TOWARDS A COMMON OPERATIONAL EUROPEAN DEFINITION OF OVER-INDEBTEDNESS

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If you are interested in receiving the electronic newsletter "ESmail" from the European Commission's Directorate-General for Employment, Social Affairs and Equal Opportunities, please send an e-mail to empl-esmail@ec.europa.eu — The newsletter is published on a regular basis in English, French and German.

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The European Savings Institute (Observatoire de l'Epargne Européenne, OEE) was created in 1999 with two goals: information and data collection on credit and savings and to encourage research that contributes to the public debate. OEE consists of financial institutions, professional associations and public institutions based in Europe. The OEE has in the past worked for the European Commission, the European Parliament and the European Central Bank. The team at the OEE included Didier Davydoff, Elodie Dessart and Grégoire Naacke. The OEE was the project leader and was in charge of the database and the handbook attached to the present report.

CENTRE FOR EUROPEAN POLICY STUDIES (BRUSSELS, BELGIUM)

The CEPS is a leading Policy Studies institution in Europe. It is situated in the nexus between academia, business and the public sector. It performs independent analysis of European policy matters and has a proven track record in conducting studies for the European Union. CEPS has two subsidiaries, the European Capital Markets Institute (ECMI) and the European Credit Research Institute (ECRI). In the past, CEPS has provided research to several international and national governmental institutions such as European Commission and World Bank. The research team at CEPS included Dr. Nicola Jentzsch, Filipa Figueira, Marc Rothemund and Wolf Mueller. CEPS wrote the third chapter entitled: "Definition and measurement of over-indebtedness".

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The Personal Finance Research Centre (PFRC) was established in 1998 by Professor Elaine Kempson, following re-location of the research programme from the independent Policy Studies Institute. Based within the University of Bristol, PFRC has gained a national and international reputation for high-quality policy-focused research encompassing all areas of personal finance. It is well-known in the UK for its work on over-indebtedness, beginning with the first study of credit use and financial difficulties in 1992. PFRC has considerable expertise in designing, undertaking and analyzing both large scale quantitative and in-depth qualitative research. It has conducted research for government departments, trade associations, regulatory bodies, charities and the private sector. The research team at PFRC included Professor Elaine Kempson, Adele Atkinson and Andrea Finney. PFRC wrote the second chapter entitled "Nature and causes of over-indebtedness: a review of literature" with the support of Luisa Anderloni (University of Milan) and the fourth chapter entitled: "Policy responses to over-indebtedness: A review across Europe"

This research project was conducted in close cooperation with the European Commission (Directorate-General for Employment, Social Affairs and Equal Opportunities) representatives.

It is impossible to cite all individuals who provided us with assistance across Europe. We are especially grateful to participants and speakers in the conference organised on 11 December 2007 by the European Commission in Brussels, where a preliminary version of this study was discussed. Many of their suggestions were incorporated in the final version of the present report.

The report is based upon detailed information provided to us by country experts in 19 European countries.

Country experts

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Belgium	Didier Noël and Frédéreic Rottier	Observatoire du Crédit et de l'Endettement
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Contents

1 Introduction

With the expansion of access to credit and the provision of new products in financial services, over-indebtedness of consumers is increasingly moving into the focus of the European public. Yet, so far there has not been one standard definition which is accepted throughout the European Union. This is one of the reasons why there are no comparable statistics that are informative about the current state, extent and past development of over-indebtedness in the individual EU Member States. Such lack hampers the evaluation of policy measures and undermines any well-founded discussion about the effectiveness of prevention measures.

In economics, the situation of over-commitment (this term is used synonymously with 'over-indebtedness') can be described as a temporary or permanent disequilibrium in the budget of a household resulting from expected or unexpected expenditure increases or from the household's income decreases. Over-commitment can arise from sudden shocks to expenditure or income flows or it might cumulate over time. It is important to note that this situation can arise for any household in any income bracket, but some might be more at risk than others. In addition, on the social and psychological level, over-indebtedness can have severe consequences for the affected individuals.

In the broader social context over-commitment on financial and other types of recurring obligations plays an increasingly important role. It is often a *consequence* of social exclusion, but equally it can be a direct *cause* of exclusion. It can lead to exclusion not only from financial services, but also from other spheres of economic life such as telecommunication, housing or even employment as well as cultural and social life.

Over-indebtedness of consumers has a European dimension. This is the reason why the European Commission started several initiatives to tackle the problem. First, the European Union is working towards a harmonised market for financial services – it is intended that in such a harmonized market, financial service providers compete internationally and consumers can chose a wide variety of products from different service providers in different countries. Creditors, on the other hand, will have to get a *complete picture of the indebtedness situation* of a borrower to be able to adequately estimate the risk inherent in lending to this consumer, thus credit reporting systems will play an important role for integrated credit markets.

In the past, there have been a number on initiatives at the European level to combat exclusion and over-indebtedness. We will not record them individually. One of the most recent actions, however, is that the European Parliament and the Council initiated a program to combat social exclusion which stretched over the period of 2002-2006 and had several targets, among them to improve the understanding of social exclusion with the help of comparable indicators.

The project "Towards a common operational European definition of over-indebtedness" had three interrelated objectives:

The first is to lay the foundation of a common definition of over-indebtedness that can be implemented on a European-wide scale. This European definition should facilitate the comparison of statistics across countries. In addition, it will enable the empirical analysis of policy measures and their effectiveness. The background to the creation of such a definition was the intensive review of the existing literature on the nature and causes of over-indebtedness. Furthermore, the answers to the questionnaires sent to national experts in 19 European countries enabled to find out what definitions might be considered as relevant and operational. For that purpose, statistical data corresponding to each indicator was collected in the countries covered and included in a database including available statistics on over-indebtedness and metadata relating to each type of data.

The second overall objective of the project is to produce an overview of the political, administrative and legal approaches to over-indebtedness in Europe drawn from the different social models that are applied in the 19 countries covered.

The third objective is to provide policy makers in European Member States with a handbook summarizing operational factors for an efficient policy to tackle over-indebtedness. The handbook also aims to help national authorities in gathering relevant data for measuring the effects of policies in that area. Linked to the handbook, a directory of institutions which play a role in each country as data providers or policy makers has been completed.

The remainder of this report is structured as follows: The second chapter focuses on the nature and causes of over-indebtedness. The third chapter is an overview of definitions and measurement of over-indebtedness. The fourth chapter reviews policies tackling with over-indebtedness.

2 Nature and causes of over-indebtedness: A review of the literature

2.1 Introduction

While there is widespread concern about the problem of over-indebtedness there is a good deal of confusion in the use of the term. Some commentators use it to refer just to borrowing, that is, mortgages and/or unsecured credit (see for example Betti et al, 2001; Reiffner et al, 1998). Others adopt a wider definition, to include people facing payment difficulties on household bills as well as mortgages and unsecured credit (see for example, Gloukoviezoff, 2006; Kempson, 2002).

For the purpose of the literature review, people are considered over-indebted if they are having difficulties meeting (or are falling behind with) their household commitments, whether these relate to servicing secured[1] or unsecured borrowing or to payment of rent, utility or other household bills.

With this in mind we have reviewed reports of original empirical studies that look at the nature and causes of over-indebtedness and have, for the most part, been published since 1995. There is very little literature about the problems of over-indebtedness in some countries such as Lithuania, where experts are only just beginning to discuss the problem, and so the review will not cover every country exhaustively. Indeed the lack of knowledge, and lack of recognition of the problem in some countries, is a major reason for undertaking this project on behalf of the European Commission.

Most of the studies discussed in the literature review have been undertaken in EU countries, although we also include key research studies undertaken elsewhere. These studies include some that have examined general over-indebtedness and others that focus on financial difficulties relating specifically to the payment of consumer credit, mortgages, rent, utility bills and other household bills. Some are studies of individuals; others of households. Whilst some studies are of households – consistent with the definition of over-indebtedness at the household level – others are of individuals.

This literature review is designed to be used as guidance for those seeking to identify the main predictors of financial difficulties and to understand the typical causes of such difficulties. As such, the literature review does not discuss methods in length, but focuses on the key findings of interest. Conflicting findings from different studies may be accounted for by differing methods and/or real differences due to location or other factors. There are also important regulatory and structural differences in the financial services sectors of different countries which will influence the levels of over-indebtedness and the factors most likely to be associated with financial difficulties. It is not possible within the scope of this review to discuss the relative strengths of these variations and influences; however an assessment of them has been made in our consideration of the key findings.

[1] Secured borrowing refers to a loan that is backed with an asset held by the borrower; often their home.

This literature review is structured as follows. In Section 2.2 we briefly describe reported levels of over-indebtedness in countries throughout Europe. Section 2.3, we discusses the key characteristics associated with over-indebtedness, and which of these may be considered predictors of over-indebtedness. Section 2.4 explores the various aspects of money management that have been researched in relation to financial difficulties. Section 2.5 pulls together the evidence from the previous sections and various sources of evidence on what the likely causes of over-indebtedness are. The terms financial difficulties and over-indebtedness are used interchangeably throughout this review, largely to improve the readability of the text.

2.2 Levels of over-indebtedness in Europe

Two surveys provide rare sources of comparable information about levels of over-indebtedness across Europe. The Eurobarometer survey provides a subjective measure of the levels of difficulties people face in paying bills (the types of bills are not defined) across all 25 EU member states[2]:

> *'Please tell me to what extent you agree or disagree with the following statement: You have difficulties paying all your bills at the end of the month'.*

The European Survey of Income and Living Standards (EU SILC)[3] also provides some subjective measures but also includes a measure of any arrears on bills for 26 countries across Europe (most of which are EU member states). This measure combines responses to three separate questions that relate to arrears at least once in the 12 months prior to interview on mortgage or rent payments, utility bills, and repayment of hire purchase or loan installments respectively for the household as a whole.[4]

It should be acknowledged that these are only two of the potential ways of measuring over-indebtedness that this study is assessing. Additionally, they are both subject to limitations, albeit for different reasons. In particular, the Eurobarometer question does not specify which types of bills should be considered, neither does it provide a defined reference period. The EU SILC question does not explicitly limit the definition of arrears to non-payment arising due to financial difficulties. Consequently, the two questions are likely to reflect different, but overlapping, social phenomena, and the different units of measurement (adults and households respectively) additionally make for limited comparisons.

Nonetheless, the measures from these two surveys do provide useful background information for the subsequent sections of this review of the literature review, looking at who is affected and the possible causes of over-indebtedness. Together, the two main measures we are considering help to provide a more complete understanding of the nature and causes of over-indebtedness.

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[2] There are now 27 member states, with Bulgaria and Romania joining in 2007.

[3] Also discussed in section 3

[4] We have also undertaken analysis of the three separate elements that make up the composite measure, by country only (see appendix Table A1). We have also analysed the EU SILC subjective measures, but have not reported these in detail as earlier analysis indicated that these were more closely related to measures of poverty than over-indebtedness *per se* (see Tables A2 and A3).

We have undertaken some simple analysis of the most recent release of each data set, the 2006 release of the Eurobarometer data (data collected in the early months of 2006) focusing only on adults aged 18 and over, and the 2005 release of the cross-sectional EU data for all private households. Overall figures are reported in this section, with information on the characteristics of those facing financial difficulties being incorporated into the literature review that follows.

Across all countries for which data is available, a significant minority of people reported being in financial difficulty according to these measures. In total, 13% of people said that they 'totally agreed' that they were having difficulties paying their bills, with a further 25% 'tending to agree' (Table 1). Reporting experience of arrears in the household was slightly less common, although still one in ten (10%) had been in arrears on at least one payment in the previous 12 months. It is clear that the extent of "over-indebtedness" varies considerably depending on the precise measure used (see also Appendix Tables A1 and A2).

Table 1
Percentages of adults having difficulties paying bills, and households in any arrears, by European state

	Difficulty paying bills (Eurobarometer, 2006)			Arrears (EU SILC, 2005)			
	Totally agree (%)[1]	**Tend to agree (%)**	***Base (n)***	***Any arrears (%)***	***Base (n)***	**Gini Index[2]**	**GDP per capita ('000s; PPP US$)[3]**
Sweden	4	9	973	*10*	*5,147*	25.0	30
Luxemburg	4	9	487	*4*	*3,622*	--	70
Denmark	5	8	978	*6*	*13,100*	24.7	32
Finland	5	14	971	*10*	*4,169*	26.9	30
Belgium	7	18	993	*7*	*5,137*	33.0	31
Czech Republic	9	20	1,011	*10*	*4,351*	25.4	19
Netherlands	9	14	1,025	*23*	*3,843*	30.9	32
Austria	10	24	1,032	*3*	*5,148*	29.1	32
Germany [4]	11 / 9	16 / 15	994/491	*10*	*11,228*	28.3	28
United Kingdom [4]	11 / 6	18 / 23	983/305	*6*	*9,820*	36.0	31
Estonia	11	21	954	*7*	*5,956*	35.8	15
Slovenia	11	30	1,012	*9*	*6,043*	28.4	21
France	13	25	1,003	*5*	*12,993*	32.7	29
Ireland	13	25	976	*8*	*6,085*	34.3	39
Slovak Republic	13	30	1,067	*6*	*4,620*	25.8	15
Spain	14	33	973	*14*	*8,287*	34.7	25
Hungary	14	32	985	*33*	*5,568*	26.9	17
Poland	14	27	965	*11*	*5,991*	34.5	13
Italy	19	40	977	*14*	*2,938*	36	28
Portugal	19	44	983	*23*	*16,263*	38.5	20
Malta	20	30	483	*--*	*--*	--	19
Cyprus (Republic)	21	27	483	*19*	*3,746*	--	23
Lithuania	23	34	944	*20*	*4,441*	36.0	13
Latvia	24	24	952	*11*	*22,032*	37.7	12
Greece	25	34	989	*9*	*9,754*	34.3	22
Iceland	--	--	--	*15*	*6,927*	--	33
Norway	--	--	--	*6*	*9,347*	25.8	38
Total	13	25	*23,989*	10	*196,556*	--	--

Source: "Any arrears" is derived from the EU SILC, 2005, household cross-sectional data. Base is all households (unweighted). Data weighted using household cross-sectional weight. "Difficulties paying bills" is derived from the Eurobarometer 65.1 February-March 2006 (May 3rd 2007 release). Base is all adults aged 18+ (unweighted). Data weighted using 'Weight Europe 25'.

[1]. The countries are listed in order, from lowest to highest, of reporting that they 'totally agreed'.

[2] The Gini Coefficient gives a measure of income inequality within a country, ranging from perfect equality=0 to perfect inequality=1. The Gini Index is the coefficient multiplied by 100. Source: United Nations (2006) 'Human Development Report 2006 335, Table 15: Inequality in Income or Expenditure'

[3] GDP per capita is given in 1000s as PPP US$ for 2004. Source: United Nations (2006) 'Human Development Report 2006 335, Table 1: Human Development Index'.

[4] Figures from the Eurobarometer are given for East Germany and West Germany (respectively) and Great Britain and Northern Ireland (respectively).

' -- ' indicates that the figures are not available for the country specified.

Table 2
Percentages of adults with difficulties paying bills by age
(Row percentages)

Answers to the question: "Please tell me to what extent you agree or disagree with the following statement: You have difficulties paying all your bills at the end of the month"					
AGE	**Totally agree**	**Tend to agree**	**Tend to disagree**	**Totally disagree**	***Base: All adults aged 18+ (unweighted)***
18-24	12	21	238	26	*2,277*
25-34	15	28	26	28	*3,749*
35-44	14	27	24	33	*4,378*
45-54	13	29	23	34	*4,095*
55-64	10	23	23	41	*4,178*
65+	10	21	23	43	*5,312*
Total	13	25	24	34	*23,989*

Source: Eurobarometer 65.1 February-March 2006 (May 3rd 2007 release). Data weighted using 'Weight Europe 25'. Base may not sum correctly due to missing responses.

It is interesting to note that research in the United Kingdom has found that the decline of arrears with age was much more pronounced for unsecured credit than it was for household bills (Kempson et al, 2004). This might also explain the Eurobarometer findings.

Even after taking other factors into account using regression analysis[5], age is generally found to be highly predictive of over-indebtedness. Findings tend to indicate that younger adults are most at risk of financial difficulties irrespective of other characteristics or circumstances (Atkinson et al, 2006; Berthoud and Kempson, 1992; Bridges and Disney, 2004; Kempson et al, 2004; Tufte,1999; Webley and Nyhus, 2001). Regression analysis of the EU SILC measure of any arrears finds that - after controlling for the influence of other socio-demographic characteristics and country of residence - the likelihood of falling into arrears peaked in households headed by someone in their 30s, and was also high for those in their 20s and 40s (Table A 3). A multivariate analysis of water debt in the UK suggested that there was a relationship between increasing age and decreasing levels of risk, but only up to the age of 60 (Herbert and Kempson, 1995).

[5] Regression analysis is a statistical technique that looks for relationships between outcomes of interest and other variables (such as age or home-ownership) that might explain that outcome.

2.2.1 Family type and number of children

Research shows that the presence of children increases the risk of over-indebtedness, especially in larger families and those with younger children. Single adult households also have a higher risk than couples.

Influence of children
Research in the UK, France, Belgium, the former West Germany and Portugal has found that the likelihood of being in financial difficulties increased if children were present in the household (Berthoud and Kempson, 1992; Frade et al, 2005; Kempson, 2002; Nivière, 2006; Observatoire du Crédit et de l'endettement, 2005; Springeneer et al, 2007). Analysis of the Eurobarometer data for 2006 confirms this to be the case across 25 countries when comparing couples with and without children, and single adults with and without children (Table 3). Moreover, it has been shown, with some consistency, that even after controlling for other factors, having dependent children in the household increases the odds[6] of over-indebtedness (Berthoud and Kempson, 1992; Bridges and Disney, 2004; Kempson, 2002; Poppe, 1999; Tufte, 1999; Webley and Nyhus, 2001). Similar analysis of the EU-SILC data supports this: families with dependent children had about twice the odds of experiencing arrears on bills in the past 12 months compared with those without children (Table A 3). This may be explained by the fact that families with children have a particularly high proportion of expenses that cannot be reduced (Nivière, 2006) and that the birth of a child is often accompanied by one parent reducing their working hours or ceasing paid work altogether.

Table 3
Percentages of adults with difficulties paying bills by family type
(Row percentages)

Answers to the question: "Please tell me to what extent you agree or disagree with the following statement: You have difficulties paying all your bills at the end of the month"					
FAMILY TYPE	**Totally agree**	**Tend to agree**	**Tend to disagree**	**Totally disagree**	***Base: All adults aged 18+ (unweighted)***
Single parent	28	32	17	20	*289*
Couple with child	14	26	25	32	*2,288*
Single no child	14	25	23	30	*8,339*
Couple no child	11	24	24	38	*12,790*
Other	17	25	21	24	*211*
Total	13	25	24	34	*23,989*

Source: Eurobarometer 65.1 February-March 2006 (May 3rd 2007 release). Data weighted using 'Weight Europe 25'. Base may not sum correctly due to missing responses.

6 'Odds' is used here to refer to the likelihood of something happening rather than not happening.

Table 4
Percentages of adults with difficulties paying bills by number of children
(Row percentages)

Answers to the question: "Please tell me to what extent you agree or disagree with the following statement: You have difficulties paying all your bills at the end of the month"					
Number of children	**Totally agree**	**Tend to agree**	**Tend to disagree**	**Totally disagree**	***Base: All adults aged 18+ (unweighted)***
0	11.9	23.1	23.5	31.4	*6,143*
1	11.7	26.9	24.1	35.2	*4,230*
2	12.2	25.3	23.2	36.5	*8,270*
3	12.6	25.0	23.8	36.1	*3,350*
4	18.5	24.5	21.7	32.8	*1,158*
5+	18.3	25.7	24.7	28.4	*838*
Total	12.6	24.9	23.5	34.3	*23,989*

Source: Eurobarometer 65.1 February-March 2006 (May 3rd 2007 release). Data weighted using 'Weight Europe 25'. Base may not sum correctly due to missing responses.

The risk of arrears has also been found to be highest in families where the youngest child was aged under five, although those where the youngest child was aged between five and ten also had a high incidence of arrears. The level then fell steeply with the age of the child (Kempson et al, 2004).

The number of dependent children in a family was also found to be highly predictive in logistic regressions[7]. So, even after taking into account characteristics such as age and income the more children people had, the greater was their risk of being over-indebted (Kempson et al, 2004; Poppe, 1999; Pyper, 2002; Worthington, 2006). A study of water debt, however, only observed increased risks of default when there were two or more dependent children present in a family (Herbert and Kempson, 1995).

