ernst-Jan – ANTONIDES, Gerrit: Poverty and economic decision making: a review of scarcity theory. In: *Theory ad Decision*, vol. 92 (2022), pp. 5–37, Electronic ISSN: 1573-7187, file:///C:/Users/q1049848/Downloads/s11238-021-09802-7.pdf



Tunnel vision means that the person is fully concentrated on the poverty and scarcity – such a constant thinking of our financial sources exhausts his/her brain capacity and ability to think of other logically related relations and in the end the person is concentrated in secondary things – we see the things inside the tunnel but we lose the peripheral vision.¹⁵ For example, the person being at risk of losing his/her job concentrates rather on looking for new job instead of trying to convince the employer that he/she is the right one not to be fired. Other example: the person in debt, instead of speaking about the issue with the people who always support him (family, friends) rather destroys his/her social relations because of feeling ashamed of the financial situation. It means that the person under **cognitive tunnel vision** concentrates his/her mind on finding financial sources and starts to overlook the solution offering the financial sources.

If we want to help the person with the tunnel vision, we must simplify the decision-making process for him/her, reduce the number of alternatives and their complexity. This in increases the chance that the person, undergoing the crisis, will make the right decision. Such a person also overvalues losses, and undervalues profits, therefore it can help to show him colourfully the immediate negative effect of non-reducing the debt.

As the person is scared about losses, immediately action will come. This psychology is used by users when they focus on showing the immediate negative consequence (violence) of non-paying. Banks do just the opposite – they usually chase the debt slowly and the debtor falls into debt spiral track in the meantime. There are **three main root-causes why people in scarcity do wrong decisions**: (1) **environmental reason** – people were not educated how to make right financial decisions, (2) **personal reason** – personal characteristics of people, mainly impulsiveness and impatience, (3) **cognitive reason** – tunnel vision of the reality.¹⁶

Scarcity is related also to two types of intelligence – fluid intelligence and crystalized intelligence. **Fluid intelligence** is the ability to find relations based on logic – it's important to find innovative ideas to resolve the unknown situations. **Crystalized intelligence** mines from the depths of our memory the knowledge learnt in the past and it tries to use them to resolve the current issues. The research clearly and repeatedly showed that specifically in case of financial decisions, the level of fluid intelligence was significantly reduced – logic and innovations worked less, and people were trying to resolve the new situation (scarcity) only by using their past knowledge.¹⁷

¹⁵ LEWIS, David – HILSCHER, Michelle – BARR, Nathaniel: *How the Scarcity mindset changes people's financial decisions-making and what to do about it*. Portal BeWorks, 10.6.2021, <https://blog.beworks.com/becurious/scarcity-mindset>

¹⁶ SHAH, Anuj K. – MULAINATHAN, Sendhil – SHAFIR, Eldar: *Some Consequences of Having Too Little*. In: *Science*, Vol 338, Issue 6107, pp. 682-685, 2.11.2012, Online ISSN 1095-9203, <https://www.science.org/doi/10.1126/science.1222426>

¹⁷ MULAINATHAN, Sendhil – SHAFIR, Eldar: *Scarcity – The New Science of Having Less and How It Defines Our Lives*. Picador Books, 2014, pp. 39-66, ISBN: 978-1-250-05611-5

Financial stress reduces the fluid intelligence significantly and therefore reduces the cognitive capacity as well. The research also proved that financial scarcity significantly reduces the self-control and concentration and increases the impulsiveness. And what's more, even the fear of potential scarcity brings the same effects (!). Other research tested the group of American students under scarcity. Their change of mindset was leading to self-undermining behaviour which is usually seen as the response of human organism to the extreme stressful situations, reducing the self-regulation abilities, leading to unwanted reactions and undermining social behaviour of people.¹⁸ The other proved effect of the financial scarcity is so-called financial avoidance, which can be described as psychological behaviour when person avoids managing the money, paying the bills, tracking the balance in the bank account, etc. Such a behaviour seriously impacts the emotional comfort of the person as well as the mental health and financial health. The correlation exists in both directions: financial scarcity causes the financial avoidance and vice versa, as the research proved on Dutch population.¹⁹ When someone is at the risk of financial scarcity, he/she starts to act as *homo ignorans*. Important conclusion of that research also says that the increase of the indebtedness in time resulted in the increase of demotivation to resolve the debt situation, and the debtor falls to the psychological poverty trap.

