



# Common Operational European Definition of Over-indebtedness

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**28.09.2007**

**Indicators Sub-group Meeting  
Social Protection Committee**

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## Overview

**I. Introduction of Consortium**

**II. Essentials for Policy Making**

**III. Definitions of Overindebtedness**

**IV. Preliminary Conclusions**

## Research Team:

### 1) *Consortium*

- **Observatoire de l'Épargne Européenne**

The OEE is a non profit association, aiming at collecting data and supporting research on savings and credit at a European level.

- **Centre for European Policy Studies**

Together with ECRI (European Credit Research Institute), the CEPS is a policy think-tank based in Brussels.

- **Personal Finance Research Centre**

Established in 1998 by Professor Elaine Kempson, PFRC is based within the University of Bristol. PFRC has gained a national and international reputation for research on all areas of personal finance.

### 2) *Country correspondents from 19 European countries*

## Purpose:

### **1) *Statistical Part***

- Development of a common definition of over-indebtedness
- Harmonized measurement
- Informative indicators with little methodological problems
- Fit into canon of social indicators in Europe
- Enabling comparison of developments across Europe

### **2) *Descriptive and policy work***

- To produce an extensive overview of the political, administrative and legal approaches to over-indebtedness, including:
  - the effectiveness of these approaches
  - the types of organisations most active

### **3) *Providing tools for over-indebtedness policies***

- A database of existing indicators
- A handbook for overindebtedness monitoring

## Progress:

### *1) Interim Activity Report*

The Interim Activity report delivered to the EC includes three parts

- Description of definitions and measures of over-indebtedness
- Literature review on “Nature and Causes of over-indebtedness”
- Review of Policy initiatives

### *2) Database*

The database was built with the help of Country Correspondents. It includes economic, legal and subjective indicators. Comparison between various countries remains very difficult.

### *3) Next steps*

- The draft final report will be delivered by the end of November
- Findings will be presented and discussed at a seminar in Brussels on **11 December 2007**

### Overall Insights so far

No common understanding and definition of over-indebtedness (henceforth OI) in Europe

Different Member States use different measures in discussion:

- Anglo-Saxon and Scandinavian countries → arrears
- Western Europe (Fr, Benelux) → legal/admin. measures
- Others → no policies, no measures, no discussion

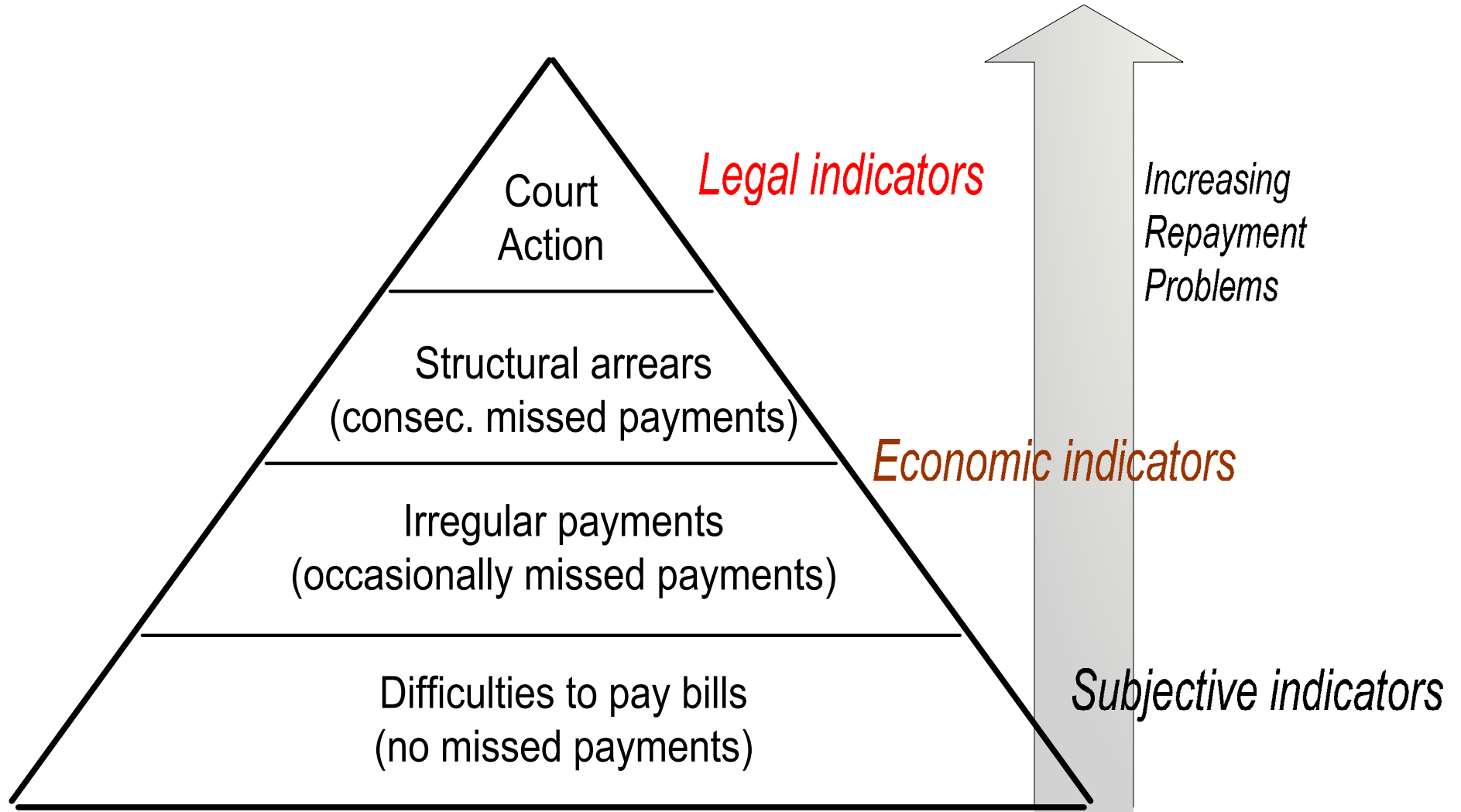
Consortium has compiled lists of different types of OI indicators