Influence of number of adults and marital status
There are also links between levels of over-indebtedness and the number of adults in the household, with single people facing a much higher risk than couples. Studies in the Walloon region of Belgium, France, the former West Germany, Ireland, Portugal and the UK have shown that it was especially high among lone parent families (Nivière, 2006; Observatoire du Crédit et de l'endettement, 2005; Springeneer et al, 2007; Central Statistics Office (Ireland), 2005; Frade et al, 2005; Kempson, 2002). Again, the Eurobarmoeter confirms this to be the case (Table 3).

In the former East Germany, however, single adult households were at most risk of being in financial difficulties. Recent research in Finland indicates that, compared with 1997, an increasing proportion of adults seeking debt adjustments in court were living alone (Muttilainen, 2007). Administrative data in France also indicates that the majority of households registered as over-indebted had no dependents (Le Duigou 2000, Banque de France, 2005). Regression analysis shows that this evidence on the apparent association between lone parenthood and financial difficulties, however, needs careful interpretation.

[7] Logistic regression refers to a particular regression technique that can be used when there are only two possible outcomes (such as over-indebted or not over-indebted).

A study in Norway found that being a lone parent increased the odds of experiencing problems repaying consumer credit commitments, even when age and relationship breakdown as well as the debt-to-income ratio were controlled for (Tufte, 1999). Two studies in the United Kingdom, however, have found that being a lone parent was not predictive at all if income, age, the presence of children and, *crucially,* falls in income or relationship breakdown were taken into account (Berthoud and Kempson, 1992; Kempson et al, 2004). In other words, UK lone parents had higher levels of over-indebtedness because they were young, had children and had often faced a drop in income following a relationship breakdown. Our analysis of the EU SILC measure of any arrears in the past 12 months suggests further that it is the presence of children rather than the number of adults that is most relevant for predicting arrears, although being a single parent is associated with increased odds of arrears over couples with with children (Table A 3).

The Eurobarometer analysis provides more detailed information on the effect of marital status (Table 5). This confirms that single people have a much higher risk of self-reported problems paying bills. But it also reveals some subtle differences within these two groups. Among couples, the likelihood of payment difficulties was lowest among those who were married, especially if for the first time. It was considerably higher amongst those who were co-habiting and those who were remarried but even then only just above-average.
Single people who had never been married or lived with a partner had a similar likelihood of payment difficulties as married couples. Widowed people (who tend also to be older) did not have an above-average risk of financial difficulties. It was people who had previously been married or lived with a partner who had the highest risk – and especially so if they were married but separated – most likely indicating the impact of a relatively recent relationship breakdown (as separation precedes divorce).

A similar picture appears in relation to being in arrears in the past 12 months, according to multivariate analysis of the EU-SILC data. This found that, once other charactersitics such as the presence of children, income, and age were held constant, being separated or divorced was associated with the greatest odds of experiencing arrears (Table A 3). Being married or having never been married were both associated with the lowest odds of arrears. However, in this case, being widowed was also associated with relatively high odds, although before taking into account their other characteristics, people who were widowed appeared to be among those least likely to experience arrears (Table A 2).

Consistent with this finding, households where there has been a change in family circumstances (such as having a baby or relationship breakdown) are particularly likely to be in financial difficulty (Berthoud and Kempson, 1992; Kempson, 2002; Kempson et al, 2004; MORI 2005, Zweiter Armuts- und Reichtumsbericht der Bundesregierung, 2005). This is especially the case where there had been a relationship breakdown leading to separation and divorce. Household formation (for example, when becoming a householder after moving out of the parental home) and recent widowhood have also been found to be predictive (Berthoud and Kempson, 1992).

However, a study of mortgage arrears in the UK found that in half the cases the financial difficulties had preceded the family breakdown (and may well have contributed to it) while in the other half they followed the breakdown (and so may have resulted from it; Ford et al, 1995).

Table 5
Percentages of adults with difficulties paying bills by marital status
(Row percentages)

Answers to the question: "Please tell me to what extent you agree or disagree with the following statement: You have difficulties paying all your bills at the end of the month"					
	Totally agree	**Tend to agree**	**Tend to disagree**	**Totally disagree**	**Base: All aged 18+ (unweighted)**
MARITAL STATUS					
Couples					
Married	11	24.9	23.6	38.1	*12,580*
Remarried	14	19.9	24.0	39.3	*522*
Unmarried but living with partner	14	24.8	25.7	31.9	*1,976*
Singles					
Unmarried, never lived with partner	11	21.6	23.8	28.6	*2,952*
Unmarried, previously lived with partner	19	29.2	20.4	27.2	*975*
Divorced	19	29.1	20.6	29.2	*1,673*
Separated	28	31.0	16.1	23.4	*406*
Widowed	13	25.1	25.1	33.1	*2,622*
Total	13	24.9	23.5	34.3	*23,989*

Source: Eurobarometer 65.1 February-March 2006 (May 3rd 2007 release). Data weighted using 'Weight Europe 25'. Base may not sum correctly due to missing responses.

Some researchers have suggested that the propensity of domestic changes tend to be concentrated in the young (Berthoud and Kempson, 1992, found that an average of 1.5 such domestic changes such as forming a household, marriage, a new baby, and moving house had occurred in young households compared with others). This may suggest that the links between over-indebtedness and age and domestic changes were reflections of the broader life cycle characteristics of financial stability.

It is also important to note that in the United Kingdom, researchers found that family changes had a greater impact on the likelihood of arrears on unsecured credit commitments than they did on household bills (Kempson et al, 2004).

Several studies have looked at the effect of changes in family circumstance, controlling for the circumstances at the time of the interview (using regression analysis). These show that even after controlling for a range of socio-economic factors, relationship breakdown was a significant predictor of over-indebtedness on several different measures (Berthoud and Kempson, 1992; Poppe, 1999; Tufte, 1999) and was also a main predictor of self-reported debt problems (Rio and Young, 2005b).

Finally, it is worth commenting that whilst family circumstances may be associated with the likelihood of over-indebtedness, supportive family networks have also been found to reduce the likelihood of falling into arrears with repayments (Frade, 2004, Frade *et al,* 2005).

2.2.2 Income

People with the lowest incomes have generally been found to have the highest likelihood of financial problems, although such difficulties existed across the income range (Berthoud and Kempson, 1992; Kempson, 2002; Kempson *et al*, 2004; Mitrakos *et al*, 2005; MORI, 2005). In Belgium for example, just 11% of households requesting debt cancellations had annual incomes above €2,000 per month (Observatoire du Crédit et de l'endettement, 2005).

There is evidence from some studies (e.g. Kempson, 2002) that *equivalised* income (income per person in the household) rather than total income *per se*, was more strongly associated with over-indebtedness.

New analysis of the EU SILC data shows clearly that both *gross* and *disposable* household income is related to the likelihood of being in arrears (Table A 2). The one-fifth of households with the lowest gross incomes and disposable incomes had the highest likelihood of being in arrears (19% and 18% respectively). The percentage dropped markedly for those in the second lowest fifth (10% and 11% respectively), before decreasing steadily for each further group. Those with gross and disposable incomes in the highest fifth had only a small likelihood of experiencing arrears (3% and 4% respectively). Moreover the relationship between income and arrears remained once other factors (including the household structure) were taking into account in regression analysis (see Appendix Table A 3).

There are, however, caveats to this link between over-indebtedness and low income finding. One UK study (Kempson, 2002) found that it was only true for non-pensioner households; pensioner households on low incomes did not show increased levels of arrears or financial difficulties. Furthermore, Kempson and Atkinson (2006) found two groups of people who were struggling financially. One group (the larger of the two) had very low incomes; the other had incomes that were slightly above median income but they also had heavy credit commitments (a point we return to below). Indeed one in ten of them had incomes that were equivalent to the top 20% of household incomes in the UK.

A number of studies using multivariate analysis[8] have confirmed that household income has an independent effect on the risk of over-indebtedness and the lower people's incomes the greater the risk (Berthoud and Kempson, 1992; Bridges and Disney, 2004; Herbert and Kempson, 1995; Poppe, 1999; Webley and Nyhus, 2001; Stamp, 2006). Stamp (2006) also showed that housheolds living on low incomes were more likely to face persistent over-indebtedness.

A study of water debt, however, observed a threshold effect with income, whereby those on moderate weekly incomes were no more likely than the wealthiest groups to be in arrears (Herbert and Kempson 1995). More general studies have found that *disposable* income was a more significant predictor among home owners in the UK (Kempson and Atkinson, 2006).

Multivariate analysis has also shown that financial shocks leading to loss of income lead to an increased risk of financial difficulties (as we shall discuss in detail in section 2.6). In other words, some people get into difficulty because they have a persistently low income; others do so because

[8] Multivariate analysis considers the relationship between more than two variables.

they have seen their income fall – and the lower the income they are left with, the greater their risk of being over-indebted.

2.2.3 Employment status

Perhaps not surprisingly given the link with income, not being in employment has been found to be associated with an increased likelihood of over-indebtedness in some countries, such as the UK, Belgium and former East Germany. This was true where the household was looking after the home full-time or, was unable to work through ill-health or disability and especially where they were unemployed. Retired people did not, however, experience this increased risk (Berthoud and Kempson, 2002; Kempson, 2002; Kempson et al, 2004, Springeneer et al, 2007; Observatoire du Crédit et de l'endettement, 2005). A study of mortgage arrears in Ireland in the 1990s also indicated a link between arrears and unemployment (Kearns, 2003), as did survey analysis of debt counselling agencies across Germany (Korczak, 2000).

Table 6
Percentages of adults with difficulties paying bills by economic activity
(Row percentages)

Answers to the question: "Please tell me to what extent you agree or disagree with the following statement: You have difficulties paying all your bills at the end of the month"					
	Totally agree	**Tend to agree**	**Tend to disagree**	**Totally disagree**	**Base: All adults aged 18+ (unweighted)**
OCCUPATION					
Self-employed	13.7	25.3	24.4	33.1	1,719
Managers	5.7	15.3	24.5	51.7	2,539
Other white collars	9.9	25.1	26.1	35.8	2,611
Manual workers	14.7	29.7	24.5	28.6	4,994
House person	17.0	28.7	22.7	27.8	2,292
Unemployed	25.6	31.5	18.1	19.3	1,496
Retired	10.2	22.5	22.9	41.1	6,968
Students	8.1	18.5	22.1	23.0	1,370
Self-employed	13.7	25.3	24.4	33.1	1,719
Employed	11.3	25.1	24.9	35.9	10,144
Not working	13.5	24.6	22.1	33.0	12,126
Total	12.6	24.9	23.5	34.3	23,989

Source: Eurobarometer 65.1 February-March 2006 (May 3rd 2007 release). Data weighted using 'Weight Europe 25'. Base may not sum correctly due to missing responses.

Analysis of the Eurobarometer data confirms that the unemployed are most likely to face difficulties paying their bills (Table 6), as does the EU SILC in relation to arrears (Table A 2). We can see that it is important to distinguish between those who are 'unemployed' and the less detailed category 'not working'. Analysis of the Eurobarometer shows that this is explained by the inclusion of students and retired adults in the category 'not working' – two groups who are less likely than average to face financial difficulties. Students, along with managers and other white collar workers are among those who are least likely to be showing signs of financial stress. There is no consensus as to whether or not there is a significant relationship between unemployment (as opposed to becoming unemployed) and financial difficulties once other factors are taken into account. Long-term unemployment (itself an indicator of persistent low income) has been found to be predictive of over-indebtedness in the UK and Norway even when income has been controlled for (Berthoud and Kempson, 1992; Poppe, 1999). A more recent study of over-indebtedness among home owners in the UK found that having no earners in a household (whether or not they considered themselves to be unemployed) raised the odds of financial difficulties by a factor of three (Kempson and Atkinson, 2006). These findings are corroborated by our analysis of the EU SILC for the European countries covered by the data: households in which the head of household was unemployed were most likely to report arrears once other characteristics including disposable income and household structure were taken into account (Table A 3). On the other hand, a study of families with children did not find that unemployment was predictive once income falls were controlled for (Kempson et al, 2004).

In contrast to these findings, Springeneer et al (2007) found that, in the former West Germany, the over-indebted were most likely to be receiving an earned income and similar findings were reported from a study of advice service users in Portugal (Frade et al, 2005). Recent analysis of EU SILC data for Ireland has found that the proportion of employed becoming over-indebted is increasing there (Central Statistics Office, 2005).

In addition to economic status *per se c*hanges in economic activity were also found to be associated with higher levels of financial difficulty (Berthoud and Kempson, 1992; Costa and Pinto, 2005). And, significantly, job loss was found to have a prolonged effect even after a return to work (Berthoud and Kempson, 1992).

2.2.4 Housing tenure

Living in rented accommodation has been found to be associated with an increased likelihood of being in financial difficulties in Belgium, France and the UK (Banque de France, 2005; Berthoud and Kempson, 1992; Kempson, 2002; Kempson et al, 2004; Observatoire du Crédit et de l'endettement, 2005). The UK studies showed that the risk was higher for people renting in the social housing sector than it was among tenants of private landlords (Berthoud and Kempson, 1992; Kempson, 2002; Kempson et al; MORI, 2005). This finding should be interpreted carefully as it almost certainly reflects UK housing policy. In the UK, living in social rented accommodation tends to act as a proxy for long-term poverty, since only those who have been on very low incomes for a long time are eligible for such housing.

In this context it is also interesting to note that homeownership has been identified as being associated with a lower risk of over-indebtedness in two countries – the UK and Norway – with levels of owner-occupation that are above the European average (Berthoud and Kempson, 1992; Bridges and Disney, 2004; Kempson et al, 2004; Poppe, 1999). In the UK the odds of being in arrears were 2.3 times higher for tenants compared with owner-occupiers (Kempson et al 2004). At the same time, it should also be acknowledged that the risk of financial difficulties was higher for households buying their home on a mortgage than it was for out-right owners.

2.2.5 Other factors

The effects of a range of other factors have been tested in specific studies, including ill-health, ethnicity and personality traits. A study of debtors applying for debt adjustment through Finnish courts found that *ill health* was a common reason for people facing difficulty repaying their creditors (Muttilainen, 2007). Aspects of poor health have been found to be positively correlated with over-indebtedness even when other factors such as age, economic activity and income are taken into account (Kempson et al, 2004; Tufte, 1999). A study in the Netherlands has found a similar association with obesity (Webley and Nyhus, 2001). We cannot, however, tell from these studies whether ill-health causes over-indebtedness or is a result of it. A cross-sectional study of students in two British universities suggested the latter was the more likely situation, finding two pathways between the amount of outstanding debt and psychological ill-health, one mediated by considering dropping out, and the other by working longer hours outside university (Roberts et al, 2000). A similar, comparative study of British and Finnish students, which found that financial concern (and *not* the amount of outstanding debt) was independently predictive of poor physical and mental health, drew the same conclusion about the direction of the relationship (Jessop et al, 2005).

Hardly any studies have investigated the influence of ethnicity, in some cases because sample sizes were too small and in others (as in France) because data are not collected. However, one using a large data set from a panel survey found that people in the UK from non-white backgrounds were more likely to self-report problems with credit commitments when other factors were controlled (Del-Rio and Young, 2005b). It is, however, important not to read too much into these findings as it is very simplistic to look at all minority populations together as they are usually very diverse.

Indicators of financial exclusion have been found to be associated with over-indebtedness, even when income was controlled for. However, financial exclusion is not a factor that is typically examined in statistical studies. In one study, lacking a bank account was found to be independently predictive of over-indebtedness among private households of all types. Interestingly, though, was not the case in relation to just those families with children in the same study (Kempson et al, 2004) and a study in the early 1990s also did not find this effect among all households (Berthoud and Kempson, 1992). A study by a German credit agency (Schufa Holding AG, 2006) found that *psychological* factors play a part, and people with an external locus of control were more likely than others to be over-indebted. However, other personality factors, which they describe as the Big Five (extroversion, conscientiousness, neuroticisms, openness to experience, compatibility), were not associated with a greater likelihood of difficulty.

2.3 The impact of aspects of money management

A range of research studies have shown that it is not personal characteristics alone that play a role in the risk of over-indebtedness faced by people. Various aspects of money management have also been found to be important, including attitudes towards paying bills and budgeting styles, the use of unsecured credit and the possession of savings. Each of these are explored below and developed further in the final chapter.

2.3.1 Approaches to paying bills and budgeting

Although psychological characteristics have not been examined in many of the general surveys of households in financial difficulties, there is evidence that attitudes towards payments do influence the level of problem debts (Berthoud and Kempson, 1992).

Those who placed high importance on making payments, even if this meant going without other things, were much less likely to have problem debts. Such attitudes may partly reflect age, as older people tended to attach high importance to keeping up with payments (Berthoud and Kempson, 1992). More specific research, looking at water debt, also found a link between attitudes to bill-payment and arrears on water bills (Herbert and Kempson, 1995). However this research also included multivariate analysis, which showed that when attitudes were included in the model, the impact of age on arrears reduced but did not disappear altogether. In other words, attitudes have an independent effect and suggests that only part of the reduction in likelihood of over-indebtedness with increasing age can be attributed to older people's attitudes to payment (Herbert and Kempson, 1995).

Qualitative studies[9] have also identified the role played by attitudes to payments. These have tended to find that people who are disorganised and have a relaxed approach to bill payment have a much higher likelihood of being in arrears (Elliott, 2005; Frade, 2004; Rowlingson and Kempson, 1994; Whyley et al, 1997).

An early survey in the UK also found that budgeting over a weekly rather than a monthly period increased the risk of arrears, and that this persisted even when income was controlled for (Berthoud and Kempson, 1992). In other words, people who budget weekly do not get into financial difficulties just because they are on a low income (weekly budgeting is strongly associated with low incomes and a weekly income). Instead we need to find some other explanation, the most plausible of which is that people face difficulties when handling bills (which usually have to be paid monthly or quarterly) with a weekly wage and within a weekly budgeting cycle.

[9] Qualitative studies are based on the analysis and interpretation of a small number of detailed interviews or other observations, rather than the analysis of large datasets of numeric data.

2.3.2 Unsecured credit commitments

Use of unsecured credit is positively associated with the likelihood of arrears (Poppe, 1999). Studies that count the number of credit commitments held by a household have shown that the more credit commitments a household had, and the larger proportion of their income that they spent on repaying them, the more serious was the level of arrears (Berthoud and Kempson, 1992; Kempson 2002; Kempson et al, 2004). In contrast, the total amount of money borrowed – even when expressed as a proportion of income or assets – had a much less pronounced effect. This is almost certainly because people spread larger amounts over a longer period.

Both unsecured credit use and larger numbers of unsecured credit commitments have been found to be independently predictive of over-indebtedness (Berthoud and Kempson, 1992; Kempson, 2002; Kempson et al, 2004). A UK study of families with children found that, compared with non-users of credit, the odds of arrears for those with one credit commitment was increased by a factor of 1.6, rising to 3.7 for those with two commitments and 5.8 for those with three or more (Kempson et al, 2004). Personal communication with a large credit reference bureau suggests that people can find it difficult to be sufficiently organised to make all their repayments if they are repaying multiple creditors.

Research in Norway and the UK shows that high credit repayment-to-income ratios were predictive of payment problems on consumer credit. (Poppe, 1999; Tufte, 1999; Del-Rio and Young 2005b). And a study of home owners in the UK showed that high levels of payments on both consumer credit and mortgages were predictive of over-indebtedness when income was also included in the model (Atkinson and Kempson, 2006).
On the other hand, the total value of the borrowing – as opposed to the number of commitments or repayment to income ratio – has been found to be much less important in explaining levels of financial difficulties even after controlling for factors such as household income (Kempson, 2002; Worthington, 2006).

Moreover, it is worth noting that the attitude statements relating to spending (see section 2.4.4, below) had been found to be strongly associated with heavy credit use in an earlier study (Kempson, 2002), and that this relationship is independent of other factors such as age, family status, income and employment status, savings and housing tenure (Finney et al, 2007).

2.3.3 Savings

Savings provide a safety net in times of hardship. It is perhaps, therefore, no surprise that the absence of savings has been found to be related to heightened levels of being in arrears (Berthoud and Kempson, 1992). A second study found that savings of less than £1,000 were associated with increased levels of over-indebtedness across various measures (MORI, 2005).

It might also be expected that having liquid savings would protect people against financial difficulties, regardless of other factors. This has been confirmed by two studies of over-indebtedness in the UK using multivariate techniques. The first, a study of all types of household found that having no savings at all increased the odds of being in financial difficulty even after income was taken into account (Berthoud and Kempson 1992). The second looked at families with children and found a strong link with the amount of money held in savings, again after income (and in this case, income drops) were controlled (Kempson et al, 2004). Compared with families with very modest savings (£50 to £100) those with less or nothing at all, had almost double the odds of being in arrears with their commitments. The risk fell steeply with increased amounts saved, so that those with £5,000 or more had well under half the risk.

A further UK study has found that home owners who described themselves as a 'rainy day' saver (that is someone who saves money in case of emergencies) had only a fifth of the risk of financial difficulties compared with those who did not (Kempson and Atkinson, 2006).