Four main reasons of financial avoidance are (1) feeling the fear, (2) feeling ashamed, (3) anxiety, (4) lack of financial literacy.²⁰ When helping the people who face financial avoidance, the professional support is needed as well as increasing the financial literacy and fighting against the fear in small steps. The deeper root-causes of financial avoidance was analysed by Andee Tagle and Sylvie Douglass²¹ – they see the root-cause in the basis of our mindset when avoiding dealing with money is connected to our natural self-preservation instinct. Our brain looks instinctively everything what is pleasant for us (e.g. having and spending money) and rejects everything what can cause our discomfort (e.g. working for money and/or paying back our debts). This is what our brain learnt from previous generations, therefore it runs away from the debt issues even if this is not in our best interest.



¹⁸ HOLDEN, Charlotte: *From Ramen to Reserach: The Experience of Financial Scarcity in Graduate School*. Graduate Thesis and Dissertation, 2023-2024, University of Central Florida, <https://stars.library.ucf.edu/etd2023/183/>

¹⁹ HILBERT, Leon P. – NOORDEWIER, Marret K. – VAN DIJK, Wilco V.: *The prospective association between financial scarcity a financial avoidance*. In: *Journal of Economic Psychology*. Vol. 88 (2022), Issue 102459, Online ISSN: 0167-4870, <https://www.sciencedirect.com/science/article/pii/S0167487021000891>

²⁰ PEPPER, Elliot: *Breaking the Silence: Confronting Financial Avoidance Head-On*. LinkeIn, 16.5.2023, <https://www.linkedin.com/pulse/breaking-silence-confronting-financial-avoidance-elliott/>

²¹ TAGLE, Andee – DOUGLIS, Sylvie: *Stressed about money? Scared to check your balance? These tips are for you*. Portál NPR - Life Kit, 6.1.2022, <https://www.npr.org/2021/12/23/1067497505/money-avoidance-spending-habits-change>

²² *Emotion and the Psychology of Debt*. Grant Thornton, Institute of Welfare, UK, 2013, <http://instituteofwelfare.com/resources/Debt.pdf>

²³ NEILL, Gareth: *The Psychology of Debt*. Grant Thornton, UK, 2011. *Prezentácia k výsledkom projektu čerpaná zo zdroja:* https://azslide.com/queue/the-psychology-of-debt_5a0e66a61723dd01a9a073e9.html

Other research results in brief

Grant Thornton consulting company showed repeatedly in 2011 and 2013 that mental diseases frequency in the UK was twice as high in the population of over-indebted people than in the standard population^{22,23}. Mental issues were different for male and female. While male population was suffering more by loss of selfconfidence, frustration, childish behaviour, hiding the issues and feeling guilty, females faced more emotional instability, issues in family education of children, feeling unable to play the role of partner and taking care of household. Both genders suffered by insomnia, feeling burnt-out, they faced different addictions, their blood pressure was instable, immunity showed some defects and libido malfunctions were seen as well.

Consumer behaviour of over-indebted people changes as well: it's described in so-called reactance theory – people facing lack of financial sources start to buy some products less than before, i.e. subjective scarcity of such product increased in their eyes (they give higher psychological value to those products). At the same time poor people try to

accumulate products if they have a chance (they buy more products immediately when the salary reaches their account). The reactance theory says that shopping process has three psychological phases for those people: reaction phase (lack of money is perceived as the problem), coping phase (learning how to adjust the consumer behaviour to the lack of money) and adapting phase (mental acceptance of the situation).²⁴ There are more fields of psychological impact of the debt to the psychology of debtors, but we cannot even mention all of them in this short article. Separate article could be dedicated to the behaviour of employees when being in debt. The other complex field of research shows how partner relations in family are impacted by debt (e.g. if and why people stay with their partner just because of money and/or if and why relationships are broken just because of money). Specific research was dedicated to the environmental behaviour of indebted people. And a lot of different articles were published about the connection between the money and happiness. The topic of psychological effects of debt is very broad and complex. So maybe more next time...



