



Main results of the study on households' over-indebtedness

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Context and objectives of the study

Role of the over-indebtedness in relation with inclusive growth, as foreseen by the EU-2020 strategy, and need to analyse the impact of the crisis;

Follow-up of DG EMPL study "*Towards a European operational definition of over-indebtedness*"(2008) .

Main objectives/sections of the study:

- 1 – Snapshot of the situation, including the definition of over-indebtedness
- 2 – Main causes of over-indebtedness
- 3 – Main consequences of over-indebtedness
- 4 – Measures and best practices to alleviate the impact of over-indebtedness on households



Information sources

Main information sources on households' over-indebtedness :

- The EU income, social inclusion and living conditions survey (EU-SILC)
- Data from other sources (Eurostat, ECB and National Central Banks, European Social Survey, etc.) on:
 - arrears (on utility bills, mortgages, financial commitments, or unsecured credit/loans).
 - debt settlement (court-arranged solutions to debt, repayment plans by debt advice agencies, debt write-offs by creditors).
 - other indicators, not necessarily measuring over-indebtedness as such (debt to income ratio, debt service burden, users of debt advice agencies).

Surveys specifically carried out for this study:

- 120 face-to-face interviews with over-indebted households in six Member States (FR, HU, DE, SI, ES, UK)
- 277 interviews with stakeholders and experts in all Member States (financial industry, civil society organisations, public authorities, independent experts)
- Stakeholder seminar held on January 2013.



Definition

No common European operational definition of household over-indebtedness. Some stakeholders stated that the definition they used was based on national law or legislation. Surprisingly little support for a better definition of over-indebtedness.

Nevertheless a **specific definition** was used for the study. Households are considered over-indebted if:

they are having – on an on-going basis – difficulties meeting (or falling behind with) their commitments, whether these relate to servicing secured or unsecured borrowing or to payment of rent, utility or other household bills.

This definition is not limited to the sole level of debts stemming from financial credits.



Level of over-indebtedness

EU-SILC of 2011: in the EU, **almost one in nine** of those surveyed (11.4%) has been in arrears with payments over the previous 12 months on utility bills, rent/mortgage, and/or hire-purchase/loan agreements due to financial difficulties.

But there is a wide variation in the levels and nature of the financial difficulties of households in individual Member States.

The proportion of people in **arrears on utility bills** in the EU (8.8%) was the highest among the overall arrears on key commitments.

Highest levels of arrears on utility bills in EU12 and Southern MS (BG, RO, LV and HU levels more than double the EU average in 2011).

Development of the overall level of arrears (as measured by EU-SILC between 2005 and 2011): without surprise, the majority of MS experienced an increase in overall levels of arrears, in particular since the onset of the financial crisis (2007-2008).

Types of over-indebted households

According to various sources including EU-SILC, Euro-barometer and households' interviews, **income** (and consequently poverty) would be one of the strongest predictors of over-indebtedness - the lower the income, the greater the risk.

Households with disposable incomes of less than 60% of the national median are among the most common types of over-indebted households.

The research also identified that the following groups are more at risk:

- younger people
- households with many children
- lone parents (greater risk for them than for two parent families)
- tenants - however, in certain countries, this relation is reversed – e.g. IE and ES;
- migrants and non-EU citizens.



Causes (1)

Among the drivers of households over-indebtedness, we identified, through the results of this study, two broad categories of causes:

- **exogenous causes**, namely the macro-economic factors (cost of living, income level and variations due to e.g. unemployment) and some personal circumstances (sickness, divorces, etc.);
- **endogenous causes**, namely possible wrong economic behaviours and poor financial choices by the households (types of credits, level of borrowing and poor financial management).

Exogenous causes seem more prominent than endogenous ones.

Nine out of ten respondents think that macro-economic factors are among the most important causes of financial difficulties. In addition, higher unemployment is associated with high arrears, while increases in disposable income are associated with lower frequencies of arrears.