2.3.4 Spending and consumerism

As might be expected, people who are avid shoppers and consumers have an enhanced risk of getting into financial difficulties. Research looking at people in the Netherlands, for example, has found that money management techniques and attitudes to spending had a significant effect on the risk of being over-indebted, independent of other factors (Webley and Nyhus, 2001). Attitudes to spending and saving were also highly predictive both of financial difficulties among home owners in the UK and also of financial difficulties resulting from a drop in income among all households. So that people who agreed with statements such as:

> *'I am impulsive and tend to buy things even when I can't really afford them'*
> *'I prefer to buy things on credit rather than wait and save up'*

or disagreed with the proposition that

> *'I am more of a saver than a spender'*

were more likely to be in financial difficulty, and were particularly likely to be in arrears with payments on consumer credit commitments (Kempson, 2002; Kempson and Atkinson, 2006).

Research undertaken across four European countries has also identified a clear link between compulsive shopping, over-borrowing and financial difficulties. This research classified a third (33%) of the adult population as 'addictive spenders', with 12% having a considerable addiction to shopping and 3% reaching levels that were 'pathological'. Although overall scores did not vary a great deal between the three participating countries (Italy, Scotland and Spain), there were some subtle differences in the make-up of their scores (Junta de Comunidades de Castilla-La Mancha, 2000).

2.4 Possible causes of over-indebtedness

We have seen that certain characteristics can be used to predict levels of over-indebtedness. Existing research provides a very consistent picture of the reasons why households get into financial difficulties: adverse financial shocks; persistent low income; poor money management; and over-commitment and over-spending. In this chapter we bring together findings on self-reported reasons for over-indebtedness in surveys and qualitative research to discuss possible causes of over-indebtedness.

2.4.1 Overview of causes

The reasons people themselves give for being over-indebted can be informative and powerful explanations of the problem. A number of studies have asked people to identify the reasons for their financial difficulties. Taken together, these studies indicate that people in financial difficulties most commonly cited drops in income and persistent low income as the reasons for their problems. Over-commitment was also cited, albeit less commonly, while money management was seldom mentioned. In other words they externalised the causes.

The balance of reasons has been found to vary between different types of debt, with over-commitment more commonly cited for default on consumer credit than for household bills. Moreover, it is very likely that the balance will also vary over the economic cycle, with income drops through job loss being cited more commonly as a reason for over-indebtedness in times of recession.

Qualitative research largely confirms the self-reported reasons for debt, but shows that financial mismanagement actually plays a much larger role than people seem prepared to admit to and often compounds other causes such as loss of income or low income to which people do attribute their financial difficulties (Elliot, 2005; Edwards, 2003, Frade, 2004). Indeed, this confirms the conclusion that can be drawn from multivariate statistical analysis.

2.4.2 Loss of income

Loss of income is typically the most common reason given by householders for their financial stress across a range of studies. In a general UK survey of over-indebtedness, loss of income was cited by just under a half of households as a reason for being in financial difficulties (45%), with job loss or redundancy specifically quoted by one in five such households (19%; Kempson 2002). Analysis of data from the Banque de France showed that, in 2004, three in ten people (31%) were over-indebted through redundancy or unemployment, slightly higher than three years previously (Gloukoviezoff, 2006). This confirms earlier research on the causes of over-indebtedness in France (Le Duigou, 2000). Qualitative research from Finland also indicates that unemployment is an important cause of financial difficulties amongst young adults (Koljonen and Romer-Paakkanen, 2000).

Loss of employment was also cited by a quarter (23%) of UK households facing mortgage arrears (Ford et al, 1994) and 12% of households with water debt (Herbert and Kempson, 1995). Loss of income through illness, accident or disability was cited rather less commonly. Even so, it was the explanation for 11% of people who were over-indebted in France (Gloukoviezoff, 2006); 13% in the former West Germany and 6% in the former East Germany (Springeneer, 2005); 6% of UK households with arrears (Kempson, 2002); plus 8% of UK households with mortgage arrears (Ford et al, 1994).

There is also wide-ranging statistical evidence that a shock to income is a powerful predictor of over-indebtedness. Indeed, drops in income have been found to be predictive of over-indebtedness independently of levels of income per se and also to have a rather larger effect

(Herbert and Kempson, 1995) or to supplant the effect of income altogether (Kempson et al, 2004).

Using a self-reported subjective measure of the extent to which unsecured credit payments are a burden ("financial distress"), Del-Rio and Young (UK; 2005a and 2005b) found that over-indebtedness was generally associated with financial shocks (a measure based on self-report of being worse off in the previous financial year and expectations for the following year), particularly for those with the higher levels of borrowing to income ratios. The effect of financial shocks on financial distress was stronger the more recently the shock had occurred. Younger people and those on low incomes faced risks because they typically had less financial security to back them up in times of difficulty.
It is also interesting to note in this context a study which has looked at the factors that are predictive of a drop in income (Kempson and Atkinson, 2006). This concluded that hardly anyone is immune from the risk of an income fall.

2.4.3 Low income

It is not only a change in income that can lead to financial difficulties. Low income *per se* has been cited as a reason for financial problems by a significant proportion of people in financial difficulties.

A general survey of over-indebtedness in the UK reported that 15% of households in arrears with their household commitments said they were in this position because their incomes were low (Kempson, 2002), and in Belgium, 19% of households that applied for a cancellation of debt blamed low income for their difficulties (Observatoire du Crédit et de l'endettement, 2005).

Likewise a study in Germany found that 8% in the West and 29% in the East were over-indebted through low income (Springeneer, 2005) and a German study of adults seeking debt counselling reported that 19% of respondent blamed their situation on persistent low income (Korczak, 2000). Zweiter Armuts- und Reichtumsbericht der Bundesregierung (2005) also reported a link between over-indebtedness and low income in Germany.

Low income featured more heavily in a UK study of water arrears (Herbert and Kempson, 1995): 23% of people reported defaulting on water payments because of low incomes. It was also found to be a very common explanation in a study of fuel debt, where a third (33%) of people in arrears with gas or electricity bills gave low income as the explanation (Rowlingson and Kempson, 1993). In both cases, qualitative research supported people's self-reports.

It is also worth noting that people's own reports indicate that unemployment (as opposed to job loss) is an important factor predicting financial difficulty in Germany. Unemployment was given as an explanation by a quarter (23%) of people in the former West Germany who were facing over-indebtedness and nearly half (46%) of those in the former East Germany (Springeneer, 2005).

Together, these findings support the theory that poverty – as indicated by long-term low incomes – is a common route into financial difficulties, and that the effects of low income appear more prevalent in those who have difficulties paying essential utility bills.

2.4.4 Money management

One might not expect people to admit that poor money management had caused their financial difficulties and when people are asked for their own explanations of their financial difficulties they tend to downplay it relative to other factors.

Even so, 19% of UK householders who were in arrears with their commitments attributed this to some aspect of poor money management (Kempson, 2002). Additionally, 20% of Germans who sought help from debt counselling claimed that they were inexperienced at using credit (Korczak, 2000), although a separate German study found that just 3% made the stronger claim that their mismanagement had led to their difficulties (Reifner et al, 2007).

The two main aspects of money management issues that have been identified as being linked to over-indebtedness are being disorganised and having a relaxed approach to money management. Surveys have consistently found that a minority of over-indebted people cite aspects of poor money management as a reason for their financial situation.

A quarter of householders in the UK who were in arrears with water payments attributed them to being disorganised (Herbert and Kempson, 1995). 15% said that they had overlooked bills, and a further 10% said they had difficulty due to unexpected bills. The authors observed that these reasons tended to be given more often by the better-off households than by poorer ones. On the other hand, those who were struggling financially tended to have missed payments because they prioritised other types of bill.

Unexpected, and unexpectedly high, bills were also cited by 10% of householders with payment arrears in the 1992 UK study of over-indebtedness (Berthoud and Kempson, 1992), by 12% of those in arrears in the 2002 (Kempson, 2002) and by 13% in 2006 (Waldron and Young, 2006). It is also worth noting that receiving unexpected bills was also found to be associated with increased odds of any payment problems (Poppe, 1999) and of problems meeting loan payments (Tufte, 1999).

Both qualitative and statistical research, however, have found that a relaxed approach to money management plays a rather bigger role as a cause of over-indebtedness than these self-reports would suggest, often compounding changes in circustance.

A UK qualitative study of water company customers, for example, found that approaches to money management, attitudes to bill paying and financial circumstances all interacted to influence bill-payment behaviour. People who had fallen seriously behind with their water bills tended to adopt a ‘relaxed’ approach to bill-payment and were inclined to delay paying bills until they could no longer be avoided. At the same time, they often lacked the money to pay the bill (Whyley et al, 1997). Likewise, qualitative research on credit card default in the UK found that approaches to money management were important and identified three traits that typified defaulters: being disorganised, giving low priority to paying credit card bills and having no understanding of the payment rules (Rowlingson and Kempson, 1994). Similar findings, particularly with regard to disorganised money management, also emerged from UK studies of gas debt and disconnection (Rowlingson and Kempson, 1993) and water debt (Herbert and Kempson, 1995).

Three recent recent qualitative studies have identified that poor money management both compounded a drop in income and was a primary cause of financial difficulties. This included a studies of people in the UK who had been over-indebted for over two years (Kempson and Atkinson, 2007); people who had sought help from a UK debt advice centre (Elliott, 2005) and twon-dwellers in Portugal who had sought advice because of over-indebtedness (Frade, 2004). It should be noted however that the Portugese study drew very different conclusion about people living in rural areas who had lost their jobs, most of whom had given up all non-essential spending.

2.4.5 Over-commitment and over-spending

Similarly, one might not expect people to say that they had got into arrears through over-commitment or over-spending but to look, instead, for external factors to explain their situation.

Financial over-commitment was, however, reported as a reason by one in ten (10%) of over-indebted householders in the UK (Kempson, 2002). This was rather lower than the 24% found in a similar survey undertaken in 1992 (Berthoud and Kempson, 1992), or the 23% of over-indebted households in Belgium that cited a standard of living superior to their financial means as a cause of their over-indebtedness (Observatoire du Crédit et de l'endettement, 2005).

In France, 15% of people said were over-indebted through taking on too many credit commitments (Gloukoviezoff, 2006), and the problems of over-commitment were also evident from qualitative work amongst young adults (aged under 25) in Helsinki (Koljonen and Romer-Paakkanen, 2000). A study in Germany did not distinguish over-commitment from poor money management but found that 21% of people in the West and 27% in the East were over-indebted for one of these two reasons (Springeneer, 2005).

The extent to which over-commitment was given as a reason appeared to vary between various types of debt: only 2% of people in the UK said that over-spending accounted for their water payment default (Herbert and Kempson,1995), and five percent gave this as a reason for being in arrears with mortgage payments (Ford et al, 1995). On the other hand, previous UK based research showed that 18% of people attributed their default on credit cards to over-commitment (Rowlingson and Kempson, 1994).

In 2006, the Bank of England reported that almost three in ten people claimed that their debt problems were caused by overspending (Waldron and Young, 2006) and a study in Trofa, Portugal found consumption patterns to be important determinants of difficulties (Costa and Pinto, 2005).

Again qualitative research shows that people under-play the importance of being over-committed or over-spending when asked to give the reason for their financial difficulties.
An early UK study of credit card default showed that, although many people attributed their missed payments to a fall in income, in reality their problems often stemmed from using consumer credit to mainstain their lifestyle after the income drop (Rowlingson and Kempson, 1994).

More recently, a Portuguese study compared people who had lost their job with those who had sought advice because of over-indebtedness following job loss. What distinguished the two was the continued heavy consumption and use of credit among the over-indebted advice seekers, along with poor budget management. Interestingly, this was more of a problem in urban areas than in rural ones (Frade, 2004).

Likewise, debt advice seekers in the UK included those who were spending without regard to their ability to repay the money borrowed and those who were categorised as 'financially naïve' in terms of their approach to budgeting, their optimistic view of their finances and their naïve views of the consequences of non-payment (Elliott, 2005). A recent longitudinal qualitative study in the UK re-interviewed people two years after they had been identified as being in financial difficulty. This showed that over-spending and continued credit use had compounded the problems faced by many of them (Kempson and Atkinson, 2007).

2.4.6 Complex causes

As with most complex social phenomena, there is unlikely to be a single simple cause of over-indebtedness. Rather, it is more likely that risk factors (such as low income) will work in combination with each other and with triggers (change in circumstances) in leading to over-indebtedness. Poor money management and over-commitment will tend to compound the problems faced. A UK quantitative[10] study of mortgage arrears observed that there was a rarely a single reason that could account for the difficulties people faced (Ford et al, 1995). And this is confirmed by qualitative research (see for example Elliott, 2005; Frade, 2004; Rowlingson and Kempson, 1994).

Various authors have noted the effect of different factors acting in combination. A study of payment problems among Norwegian households identified three groups of households that had high levels of financial difficulties (Poppe, 1999). These were young families with children, households with either high levels of borrowing or low income levels, or both, and those hit by powerful life events, including unemployment.

An early UK study observed that a combination of five factors correlated especially strongly with high levels of over-indebtedness: age, children, income, use of credit and attitudes to payments (Berthoud and Kempson, 1992). The more of these risk factors that affected a household, the higher was their likelihood of being over-indebted, so that three-fifths of those who were young, had children, were on low incomes, had many credit commitments and placed low importance on prioritising payments were over-indebted – five times the rate found among all households.

[10] Quantitative studies gather and analyse measurable data.

Further, a study of mortgage arrears in Scotland underlines the importance of interaction between causes such as job loss, health problems and relationship breakdown in the severity of financial difficulties (McCallum and McCaig, 2005). They found that home possessions resulting from payment default were most likely among those experiencing a combination of causes, whereas those who recovered from arrears had a single problem such as temporary loss of employment that resolved over time.

We began this report with a statistical analysis of the Eurobarometer data which showed a strong link with the overall prosperity of a country and also to levels of income inequality in a country. We have seen that certain groups of people – young people, those with children and people living in low-income households – are especially at risk. We have also noted that drops in income – through job loss or changes in family circumstances – can lead people to become at risk of financial difficulty. But money management, attitudes to spending and levels of unsecured credit use and of savings are also important. Indeed they explain why some people become over-indebted, while others with broadly similar personal characteristics and economic circumstances do not.

These complex inter-relationships mean that over-indebtedness will need to be tackled on a number of fronts simultaneously – a fact that will inform our analysis of the policy responses in individual member states.

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3 Definitions and Measurements of Over-indebtedness

The research makes a distinction between **“definition”** and **“indicators”**. A definition is a description of what should be regarded as over-indebtedness, whereas “indicators” can be used to measure it, in some cases definitions are directly intertwined with indicators. There is no single statistic that might serve as a measurement of a multi-dimensional phenomenon such as over-indebtedness, but a number of indicators can be used to identify the number of over-indebted households.

3.1 Definitions reviewed

The study has intensively reviewed a number of definitions used at the European level as well as in the individual Member States. We have looked at definitions that have been provided by public bodies (such as governments) as well as by private sources (such as academics and consultancy firms). It is recognized that there is no uniquely acknowledged definition and the concepts vary across countries, this is perhaps a reflection of the complexity of the issue itself. However, we were able to identify a number of underlying and common elements that are used by many of those definitions. In the following, we give a **concise overview of definitions at the European level as well as at the level of individual countries**. The details to these sections are given in the **Appendix B**.

3.1.1 Definitions at the European level

So far, the European Commission has not officially defined over-indebtedness. However, there are a number of proposals and descriptions in the public debate.

For instance, in 2000, the **Economic and Social Committee** stated: “The practical aim is to define a fundamentally identical framework to identify and typify situations in which households (…) are objectively unable, on a structural and ongoing basis, to pay short-term debts, taken out to meet needs considered to be essential, from their habitual income provided by work, financial investments or other usual sources, without recourse to loans to finance debts contracted previously”[11].

Another example is from the **Group of Specialists for Legal Solutions to Debt Problems at the European Council (CJ-S-DEBT)** who states that over-indebtedness is a changing concept, which can cover at one and the same time problems with both *credits* and *difficulties with day-to-day bills*. For the purpose of the CJ-S-DEBT Recommendation, over-indebtedness means, but is not limited to, the situation where the debt ratio of an individual or a family manifestly and on a long-term basis exceeds the payment capacity[12].

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[11] Economic and Social Committee (2000). Information Report of the Section for the Single Market, Production and Consumption on Household over-indebtedness, INT/043 (20 June 2000).

[12] Recommendation CM/Rec(2007)8 of the Committee of Ministers to Member States on legal solutions to debt problems (Adopted by the Committee of Ministers on 20 June 2007 at the 999bis meeting of the Ministers' Deputies)

3.1.2 Definitions at the national level

Some governments in Europe have started to use definitions but they often apply different approaches. For instance, in Austria and Belgium households are seen as over-committed if – after deduction of living expenses – they cannot satisfy all payment obligations. Luxembourg's definition is similar to Belgium's. Further variations exist in public discussions in France, Ireland, Sweden, The Netherlands, Portugal, and Norway. Finally, no official definitions were identified for Lithuania, Bulgaria, Czech Republic, Italy, Spain, and Greece. None of the countries surveyed has one official way of measuring over-indebtedness – policymakers in all the countries in our sample use a mix of different measures to assess the extent of the problem.

The governments rely mostly on two types of measures: legal/administrative measures (such as debt settlement) and measures based on arrears in payments. In most cases both are used by the government, depending on the context. **However, there is also a noticeable trend to use more arrears-based definitions (where definitions at the same time imply measurement).** The following discussion gives a brief overview of definitions that are used in public discussions and by public institutions. This overview is not exhaustive and does not pretend to include all the definitions used in each country – instead it is aimed at showing which type of measures is most commonly used in individual countries.

In ***Austria***, the Federal Ministry for Social Affairs and Consumer Protection (Bundesministerium für Soziales und Konsumentenschutz) is responsible for the matter of over-indebtedness. In practice, while the ministry manages the debt settlement scheme, the research in this field is mainly undertaken by consumer agencies, and the government bases its policies on the work of those agencies. The definition which is mostly used is that of the counselling agency IFS-debt (IFS Schuldnerberatung): "Individuals or households can be regarded as over-indebted if after deduction of current cost of living expenses like food, clothes, rent, social and cultural needs/requirements, they are not able to discharge all payment obligations."

In ***Belgium***, the government focuses mainly on the definition for personal insolvency. The Bankruptcy Law of 1997 states that an individual can be declared insolvent and benefit from debt settlement if "his/her income does not allow him/her to, in a sustainable way, pay his/her due debts".

In ***Finland***, the Ministry of Trade and Industry is responsible for the policies on over-indebtedness and the Ministry of Justice for the preparatation of the legislation related to credit issues and over-indebtedness. However, the issue is dealt with by a number of government agencies: the Advisory Council on Consumer Affairs, the Consumer Agency/Consumer Ombudsman, the National Consumer Research Centre (under the Ministry of Trade and Industry) and the National Research Institute of Legal Policy (under the Ministry of Justice). Each of these institutions/actors uses a different definition in each of its publications. For example, the report "Debt adjustment brings relief – A fresh start for over-indebted Finnish households" by the National Research Institute of Legal Policy considers as over-indebted the persons who are participating in the debt adjustment programme.

In ***France***, the policies to deal with over-indebtedness are based on the *Commissions du Surendettement* (Over-indebtedness Commissions). Therefore, the measure most commonly used is the legal definition of the situations which are admissible to the household debt commissions. Article L.330-1 of the legal framework that applies to consumer issues ("Code de la consommation") states that "Over-indebtedness of individuals is characterized by the manifest inability of the debtor, who is acting in good faith, to face up to the whole of his/her non-professional debts due or accrued".

In ***Germany***, the Federal Family Ministry (2004) holds in a press release that "a private household is over-indebted if its income over an extended period is not sufficient for servicing debt on time (after deducting costs of living expenses) despite a reduction of the standard of living". The other ministry involved in the topics is the Federal Ministry of Labour and Social Affaires, but it has not an extra definition on over-indebtedness.

In ***Ireland***, the Government's Department of Social and Family Affairs has delegated the issue of over-commitment to the Combat Poverty Agency, a statutory organisation responsible for advising the Irish Government on policies to reduce poverty in Ireland. The Combat Poverty Agency does not have a preferred definition of over-indebtedness, and instead uses a variety of different definitions. Its 2006 report "Credit Consumption and Debt Accumulation among Low-Income Consumers: Key Consequences and Intervention Strategies" reviews existing definitions from Ireland and the United Kingdom, without selecting a preferred one. To tackle the problem of over-indebtedness, the Agency works together with a state-funded network of money advice services called Money Advice and Budgeting Service (MABS). MABS uses the following definition: "Households are over-indebted if they are persistently unable to meet from their income reasonable living expenses and deferred payments as they fall due". This definition is based on the concept of arrears on a structural basis.