Countries vary enormously in terms of being “data intensive”

### Indicators and Policymaking

- **Indicators are needed for policy purposes:**
  - OI Trend Monitoring
  - Identification of possible points of intervention
  - Assessment of policy measures
- **Policies fall into two broad groups:**
  - Preventative policies (*preventing problems*)
  - Curative policies (*curing problems after occurrence*)
- **Indicators must cover:**
  - Payment of household bills (utilities, telecoms, etc.)
  - Credit-related payments (consumer credit, mortgages)
  - Capture arrears on obligations

### III. Definitions of Over-indebtedness





### Three main groups of indicators for measurement:

#### **1) *Legal and administrative indicators***

- > Court-arranged solutions to debt
- > Debt re-scheduling
- > Debt write-offs

#### **2) *Economic indicators***

- Financial arrears
- Debt-service/income ratios
- Debt/income ratios

#### **3) *Subjective indicators***

- ^ Self-evaluation (responses to surveys)
- ^ Contact to debt advice agencies

### Three main groups of indicators for measurement, cont.:

Table 1. Overview of Indicators

Indicator group	Sub-category of indicator group	Indicator
Economic indicators	Financial Arrears	Consumer credit commitments
		Mortgage commitments
		Rent, utility bills (gas, water, electricity)
	Debt service ratios	Household debt-service ratio
		Homeowner financial obligations ratio
		Renter financial obligations ratio
	Debt-income ratio	Unsecured debt to income ratio
		Secured debt to income ratio
Legal/admin. indicators	Court-arranged solutions to debt	Insolvencies / bankruptcies
		Enforcement procedures debt recovery
	Other administrative indicators	Debt write-offs by creditors
		Number of repayment plans
Subjective indicators	Use of debt advice agencies	Number of cases
		Number of calls to debt counsellors
	Self-reporting in questionnaires	Reply to questions about difficulties

## Availability of indicators across countries

Table 2. Indicator availability (Status: 29.9.2007)

		Austria	Belgium	Bulgaria	Czech Republic	Finland	France	Germany	Greece	Ireland	Italy	Lithuania	Luxembourg	Netherlands	Norway	Poland	Portugal	Spain	Sweden	United Kingdom
<b>Economic Indicators</b>																				
<i>Financial arrears</i>	Consumer credit commitments	X	X		X	X	X	X	X	X	X	X		X		X	X	X	X	X
	Mortgages	X	X				X	X	X	X	X	X		X	X	X	X	X		X
	Rent, utility bills (gas, water, electricity)	(X) <sup>1</sup>	(X) <sup>2</sup>				X	(X) <sup>3</sup>		X		X		X			X	(X) <sup>4</sup>		X
<i>Debt service ratios</i>	Household debt-service ratio		X	X		X		X	X	X	X	(X) <sup>5</sup>			(X) <sup>6</sup>	X	X	X	(X) <sup>7</sup>	X
	Homeowner financial obligations ratio																			
	Renter financial obligations ratio																			
<i>Debt-income ratio</i>	Aggregate Debt-income ratio	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
	Unsecured debt to income ratio																			
	Secured debt to income ratio																			