²⁴ HAMILTON, Rebecca H. – MITTAL, Chiraag – SHAH, Anuj – THOMPSON, Debora V. – GRISKEVICIUS, Vladas:
How Financial Constraints Influence Consumer Behavior: An Integrative Framework. *Journal of Consumer Psychology*. Vol. 29 (2018), str. 285-305, Online ISSN: 1532-7663,
https://carlsonschool.umn.edu/sites/carlsonschool.umn.edu/files/2019-06/Hamilton_et_al-2019-Journal_of_Consumer_Psychology.pdf

Psychosocial consequences of being young and over-indebted in Sweden

Tobias Davidsson¹ & Erik Eriksson²



Even by international standards, both the level and the growth of household debt is outstandingly high in Sweden.³ With regard to debt problems, the industry organization *Swedish Collection* estimated the total amount of household debt registered with collection agencies in 2022 to SEK 108 billion (EUR 9,5 billion) for a population of approximately 10.5 million.⁴ In addition, the amount of outstanding household debt registered for collection with the Swedish Enforcement Authority will total SEK 119 billion (EUR 10,5 billion) in 2023 – an increase of more than 70% over the last decade. A total of 417,000 individuals have outstanding debts registered with the Enforcement Authority.⁵ It has been estimated that around 20% of young adults in Sweden experience recurring payment problems.⁶ During the last decade, the total sum of debts pertaining to young adults (18–25 years) registered with the Enforcement Authority increased by SEK 410 million (EUR 37 million).⁷



This paper presents findings from a Swedish research project on over-indebtedness that focuses a particularly vulnerable category: young adults between the ages of 18 and 25. In the project, eighteen young adults are interviewed three times at one-year intervals. Six of the participants are women and twelve are men. Thirteen were born in Sweden and five were born in another country. All participants had debts registered with the Swedish Enforcement Authority. For most of them, there are also substantial debts to debt collection agencies and private individuals.

The names given in the text are pseudonymized. One aim of the project is to better understand the psychosocial impacts of debt problems on young adults and their consequences for entering adulthood. In this text, some psychosocial consequences of over-indebtedness are described, disposed into different areas of life.



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³ Lindgren, H. (2022). 'Over-indebtedness' – or not? Household debt accumulation and risk exposure in nineteenth century Sweden. *Scandinavian Economic History Review*, 70(1), 33–56.

⁴ <https://svenskinkasso.se/content/uploads/2023/05/branschstatistik-2022.pdf>

⁵ <https://kronofogden.se/om-kronofogden/nyheter-och-press/pressmeddelanden/2024-01-23-stor-okning-av-svenskarnas-skulder-has-kronofogden>

⁶ Larsson, S., Svensson, L. & Carlsson, H. (2016). *Digital consumption and over-indebtedness among young adults in Sweden*. Lund University.

⁷ <https://kronofogden.se/om-kronofogden/analyser/skuldsattning-bland-unga-vuxna>



Relationships, exclusion and isolation

Most of the participants testify that the debt problems have impacted their close relationships. In many cases, debt has made close relationships more difficult, or it has caused them to terminate. Dependency has often increased, e.g. by becoming financially and materially dependent on parents, siblings or a partner. Some of the participants - while feeling bad about their stressful situation - keep their debts secret from family and friends out of shame, which leads to exclusion from sharing and being honest with their loved ones, and thus also from the emotional support that such relationships could provide.

Being indebted affects me greatly. The hardest part is hiding the debts from my girlfriend. She understands that I don't make a lot of money, but she still thinks I'm doing okay. And that's not good. I want to be a sincere person; I've been through too much to not want to be honest too.

Oscar, 22 years

For the interviewees, life as a debtor tends to be characteri-

zed by isolation and the possibility of making new contacts is made difficult. The strained financial situation means that the young debtors are forced to opt out of social contexts and activities associated with costs, such as having coffee or going to the pub with friends, being active in associations or signing up for a gym membership. Some describe how they avoid entering new relationships for fear of being rejected if/when their indebted status is revealed:

Dating has not been easy, people just: 'Hey, wanna meet for a beer?' I'm like: 'But I don't have any money'. It's hard to make new friends, meet new people because what are you going to do that doesn't cost money. And for me it's a warning bell if someone says: "I have 1.2 million in debt with the Enforcement Agency". I would have gone the other way.

Felicia, 25 years

Several participants avoid establishing romantic relationships at all. Dating costs money and, perhaps more importantly, many believe that no one would want to be with a person who has large debts.

Among those who are involved in romantic relationships, over-indebtedness means that the relationship becomes financially unequal and that they experience themselves as a burden. It creates anxiety and strain in the relationship as the exclusionary processes of indebtedness inevitably affect the partner one lives with and the future together. A clear example of this is that many people hesitate to try to have children while they are in debt.