In **Italy**, there was a proposal for a law on over-indebtedness but it has not been adopted (Proposal of Law on over-indebtedness n° 412 May 3rd 2006); it defines over-indebtedness as "a situation of non-temporary difficulties in regularly honouring his/her commitment using his/her income and his/her assets (real estates and other mobile properties)."

In ***Luxembourg*** as in Belgium, the main definition used is that of the law of 2000 on the prevention of over-indebtedness. Personal insolvency is defined in the same way as in Belgian law (see above).

In ***Portugal***, the Directorate-General for Consumer Affairs is in charge of over-indebtedness, a department of the Ministry of Economics and Innovation. The Directorate-General does not have an official definition, and it does not have publications on the subject. However, the academic institute Observatorio do Endividamento dos Consumidores (at the University of Coimbra) officially advised the government on issues relating to over-indebtedness until 2003, and continues to have great influence on the debate in Portugal. The institute uses the definition "over-indebtedness is a situation where there is a lack of income or other liquid assets that makes people incapable of paying their debts on a structural basis". This definition is based on arrears.

In both Norway and Sweden, institutions use the concept of insolvency, based not on administrative records but on calculations that the person will be unable to pay his/her debts in the foreseeable future. In ***Norway***, the issue of over-indebtedness is handled by the Ministry of Children and Equality, which is responsible for the implementation of the Debt Settlement Act of 1992, the legislation that regulates the court-arranged solutions to debt. According to the Debt Settlement Act, a person is regarded as over-indebted if he/she meets the first condition to obtain debt settlement. This is the case if the debtor is "permanently incapable of meeting [his] obligations". According to officials from the ministry, "permanently" does not necessarily mean "life-long".

In ***Sweden***, the problem of over-indebtedness is mainly handled by the government agency Swedish Consumer Agency (Konsumentverket). The agency uses the following (short) definition: "The debtor/household is insolvent". By "insolvent" it is meant that the amount of debts have become so extensive that the debtor has no way to fulfil his obligations when loans are due, further the problem is persistent. In its 2004 report "Over-indebtedness - extent, causes and measures proposals" (Överskuldsättning – omfattning, orsaker och förslag till åtgärder), the Agency uses that definition in combination with a second definition from the Debt Relief Act, the legislation that regulates debt settlements. That definition states that the person must be "qualified insolvent" which means that the debtor has no chance to fulfil his/her obligation in the foreseeable future, similar to the Norwegian concept of insolvency.

In the ***Netherlands***, on the other hand, individuals are considered to be over-indebted if they meet the conditions to benefit from the debt settlement scheme "Schuldsanering" – for that it is sufficient that an individual, in good faith, is unable to meet his/her debt commitments.

The government has not yet implemented legal measures to tackle over-indebtedness in ***Poland***, but there is a proposal for legislation in the making (draft act on prevention of insolvency and bankruptcy of a natural person, issue 776, 9 May 2006). The proposal contains the following definition: "a person is over-indebted if he can't pay his debts and the total of his debts is superior to the total of his assets".

In ***Spain*** there was a proposal for a law on over-indebtedness in 2004 (Proposal 622/000012 on the prevention and solutions for the over-indebtedness of consumers), but it was withdrawn on February 2005. The proposal defined over-indebtedness as "the situation where a consumer – in good faith – is not able (actually and persistently) to repay all his/her debts (debts which have occurred for reasons different from business)".

In the ***United Kingdom,*** the government has extensively discussed over-indebtedness in the past. In its 2004 action plan on over-indebtedness, it implicitly adopts the Citizens Advice definition that a household is over-indebted when they are "unable to pay their current credit repayments and other commitments without reducing other expenditure below normal minimum levels".

In ***Bulgaria,*** the ***Czech Republic***, ***Greece*** and ***Lithuania***, the governments have not issued any report referring to over-indebtedness, and it is therefore not possible to identify a definition.

3.1.3 Common elements of reviewed definitions

We have considered all the available definitions we could compile (see **Appendix B for a list of more definitions**, also from the private sector). The review showed that many of the definitions contained ***some common core elements***, which may serve as a common European foundation. For instance, the unit of measurement is, in most cases, the household (in a minority of examples the individual or debtor), where households also include single-person units[13]. About half of the definitions reviewed make a reference to time (such as 'long-term' or 'structural problems'), many definitions include debt or contracted financial obligations. Furthermore, about half of the definitions include a reference to cost of living expenses. Most of the definitions refer to payment capacity, such as the 'inability to pay the contracted obligations'. The most important elements/foundations of a common operational definition are set out below.

Elements of a common European operational definition

***Household*:** Households are small groups of persons (or one person) who share the same living accommodation, who pool some, or all, of their income and wealth[14]. This is important as it is intended to work with EU-SILC data where the unit of measurement is a household. The head of household (or their partner) are questioned in the survey.
Contracted financial commitments: All contracted financial commitments are included here, among them mortgage and consumer credit commitments, utility and telephone bills as well as rent payments (recurring expenses). Informal commitments entered within families, for instance, are excluded as no data exists on them.
Payment capacity: The capacity to meet the expenses associated with the contracted financial commitments. Over-indebtedness implies an inability to meet recurring expenses.
Structural basis: This is the time dimension, which holds that the definition must capture persistent and ongoing financial problems and exclude one-off occurrences that arise due to forgetfulness, for instance.
Standard of living: The household must be unable to meet contracted commitments without reducing its minimum standard of living expenses.
Illiquidity: The household is unable to remedy the situation by recourse to (financial and non-financial) assets and other financial sources such as credit.

The various definitions noted above reflect the multi-dimensional phenomenon that is over-indebtedness. These dimensions include an **economic dimension** of being over-burdened with commitments and a **time dimension** of short-term over-commitment versus long-term structural problems, both of which are common in the definitions reviewed. There is also a **social dimension** including financial exclusion or exclusion of participation in social/economic life in general as well as a **psychological dimension** in terms of the severe stress and psychological destabilization over-indebtedness can bring forth for the affected persons. These are also often reflected in the definitions. Section 3.3.1 (Common elements and their reflection in EU-SILC) discusses in detail how the above can be incorporated into a European-wide definition and how they can be measured.

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[13] The concept of a household is discussed further below in the sections on measurement.
[14] This definition is derived from the European System of Accounts methodology (ESA 95)

3.2 Measurements and indicators reviewed

Since over-indebtedness is complex and multi-dimensional in nature it is not easily measured by using just one indicator[15]. This is also one of the main points made by the Working Group "Statistics on Living Conditions" which agreed on over-indebtedness being multi-dimensional so that no single indicator can encapsulate it.

For the report, we have reviewed and mapped out the existence of the following types of indicators:

(i) Statistics on arrears (such as on mortgages, financial commitments, unsecured credit/loans);
(ii) Statistics on debt settlement (court-arranged solutions to debt, people assisted with repayment plans by debt advise agencies, debt write-offs by creditors);
(iii) Surveys with assessments by households of their financial burden (with regard to over-indebtedness or amount they owe);
(iv) Other (debt-income ratio, debt-service burden, users of debt advice agencies).

Statistics on arrears includes arrears that are a specific number of missed payments, where the number might vary from one missed payment to three consecutive ones. It may also be measured in terms of how many days a consumer is late in making a payment that is due (30-, 60-, 90-day period for delinquencies) and where a 120-day or a 180-day delay typically denotes defaults. Surveyed are all arrears on commitments quoted above.

Statistics on debt settlement refer to either legal procedures such as regulated amicable debt settlement procedures, insolvencies, bankruptcies, sequestrations or summonses. This information is not available for all countries as not all have such procedures. In addition, even for those countries that do have such procedures, the process itself might vary widely from one country to another. Included are court-arranged solutions to debt, people assisted with repayment plans by debt advice agencies and debt write-offs by creditors.

Assessments of households includes surveys on consumers/households and their assessments of whether they feel over-committed, among other factors such as how many arrears they had. Such information is sometimes reported in household budget surveys, sometimes in studies from non-profit organisations.

Other: This category includes all the other measures such as debt-income ratio, debt-service burden, or the users of debt advice agencies. Often, the economic variables such as the household debt-service ratio (which is not only related to credit, but includes in certain circumstances also leasing contracts), has to be combined with a specific threshold, say 30%, any indebtedness higher than this threshold could be defined as over-indebtedness[16].

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[15] Thus, simply using indicators such as self-reporting to debt counsellors might grossly over-simplify the matter.
[16] This is just one example and not a suggestion made here.

Again, there is a wide variety of indicators used for different purposes of measurement in the 19 countries reviewed. The main problem is coverage – not all indicators are available in all countries and the underlying concept can vary. For instance, there are different bankruptcy procedures in the Member States, thus bankruptcy is not easily comparable (see chapter 4, section 4.5.2). The result of this information compilation and overview is that many indicators do not exist in a number of countries (such as financial obligation ratios), while others might exist (such as arrears), but might be differently defined. Table 7 provides an overview of indicators that we could find in the literature (not all of these are collected in all countries).

Table 7
Catalogue of measures on over-indebtedness

Measurement Group	Measurement
Statistics on arrears	Arrears on any financial commitment
	Arrears on mortgages
	Arrears on rent, utility services bills (water, gas, electricity), tax payments
	Arrears on unsecured loans/credit
Statistics on debt settlement	Court-arranged solutions to debt (e.g. personal insolvencies, bankruptcies etc)
	People assisted with repayment plans by debt advice agencies or administrative bodies
	Debt write-offs by creditors (number/values)
Assessment by households of their financial burden	Subjective measures of over-indebtedness (e.g. number of people reporting they are in financial difficulty)
	Questions asking people to give facts about their financial situation (e.g. estimate how much credit they owe) Self-reported levels of arrears
Other measurements	Statistics/data concerning users of credit advice agencies
	Borrowing to income ratios of households[17]
	Borrowing to income ratios of households calculated from national accounts
	Credit Service to disposable income (also called household debt-service burden)[18]

[17] We use the term "borrowing to income" rather than the more common term "debt to income" in order to retain the distinction between borrowing and arrears on payments.
18 The debt-service burden corresponds to series of payments of interest and principal required on a debt over a given period of time. Again, we refer to borrowing only, rather than all debts (including defaults on payments).

3.2.1 Measurements and indicators available at the European level

One approach set out in discussions by the **European Commission and the Indicators' Sub-Group of the Social Protection Committee** is that several indicators can be used for measuring over-indebtedness such as the ratio between debt repayment and gross and/or disposable income, the number of credit commitments, structural arrears on credit commitments and indicators of the subjective burden of households' borrowing repayment. Included are all types of commitments[19].

Furthermore, the **European System of Central Banks** typically uses a number of indicators to measure the "financial fragility of the household sector". Such measures are macro-economic in nature and not suitable for identifying individual over-committed households for a number of reasons, among which the most important is that no distributions of indebtedness among households can be derived. This will not be discussed in greater detail. For comprehensiveness, these measures are listed here: (1) indebtedness indicators; (2) capital gearing; (3) income gearing; and (4) wealth indicators, such that both sides of a household's balance sheet are considered. There are two main instruments on the European level that collect information on households and their living conditions.

Eurobarometer

The Eurobarometer survey is one of the two main instruments at the European level that collect information relevant to the financial circumstances of households; the other one is the EU-SILC survey (discussed below). The Eurobarometer survey is conducted on behalf of the European Commission. It is conducted at least two times a year in EU Member States and is primarily used to reflect attitudes towards European Institutions and the Common Market. For the subject of mapping political and social attitudes, different groups of consumers are interviewed each time the survey is conducted. This is one of the main differences with the EU-SILC survey. The Eurobarometer survey covers a wide range of topics such as media attentiveness, information society, consumer purchasing behaviour (including financial services)[20].

One of the recent surveys asked questions concerning the main purposes in regards to managing finances, uses of different products and services, cross-border demand, obstacles to cross-border demand, as well as whether individuals had experienced repayment difficulties (discussed in chapter 2, section 2.2). There is a small number of questions relating to financial difficulties or financial burden of consumers.

In the Eurobarometer Special Survey on "Poverty and Exclusion", published in September 2007 (Reference number 279, wave EB67.1), it is asked which situation best describes how the household is keeping up with all bills and credit commitments at present. Possible answers range from "I am\we are keeping up without any difficulties" to "I am\we are having real financial problems and have fallen behind with many bills and credit commitments".

[19] European Commission (2006). Working Group "Statistics on Living Conditions" (HBS, EU-SILC AND IP&SE) 15th – 16th May 2006, Eurostat-Luxembourg, DOC EU-SILC 159/06 EUROSTAT

[20] These were included in Eurobarometer EB 63.2, 60.2, 58.1, 56.0, 54.0, 52.0.

However, there is one relevant question that is regularly included in the Eurobarometer survey which asks to what extent a consumer agrees that 'you have difficulties paying all your bills at the end of the month'. This question has been included in the questionnaire since 1999[21].

EU Statistics on Income and Living Conditions (EU-SILC)
The main difference between the Eurobarometer survey and the EU-SILC survey is that EU-SILC collects data on income and living conditions. The individual components are discussed in the following. Moreover, the EU-SILC survey is a panel survey which interviews the same households each year, which is an advantage over the Eurobarometer survey methodology. Further, the EU-SILC survey collects statistics concerning a wide-range of other social topics (such as unemployment and financial exclusion) that enables an expansion of research.

EU-SILC 1: On-going regular survey
The EU-SILC is a pan-European multidimensional micro-data survey that collects longitudinal and cross-section data on living conditions, including social exclusion and poverty. The survey originated in a meeting of European Heads of State in 2001, where it was decided to collect 18 common indicators on poverty and social exclusion. These indicators play a major role in tracking developments in individual member states as well as in the fight against poverty. The survey was introduced in 13 Member States in 2004[22], the full implementation in all member states took place in 2005. At a later stage Turkey, Romania, Bulgaria and Switzerland will also complete it. The survey provides two types of indicators: (1) Cross-sectional data (observations on income, poverty, social exclusion that refer to a specific point in time) for the comparison of differences between survey objects; and (2) Longitudinal data (observations of changes in variables over time). It was stated by the Commission that the next round of reforms of questions in the regular EU-SILC survey will be in 2011/2012.

Some of the questions in the EU-SILC survey can be classified as factual questions, such as HS010 (as to whether the household has been in arrears over the past 12 months), whereas others are based on assessments of their situation by households such as the ability to make ends meet. The data is used to calculate a number of indicators such as the '*at-risk-of-poverty threshold*' (60% of the national median income), the '*at-risk-of-poverty rate*' (the number of persons with an income below the at-risk-of-poverty rate) as well as the S80/S20 ratio and the Gini coefficient, among others[23]. Averaging for the EU level indicator typically uses population weights for the individual countries. In addition, Eurostat has developed a harmonized approach for measuring the precision of indicators.

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[21] Analysis of this question is included in section 4 of this report.
[22] BE, DK, EE, EL, ES, FR, IE, IT, LU, AT, PT, FI, SE for the EU and NO and IS for EEA.
[23] This is the ratio of total income of persons above the top income quintile (which is the top 20% of the population with the highest income) over that of persons below bottom quintile Q20. The comparison is the ratio.

EU-SILC 2: Financial inclusion and over-indebtedness module
In 2008, an extra module will be included in the EU-SILC survey which maps over-indebtedness and financial exclusion. This module asks very detailed questions with regard to bank accounts and overdrafts, credit cards, sources of credit/loans, arrears, and drops in income as well as future expectations. The regulation N° 215/2007 of 28 February 2007 established the list of "secondary variables" in this respect. This module will be used only once in 2008, but some of its questions could be introduced in the general module in 2011 if they appear to be especially relevant. As stated it is a one-off module, but can be repeated every four years. A Table with variables collected in the modules is given further below.

Both the EU-SILC and the Eurobarometer surveys have advantages and disadvantages. The advantage of the EU-SILC is that it produces panel data that allows analysis of the over-indebtedness histories of households and analysis of links with timing of key life events. Households can be tracked over time. Further, the EU-SILC survey collects a greater variety of information on the circumstances of households and is explicitly conducted for collecting information on social and poverty statistics. Eurobarometer data, on the other hand, places questions to individual consumers and not households. It does not allow the tracking of the same households across time and it is not possible to link the data to a great variety of other information that is necessary for the further study of poverty. As described above, the key elements of a definition contain a household as unit, contracted financial commitments, payment capacity, structural problems, standard of living and illiquidity. Most of these elements (further discussed below) are reflected in the EU-SILC survey and not in the Eurobarometer survey. This is a further argument to use this survey. However, the question on the Eurobarometer survey capturing financial arrears comes closer to identifying structural payment problems than those in the EU-SILC survey.

3.2.2 Measurements and indicators available at national level

In the following, we will only discuss a very high level the availability of indicators in different European Member States. **Appendix D** presents an overview of all Member States. The Table shows that the countries collect differing numbers of measurements, some of the countries collect far more information than others. Among the ranks of those that collect a great variety of indicators are the United Kingdom, Germany, France and Belgium. Indicators are collected to a lesser extent in new EU Member States such as the Czech Republic and Bulgaria.

We have reviewed the measurement and made an assessment based on the following criteria: **information content, reliability, comparability, frequency, coverage and usage.** The qualitative evaluation which was set-up as database (including countries, all indicators and judgement on the above criteria) showed that there is a large variation among indicators and from country to country, if national data collections are considered, which is an argument for using a trans-European survey.

Statistics on financial arrears:
Data on financial arrears is collected in all countries, if this is done by by credit registers (public credit registries and private credit bureaus), they relate to individuals. However, there are important differences. Most of the data collected by private credit bureaus is not in the public

domain. There is a variation in institutions collecting information, while in many countries, private credit reporting agencies collect the information (Austria, the Czech Republic, Denmark, Finland, Germany, Greece, Ireland, Italy, Lithuania, Netherlands, Poland, Portugal, Spain, Sweden, the UK) [24], in others it is primarily the Central Bank with its public credit register (Belgium, Bulgaria, France). However, many countries have both types of institutions collecting the information. There is also a great variety in coverage of the population, type of information and in definitions of the terminology. So far, there is no standardisation in terms of data collections, terminology and credit reporting in Europe. In some countries, there are extensive collections of this type of information (the UK, Germany and Ireland), while in others, collections are not as pervasive (Bulgaria and Lithuania). **Appendix D** gives an overview of the collected arrears information derived from the country expert reports. **Appendix E.1** gives a detailed list of information collected.

For instance, while there is a great coverage of individuals for financial arrears in credit registers (private credit bureaus and public registries), the data collections of the credit registers differ widely. In general, this indicator was judged to be good in terms of information content (it reflects repayment problems), reliability, however, there are variations in frequency – that is different updating cycles considered reporting to the registries. The same also holds for arrears on mortgages.

Statistics on debt settlement:
Data on **court-arranged solutions to debt** are found in 14 of the 19 countries that were surveyed in this study (see also **Appendix E.3**). In these countries, data on personal insolvency is mostly collected by the respective Central Bank or Statistical Office, who draw the data from the Ministry of Justice or directly from courts of the country. **Table 2 in the Appendix** gives an overview of laws in this area. The following countries do not have a law on bankruptcy for individuals, as only companies can claim insolvency: Bulgaria, Greece, Italy, Lithuania and Poland.

Court-arranged solutions to debt only capture a small proportion of the over-indebted population (thus, the informational content for reflecting over-indebtedness is rather low), where financial problems already have greatly progressed[25]. Further, in terms of the frequency, while this information is collected annually in many countries, in Finland it is collected quarterly and in Germany monthly. But the main argument, of course is that debt settlement procedures are hardly comparable as there is a wide variety of processes applied. For a more detailed assessment of the individual procedures (see chapter 4, section 4.5 and 4.6)

Data on **debt write-offs by creditors** is collected only in some countries in our sample, for details see again **Appendix D** and **Appendix E.5.** For instance, this information is collected in Austria, Belgium, Bulgaria, Germany, Italy, France, Finland, Norway, Poland and the UK. The institutions collecting this information, however, differ ranging from credit reporting agencies to Central Banks. Where the information is collected by credit reporting agencies (Austria and Germany, for instance), it is the individual case. However, where the information is collected by

[24] For an overview of credit reporting regimes in Europe, see Jentzsch (2007).
[25] For instance, while a person in a court-arranged solution is certainly having financial problems, a person in financial problems may not necessarily be in a court-arranged solution to debt.

the Central Bank (France, Italy, Poland, Norway), it refers more to aggregated, not to individual cases, banks report those aggregated amounts to the Central Banks. Thus, the informational content for mapping over-indebtedness is rather low. Further, frequency of availability changes from country to country, ranging from annually to quarterly or twice a year.

Survey assessment by households of their financial burden
It has been noted that there are two EU-wide sources of survey data: the Eurobarometer survey and the EU-SILC survey. The Eurobarometer survey draws on a different sample of individuals every year and routinely includes a question about perceived "difficulties in paying bills at the end of the month".