1 only if collection order is given

2 only in Flanders (since 2004) and Wallonia (since 2005)

3 first negative entry with regards telecommunication (Germany)

4 telecommunication

5 covers only ratio with regards housing loans (Lithuania)

6 only interest burden to disposable income

7 only interest expenditures ratio

## Availability of indicators across countries

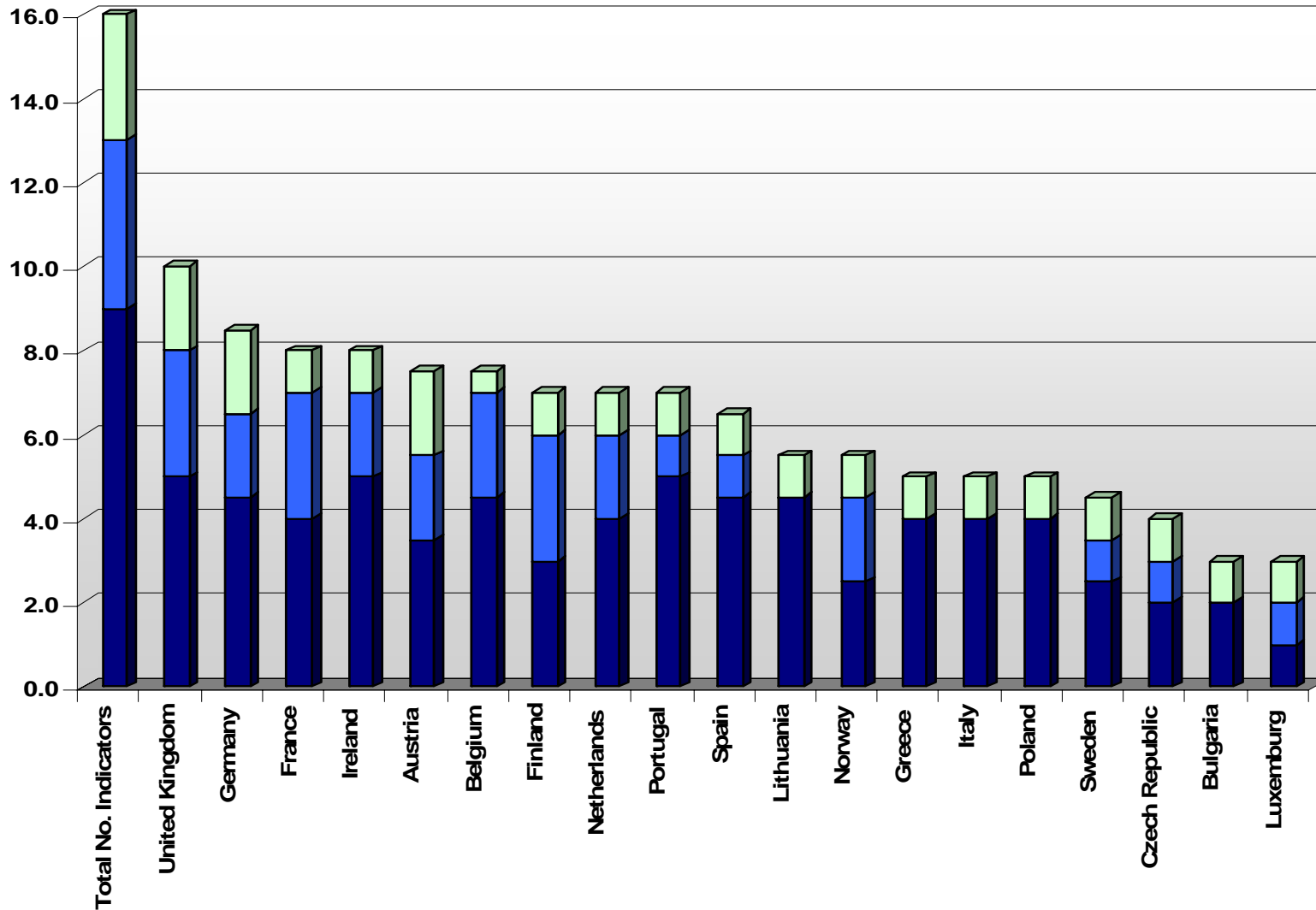
Table 1. Indicator availability (Status: 29.9.2007), cont.