In three years' time, my girlfriend will be 30, and I'm sure she'll be getting closer to wanting a child. We both have the idea that we want to live in a house before we have any children, and how will that be possible if I am in debt? And if she feels that: 'he has eight years until he pays it off, until it's even a possibility'. Will she want to stay with me then? That's what you worry about.

Filip, 22 years



A life on hold

The interviewees who have large amounts of debt with the Enforcement Authority tend to experience a sense of fatigue and sometimes hopelessness in relation to the possibility of paying off their debts. In some cases, this hopelessness is attributed to the settlement system, i.e. that payments made to the Enforcement Authority are first set off against interest and fees and only after that against the amount of the original debt. Despite considerable efforts to pay, sometimes through wage garnishment, this might mean that the total amount of debt is reduced very slowly or sometimes not at all.

It's kind of like they don't want you to get out of debt. But you're supposed to go on and on and really go through this punishment full time afterwards.

Abdul, 24 years

The pressure to repay debts to the Enforcement Authority can lead to destructive behavior, as in the case of one respondent who got into debt through a manipulative boyfriend and who at the time of the interview was supported by the Social Insurance Agency.

To pay off the debts, I started selling sex. I feel terribly bad and I'm very sad and get very anxious. But I don't think I can improve my finances in any other way, I can't conjure up money.

Ahmed, 25 years



The slowness of the repayment process is sometimes expressed as putting one's life on hold, while the lives of one's peers who are establishing themselves in the job and housing markets continue. Some express the hope of being granted debt reconstruction, but most are also aware that it is difficult to obtain, and that the repayment period will be long and arduous.

I'm so stressed that it will take so long to get out of debt. It ruins so many years of my young life. If you make this mistake, you're kind of screwed. If I don't get help, I won't be debt-free until I'm almost 40.

David, 23 years old

When the interviewees are asked about dreams or plans for the future, these are often limited to a future where they are debt-free and left alone. In other words, dreams for the future are limited to getting rid of the current situation. When the interviewees speak in more positive terms, they talk about a 'stable existence' and, at best, a 'normal life'.

[In the future] I just want to be a normal person, that's all I'm aiming for. There will always be problems. But problems that don't give you that anxiety or shame. I want to feel a peace of mind.

Emil, 22 years

In summary, the empirical findings paint a picture of over-indebtedness having a negative impact on young adults and making the transition to adulthood more difficult. Social life is delimited and made more difficult, and the anxiety of not being able to oversee their debts and the worry and hopelessness of never being able to repay them characterize life in a tangible way. Shame and guilt are prevalent feelings, and many participants have even considered the possibility of ending their lives.

In Sweden, it is a mandatory condition for municipalities to offer cost free budget and debt counselling to its residents. However, many of our participants were not aware of this possibility and those who had visited a counsellor were not satisfied with the service provided. Especially, it seems as experienced (psycho)social aspects of over-indebtedness were not a primary focus in these meeting, even though it was a pressing problem for many of the participants. Instead, the sole focus lied on tasks such as assisting with applications for debt reconstruction or giving advice on how to structure a monthly budget.

One persisting problem in Swedish society is that over-indebtedness is not properly understood as a structural and social problem. In public discourse, it tends to be discussed as an individual financial problem, produced by a lack of financial knowledge. This, in turn, might influence how support systems are delineated. Focusing on the economic situation for over-indebted individuals is, of course, necessary and urgent. But if the unrelenting psychosocial problems are not dealt with in a proper way, it is hard to imagine that over-indebted individuals can muster the power to absorb – or even acknowledge – the technical and educative advice given.





An Interview with Fredrik Tjulander

Fredrik Tjulander, Registered nurse
and principal supervisor
Adult psychiatric intensive care – PIVA Malmö



Who covers the psychosocial problems of people actually in Sweden?

Almost no one, more than us within the psychiatric clinic that "find them" in their circumstances. We help them with the initial contacts with the municipality's social workers.

Are they lost and let alone or are there any functioning psychological associations dealing or touching with the problem?

Yes, they are lost and let alone.

There are no organised functioning psychological associations, dealing with the psychosocial problems related to over-indebtedness. Nor other related options.

What is actually the solution for people with financial psychosocial problems?

The only solution that is well known, is the municipalities debt-advisors. Besides them, the alternative for indebted persons and their relatives, is luck. Meaning, you must have the luck to have a family member, friend, doctor, nurse debt-advisor, who "see you" and support you. That can guide you to the best alternative for you - to get the help you need for the moment. (debt advice, specialist care, authorities, debt collections agencies) There is no statutory and accepted chain of care for over-indebted citizens, in Sweden.