The EU-SILC survey has been discussed in greater detail above. This information is collected in all countries. These surveys include questions about the individual level of comfort with borrowing and whether households had difficulties and financial arrears. Many questions are also related to wealth and assets. **Appendix D** gives an overview in which countries this type of information is collected, through EU-SILC implementation into national surveys, all countries are covered. This means that this survey is run with the same frequency and that it is harmonised. Comparability, therefore, can be judged as good to very good. This is also the case for the Eurobarometer survey, but as discussed above, these questions are related to a different sample each time. National surveys (the non-standardised part), vary across countries in terms of the detail they ask about personal finances (for instance, the Belgian national implementation of EU-SILC is regarded as very comprehensive). An overview of this measurement is included in **Appendix E.2, for the individual countries that have implemented EU-SILC into national surveys, an overview is presented in Appendix D**.

Other measures
Furthermore, there exists data on **people that contact debt advice agencies**. In most countries there are also solutions for those facing problems of over-indebtedness that attempt to solve the problem outside the courts (See chapter 4, section 4.4.4). This type of data exists in 12 countries reviewed, exceptions are Bulgaria, Greece, Italy, Spain, Lithuania, the Czech Republic and Luxembourg. In those countries, although there exist associations that deal with consumer issues including over-indebtedness, those associations do not make any data on users with over-indebtedness problems publicly available.

These solutions include **advice to consumers and repayment schemes (see also Appendix E.5)**. The data is generally non-comparable across countries, due to the differences in the systems and even the funding. For example, statistics from debt advice agencies will reflect the level of funding they have: The higher the number of debt advise agencies in a country, the greater their staff, the higher will be the number of people recorded as over-indebted. Thus, the informational content (how good a measurement reflects the problem of over-indebtedness) is quite low.
Then there are problems about the nature of the statistics that debt advice agencies collect, as the methodologies of what they count differ in the European context and often even nationally. For instance, in the UK, one network of agencies counts all the debts they have helped to resolve, another counts the number of people they have helped, both cannot be added. Further in some countries such systems are compulsory, and everyone facing the problem will pass through them, whilst in others they are voluntary, resulting in the capture of a smaller share of the over-indebted population (again the reader is referred to chapter 4, section 4.4.4).

The **aggregate household credit to income ratio** is not as such a measure of over-indebtedness. However it gives relevant background information on the stage of development of credit to households in a given county[26]. The credit to income ratio can be calculated for all the countries, it is either collected by the national Central Banks or Statistical authorities. Further, it can be obtained, because the countries are using a harmonised methodology from national financial and non-financial accounts (data published by Eurostat). However, only credit related to the financial sector are subject to relevant and reliable statistics in all countries (thus, not all possible financial commitments are covered). Furthermore the financial accounts according to ESA 95 standards do not allow for a distinction between secured and unsecured credit. We have excluded the credit-income ratio from the discussion of measurement (see below) as this ratio in itself is not indicative of over-indebtedness – it is the monthly percentage of income devoted to financing commitments that is important to the borrower.

The **credit-service ratio** (**Appendix E.2**) is defined as credit-service in relation to disposable income, i.e. income after tax. In many instances, it is only the raw data series that is accessible (such as disposable income and credit service) and the ratio must be calculated from official data as there is no officially published time series. All in all, there is a minority of countries that publishes such data regularly as is the case in the United Kingdom, Spain and Greece. In a handful of other countries, there is research by academics (Poland, Ireland) who calculate the ratio themselves, and in some countries there is fairly scattered data and no official service ratio calculated (the Czech Republic, Ireland and Luxembourg, for example).
Credit-service ratios are not collected in all Member States but where they are collected definition does not vary much from country to country. This primarily relates to aggregate information and does not provide information about the credit-service of an individual household. Thus, from these sources, the informational content in terms of indication of over-indebtedness is low. Further, a very important point here, it typically only relates to borrowing (mortgages and consumer credit) and not to other monthly payment burdens. Therefore, taking this measurement alone would only provide a very incomplete picture.

3.2.3 Existing indices in Europe

Some private companies provide indicators that either map indebtedness, over-commitment, and affordability or closely related early signs of over-commitment of consumers. These indices will be discussed in the following.

***Private Indebtedness Index (Schufa)*:** This index is an indicator for critical signs of private indebtedness (Privatverschuldungs-Index, Schufa Holding AG 2007) and is based on credit reports held by Schufa Holding AG on the German population. For the index, Schufa combines a number of negative data entries on households that are weighted and a total value is calculated upon these features. The 'critical signs' are then marked ranging from 'low' to 'high' for risk classes. It is calculated every year (since its introduction in 2004), but for Germany only.
Consumer Financial Vulnerability Index (Genworth Financial): In Finney, Jentzsch, Atkinson and Kempson (*forthcoming*) an index of consumer financial vulnerability has been developed that

[26] This is not the main intention of the project, therefore, this ratio plays a minor role.

takes into account current and recent experiences and future expectations. The index reports levels of financial vulnerability in a population, representing the proportion of people within a population who are currently feeling vulnerable financially relative to those who are feeling secure financially. The index takes as its starting point combinations of responses to one survey question about current financial difficulties and one about expectation of the future financial circumstances of the household, which are then underpinned by the totality of a person's financial situation, drawn from a number of self-report measures. Data on these are collected in 10 European countries by representative polling.

Consumer Indebtedness Index and Affordability Index (Experian): The credit reporting agency calculates (using credit reports held by Experian) a *Consumer Indebtedness Index* which includes some key predictors (Russell 2005: 20): the number of active accounts in use; the number of revolving accounts in use; limit utilisation across revolving accounts and the type of neighbourhood. This index ranges from 1-100, with the highest bracket one (91-100) containing the bad rate of 57.7%. The *Affordability Index* builds on the Consumer Indebtedness Index as well as on other personal data. The score uses different types of information[27]. The classification ranges from 'very low affordability' to 'very high affordability'. Both indices are used in the UK.

3.2.4 Conclusions

To calculate European statistics on over-indebtedness, the use of data from a European survey is recommended (which is implemented through standardized national surveys). Altogether, there would be a host of statistical problems if national surveys or data collections would be used, as these sources are not harmonized. These problems include: that statistics from different sources are not available at the same time; statistical categories and definitions are not the same across countries (even often within countries); the methodology applied varies (recurring data collection on the same group of people or drawing of a new sample each survey); frequency of data collection varies (an indicator in one country might be collected two times a year, but in another quarterly) and, finally, the reference period of the different surveys might also vary. These are strong arguments for using an international EU survey to collect comparable statistics.

[27] Estimated disposable income, consumer indebtedness index, residential and martial status, net monthly income (NMI), monthly credit commitments as % NMI, monthly mortgage payment as % NMI, applicants age

3.3 Potential over-indebtedness measurements

In order to produce European statistics one needs to use European tools. Based upon intensive evaluation, we therefore propose to use the EU-SILC survey. The advantages and disadvantages of both types of surveys, the EU-SILC and the Eurobarometer surveys, are discussed in section 3.2.1. The EU-SILC survey is a cross-sectional and longitudinal micro-data annual survey on income, poverty, social exclusion and living conditions in households. Therefore it appears to be the most appropriate vehicle for data collection.

*Under the **Open Method of Coordination**, it is important to acknowledge that the indicators must measure the effects of policy measures not the intensity of the policy measures themselves (as the choice of policies is left to the discretion of member states).*

The **European Commission and the Indicators' Sub-group of the Social Protection Committee** have noted that a basket of indicators might be the most beneficial approach. This could include indicators such as the ratio between debt repayment and gross and/or disposable income, the number of credit commitments, structural arrears on credit commitments and indicators of the subjective burden of households' borrowing repayment.

3.3.1 Ways to measure over-indebtedness

There are several ways how to methodologically approach the subject of over-indebtedness, they come with advantages and disadvantages.

A. One single measurement: The simplest method is to choose one single measure of over-indebtedness. An arrears-based measure, for instance, would be derived from a question mapping arrears and from these, in turn, frequencies could be derived. We also have stated that some countries do refer to administrative indicators and use them as definitions, while other countries define over-indebtedness legally (see section 3.1.2). But these are policy measures and they are not admissible under the Open Method of Coordination (see section 3.3). As discussed above, over-indebtedness is multidimensional and thus a number of indicators should be used, as stated by the Economic and Social Committee. Further, employing a single indicator would only capture one dimension of over-indebtedness. For this matter, the solution of using only one indicator will not be discussed in greater detail.

B. Variety of measurements: Alternatively, a number of measurements can be used. This approach requires greater insight into how the individual measures are related to one another. For instance, do households that reply positively to the question on arrears (related to household bills) have a higher probability to also report high levels of commitments relative to their income? Does the question on ability to make ends meet capture the same group of people as a question on the ability to finance sudden shocks? And how are those both related to the arrears question? For the purposes of this study, we can only give indications derived from internal research and some external studies (both discussed extensively in section 3.3.2).

3.3.2 Measurement of over indebtedness in previous research

It is not possible to discuss in detail all the surveys on the statistical measurement of over-indebtedness, which we have collected. Here, we can only give some representative examples of such research. We have included selected examples of empirical research on the measurement of over-indebtedness and financial difficulties, which use data from representative surveys.

In 2004, the **Department of Trade and Industry** in the **United Kingdom** commissioned to MORI Financial Services a large survey on consumer over-indebtedness[28]. For the purpose of the survey, individuals were identified that met a variety of different indicators of over-indebtedness. These were objective as well as subjective indicators. The objective ones included (i.) individuals spending more than 25% of their gross monthly income on unsecured repayments, (ii.) individuals who spend more than 50% of their gross monthly income on total borrowing repayments (secured and unsecured), (iii.) individuals with 4 or more credit commitments as well as (iv.) individuals in arrears on a credit commitment and/or domestic bill for more than 3 months. The subjective indicator encompassed whether the individual declared their borrowing repayments to be a 'heavy burden'. In a predecessor study, **Kempson (2002)** had conducted for the DTI, she identified self-reported arrears on individual commitments, more general measures of financial well-being and levels of credit use. In analysing levels of over-indebtedness, she uses two measures: people in arrears and (more broadly) people who report financial difficulties. She also looks at the duration of arrears to identify how many people were facing structural payment problems.

As mentioned previously, in **Finney, Jentzsch, Atkinson and Kempson (*forthcoming*)** an index of consumer financial vulnerability that takes into account current and recent experiences and future expectations has been developed. The questions take into account responses to a number of questions that broadly measure financial difficulties: (a.) How often the household has experienced financial difficulties in the past 12 months; (b.) how often the household has been unable to pay bills at the last reminder; and (c.) how well the household is currently keeping up with bill and credit commitments; as well as other aspects of the financial position of the household: a recent fall in income, holding of savings (equivalent to one month's income), the number of credit commitments, perceptions of the ability to afford more borrowing and expectations for the future financial position of the household. Data on these are collected in 10 European countries via representative polling.

Formative research undertaken for that study found that various measures of financial difficulties correlate highly with each other and that it is often very similar types of people who report experiencing difficulties on each of these. Ordinarily, if two questions measure the same underlying dimension ('factors'), one should be excluded, at best because one question will be redundant, or at worst because including both would result in double counting and over-emphasising a situation. However, exploratory analysis further demonstrated that it was not always the very same people who, if in difficulties on one measure, were reporting difficulties on another. This only partial overlap suggests that there are likely to be cultural and situational

[28] MORI Financial Services (2004). Over-indebtedness in Britain: A DTI report on the MORI Financial Services survey 2004.

differences in the way people experience and recognise financial difficulties, and hence report these in surveys[29].

Other researchers in **France** have worked with EU-SILC data. **Rebiere (2007),** for instance, states that there is little information on over-indebtedness in France, however, some surveys can be exploited[30]. He describes four different criteria with which over-indebtedness can be measured: (1) arrears on accommodation (rent/mortgage), utility bills or other loans; (2) subjective perception (self-assessment of being in financial difficulties, ability to make ends meet); (3) debt-service ratio exceeding 30%; and (4) the inability to pay debts without endangering subsistence. According to this methodology, for France 10.5% of households are in arrears, 16.4% have difficulties, debt to income ratio (>30%) is 9.7% and the impossibility to pay debt without endangering subsistence is 9.8%. He suggests that *arrears* and the *impossibility to pay debt* should be used as a measurement. The problems with various indicators is that: (i.) Not all households with arrears reply that they have difficulties to make ends meet. (ii.) Only a fraction of those that are finding themselves unable to finance debt also had financial arrears. This will also likely be the case for a European measurement.

In **Finland**, **Muttilainen and Reijo (2007)** measure repayment difficulties in the years 2002-2005 based on EU-SILC and national data for Finland (sample survey of income distribution). For instance, they take as an indication the falling behind in paying bills (either once or for extended periods) or the falling behind in loan payments at least once or more often. The shares to total number of households are calculated. Other indicators that are used in this research are debt settlements with creditors and/or loans falling behind schedule plus bills falling behind schedule. The study shows that 7% of Finnish households have repayment problems, but overall the numbers have fallen for all indicators from 2002 to 2005. The survey also covers debt amounts, persistence of payment problems and voluntary settlements.

In **Belgium**, **Carpentier and Van den Bosch (*forthcoming*)** focus on problematic debts, where the main interest is on situations where debt pushes people into poverty – a very important concept reflected (but slightly modified) below. The main purpose was to find reliable indicators using the Belgian SILC 2004 data (the work was commissioned by the Belgian Federal Public Service Social Security). The authors also make suggestions for revisions of questions.
The Belgian SILC survey has some additional questions compared to the EU-SILC survey[31]. Similar questions, we suggest above for revising questions of the EU-SILC survey. The authors suggest 9 indicators for 'problematic debt situations'. Among those is the percentage of population which becomes poorer due to consumer credit payments, an increase in the poverty gap due to credit payments, credit service ratio above 20%, two or more arrears on household bills, cut-off or limited use of water, electricity or gas, among others. Of these, two are selected as

[29] These may be magnified in studies across several countries. As such, it is important in survey-based measures of over-indebtedness to include more than one question to capture this.
[30] French Household Budget Surveys, the Household Assets survey, the French module of the ECHP and the French part of the EU-SILC (SRCV 2004-2005).
[31] This includes monthly amount of payment for consumption credit and the number of arrears people faced for several types of expenses in the last twelve months (once, twice or more than twice). The question on arrears was also broadened to other types of expenses (such as healthcare).

main indicators[32]. According to these indicators, there are 5-6 % of people in problematic debt situations. They also state that only 1% of the population combines problematic arrears and poverty and that the indicators would point to very distinct groups.

Altogether these surveys, and others not mentioned above, are the background to the proposed approach below. As stated, these surveys have been selected as examples of empirical research that are closely related to this study.

3.4 Developing a common method of measurement

We can bring together the above analysis to identify the most appropriate way of developing a common measurement for European member states. In section 3.1.3 we set out the key elements of a common European operational definition. Later, in section 3.2.4 we concluded that there are strong arguments for using an European-wide survey to collect comparable statistics on over-indebtedness in EU Member States and that, of the two candidates, the EU SILC survey meets more our requirements. In the following section we review the questions included in this survey (and in a special module in 2008) and, in the point 3.4.2 we give an overview of the ways that over-indebtedness could be measured using data from this survey.

3.4.1 Data available from the EU SILC survey

In the following, we have assessed the extent to which the components of the common operational definition (as discussed in 3.1.3) are reflected in the regular EU-SILC survey and the special module. Tables 8 and 9 show the questions used in these surveys, including their ID ("HS" and a number for the regular EU-SILC survey and "MI" for the special module); the main topic covered (such as "arrears on mortgage bills"); what types of responses are given by the respondents and the scaling of the answers (such as yes/no, so that there are only 2 answers possible). If there are more possible answers than two, this is also mentioned below.

[32] Percentage of population becoming poor or poorer due to consumer credit payments and Percentage of persons in households with at least two arrears for bills of electricity, water and gas, healthcare or rent or mortgage

Table 8
Variables collected in the EU-SILC survey

ID	Type of Variable	Answers and Scaling
HS010	Arrears on mortgage or rent payments	Arrears past 12 months: yes/no
HS020	Arrears on utility bills (electricity, water, gas)	Arrears past 12 months: yes/no
HS030	Arrears on hire-purchase instalments *or other loan payments*[*]	Arrears past 12 months: yes/no
HS060	Capacity to face unexpected financial expenses[**]	Able to meet expense: yes/no
HS120	Ability to make ends meet (usual expenses)	1/great difficulty – 6/very easy
HS130	Lowest monthly income to make ends meet	Estimated number in Euros
HS140	Financial burden of total housing costs	1/heavy burden – 3/no burden at all
HS150	Financial burden of the repayment of debts from hire-purchase or loans	1/heavy burden – 3/no burden at all
HY010	Total household gross income	Estimated number in Euros
HY020	Total disposable household income	Estimated number in Euros
HY022	Total disposable household income before social transfers other than old-age and survivors' benefits	Estimated number in Euros
HY100G/ HY100N	Interest repayments on mortgage	Estimated number in Euros

Note: Assessment is based upon Eurostat's Description of SILC USER DATABASE variables: Cross-sectional and Longitudinal, Version 2005.4 from 15-09-07.

[*] Whether the household has been overdue for hire-purchase or other non-housing loans. Other loans included are for decoration, refurbishment etc. and problems on repayments of credit cards are included. The presence of a bank overdraft does not count as arrears for the purpose of this item.

[**] Expense affordable out of own resources: household cannot ask for financial help from anyone, account is debited within 30 days, debt situation does not deteriorate, no loans for usual expenses

Table 9
Additional variables in the EU-SILC special module

ID	Type of Variable	Answers and Scaling
Module	**Bank accounts and overdraft**	
MI010	Household has a bank current account	Answer: yes/no
MI020	Household is overdrawn on one of its bank accounts	Answer: yes/no
MI025	Estimated total amount unbalanced on household's bank accounts in classes	1-9 classes
	Credit/store cards	Answer: yes/no
MI030	Household has credit card(s) and/or store card(s)	Answer: yes/no
MI040	Household has credit card(s) and/or store card(s) with uncleared balances	1-9 classes
MI045	Estimated total amount unbalanced at the last monthly statement on household credit/store cards in classes	1-9 classes
	Source of credit and loans	
MI050	Household has credit or loans (other than mortgage for the main dwelling)	Answer: yes/no
MI051	Household has mortgage for other than the main dwelling	Answer: yes/no
MI052	Households has hire purchase instalments (e.g. leasing, car, technical equipment)	Answer: yes/no
MI053	Household has home-related credit/loans (inventory, domestic appliances, repairs)	Answer: yes/no
MI054	Household has credit/loans to pay for holidays/leisure	Answer: yes/no
MI055	Household has credit/loans to pay for education or childcare	Answer: yes/no
MI056	Household has credit/loans to pay for health issues	Answer: yes/no
MI057	Household has credit/loans for investment or business start-up	Answer: yes/no
MI058	Household has other cash loans (debt conversion, to cover overdrafts, credit card and other bills, etc.)	Answer: yes/no
	Arrears	
MI060	Arrears on other non-housing household bills	Answer: yes/no
MI065	Estimated total amount currently in arrears for other non-housing household bills in classes	1-9 classes
MI075	Estimated total amount currently in arrears for household housing bills/repayment in classes	1-9 classes
MI085	Estimated total amount currently in arrears for household other loans and credit repayment in classes	1-9 classes
	Drop in income	
MI090	Major drop in household income during the last 12 months	Answer: yes/no
MI095	Main reason for drop in income	List of 8 reasons
	Future expectations	
MI100	Expectation for the financial situation in the next 12 months	1/improve-4/don't know
	Reason why the household does not have a bank account	
MI110	Household doesn't need an account and prefers to deal in cash	Answer: yes/no
MI111	The charges are too high	Answer: yes/no
MI112	There is no bank branch near where household lives or works	Answer: yes/no
MI113	Household has applied for an account and been turned down	Answer: yes/no
MI114	Bank would refuse household	Answer: yes/no
	Reason why the household does not have a commercial credit	
MI120	Household doesn't need to borrow at all	Answer: yes/no
MI121	Household can borrow from family or friends	Answer: yes/no
MI122	Household will not be able to repay debt	Answer: yes/no
MI123	Household applied for credit and been turned down	Answer: yes/no
MI124	Household used to have credit but the facility was withdrawn	Answer: yes/no
MI125	Banks refuse to give credit to household	Answer: yes/no

Note: Commission Regulation (EC) No 215/2007 of 28 February 2007 on implementing Regulation (EC) No 1177/2003 of the European Parliament and of the Council concerning Community statistics on income and living conditions (EU-SILC) as regards the list of target secondary variables relating to over-indebtedness and financial exclusion, Official Journal of the European Union 1.3.2007

We have also assessed the extent to which the common elements of a European operational definition of over-indebtedness are reflected in the regular EU-SILC survey as well as in the special module. Again, as explained above, the abbreviations 'HS' and 'MI' denote the regular EU-SILC survey and the special module.

