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A landscape of the different ways debt advice is  
provided in the EU

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# Debt advisory services: the framework

*Definition:* support, in the form of information and help, for individuals who are unable to meet their economic and financial commitments (secured and unsecured debt, household bills, ...) or are at risk of being unable.

*Aim:* prevention, alleviation, economic rehabilitation.

This topic is relevant given the worsening in the economic and financial situation of European households since the 2008 crises. Over-indebtedness has implications on: individuals, financial stability, economic growth. It can be caused by a variety of interrelated causes. Microdata highlights heterogeneity; phenomenon that needs to be addressed on several fronts (Anderloni et al. 2012; Albacete and Lindner 2013; Ottaviani 2011).

<i>Household size</i>	Debt service income ratio	<i>Work status</i>	Debt service income ratio	<i>Age</i>	Debt service income ratio	<i>Percentile of income</i>	Debt service income ratio
1	14.2	Employee	13.9	16-34	15.4	Less than 20	26.5
2	12.6	Self-employed	16.7	35-44	16.1	20-39	16.5
3	14.0	Retired	11.3	45-54	13.0	40-59	15.0
4	14.6	Other not working	15.1	55-64	11.7	60-79	14.0
5 and more	15.8			65-74	12.2	80-100	11.2
				75+	8.4		

Source: European Central Bank (2013), The Eurosystem Household Finance and Consumption Survey.

Reports stress an ongoing increase in the demand for debt advisory services (Eurofound 2012; Civic Consulting 2013).



# The provision of debt advisory services

Debt advisory services are provided by different organizations, which can be classified, according to the nature of the owner, as:

<b>National, regional, local public authorities, and publicly funded organizations</b>	<b>Non-governmental organizations</b>	<b>Consumer associations</b>	<b>Private for profit companies</b>
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Not mutually exclusive: debt advisory services may be provided by several types of organizations within each country (Eurofound 2012; Civic Consulting 2013)



# National, regional, local public authorities, and publicly funded organizations

## *Public authorities:*

- Statutory duty to provide debt advice services to households with debt problems.
- Debt advice is incorporated within other public services.
- Funded by the government; basically free of charge for debtors.
- Workforce: government employees, or outsource to private companies. In small municipalities, the work is often managed by a single person.

## *Publicly funded organizations:*

- Separate organizations that are fully government-funded, with local offices that cover the entire country (MABS in Ireland, CAB in UK).
- Free for users, employees not necessarily civil servants.
- Debt advice is the core activity.

*Austria, Germany, Estonia, Finland, Hungary, Ireland, Luxembourg, Latvia, Netherlands, Sweden, Uk.*

*E.g.: ARGE Schuldnerberatung (Austria); Arbeitsgemeinschaft Schuldnerberatung der Verbände AGSBV (Germany); Swedish Consumer Agency (Sweden); Money Advice and Budgeting Services MABS (Ireland); Service d'information et de conseil en matiere de surendettement (Luxembourg); Citizens Advice Bureau CAB (UK)*



# Non-governmental organizations

- Specialised debt advice service.
- Task force includes banking and social experts as councillors.
- Mainly funded by for-profit companies as a form of corporate social responsibility (SMEs and big companies).
- Usually free of charge for users.
- Workforce: both volunteers and paid staff.

*Austria, Belgium, Czech Republic, Germany, Finland, France, Hungary, Ireland, Italy, Latvia, Malta, Netherlands, Poland, Uk*

*E.g.: Debt Advisory Centre – Counselling in Stringency (Czech Republic); Openbaar Centrum voor Maatschappelijk Welzijn OCMW, Centre Public d'Action Social CPAS (Belgium); Crésus, Archime'd (France); Diakonischer Werk (Germany); Schuldhulp Maatje, Kerk in Actie (Netherlands); Caritas (Italy, Malta, Germany, Portugal); Latvian Borrowers Union (Latvia); Saint Vincent de Paul Society (Ireland); Hungarian Anti-Poverty Network, Association for Youth (Hungary); StepChange Debt Charity, National Debtline (UK)*



# Consumer associations

- Debt counselling incorporated within other public services.
- Consumer organizations, or consumer organizations focusing on banking services.
- Funded by their members (and by revenue from sales of magazines about consumer products); they may also receive public funds or be partly financed by private for-profit companies.
- Basically free of charge for users (with the exception of membership fees); a fee is often charged for specialized legal services.