How does the Swedish society and the Swedish people see over-indebtedness?

The main approach in Sweden, regarding over-indebtedness, is moralizing, and to many times seen as lack of self-responsibility.

This corrosive attitude to financial indebtedness, unfortunately pervades the Swedish authorities and the judicial system. Which manifests itself in not taking psychosocial conditions into account in their assessments and decisions. It is noteworthy that in Sweden you do not have a free legal representative, in the meeting with the Debt Enforcements Authorities lawyers and criminologists. If you appeal any decisions, the case goes to court, where the case is assessed and decided by even more lawyers.

Decision support and support for your situation and case, from for example doctors and social workers, are not taken into account or rejected if the question arises.





Is the main approach one of the Deputy Minister of Economy that cost-free advice cannot be good and that over-indebtedness is a lack of self-responsibility?

Our Minister of Economy, Elisabeth Svantesson, does not have the approach "lack of self-responsibility", regarding cost-free advice.

The main approach to the municipalities cost-free advice is positive, but on the other hand.....see answer on the previous question.

Speaking of Ministers: After a meeting with me and a local politician – The Minister of the Social Department, Jakob Forsmed "owns" the question, (in our government) of giving the Debt Enforcements, an extended mission to add medical expertise, in their assessments and decisions. Any action in this matter seems to be something, put in some kind of "Longhaul". In other word, no applause yet.

Is there any collaboration to prevent over-indebtedness

Any collaboration in this matter it not directly outstanding, in Sweden. Each organization works preventively in its own organization – Debt Advisors, Swedish Consumer Agency, the Debt Enforcements, Banks (Swedbank) etc.

Hopefully it will come along with the projekt "Collaboration to prevent over-indebted people from taking their own lives". The aim is to embrace the ill health of those in debt and reduce the risk of suicide, as well as find them as early as possible.

We know that people in crisis, intend to seek help for physical issues, more than usual.

To detect over-indebtedness, the GP can ask: "– People in your situation sometimes have difficulties with their economy. How about you?" or "–People in your situation, some times find it hard to live and is thinking of death, as an opportunity. How about you?"

Sick or dead people have a hard time to pay the debts, so. . .

What are your initiatives?

During a year and a half, I´m writing a book – "You´re staying – Right?" with the underline "To live to live or live to die?". (This is a question I sometimes ask my patients – psychiatric clinic)

It´s a documentary of being over-indebted and the circumstances they live in, in full. From the society´s efforts to the personal conditions. Synchronization of needs and society´s production of efforts that meet the needs of the indebted. The indebted AND their relatives are taken in the same context. Also children/adolescents and elderly and their circumstances and needs, is included.

I´m doing in-depth interviews with clients, that get guidance and help from debt advisors.

The debt advisors helps me to conect with the clients, that is willing to be interviewed.

The questions is about how the debts emerged, family status, health, the contact with the authorities, the contact with the debt collection companies, the debt advisors as well as how their lives was, is and what they think their lives well be. Hope?

I have put together a questionnaire with questions that deb-

tors receive from the Crown Enforcement Officer, before Debt Consolidation with more questions about the debtors' life situation. Questions will also be asked about health. They are based a lot on the screening forms we use in psychiatric care. Only general questions, which are not so detailed. Questions about physical health will also be asked. The book will also contain good examples from our surrounding world, in these contexts. It was so gratifying to get more good examples, during our meeting last week – Italy and Slovenia. Denmark and England, among other countries, are also good role models.