Household unit – A sample household is a household that contains at least one sample person. A household is included in a EU-SILC survey for the collection or compilation of detailed information where it contains at least one sample person aged 16 or more[33].

Arrears on financial commitments (bank and non-bank type) – The regular EU-SILC survey asks about arrears in HS010, HS020, HS030. Here, questions are asked about the existence of arrears on mortgage or rent, utility bills, hire-purchase or other loans. Further, in HS140, a question is asked as to whether the households sees its financial burden of total housing costs as a heavy. In HS150, the question is asked whether the financial burden of the repayment of debt from hire-purchase or other loans is also regarded as heavy burden. In the EU-SILC special module, there is the question MI060 (about arrears on non-housing household bills), in MI065 about the amount in arrears for non-housing household bills (differentiated in 1-9 classes), in MI075 about the estimated total amount currently in arrears for household housing bills/repayment; and in MI085 about the estimated total amount currently in arrears for household or other loans and credit repayment. Thus, in the module, there is more detailed information on arrears.

Payment capacity – The regular EU-SILC survey asks in HS120 whether the household is able to make ends meet. This essentially is the question whether the household has sufficient funds each month to cover all bills. Answers such as with 'great difficulty' or with 'difficulty' indicate that the household has problems in covering all bills. The Eurobarometer question on difficulties in paying bills at the end of the month is, however, possibly the better measure.

Illiquidity – In the regular EU-SILC survey it is asked whether the household has the ability 'to meet unexpected financial shocks *without recourse to further debt or other financial sources*' (HS060**).** This is not referring to the above 'make ends meet' as it is concerned with sudden expenses, the household has to face. The exact question is: Could your household afford an unexpected required expense of (*amount to be filled*)[34] with its own resources? Own resources means household cannot ask for financial help from anybody, that the household's account has to be debited within one month, that the situation with regard to potential debts does not deteriorate and that the household cannot to pay usual expenses previously paid in cash on instalments or with a loan.

[33] Commission Regulation (EC) No 1982/2003 of 21 October 2003 implementing Regulation (EC) No 1177/2003 of the European Parliament and of the Council concerning Community statistics on income and living conditions (EU-SILC) as regards the sampling and tracing rules, Official Journal L 298, 17/11/2003 P. 0029 - 0033

[34] Amount calculation is the poverty threshold per one consumption unit independently of the size and structure of the household, the calculation for year "n" comes from year "n-2" EU-SILC data, for year 1 and 2, appropriate national data has to be used. Of this value, a ratio of 1/12 is used in the questionnaire.

Structural basis – In the regular EU-SILC survey, there are no direct questions about on-going problems (meaning questions about how long the household has been in arrears). However, it is possible to track households across surveys, for this matter one only needs a definition of what is to be considered as 'structural problems'.
The EU-SILC survey does not capture 'structural' arrears sufficiently, since it asks only about the occurrence of arrears at any point in the past year. The Eurobarometer questions come closer to being a definition of structural arrears, since re-occurrence of difficulties is implicit in the question wording. An alternative would be to ask all who say they are in arrears or are unable to make ends meet/pay all bills at the end of the month for how long they have been in this situation. Ideally one would also want to look to the future and also ask for how long they expect them to continue.

Standard of living (subsistence) – This element would include that the satisfaction of loan and other recurring commitments is not possible for the household, without reducing the minimum standard of living. Here a new question could possibly be suggested which captures such a reduction. Alternatively, the Commission could set the same level like the *at-risk-of-poverty threshold* which is 60% of equivalent national median income and ask whether the household falls under this threshold when recurring bills and credit commitments have to be paid.

The ***possible measurements*** could include economic and psychological aspects of over-indebtedness, but they should exclude legal and administrative indicators, where the underlying procedures are not comparable/harmonized, as extensively discussed above. Furthermore, these are policy measures that are not supposed to be measured in themselves because their effects are of interest.

For instance, there are different reasons for getting into indebted and for becoming over-indebted; the latter are reviewed in-depth in the section on nature and causes of over-indebtedness (See chapter 2, section 2.4). The special EU-SILC module collects information on a limited number of reasons for indebtedness (as opposed to *over-indebtedness*). For instance, in the section 'source of credit and loans' it is asked whether households have credit for housing purposes, hire-purchase, or for reasons such as holiday/leisure, education, health issues, investment/business start-up or cash loans. This can be brought together with information on increasing financial problems as requested in the EU-SILC survey to find relations. The survey allows bringing together these aspects with the answer to other questions such as personal feeling of being over-burdened with commitments. Further, a question on reasons for over-indebtedness could be added.

It would be desirable from a statistical point of view to concentrate on the regular EU-SILC survey (and possible revisions of questions there) and use the special module for further research. It is clear that this special module will be used only once in 2008, but some of its questions could be introduced in the regular survey in 2011 if they appear especially relevant. The module gives also information on financial exclusion which is linked to over-indebtedness, such as indications on holdings of bank accounts and credit cards, for what purposes households took on credit, the amount of outstanding arrears, decreases in income, future financial expectations or reasons for not having an account or not having credit. Thus, links can be set between financial exclusion and over-indebtedness that is beneficial for further research.

3.4.2 Suggested indicators for a measurement of over-indebtedness

The following suggestion of indicators for a measurement of over-indebtedness is based upon suggestions in the academic literature (discussed above) as well as suggestions at the European level. For measuring over-indebtedness, the following can be used:

- Comparably high commitments payments that pushes the household below the poverty-threshold[35] ;
- Structural arrears on at least one financial commitment[36];
- Burden of monthly commitment payments (housing costs inclusive of mortgage payment or rent and payment for other loans) considered to be a heavy burden by the household;
- Payment capacity considered to be 'very difficult' or 'difficult' by the household; and
- Illiquidity (an inability to meet an unexpected expense).

In order to calculate comparably high commitments payments that risks pushing a household under the subsistence/poverty threshold, it would be necessary to subtract recurring financial commitments from the personal disposable income (HX 090)[37]. The EU-SILC survey currently only asks in HY100G about the interest paid on mortgages; information on minimum payments on mortgages and interest and minimum payments on other loans are not recorded. In terms of recurring expenses (households bills), there is a question in HH070 on housing costs[38], but not on other recurring expenses that the household may face. These other recurring expenses (such as telecom bills) would have to be included, too. Once all these recurring commitments are calculated they could be subtracted from the personal disposable income to calculate whether the household falls under the poverty threshold in a given country. Alternatively, the household could be asked whether the burden presses it below the threshold of the lowest monthly income needed to make ends meet (information is requested in HS 130 in the regular EU-SILC).

This is a comprehensive list of measurements, if further research shows that there is great overlap between indicators (where indicators capture the same people who have been made redundant), the list of criteria could be reduced. Furthermore, there could be additional, related measures that could be defined.

Being at risk of over-indebtedness could be defined as a household that fulfils all the above criteria (measures), but the income is not reduced under the poverty threshold by the recurring commitment burden each month, but instead only approaches it (or, alternatively, approaches the monthly minimum costs of living of that household).

Households in financial difficulties could be measured by using the aggregate number of households that fulfil the above criteria, except for approaching the poverty threshold (or, alternatively, approaches the monthly minimum costs of living of that household).

[35] This is discussed further below. The word commitment is used to include all recurring expenses not only those related to credits.
[36] This includes all types of credit commitments, but also other recurring bills such as utilities, etc. It has been explained extensively above how this is reflected in EU-SILC.
[37] HX080=0 when HX090 >= at risk of poverty threshold (60% of MEDIAN HY090), HX080=1 otherwise
[38] This refers to monthly costs for tenants, homeowners and those that live rent-free. It includes utilities (water, electricity, gas and heating) resulting from the actual use of the accommodation, not included are other expenses.

The problem with this approach is that while personal disposable income is collected in the EU-SILC survey, there is only *incomplete information about debt-service* (this means that only information on mortgages interest is requested and not on other components such as minimum payments on mortgages). Moreover, there are recurring expenses outside of housing (such as insurance, leasing or telecommunications) that should also be considered.

Consequently, the European Commission might consider starting immediately with measuring households in financial difficulties and after a reform of the EU-SILC survey, measure those households *at risk of being over-indebted* as well as the ratio of over-indebted households. More questions would have to be suggested for inclusion in the EU-SILC survey, as discussed above. Alternatively, a question can be asked whether – considering all recurring expenses and credit commitments – a household would fall below the national poverty risk threshold/or below the monthly minimum needed for living. Furthermore, it might be also indicative how often a household was in arrears and for how many months.

3.4.3 Shortcomings with the associated approach

There are undoubtedly some limitations related to the above approach of using the EU-SILC survey and the discussed measurements. For instance, although we have included the flow of expenditures as well as income (where over-indebtedness is a structural disequilibrium between both), the ***overall situation of debt and assets is not accounted for***, thus the picture is necessarily incomplete. There is only one question that points to whether there are further assets that can be liquidized. There must be more research done on how the different indicators relate to each other. For instance, what *question captures different groups of people and what measures capture the same*? Maybe there is some redundancy in the above-suggested indicators. This redundancy, however, should be cautiously considered when reducing the numbers of measurement.

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4 Policy responses to over-indebtedness: A review across Europe

4.1 Introduction

The extent and nature of the debate on over-indebtedness varies widely across member states. At one extreme are countries that responded to the recession in the early 1990s with measures to reform legal processes for debt cases, introducing procedures for dealing with all the debts facing a consumer rather than dealing with them one by one, and introducing pre-court procedures for the amicable settlement of debts. The Nordic Countries, Austria, Germany, Belgium, Netherlands and France are examples from the countries covered by this study. In the UK, similar developments have taken place but later – following a change in Government in 1997. The UK is, however, alone in producing an annual report on over-indebtedness and having both a Ministerial Group and cross-government committees to monitor the situation and co-ordinate responses (Department of Trade and Industry, 2005, 2006; Department for Business, Enterprise and Regulatory Reform, 2007). These countries are also notable for their more extensive networks of debt advice and counselling services. The debate on over-indebtedness has tended to persist – with the exception of Norway, where rising economic prosperity has lessened the problem and deflected the interest of policy-makers. Moreover, it is noticeable that the persisting debate has been broadened to include preventative measures such as ensuring responsible lending on the one hand and responsible credit use and money management on the other. Even so, measures to prevent over-indebtedness are much less well developed than those to alleviate it.

At the other extreme are the new eastern European member states where the debate on over-indebtedness is either in its infancy or not yet born (the Czech Republic, Lithuania and Poland are covered by this study). The rapid growth in consumer borrowing, however, is serving to raise awareness. In these countries there are few policies or initiatives to tackle over-indebtedness. The Czech Republic is further ahead than Poland or Lithuania and has insolvency legislation that comes into effect in January 2008 and debt advice agencies are beginning to be established.

In between are countries such as Greece, Italy, Portugal, Spain and Ireland where there is limited policy interest in the area of over-indebtedness. For the most part there is also little public debate; Greece is the exception, where there is growing concern about levels of borrowing and over-commitment by people on a low income. Debt advice services exist in Italy, Portugal and Ireland, but with the exception of Ireland, are poorly funded. Legal procedures have not been subject to major reform and preventative measures are thin on the ground, except in Ireland, where the Money Advice and Budgeting Service plays an active role in debt prevention.

In addition to these national debates, the Council of Europe has also considered the issue of over-indebtedness. In 2005, it commissioned a report on legal solutions to debt problems which provides an excellent overview of the situation at that time (Niemi-Kiesiläinen and Henrikson, 2005) and, in 2007 published *Recommendation CM/Rec (2007) 8 of the Committee of Ministers to member states on legal solutions to debt problems* (see appendix 1).

4.1.1 Linking causes and solutions

Tackling over-indebtedness undoubtedly requires a comprehensive approach, incorporating a range of initiatives both to prevent over-indebtedness before it occurs (preventative measures) and to resolve it effectively once it has arisen (curative or remedial measures).

Consideration of the key causes of and routes into over-indebtedness identified earlier (see section 4) – poor money management, persistent low incomes, financial shocks (especially a drop in income due to job loss), heavy borrowing, as well as low incomes and high income inequality at the macro-economic level – is fundamental in determining the nature and scope of the initiatives required. Moreover, over-indebtedness can be caused by and contribute to poverty and financial exclusion. Approaches to tackling these related policy concerns provide a backdrop to those relating to over-indebtedness specifically, and must be seen in this context (they are not, however, addressed here explicitly). However, caution must additionally be taken to ensure that initiatives against over-indebtedness do not themselves contribute to poverty or financial exclusion. It is perhaps surprising that only a minority of the 2006 to 2008 National Reports on Strategies for Social Protection and Social Inclusion made reference to tackling over-indebtedness (Finland, France, Netherlands, Portugal and UK), and it is recommended that all member states be asked to report regularly on of the situation within their country regarding over-indebtedness.

4.1.2 The building blocks of an effective approach

The research identifies a framework of six essential building blocks that need to be addressed for over-indebtedness to be tackled effectively, including both preventative and remedial measures. First there is a need for programmes to help improve financial capability in order that people develop the skills and motivation to become better money managers and responsible borrowers. This is needed to encourage and empower consumers to ensure they can afford all their financial commitments, are not borrowing more than necessary, understand the terms and conditions of their commitments, and understand the consequences of failing to meet those commitments.

In complementing responsible borrowing, a second essential building block is to ensure that policies exist to protect consumers, especially vulnerable consumers, from irresponsible lending. Irresponsible lending can have adverse repercussions for borrowers, lenders themselves as well as the industry they represent, and society as a whole.

The third building block, (and final from the perspective of the prevention of over-indebtedness), is a need for responsible arrears management and debt recovery, by lenders and other organisations that provide other forms of credit (such as utility companies and landlords). This is aimed at encouraging and enabling creditors to respond appropriately when customers begin to fall into arrears with payments or are at risk of doing so.

The fourth is the availability of free and independent debt advice for consumers who recognise they are facing difficulties. This would include negotiation with creditors and agreeing informal arrangements to repay the money owed. Ideally it would also be accompanied by measures to prevent the problem recurring.

The two final buildings blocks relate to provisions for resolving over-indebtedness once it has become entrenched and it is clear that it cannot be alleviated through informal means. First, there must be provisions to enable amicable arrangements outside the courts between creditors and debtors. There must also be court arrangements that are sufficiently flexible to enable the rehabilitation of the non-culpable debtor in a way that reflects the realities of the individuals' situations. For example, these might provide for the partial or full write-off of debts depending on ability to pay. Equally, they should incorporate arrangements for dealing with culpable debtors in order that lenders and wider society can be protected from the damaging behaviour of such individuals.

Running throughout these is a need to ensure that there are adequate arrangements to assist people in the event of an emergency arising from a major natural disaster – widespread flooding or fires or an earthquake, for example. These may necessitate special assistance, such as suspending (or in extreme instances, cancelling) all payments on major commitments, such as mortgages, for the people affected. In cases, where insurance policies are void, there is a case for EC assistance.

The precise initiatives that these building blocks comprise will differ depending on local concerns as well as the domestic administrative and industry structures, and financial cultures. Nonetheless, it is essential that the overarching approach must take account of the interests and responsibilities of creditors and debtors alike, as well as the needs of the domestic economy and government administrations. The remainder of this section reviews the existing initiatives that exist in the 19 European countries within the framework set out above. The advantages and drawbacks, including unintended effects, of these initiatives are highlighted and conclusions are drawn for how each policy outcome can be best achieved.

4.2 Responsible borrowing and money management

While the majority of consumers manage their finances well, we know that over-spending, over-commitment and irresponsible borrowing can lead to over-indebtedness. If consumers could be encouraged to act responsibly in their decisions to spend and borrow then some cases of over-indebtedness could be prevented. Future problems would be less likely if consumers also knew how to manage their money, budget and save. However, in order for people to be encouraged to behave responsibly they need to recognise the benefits of becoming sufficiently skilled to make appropriate, responsible choices. These skills can be developed through financial education, information and advice.

On 18 December 2007 the European Commission adopted a Communication on Financial Education. This communication stresses the importance of good financial education as a way of enabling consumers to be aware of risk and opportunities and to help them to make informed decisions. It notes that choosing appropriate products and planning for the future can lead to a reduction in default rates on loans and mortgages.

The EC Communication indicates that current policies and strategies aimed at improving consumer's skills and confidence or changing their behaviour are evenly split between those aimed at children and young people, and those targeted on adults. Those countries with national strategies to fight over-indebtedness, such as the Netherlands, include preventative elements within their strategies that encompass education targeted at both these groups.

None of the countries studied has a single provider of preventative education – all rely on more or less co-ordinated delivery from a number of organisations, including Government departments, charities, private sector organisations, and schools and colleges. Some pan-European provision is available however; for example the EC has developed an online financial education system for adults, known as DOLCETA, which is translated into all Community languages.

4.2.1 Children and young people

School lessons are the obvious platform for policy makers seeking to find a way of building skills amongst the younger sections of the population. It has long been recognised by organisations such as pfeg (Personal Finance Education Group) in the UK that teachers could provide clear guidance and information about a whole range of personal finance issues in time to prevent financial disasters or over-indebtedness from occurring. As the recent EC Communication outlines in Principle 3: "Consumer should be educated in economic and financial matters as early as possible, beginning at school". Skills and knowledge acquired during these formative years could have a positive influence on both attitudes and future behaviour.

In reality, the extent to which schools and Education Ministries are embracing the opportunity to help prevent over-indebtedness is mixed. It is not uncommon for some financial education to begin in schools, but our research suggests that few countries currently have a national financial education curriculum supported by their Education Ministry or a strategy that can reach all school age children. Indeed Norway was one of the few countries that did support the teaching of financial skills, but it has recently reduced the status of financial education in schools, removing it as a subject and instead integrating certain aspects within the maths and social sciences curriculum. Greece has a compulsory financial education element for 15 years olds, but this is simply one chapter within a text book. It covers the use of unsecured credit, and issues around over-indebtedness.

It seems clear that even where external partners are involved in the delivery of financial education it needs to be incorporated in a compulsory aspect (or aspects) of the curriculum in order to provide maximum benefit to all pupils, otherwise only the most motivated will benefit.

Countries that have not encompassed aspects of financial capability within the core curriculum may nevertheless offer personal finance training in schools through external partners (such as private companies or not-for-profit organisations) such as SCHUFA Holding AG in Germany and Patti Chiari in Italy. These partners provide a range of resources including worksheets and information leaflets and some work with schools on extra-curricular activities aimed at creating confident financial consumers. The support can be substantial: HSBC in the UK for example will provide 10,000 staff volunteers over the next five years to work with over 17,500 primary schools in the UK.

There are inevitably some challenges to overcome when trying to incorporate financial education into the activities of schools. There are already a wide range of pressures facing education providers in terms of the expectation of the breadth and content of subjects on offer and in terms of the resources available (including qualified staff, time available, space etc). It is therefore important to make sure that the education ministry and both the curriculum and examination authorities (or comparable bodies) are behind any proposals to introduce new topic areas, and it may be necessary to get the backing of teacher's unions.

Strategies aimed at increasing awareness of such diverse topics as citizenship, environmental protection or healthy eating look to schools to provide early interventions. Even if the key players in the education system accept the importance of teaching financial topics as part of the fight to prevent over-indebtedness, it can be difficult to encourage teachers to see how personal finance issues can fit within their subject area and expertise, and it would be wrong to assume that all teachers have good financial skills themselves or the confidence and willingness to teach such skills.

The best education schemes therefore also combine:

- Information aimed at senior teachers explaining why personal finance skills are important for their pupils/students.
- Training for teachers to build up their own capability and their confidence to teach those skills.
- Access to well designed, stimulating resources that are appropriate to the subject, the age of the child and the needs of the teacher.
- Strategic oversight to look at future trends – making sure that the most appropriate topic areas are taught given the economic and social climate.

It is important to consider which personal finance topics are most relevant and timely to children of different ages. The financial education of very young children might begin with a basic understanding of the values of coins and notes, the reasons for carrying money and the benefits of 'cashless' alternatives. Later topics may include the benefit of saving, and the point of insurance. Simple examples of entrepreneurship can only be introduced once key concepts such as profit and investment are in place, and debt will most likely be focused on when children become teenagers and have a more mature understanding of finance.

The UK charity pfeg can be seen as an example of best practice in the drive to encourage schools to provide personal finance education. It is working to support all schools, by encouraging teachers to see the relevance of the subject and providing them with guidance as they include financial skills into their teaching. Pfeg endorses a wide range of high quality teaching resources with its unique quality mark. Teachers are given help to choose the most appropriate materials for the topic they want to teach and the intended age range, and they can either directly access or order all the quality marked resources online.