		Austria	Belgium	Bulgaria	Czech Republic	Finland	France	Germany	Greece	Ireland	Italy	Lithuania	Luxemburg	Netherlands	Norway	Poland	Portugal	Spain	Sweden	United Kingdom
<b>Legal/admin Indicators</b>																				
<i>Court-arranged solutions to debt</i>	Insolvencies / bankruptcies	X	X		X	X	X	X		X			X	X	X		X	X	X	X
	Enforcement procedures debt recovery																			
<i>Other administrative indicators</i>	Debt write-offs by creditors	X	X			X	X	X							X					X
	Number of repayment plans		(X) <sup>1</sup>			X	X			X				X						X
<b>Subjective indicators</b>																				
<i>Self-reporting to debt advisory agencies</i>	Number of cases	X						X												
	Number of calls																			X
<i>Self-reporting in questionnaire</i>	Reply to questions about difficulties	X	(X) <sup>2</sup>	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X

<sup>1</sup> only in Wallonie (Belgium)

<sup>2</sup> nothing specific besides EU-SILC (Belgium)

Figure 1. 'Data-intensive' Countries



■ Sum economic indicators

■ Sum admin/legal indicators

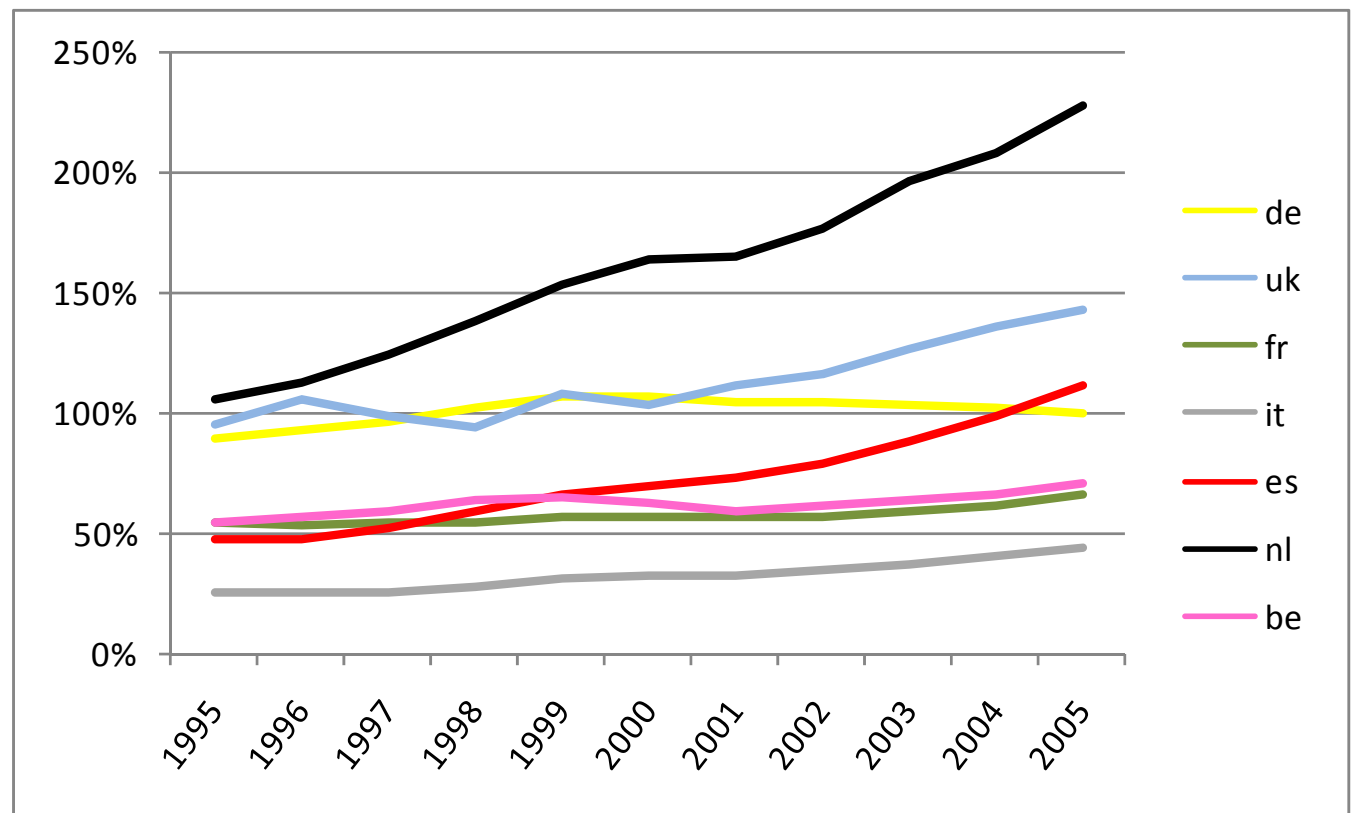
■ Sum subjective indicators

## Example of an economic indicator: Debt to income ratio

The debt to income ratio calculated according ESA 95 national accounts standards allow for international comparisons.

Three countries experienced the biggest increase of their debt to income ratio from 1995 to 2005: the Netherlands, the United Kingdom and Spain.

Household Outstanding Amount of Debt/Gross Disposable Income

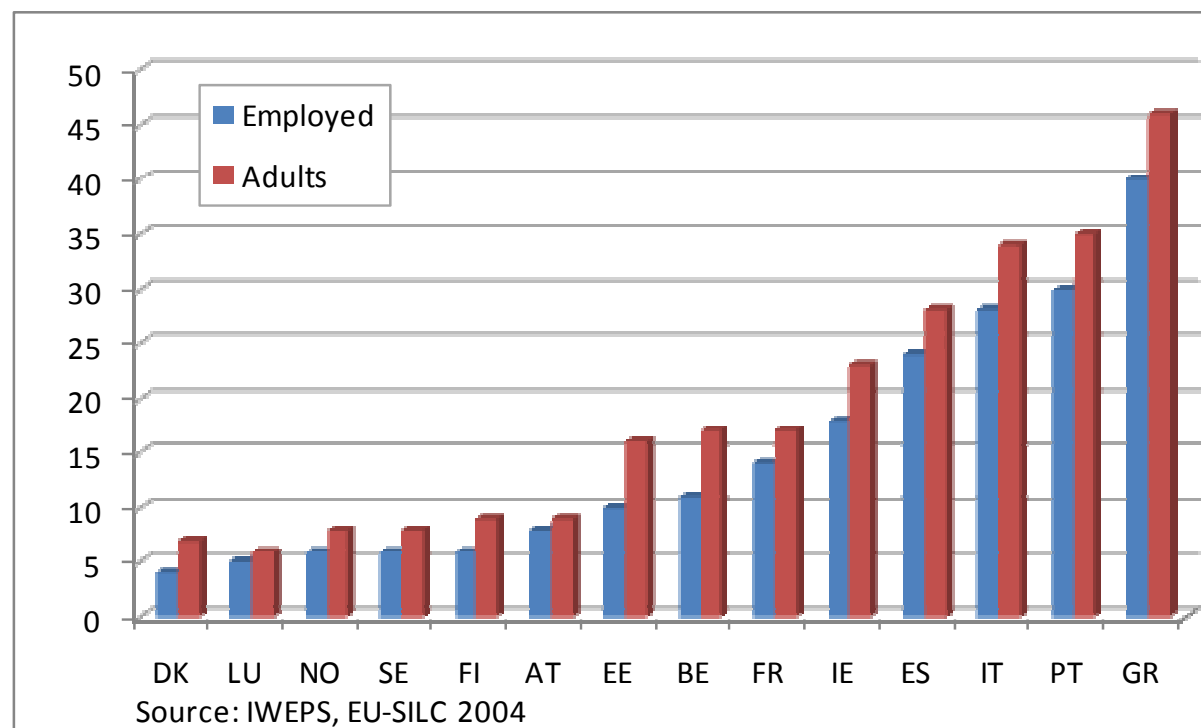


## Example of subjective indicator: Difficulties to make ends meet (% adult population)

The EU-SILC, which surveys a panel of respondents each year, routinely includes subjective measures of over-indebtedness.

In Southern European Countries, households are more likely to have financial difficulties. In those countries, households will have more chances to be over-indebted.