Causes (2)

Concerning households financial management, the "*incapacity to deal with financial products*" and the "*lack of money management skills*" were chosen among the most important causes of over-indebtedness by nearly two-thirds of stakeholders.

According to the study, the use of unsecured credit is positively associated with the likelihood of arrears. A positive correlation was found between the level of consumer debt and the frequency of arrears and an even stronger correlation has been found between the level of consumer debt and the frequency of arrears on utility bills.

This may suggest that consumer credit is also used for daily life, not only for specific purchases.

In contrast, the total amount of money borrowed has a much less pronounced effect on the frequency of arrears.

A simple direct relationship between the levels of secured credit (mortgage borrowing) and the levels of arrears is not confirmed by macroeconomic data on debt outstanding.



Cultural attitudes

Attitudes vary between Member States, but stakeholders noted that historically a lot of significance used to be attributed to being debt-free.

This attitude has changed recently with the development of the financial sector and the introduction of a variety of new financial products accompanied by cultural valorisation of consumption.

However, most recently and due to the financial crisis, consumers are becoming more careful vis-à-vis taking credits.

From the interviews, it has emerged that many households struggle to be able to repay their financial commitments and are often ready to accept alternative solutions. This could suggest that the incidence of "abuse" by households (moral hazard) could be smaller than expected.



Consequences (1)

The specific consequences for individual households explored in the study can be regrouped as follows:

- Consequences that affect **personal welfare** (*reduced standard of living, social stigma and exclusion, deteriorating health and well-being, relationship difficulty or breakdown*).

- Consequences that can be considered **punitive** (*sanctions for non-payment, housing exclusion, financial exclusion, reduced labour market activity*).

This general picture is confirmed by the **household interviews** conducted for the study in 6 Member States.



Consequences (2)

- Effects on the financial industry: high level of household indebtedness may cause an increase in non-performing loans, impacting on bank balance sheets and leading to credit crunch.
- However, it is not clear to what extent the difficulties of banks to provide credit to the real economy may (partly) be linked to financial problems stemming from the non-repayment of retail credits.
- In general, the research has found that there are consequences of household over-indebtedness for the overall health of the economy in terms of aggregate demand, employment, and growth.
- In addition, stakeholders mentioned the negative impact of over-indebtedness on public morale and reduced social cohesion.



Prevention

- The early identification of households at risk is generally considered an adequate tool. However, stakeholders noted that measures to identify households at risk of becoming over-indebted at an early stage are common in only a few Member States.
- A commonly reported preventive measure is to require lenders to comply with responsible lending provisions (from the Consumer Credit Directive and from national provisions).
- In addition, financial education and responsible borrowing are considered by the respondents as important to prevent poor financial choices which might contribute to over-indebtedness.



Measures to alleviate the impact (1)

- **Debt advice** is considered quite effective (for example, research from the NL found that one euro invested in debt-advice means a saving of 3 euros of losses for the society).
- Unfortunately, debt-advice is not equally common in the EU (better developed and more widely available in EU15 than EU12).
- The majority of stakeholders consider that it should be adequately funded, in order to meet the demand in a timely manner and to provide comprehensive geographical coverage.
- The role of debt-advice is considered very positive also for helping consumers to deal with their debts: most consumers find the experience of over-indebtedness distressing, want to repay their debts, and if they are unable to, want to find an equitable solution to their debt problems.



Measures to alleviate the impact (2)

Measures allowing households to deal with their debts (without repaying them immediately and/or completely): in most Member States **informally brokered arrangements** are available but vary from case to case and between MS.

Formal out-of-court debt settlement procedures are less common and may differ substantially between Member States.

Court-based consumer insolvency procedures were reported to be available in most Member States, although in some cases legal procedures for dealing with consumer debt reported to be lacking.

However, some specific legal tools for the discharge of debts, such as the "personal bankruptcy" or the "datio in solutum" (analysed in previous studies) seem to be available in a few EU Member States only.

Direct financial support for households in debt seem to be relatively rare.



Thank you for your attention