*Austria, Belgium, Bulgaria, Cyprus, Germany, Denmark, Greece, France, Spain, Italy, Portugal, Romania, Slovenia, Slovakia, Uk*

*E.g.: Adiconsum (Italy); Portuguese Association for Consumer Defense DECO, Portuguese Association of Banking Service Users APUSBANC (Portugal); ADICAE (Spain); Association of Slovak Consumers (Slovenia)*



# Private for profit companies

- Provided by financial service companies, solicitors.
- The focus is on debt restructuring and law advisory.
- It is a business that after the 2008 crises has become profitable.
- Funding comes from fees charged to users

*Austria, Belgium, Cyprus, Germany, Spain, France, Lithuania, Latvia, Ireland, Sweden, Malta, Poland, Portugal, Uk.*

*E.g.: New Beginning, “Mortgage Arrears Information and Advice Service” funded by banks (Ireland); Lithuania (financial services providers); Decisions and Solutions, Planoviarel (Portugal); Debt Advice Ireland, Debt Advisory Centre, Debt Help Ireland (Ireland)*



# High level of heterogeneity

• Apart from the nature of the organization providing debt advice, debt advisory programs may vary by:

- a. the stage at which they are provided;
- b. the content of the programs;
- c. the format through which advice is provided.

*In framing a typology of debt advice, each of these elements should be taken into consideration*

Different availability and quality of debt advice services across Europe:

1. *Different availability of services*: information provision, financial literacy, budget analysis and financial planning, legal advice and negotiation with creditors, social support and supervision.
2. *Diversified degree of specialization*: for some organization debt advice is the core activity, for others it is one of a broad spectrum of services. Workers: volunteers vs specialised
3. *Unequal availability across EU*: different degree of development and availability



# Some key elements to identify best practices: literature review

## Impact on the degree of effectiveness

### Timely access

- reach households with debt problems or financially vulnerable;
- at an early stage to prevent overindebtedness from occurring or deteriorating.

### Sustainability solution

- household's current problems are solved;
- the solution is sustainable and the re-occurrence of debt problems is avoided

*Despite substantial growth in debt advisory services, there are very few published researches that provide empirical evidence on debt advice's impact on the prevention and management of overindebtedness (Hartarska, Gonzalez-Vega, 2006; Mammach, 2001; Meier and Sprenger 2013; Xiao et al. 2006; Mewse et al 2010; gathergood, 2012; Brennan et al 2011).*

### Studies underlying the effectiveness of ex-ante intervention

- Researches establishing empirically what appears intuitively reasonable: counseled borrowers default less often than non-counseled borrowers.
- Sample of low-income households that when through counseling prior applying for a loan (mortgages).
- Subjects (education and counseling): how to improve spending habits, how to keep track of living expenses, improve use of credit, measure the level of debt and the sustainability of debt.
- Difficulties in assessing the impact: data gathering, ensure consistency of results, finding control variables.

### Studies underlying the relevance of psychological variables

- Psychological variables play a relevant role in understanding the factors that lead some individuals to have debt problems: impulsivity, excessive optimism and overconfidence, locus of control
- Which elements, in counselling, have which effects on behavior
- Need to make information acquisition attractive to target population: impulsive individuals heavily discount the benefits of being financially literate, this may impair the effectiveness of education and advice. Also need to work in self-esteem.

***Key elements: what is useful, when, how and why***



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*Thank you for you attention*

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