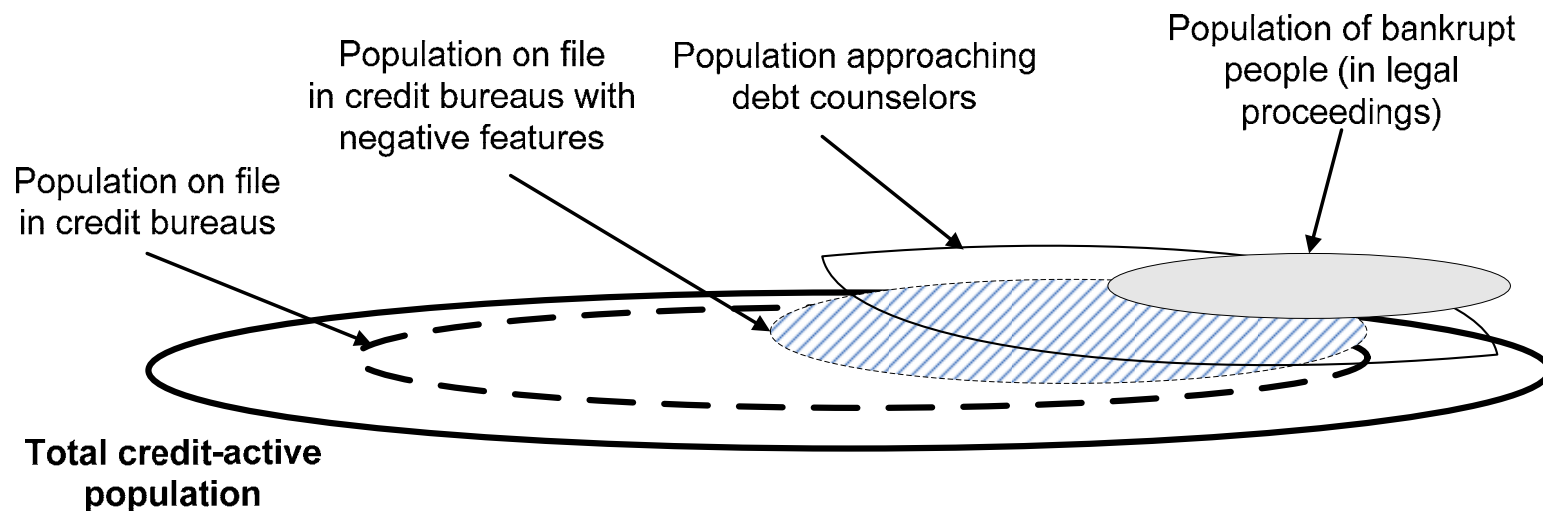
% of Employed/Adults with Difficulties to Make Ends Meet



## Some statistical problems:

- Availability:** Not all indicators are available across the countries
- Timeliness:** Not all indicators are accessible at the same time
- Accessibility:** Not all indicators are publicly accessible
- Coverage:** Indicators will cover different groups of population

**Figure 2. Sub-populations covered**





### European Surveys:

#### **Eurobarometer:**

- Reflection of attitudes towards common market
- Twice a year, new sample each time
- Other focus (integration)
- Already includes questions relating to payment difficulties

#### **EU-SILC:**

- Social indicators for Europe
- Panel survey
- Already has questions relating to payment difficulties
- Most promising vehicle for information for OI indicators

### European Surveys, continued:

#### Three categories of questions on EU-SILC:

**Arrears:** Mortgages, rent, utility bills, loans and hire-purchase

**Liquidity:** Ability to make ends meet,  
Capacity to meet unexpected expenses

**Financial burden:** Total mortgage burden, repaying loans & hp

**These can be used individually or in combination to measure early stages of financial difficulties!**

### European surveys (2):

**Table 3. Questions asked in EU-SILC**

Identification	Type of questions/variable
<b>HS010</b>	Arrears on mortgage or rent payments
<b>HS020</b>	Arrears on utility bills
<b>HS030</b>	Arrears on hire purchase instalments or other loan payments
<b>HS060</b>	Capacity to face unexpected financial expenses
<b>HS120</b>	Ability to make ends meet
<b>HS130</b>	Lowest monthly income to make ends meet
<b>HS140</b>	Financial burden of total housing costs
<b>HS150</b>	Financial burden of the repayment of debts from hire-purchase or loans
<b>HY010</b>	Total household gross income
<b>HY020</b>	Total disposable household income
<b>HY022</b>	Total disposable household income before social transfers other than old-age and survivors' benefits
<b>HY100G/HY100N</b>	Interest repayments on mortgage

### Preliminary Conclusions:

1. Probably re-phrase and use expression *over-commitment*  
→ *This reduces misunderstandings!*
1. Use pan-European vehicle for questions!  
→ *This reduces methodological problems!*
3. Choose a simple indicator which is measuring *effects!*  
→ *This increases transparency!*
4. Choose regular repetition of survey  
→ *Increases analytical value of data!*