4.2.2 Adults

The decision to focus financial education on children and young people is a strategic move that may help to prevent problems in the longer term. However, as discussed in section 4 over-indebtedness is currently highest amongst adults aged 35 to 50. Preventative measures aimed at school aged children will overlook this group entirely and therefore miss the opportunity of preventing problems amongst those most at risk in the near future. Despite this, there are few countries providing preventative information to all working age adults (or, indeed, to those in retirement) Important exceptions to this include the Financial Capability Strategy in the UK, and the Fund for the Treatment of Over-indebtedness in Belgium, both of which aim to reach the general population and raise awareness.

The FSAs approach in the UK has been to reach the adult population by segmenting it into various groups of people with similar needs, including new parents, and employees. This approach allows the dissemination of targeted, relevant information through existing networks, such as health visitors or employers. There is considerable advantage to providing information through known and trusted channels in a way that treats everyone the same (rather than identifying those with low skills or problem debts for example) and removes any stigma associated with financial issues.

In some countries specific attempts are made to work with people known to be at risk of becoming over-indebted, such as those in poverty (as in Ireland and Poland) or those without basic education levels (e.g. Centra Voor Basiseducatie, Belgium). We might assume that targeted information would also be made available to people in crisis or at times of transition, before their problems take hold, but there is little evidence of this. Such schemes as there are tend to be run by trade unions for their members, although in Norway companies have offered debt advice and help to find a new job during large scale redundancies.

Whilst financial education is rightly seen as a way of preventing difficulties, education and training can also be helpful for people who are currently facing difficulty, to prevent them from making their situation worse. A combination of knowledge and behaviour modification can be used to help people regain control of their situation, before they become over-indebted. This aspect of over-indebtedness prevention requires particularly well trained staff and more intensive (usually one-to one) interventions than the general education, information and advice provided to other adults. It is therefore the most costly to provide and delivered exclusively by organisations who have the specialist resources and contacts to provide information that is up to date and relevant to each particular case. We discuss the support that is available to adults in difficulty in more detail in section 4.5.

Most education and advice includes help with budgeting (adults in Austria, for example, have access to an award winning online budgeting tool ‘Haushalstbuch’ as well as advice from a range of other providers). Indeed, Reifner et al (2003) found that only Spain and Greece had no provision of budgeting guidance aimed at adults. However, it should be noted that in some countries budgeting advice is linked more clearly with debt settlement than the prevention of over-indebtedness.

Budgeting is seen as a key method for preventing overspending and improving money management, but other areas of personal finance education are also important. Consumers need to be able to recognise the difference between 'wants and needs', they need to be able to choose financial products carefully, know their own level of borrowing and recognise when it might become a problem. Some may also find it valuable to consider ways of saving for future events, maximising income, managing repayments or investing windfalls.

Given the causes and nature of over-indebtedness, particularly the likelihood that it is caused by external influences, consumers need to learn how to put plans in place to protect their financial security and understand the benefits and limitations of the options available to them. They may also need to have somewhere to turn to for general advice about financial matters, before things get out of control. Such generic, financial advice has been successfully provided by Independent Financial Advisers (IFAs) in the two phases of a pilot scheme held in conjunction with Citizen's Advice Bureaux in the UK (Widdowson and Pitt, 2007), and in 2007, Otto Thoresen was appointed by the UK Economic Secretary to the Treasury to carry out a review examining the feasibility of delivering a national approach to generic financial advice. This is expected to incorporate both generic product choice and planning ahead and aims to be 'preventative: to help you take charge of your and your family's money' (Interim Progress Report – consumer summary).

It should be noted that the topic areas that need to be covered to prevent financial difficulties and over-indebtedness may vary across countries or regions. In very competitive markets consumers may find themselves overwhelmed with choice and so need to know how to compare across products and providers. Topic areas of relevance within a country will also vary depending on the socio-economic characteristics of the target audience, and on how close they are to being in difficulty.

Delivery methods of preventative information, advice and education typically vary by the level of support provided and the characteristics of the people being targeted. In some countries only basic financial information is provided, and it is only accessible online (Czech Republic, Greece) or via a combination of websites and pamphlets (as in Spain). In other countries studied provision is available either online, by telephone or face to face. In some countries courses or seminars are provided to educate young people and consumers, as in the UK and Sweden. The comprehensive delivery undertaken by the FSA in the UK (in conjunction with various UK Government departments and key stakeholders) combines a range of approaches including interactive web pages (where consumers can enter their own data to get personalised information), handbooks and seminars for consumers and training for intermediaries and teachers to provide support to their own clients and pupils.

Just as topics covered can vary by country or target group, so delivery channels need to be chosen to meet the requirements of the people they are intended to reach and the area they are designed to cover. For example, we have been informed that the experience of The Young Scot Infoline suggested that young people in Scotland make more use of web based information than telephone help-lines, but in other countries, such as Greece, internet access may currently be insufficient to reach this target group.

We have so far discussed general financial advice and information designed to improve levels of financial capability and thus reduce the likelihood that people will become over-indebted. It is also worth considering the role that product specific information can play, particularly when provided at the point of sale. For example buyers are reminded that that a home can be repossessed if their mortgage repayments are not made as a way of emphasising the seriousness of credit commitments. This can be seen as a parallel to the health warnings now clearly displayed on cigarettes, or the age-restrictions applied to certain music and films. Researchers in Canada studied the impact of graphic warnings on cigarette packs and concluded that *'Policymakers should not be reluctant to introduce vivid or graphic warnings for fear of adverse outcomes'* (Hammond et al*,* 2004). However, the health implications of smoking are universal, whilst the probability of getting into financial difficulty varies depending on circumstances. As Reifner et al (2003) stressed, credit is not dangerous in and of itself and so any warning would need to relate specifically to the circumstances of the consumer. A further difficulty with financial products is that the paperwork is frequently ignored by those with lower levels of engagement or financial capability, and so warnings will not be read by some of the people most likely to become over-indebted.

Alongside warnings about the potential risks of taking out credit, there is support in the UK for telling rejected credit applicants why they were turned down. It is hoped that this will encourage heavy borrowers to think twice before trying another lender. Such a move is also being considered under the new European consumer credit directive[39]. Article 9.2 requires creditors to tell consumers if a credit application has been rejected following a check with a credit reference agency. However, there has been a proposal passed to the European Parliament to reword the article for the second reading so that such information would only be given 'upon request' by the borrower. This would undoubtedly negate the power of the article to work as a preventative measure that could tackle over-indebtedness.

4.3 Responsible lending

Ensuring responsible lending is important, given both the rising levels of borrowing in most countries and the concerns this has raised, and the strong link between levels of borrowing repayments and financial difficulties. Irresponsible lending is in no-one's interest: lender, borrower or society as a whole. It is therefore essential that there is some form of regulation to protect vulnerable consumers from exploitative lending.

All the countries covered by this study have transposed existing EU Directives into national law. Consequently, legislation regarding disclosure prior to the credit agreement is commonplace. Cost disclosure is an area of continuing debate and is being addressed further by the new directive that is going through the European Parliament at the time of writing.

In addition to disclosure, reports from country experts identified a range of other measures; some initiated by the credit industry itself, others by governments often in the form of legislation. Each

[39] COM(2002)443final – for details on texts and adoption procedure see http://ec.europa.eu/prelex/detail_dossier_real.cfm?CL=en&DosId=176090

of these has the same overall policy intent – avoiding irresponsible borrowing – but the effectiveness and outcomes differ.

4.3.1 Creditor initiatives

Competitive markets, coupled with national debates on responsible lending, have encouraged lenders to develop sophisticated tools to assess the credit-worthiness of potential borrowers. This started with the use and, in some countries, the development of credit reporting agencies (see below) to identify potential borrowers with an adverse payment history. This was followed by the development of credit scoring – a statistical assessment of the risk of default of a potential borrower based on their personal characteristics (as disclosed on the application form) and the past default rates of other borrowers with similar characteristics. Credit reports were then incorporated into these credit scores and have been found to be highly predictive of the level of default in countries with positive credit registers.

A number of country correspondents commented on the impact these developments have had in containing levels of bad debt, despite an expansion in the credit market although no evidence was cited to support this.

In addition, in a small number of countries lending organisations have developed codes of practice which include provisions on responsible lending through their trade bodies. These include Finland, Lithuania, Poland and the UK.

> *When granting a loan to a customer, a bank will ascertain, on the basis of the information available to it, the customer's ability to meet the obligation in question. Where necessary the bank will require the customer to provide security for the debt.*
>
> *In a lending relationship, a bank will act responsibly, with the intention of giving due consideration to the customer's financial safety'.*
>
> The Federation of Finnish Financial Services Code of Good Conduct.

These codes are most effective in ensuring responsible lending when compliance is closely supervised by an independent body and sanctions can be taken when the Code is broken (see **Box 1**).

Box 1 Good practice example: Self-regulation in the UK

The UK *Banking Code* is sponsored by three trade associations: the British Bankers Association (representing banks) the Building Societies Association (representing the mutual building societies) and the Association of Payment Clearing Systems (APACS – representing credit card issuers). All retail banks, credit card issuers and building societies that offer consumer credit in the UK are signatories of the *Banking Code* and between them cover 63% of UK unsecured lending. The *Banking Code* gives an undertaking to lend responsibly and is accompanied by detailed *Guidance for Subscribers*, which provides details of how they are expected to interpret and implement this in practice.[40] The commitments in the *Banking Code* and its Guidance are subject to independent review every three years. The latest review was held in 2007 as a result of which the Guidance will be further strengthened in 2008 to require lenders to check both positive and negative data held at a credit reference agency and take into account one of three sources of data on the customer's financial circumstances. These are: income and financial commitments; how the customer has handled existing accounts and the lender's internal credit scoring techniques. These checks must be made when raising limits on credit cards and overdrafts as well as when new credit is granted.

The Banking Code has an independent monitoring body – the Banking Code Standards Board[41] whose primary role is to monitor compliance with the Code. This is done through a range of methods that are very similar to those used by the statutory regulator in monitoring compliance by mortgage lenders. All subscribers are required to file a detailed annual statement of compliance. In addition, BCSB staff undertake general compliance monitoring and themed investigations. Both involve visits to subscribers, scrutiny of files and sitting in while staff do their jobs, including taking calls from the public; mystery shopping is also used in themed reviews. See, for example, the 2007 review of credit assessment[42].

Detailed discussions are held with Code subscribers who are not fully compliant with the Code, with a view to putting things right. Serious breaches are referred to the disciplinary committee of Board members (with independent directors in the majority) that has an independent chair who does not sit on the Board. There is a right of appeal to the full Board. The BCSB does not have the power to fine, but it can require a subscriber to compensate customers. It can also 'name and shame', which is a very powerful sanction as breaching your own Code of Practice is seen as worse than breaching an externally imposed rule. Very serious breaches would result in a subscriber being 'expelled' from the Code.

4.3.2 Legislative requirements to check affordability

Current legislative requirements for lenders to check affordability are relatively uncommon and exist in only seven of the 19 countries covered by this review. Even where they do, they are not as effective as they might be.

Austria, Finland and Sweden have legislation that requires creditors to check credit worthiness of potential borrowers and sanctions can be imposed but there is no monitoring of compliance and sanctions are rare. In Greece a Draft Code of Consumer Ethics has similar provisions, with a similar lack of monitoring and sanctions. Moreover, there are doubts about whether Code will be implemented.

[40] http://www.bankingcode.org.uk/libraryhome.htm
[41] http://www.bankingcode.org.uk/home.htm
[42] http://www.bankingcode.org.uk/wpdocs/Credit%20assessment%20themed%20review.doc

In France lenders would be unable to initiate recovery proceedings if they lend to someone whose name is on the register, although the French country correspondent has reported that this rarely happens. While in Norway banks are obliged to advise potential borrowers whether or not they should take out the credit, but the lender is free to decide how affordability will be checked and there is no requirement for them to check the central register of defaults. Failure to make adequate checks would result in the lender getting a reduced dividend if the borrower subsequently defaulted and entered the debt settlement procedure (see section 4.6 below). It should be noted that this only applies to loans, although there is a proposal to extend it to other forms of credit.

In the UK mortgage lending is regulated by the Financial Services Authority (FSA) through its mortgage *Conduct of Business Rules*[43] which require both lenders and brokers to consider the affordability of any mortgage that they identify for individual consumers, using a detailed 'fact find'; where firms give advice, they must also ensure they offer the consumer a suitable mortgage product. Compliance with these rules is closely supervised and firms that fail to comply are fined, 'named and shamed' and may have their authorisation to lend withdrawn.
The most robust regime for unsecured credit, however, is in Belgium (see Box 2).

Box 2 Good practice example: Unsecured credit legislation in Belgium

Following a law of 9 July 1957, the law of 12 June 1991 on consumer credit had the aim of preventing over-indebtedness among consumers. It covers all types of credit including loans, retail instalment plans, and the opening of credit facilities or a lease contracts. It does not, however, cover short-term credit (up to three months), credit of less than €1,250 and loans granted on an occasional, not-for-profit basis.

Before making a consumer credit offer, this law requires lenders to consult the Central Individual Credit register (la Centrale des Crédits aux Particuliers) managed by the National Bank of Belgium. In addition, lenders and credit intermediaries must collect full and precise information about the financial situation of potential borrowers in order to assess their ability to make the repayments. It is, therefore, the responsibility of the lender and credit intermediary to identify the information that is needed to assess a consumer's financial situation, including existing credit commitments, and repayment abilities and to ensure that the borrower provides full information supported by documentary evidence. The consumer, in turn, is bound to provide exact information when requested. It is then the lender's responsibility to decide whether to grant the credit and how much to lend, based on this information. Any guarantees (such as a surety) required for the credit offer can only be taken into consideration on a secondary basis.

Moreover, the lender and credit intermediary must identify the most suitable type from their portfolio, taking into account the consumer's financial situation when the contract is signed and the purpose of the requested finance.
Any failure to make these checks can result in the court writing off all or part of the money borrowed.

The law of 1991 provides a further spur to responsible lending exists in the form of the "Fonds de Traitement du Surendettement". This Fund is supported financially by payments made by creditor organisations, with an individual firm's level of payments being determined by the ratio of negative credit reports on the central credit register divided by the number of positive ones. It finances the cost of the central credit database and also meets the cost of judicial procedures where the borrower would otherwise have insufficient funds to meet the required payments to creditors. In such cases, debt advisers representing the borrower can apply to the judge for payments from the Fund.

[43] http://www.hm-treasury.gov.uk/documents/financial_services/mortgages/fin_mort_reglend.cfm

The proposed Consumer Credit Directive[44] should, however, result in all member states having legislation relating to responsible lending. This includes detailed provisions regarding information disclosure both in advance of a contract (that can be taken away and considered in detail) and in the contract itself (articles 4,5,6,7 and 10). Contracts must include a warning about the consequences of missing repayments. It gives borrowers a 14 day period during which they can withdraw from a credit agreement (article 14). And, significantly, it requires lenders to assess the credit-worthiness of a potential borrower, including checking information held by credit reporting agencies/default registers (article 8). This applies not only to the initial credit agreement but also to any subsequent increases in the sum of money borrowed. How these requirements are monitored and the sanctions for non-compliance will be left to individual member states to determine (article 23), although the Directive does state that penalties '*must be effective, proportionate and dissuasive'*. In transposing the Directive into national legislation, member states should take account of best practice as described above. Just as importantly, procedures should be put in place to monitor compliance with the legislation and be underpinned by sanctions with an appropriate deterrent effect.

4.3.3 Credit reporting

Credit reporting plays an important part in ensuring responsible lending and will underpin the implementation of new Directive by member states. All countries, except Luxembourg, have credit registers (some private others run by public bodies), as noted earlier, but there are large variations in their coverage.

In the majority of countries the sharing of data (even default data) is voluntary, but in a minority of cases (France, Portugal, Spain) it is mandatory for lenders to lodge negative data. In practice, however, competitive pressures in the credit industry seem to ensure that the great majority of lenders *do* lodge default information (and often positive information too) even when they are not required to do so. Generally, this is reinforced by principles of reciprocity – in other words lenders can only consult data if they themselves share it with others. These arrangements work best where a small number of large firms dominate the credit market, but in markets with large number of providers, especially small sub-prime lenders, and brokers a degree of compulsion may be necessary. In the UK, for example, the Competition Authority (Competition Commission) has required the home credit industry (that makes small sub-prime loans) to share data through credit registers. In Belgium both lenders and brokers must check credit reporting data (and in order to do so they must themselves provide data to the databases.)

Although research shows that changes in circumstances are often the cause of over-indebtedness, it also shows that the risk is increased by heavy borrowing. Moreover, a minority, but growing number, of people are getting into payment difficulties simply through over-borrowing (see section 4). It is for these reasons that most of the countries covered by this study have registers

[44] Position of the European Parliament, adopted at second reading in January 2008 with a view to the adoption of Directive 2008/../EC of the European Parliament and of the Council on credit agreements for consumers and repealing Council Directive 87/102/EEC. At the time of writing, this revised text had just been published and not been considered by the Council. Consequently it was known whether this would be the final text or whether a further round of negotiations would take place.

that cover positive information (current credit holdings) as well as negative (commitments in default). In Sweden the register also contains income data too. A minority of countries (France, Finland, and Norway) have, however, rejected proposals to include positive information.

In all countries the data shared through credit registers includes credit supplied by banks and in most it also includes credit supplied by other companies (Germany, for example, does not record credit provided through brokers; Ireland does not cover most credit unions). Where personal bankruptcy and debt settlement procedures exist (see section 4.6 below), these arrangements are also reported. Some, but not all, countries have registers that cover mortgages. Few cover default on other commitments such as utilities, telecoms, student loans, taxes (the exceptions being Finland, Norway, Spain and UK). In Austria one register includes telecommunication companies, the Greek register covers unpaid taxes and bad cheques and in Lithuania there is a proposal to establish credit reporting agency for utilities. In Italy there is a register of bad cheques and payment cards. The debates with regard to coverage echo those described above in relation to the sharing of positive information. Some countries see wider sharing of information as an infringement of personal privacy; others have decided to widen coverage as the information has been found to be predictive of over-indebtedness.

Information is kept for varying lengths of time. Some registers remove information as soon as a commitment is repaid; others keep it for extended periods – of up to 10 years in Belgium and France, for example. In most instances the time period is determined by the nature of the information, with default information being kept for longer periods than positive information and that relating to bankruptcy for longer still. Once again, there is a balance to be struck between ensuring responsible lending while not infringing data privacy or civil rights.

With such sensitive information being stored, just about all countries safeguard customers by giving them the right not just to see the information held about them, but also to correct it if it is incorrect. In most instances, though, consumers must request the information in order to check it. In Belgium and Norway, however, when default data is lodged with the credit register, the consumer is also notified and is given the opportunity to challenge the information. In the UK, credit registers allow people with mental health difficulties to place a note on file requesting that no money is lent to them. There are discussions about extending this to people who are over-borrowed and want to curb their spending.

4.3.4 Usury laws and interest rate ceilings

The debate around legislation setting interest rate ceilings tends to be emotive. On the one hand there is a strong moral argument for protecting consumers against excessive charges; on the other it can be argued that they distort markets and can contribute to financial exclusion. Both points of view have validity but are almost impossible to reconcile. For the purposes of this study, we have approached this issue from a different standpoint. We have attempted to assess whether usury laws, and interest rate ceilings in particular, are an essential component of policies to ensure responsible lending given the other measures that are available.

In transposing the 1998 Consumer Credit Directive, all countries covered by this study have legislation regarding the disclosure of the costs of a loan. Moreover, most countries also have legislation that forbids usury. Eight of the 16 countries studied have legislation that enables the courts to re-open contracts where the terms are considered usurious[45]; seven have an interest rate ceiling[46] while Greece sets a limit on the total charge that can be made for credit at three times the original sum borrowed.

On the whole legislation allowing courts to re-open cases where the terms are considered usurious have not had a large impact – mainly because few borrowers are willing to take creditors to court. But this legislation can be helpful when borrowers are taken to court for non-payment or when they seek either debt advice or assistance with debt settlement. The legislation has been found to be most useful when it refers to the totality of terms and conditions and all charges associated with the credit not just to the interest charged. Guidance for the courts on what would be considered usurious is also helpful, given the relatively small numbers of cases that come to court. Finally, this type of legislation is of greatest value in legislatures which permit class actions and of only limited use where each ruling applies only to a single borrower.

As we note above, seven of the countries studied were reported to have interest rate ceilings. The level of these ceilings varies both between countries and within them for different types of credit. For example, in Belgium they vary with the amount borrowed – between 13% and 21% APR (for loans of €5,000 or more and under €1,250 respectively) – with rates also varying between loans and credit cards. In France, rates calculated every quarter on the basis of average rates for similar categories of credit range between 8.72% and 20.35% APR[47] – again depending on the sum borrowed and type of credit used. Italy has 15 different rates. In the Netherlands there is a single ceiling, set at 17% above the average rate, again with a sliding scale depending on the amount borrowed; in Poland it is four times base rate.