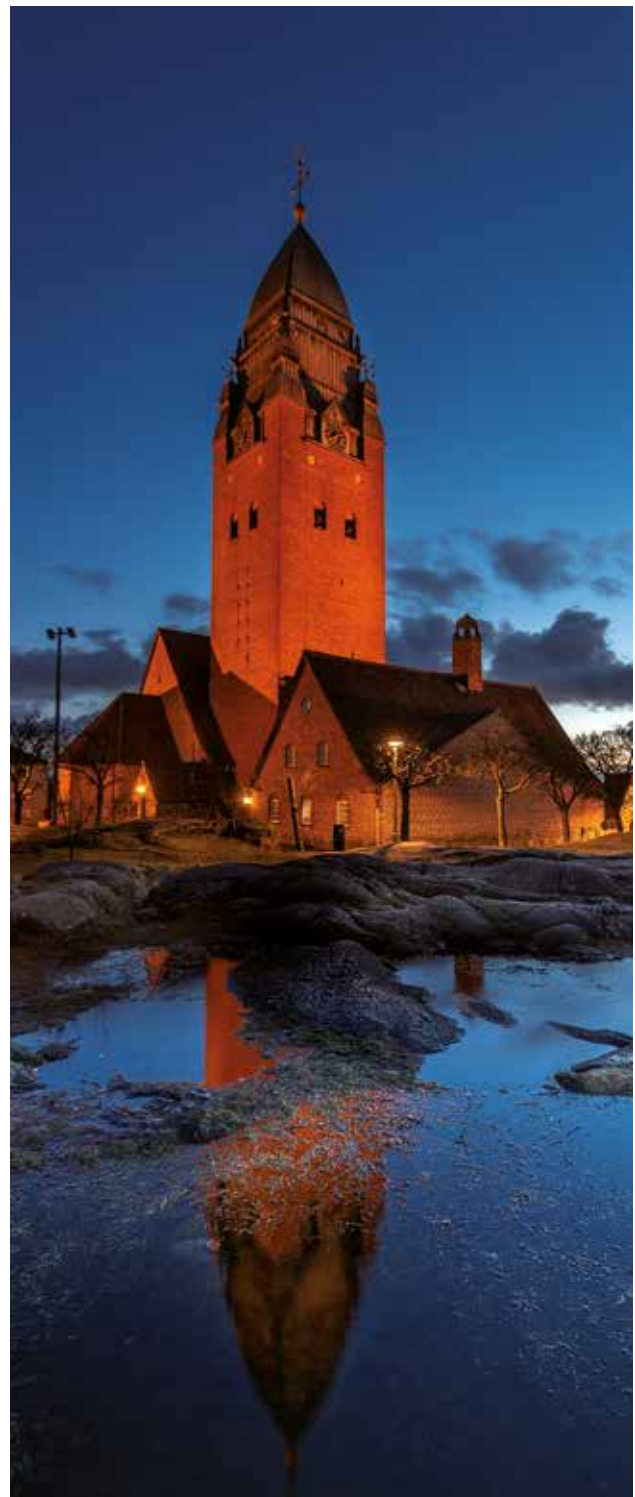
What should be done?

Each organization must present and clarify, to each other, each assignment and the possibilities with these. Important to delineate each one's mission, vis-à-vis each other, to then determine how they should be able to work together, to embrace the needs of the over-indebted. Collaborations that must be regulated by law.

What to do:

- Health first! Dead over-indebted can't pay the debts! See example from England. Debt Respite Scheme (Breathing Space) guidance – GOV.UK (www.gov.uk)
 - Court-appointed legal representative (free of charge) for debtors and their children. Strengthened legal certainty for debtors and their children. Modelled after Denmark. However, that model includes legal representation, only when drawing up a debt restructuring plan. *Danmarks Domstole – Gældssanering*
 - For a holistic approach – *About – Financial Therapy Association*
 - Increase the retention amounts
 - No evictions of, at least families with children. State/municipal guarantees, but they must be with requirements towards those who receive the support.
 - Indebted seniors should have their debts written off. A question of honor, morals and ethical motives.
 - More resources and power for debt advisors to develop their businesses:
1. Perhaps to have a mandate to make/establish the necessary contacts for themselves and the clients?

2. Closer cooperation with the court, enforcements, care, social professionals - for example establishing a common "case", which embraces individual clients?
3. Possibility of debt advisors, to be able to establish simpler debt restructuring plans? With the possibility with support from the enforcements and courts?





ecdn

european consumer debt network

A network for financial inclusion professionals

- ★ Established in 2007, Ecdn is a non-profit network of organisations and members from across 21 European countries working to ensure financial inclusion for all citizens.
- ★ Ecdn's purpose is to bring together a broad range of professionals in the fight against over-indebtedness and financial exclusion and to facilitate the exchange of information.
- ★ Ecdn members are leading practitioners, highly respected advisors, and well-known researchers in the field.
- ★ Across Europe, Ecdn is the only organisation which focus on debt advice, debt counseling and debt restructuring, financial education, and over-indebtedness research.
- ★ Ecdn has organized nine international conferences and published eighteen issues of the magazine Money Matters.

Find out more: www.ecdn.eu/email: Secretary@ecdn.eu



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