In Ireland, although there is not a statutory interest ceiling, there is a ceiling in practice. Credit companies must renew their licences to trade annually and there is a policy that companies charging more than 200% APR will not be granted a licence.

In two countries with an interest ceiling (Austria and Italy) country correspondents reported that the limit did not always provide the protection intended in practice. Others reported that they worked well; some commenting that they prevented the development of a sub-prime credit market. Concerns were expressed in four country reports (Poland, Italy, Ireland and the UK) that such ceilings, if set too low, can act to exclude people for whom the costs of providing credit are higher than the ceiling. In Italy it has been argued that the interest ceilings mean that people perceived to have a high risk of default are refused credit by mainstream providers and are therefore prey to informal and illegal lenders (Porta and Masciandro, 2006). It has also been suggested that the interest rate ceilings in Germany and France have led to higher levels of unregulated lending than in the UK, where there is no ceiling (Policis, 2005). On the other hand,

[45] Finland, Ireland, Luxembourg, Norway, Portugal, Spain, Sweden and the UK.
[46] Austria, Belgium, Czech Republic, France, Germany, Italy, Netherlands and Poland.
[47] Rates correct at the time of writing.

proponents of interest ceilings point to the high interest rates charged in the sub-prime markets where ceilings do not exist (Debt on our Doorstep, 2003)[48].

The UK Government investigated the desirability of introducing an interest rate ceiling when consumer credit legislation was up-dated in 2006. This involved commissioning research into the impact of such ceilings elsewhere (Policis 2005), and issuing a public consultation document. This aspect of the legislation was also debated extensively as the Bill made its way through Parliament.

In the end it was decided not to introduce a ceiling. This decision was reached for a number of reasons but the most important was a concern that a ceiling would lead to a displacement of costs and a loss of transparency for the consumer. The UK has a number of home credit lenders specialising in small, short-term loans to people on low incomes who would not be able to access credit from a bank. Loans from these companies tend to have high APRs (200% or more) but unlike other lenders they do not make default charges if someone is late with a payment – indeed they reschedule loans so that payments can be missed, without additional charges. They tend, therefore, to have a policy of debt write-off rather than arrears recovery that involves court action. They also collect repayments at borrowers' homes to minimise the risk of default. Even so, the majority of their customers are unable to repay their loans to term and they like the certainty of cost involved with this type of credit and the flexibility of payments when they are unable to pay. In contrast, there are other sub-prime lenders targeting the same group of borrowers who advertise much lower interest rates (29.9% APR) but, like prime lenders, have many additional charges that makes them considerably more expensive. Indeed it has been calculated people in their situation would pay far more were they to use a prime lender, need to take out payment protection insurance and incur occasional default payments not covered by the policy (Policis, 2005).

The same conclusion was also reached in Finland. And similar concerns were expressed when the Polish Government carried out a similar investigation. Here, though, the opposite decision was reached and a ceiling was introduced in 2006. Unlike the ceilings in other countries this only applies to the interest and default charges not to the total cost of credit (and therefore the APR). It is interesting, however, to see how companies have reacted to its introduction. Because the restriction applies only to interest and default charges, companies have restructured their charges to comply with the new law. A lender specialising in small loans, with repayments collected in the home has, for example, separated the collection charge from the interest on the loan and now sells insurance alongside the loan to cover the rescheduling that was previously covered in the total cost of credit. In other words, the interest rate ceiling has not achieved a price reduction for users – merely a change in the way that these are presented to them. This has resulted in a loss of transparency, as was feared would happen in the UK.

As we note above, Ireland has a de facto ceiling of 200% APR and here, as in Poland, companies that collect payments in borrowers' home quote the collection charge separately. Even so, companies operating in both Ireland and the UK make lower overall charges in Ireland. The customer base is, however, rather different in the two countries, with Irish customers being drawn

[48] See http://www.debt-on-our-doorstep.com/ceilings.html

from those who were less likely to be excluded from other sources of credit (Competition Commission 2006).

Experience in the US has identified three consequences of introducing interest rate ceilings. First, as in Poland, they tend to displace costs so that lenders can avoid including them in the APR. So the extent of credit linked to goods sold at above market prices tended to increase when an interest rate ceiling was introduced in Massachusetts (Johnson and Sullivan, 1980). Pawnbrokers also tend to lend smaller amounts against the value of the goods pledged (Johnson and Johnson, 1998). Secondly, interest rates tend to creep up to the ceiling. This is a particular problem when ceiling rates are deliberately not set too low. Thirdly, ceilings tend to displace markets. When Massachusetts introduced a ceiling, the number of small loans ($500 dollars or less) decreased by a third, while the number of secured loans increased. On the whole it was the high-risk customers who were most adversely affected, and many were 'protected out' of the credit market (Caskey, 1994; Staten and Johnson, 1995). Conversely, the de-regulation of interest rates increased access to credit of all kinds (Caskey, 1994; Johnson and Sullivan, 1980; Staten and Johnson, 1995). South Africa experienced a similar widening in access to credit when the interest rate ceiling was removed in 1992. Prior to that date the only sources of small amounts of credit were pawnbrokers, illegal lenders (mashonisas) and rotating savings and loans schemes (Department of Trade and Industry, 2000).

A US study investigated the effects of interest rate ceilings on low-income consumers. This used data from the *Survey of Consumer Finances*, and compared levels of credit use in states with and without interest rate ceilings. This concluded that 'on average a low-income household residing in a state with usury ceilings had $1,012 (1983 prices) less consumer credit than an identical household residing in a state without usury ceilings. In contrast, those consumers classified as having high incomes were unaffected by the rate ceilings (Villegas 1989). There are two ways of interpreting these findings. On the one hand, they could be seen as evidence that low-income consumers had been protected from potentially irresponsible lending; on the other, they could be interpreted as providing evidence of credit exclusion.

It is interesting to note in this context that the World Bank, Asian Development Bank and Consultative Group to Assist the Poor have all publicly stated their opposition to interest rate ceilings on the grounds that '*despite good intentions, interest rate ceilings generally hurt the poor by making it hard for new microfinance institutions to emerge and existing ones to stay in business… [They] often drive clients back to the expensive informal market where they have no or little protection*' (CGAP 2004; Fernando, 2006).

Even in countries where interest rate ceilings exist, there is a discussion on how they should be calculated. In France for example, ceilings are set at one and a third times the average rate applied by credit institutions in the previous quarter for credit of a similar nature and with similar degree of risk. This means that the remuneration of risk is much lower when the general level of interest rates is low than when it is high. For example, it has been calculated that the remuneration of risk in France decreased by 40% between 1994 and 2004 as a consequence of the decrease of interest rates (Davydoff and Naacke, 2005).

As noted above, these are difficult issues to resolve and should be left to member states to decide. The consequences of introducing a rate ceiling in a country that has a mature commercial credit market (such as the Finland or the UK) will be far greater than those where it is still in its infancy (Poland for example). Likewise countries that have had an interest rate ceiling for some time will be reluctant to repeal it if other safeguards cannot be put in place.

4.3.5 Other initiatives to protect consumers from exploitative lending

In some countries (such as Italy, Ireland, Netherlands and the UK), there are specific initiatives to make affordable credit available to people who would otherwise use high-cost and exploitative lenders. Because the costs of serving this market are high, these affordable lending services generally require direct subsidy.

In Italy, two funds have been set up to complement the legislation to prevent usury: one that is intended to prevent people becoming victims of usurious lending and one to assist people who have already become victims[49].

The first of these – the Fund for the Prevention of Usury – is supported financially by the Banks and their foundations. Applicants who would not otherwise be able to access mainstream credit are screened and offered guarantees to enable banks and other mainstream credit institutions to lend to them. Fund users are also provided with information and advice on financial management.

The second fund – the Solidarity Fund for Usury Victims – is available to people who have declared themselves to be a victim of usury. It is tied to the judicial system and prosecution of lenders whose assets are confiscated and used to provide finance for the fund. Victims can apply for interest-free loans with a payment term of up to ten years, with the size of the loan being determined by the size of the damage they incurred.

In Ireland, the country-wide Money and Budgeting Service (MABS) provides an independent, free and confidential service to mostly low-income families who are in (or at risk of getting into) financial difficulties. The service is founded on practical advice on budgeting to remove dependence on moneylenders. It also provides access to low-cost credit through credit unions and crisis loans, frequently intervenes to prevent possessions of the family home and fuel disconnections and has piloted an innovative non-judicial Debt Settlement Programme. MABS is consistently posited as a model of best practice at EU level (Korczak 2004).
The Netherlands has had a national network of 'municipal banks' offering credit to people on low incomes for a considerable period of time. The Nederlandse Vereniging voor Volkskerdiet (NVVK) was set up in 1932 with the aim of counteracting the excessive interest rates charged by loan sharks. They now have near national coverage and offer a wide range of services to combat over-indebtedness, which with half the banks includes the provision of affordable credit. Loans are only available to people whose incomes are less than 130% of the social minimum level or who have incomes above this level but are registered as being in financial difficulty. There is a

[49] Law no 108 March 7th, 1996 'Rules on usury practices' (Disposizioni in materia di usura) in Gazzetta Ufficiale, March 1996, Serie Generale No 58 artt 14-135.

gentleman's agreement that commercial banks will not give loans to people with an income at or below the social minimum level. The interest rate on loans is 12% above the European Central Bank's base rate (the interest rate ceiling in the Netherlands) and is subsidised.
In the UK, the government has provided interest-free loans to people claiming social assistance since 1980. It also has a programme of support for not-for-profit lenders through its Financial Inclusion Fund. As this sector is so under-developed, the government has provided almost €60 million to build the capacity of the 39 largest and most financially sustainable not-for-profit lenders. It has also established a working group of bank representatives and members of the government's Financial Inclusion Taskforce to identify ways that banks can provide financial and other support to develop similar not-for-profit lenders throughout the country. It has also financed two very successful pilot schemes to identify and prosecute illegal lenders (Ellison, Collard and Forster 2007) and has decided to extend this initiative to all parts of Britain. Research showed, however, that merely removing illegal lenders would not tackle the problem unless there was also an alternative source of credit for their customers to use. In this case, not-for-profit lenders, such as credit unions, are seen as potentially playing an important role.

In France, there has been an interest-free secured loan to finance the construction of a new dwelling or to buy an old dwelling (with or without works) since October 1995. The State grants credit institutions a tax credit to compensate for the lack of interest on the loan. To benefit from this interest-free loan, people must be first-time buyers and their resources cannot exceed 64.875 EUR (for a household of five or more people). The maximum amount of the loan is 32.500 EUR for a new dwelling occupied by six people. In general, it represents, at best, a fifth of the dwelling price and cannot exceed half of all borrowing for the dwelling.

The impact on competition in credit markets of developments providing access to affordable but subsidised credit is often questioned under EU state aid legislation. They do, however, play an important role in protecting vulnerable consumers from exploitation from the unscrupulous end of the credit market.

4.3.6 Achieving responsible lending

There can be little doubt that legislation (including self-regulation) that requires lenders to check potential borrowers' credit worthiness and ability to pay plays a very important part in ensuring responsible lending. Yet it is far from universal across member states. The draft Consumer Credit Directive will, therefore, be an important step forward, even if its final provisions are not as extensive as in earlier drafts. To be fully effective, however, compliance monitoring and sanctions that act as a deterrent will be needed. This will be left to member states to determine and in doing so they should consider current best practice.

Credit reporting along with credit scoring developed by individual companies, plays an important part in supporting legislation requiring responsible lending. Policies vary on the coverage of central credit registers across member states. Some believe that the information covered should be as wide as possible, including positive as well as negative information about credit commitments and also default information on other types of household commitment too. The arguments advanced are practical ones, namely that this information enables a wider group of consumers to borrow without levels of default rising. Others see wider data sharing as an infringement of data privacy and restrict registers to collecting only default information on consumer credit. In either case, however, data should only be held for as long as is necessary to ensure responsible lending and, as a safeguard consumers should have the right to check and amend their records and to add additional information themselves.

There is, likewise, a need for legislation to allow usurious and exploitative credit agreements to be re-opened by the courts. This should be wide-ranging covering all aspects of the terms, conditions and charges associated with the credit. And in cases of serious abuse courts should have the powers to make the agreement non-enforceable and the debt written off. Experience shows that consumers are reluctant to take creditors to court to challenge their agreements and ways of overcoming this need to be investigated. It would also be helpful if decisions made by courts in relation to an agreement could be extended to others that are identical in their terms.

The situation in relation to interest rate ceilings and responsible lending[50] is not nearly so clear cut and there is strong case for leaving individual member states to make the decisions taking into account whether they already have a ceiling in place, and the nature of their credit market.

Regardless of this decision, there is likely to be a need for affordable credit for people the credit industry considers to be at high risk – who will be excluded in countries with an interest ceiling or charged high rates of interest where there is not. Such loans will, almost inevitably, require subsidy and will need to be designed to avoid distorting competition the credit market to satisfy the Commission's requirements with regard to state aid.

4.4 Responsible arrears management

It is not in the interests of either a creditor – whether lenders or other types of creditors – or their customer to allow an account to fall into arrears. It is even more detrimental if arrears are allowed to build up to the extent that costly debt recovery processes or the writing-off of large amounts of debt become necessary. Both parties will therefore benefit if the creditor takes responsible action throughout the entire account management process to prevent default arising or arrears escalating: beginning by promoting the avoidance of arrears, responding actively to missed payments ('arrears handling') and recovering any subsequent debts in a humane way.

Countries under study differ considerably in the coverage of provision for responsible arrears management, as well as in the nature of that provision. In many countries, including Bulgaria, Finland, France, Greece, Italy, Poland, Spain and Sweden, there is no formalised provision for arrears avoidance and handling; an organisation's own policies provide the only grounds on which practice is guided. Provision has been incorporated into industry codes of practice in the Czech Republic (banking industry[51]), and in both Ireland and the UK this approach has been adopted widely across the industry sectors (albeit through a mixture of voluntary and legal bases), making provision across all three phases of the arrears management process (so including debt

[50] We have not taken into account either moral or competition considerations as these are beyond the scope of this study.
[51] Czech Banking Association Code of Conduct.

recovery). Where legislation relating to responsible arrears management exists it tends not to be discrete legislation and even then tends to relate only to debt recovery practices.

There has been little empirical research into the effectiveness of approaches to arrears management, and what does exist is limited to the UK. This has identified the practices of companies that take a responsible approach to account and arrears management to assist customers facing real or potential financial difficulties (Dominy and Kempson, 2003). Underpinning these are a number of general principles that responsible creditors adopt. First, since customers rarely default on payment for reasons other than financial difficulties[52], creditors should assume that non-payment arises due to difficulty paying rather than unwillingness. Several existing codes of practice make reference to this principle. For example, the UK (water services) Supply Licence Code stipulates that it should be assumed that default has arisen because of an inability to pay, unless there is evidence to the contrary. A study suggests this is happening increasingly across the UK lending industry (CMRC, 2003).

A second principle relates to the treatment of customers who are in default (or at risk of defaulting) on an individual basis. As such, creditors should treat defaulting customers sympathetically and seek to understand their customers' circumstances and needs. This is reflected in numerous provisions in the Czech Republic, Ireland and the UK[53]. To do this, creditors should ensure the procedures they have in place are sufficiently flexible and give staff involved discretion over the decisions and actions they take (CMRC, 2003; Dominy and Kempson, 2003). The more advanced creditors can make their information management systems, the better informed they will be about what action is appropriate to take.

Finally, it is essential that provisions for good practice in arrears management are complied with. Creditors who interpret provisions broadly – complying with the spirit rather than the letter of the rules – are more like to have an holistic approach to arrears management, and thereby increase their rates of arrears recovery and customer retention (Dominy and Kempson, 2003). Setting out the broad principles that creditors should strive to achieve in arrears management and, within these, detailed practice guidelines for how these might be achieved can facilitate such compliance. The UK water and energy industry codes provide good examples of such provision. Compliance will need to be monitored and enforced, although not necessarily from outside the industry. Indeed, high levels of compliance with the voluntary Banking Code in the UK and its related guidance, monitored and enforced by the independent Banking Codes Standards Board, demonstrate that the industry can self-regulate effectively.

Turning to the three phases of the arrears management process, there are a number of practices that are essential to a responsible approach. These are discussed below. **Box 3** describes an example in which many of these principles and elements of good practice have been provided for.

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[52] Only one in twenty debtors had deliberately withheld payment according to UK research (Berthoud and Kempson, 1992).

[53] For example, in the 2005 Czech Republic Code of Conduct on Relations Between Banks and Clients the Irish Banking Federation Code of Practice on Mortgage Arrears, and the UK OfGem code of practice on fuel debt and disconnection.

Box 3 Good practice example: Dealing with water customers in debt in England and Wales

Provisions in England and Wales for dealing with household customers in debt on water payments fulfil many of the principles of a responsible approach to arrears management described in this section. The provisions are published in guidelines by the industry's economic regulator, OfWat. Having first been issued in 1992, the guidelines have since been reviewed and adapted following formal consultations, most recently in 2007[54].

The guidelines are intended to ensure a balance between cost-effective collection of revenue "in the interests of all customers, and dealing sensitively with those customers who find themselves in financial difficulty" (p.2). Five broad principles that water supply companies are expected to abide by are set out, covering:

- proactive early intervention when customers default;
- provision of a suitably advertised range of payment frequencies and methods;
- provision of clear but non-threatening information about the possible consequences of default;
- taking customers' individual circumstances into account when agreeing realistic and sustainable payment arrangements;
- ensuring that customers being dealt with by third party agents are accorded the same level of service and care as those whose accounts remain with the water company.

Under each of these broad principles the guidance provides a review of current practice and several specific 'expectations' are given. In particular, these expectations include using information management systems to identify customers who may be in difficulty and customer segmentation to tailor debt recovery actions, proactively offering and accepting alternative and non-standard flexible payment arrangements to encourage payment, and making referral to a charitable trust, where available and applicable. Additionally, companies should accept any realistic offer of payment by a customer or an authorised money advisor.

The guidelines are supported by The Water Industry Act 1999, which made it illegal for any water company in England and Wales to disconnect a household's water supply for reasons of non-payment, thereby protecting basic living standards. Compliance with the provisions of the industry guidelines and the individual companies' codes of practice on household debt (which they are required to have under licensing conditions, and which must be approved by OfWat) is monitored by the Consumer Council for Water.

4.4.1 Arrears avoidance

Preventing the build up of unmanageable amounts of arrears is an important part of tackling over-indebtedness. However, promotion of arrears avoidance is the element of arrears management for which provisions are least apparent among the countries under study. Where they do exist they seem most common in the fuel supply sector (UK, Ireland). Nonetheless, the study suggests that there are many approaches that can be taken and which are applicable to other sectors.

At a minimum, it should be ensured that customers are provided with clear, regular and accurate statements listing both expenditure/outgoings and payments received. In the UK there has been particular concern about the build up of charges in the fuel supply sector. The increased use of automatic, estimated meter readings rather than actual reading in recent years has resulted in some customers being under-charged for prolonged periods of time, and then having difficulties paying when the full outstanding amount is charged following an accurate reading. This has been addressed in codes of practice to ensure the regular use of actual readings, and greater clarity over when bills are based on estimates. Additionally, it is now standard practice in the UK for companies to make great efforts to encourage customers who expect to miss a payment to contact

[54] OfWat (March 2007) "Dealing with household customers in debt: Guidelines"; www.ofwat.gov.uk.

the company in advance so that they can discuss alternative arrangements (UK: BT (telecommunications) and water service providers).

Creditors that allow for frequent and appropriate payment methods reduce the likelihood for unexpected or unmanageable sums to build up between payments and for customers to be inhibited by inaccessible payment methods. Here, the links between over-indebtedness, financial exclusion and poverty are clear. Some customers benefit, for example, if they are able to make payments weekly, in lump sums, or through pre-payment mechanisms. There is powerful evidence that the subset of people who are at risk of over-indebtedness due to persistently low incomes are more likely to budget on a weekly (if not more frequent) basis (Kempson, Bryson, and Rowlingson, 1994), and will therefore benefit from having the facility to make weekly bill payments and credit repayments.

It may be appropriate to provide these services to all customers. In the UK and Ireland, however, there has been a special focus on making special arrears avoidance provision for vulnerable consumers (typically elderly or disabled customers), especially for gas and electricity supply. All major energy suppliers are required to comply with provisions in the Priority Services Register in the UK, and the Special Services Register code of practice in Ireland. These enable eligible customers to obtain free services from their suppliers to assist with accurate billing (for example based on regular actual readings rather than estimates), access pre-payment meters and switching services, and access advice on how to reduce bills through better energy efficiency, for example. In the development of such provisions, careful consideration should be given to how vulnerable customers should be defined including potentially extending eligibility to households on low incomes or those living in poverty.

In recent years behavioural scoring has been developed to assist creditors assess the risk of arrears throughout account management process (CMRC, 2003). One UK-based credit reference agency (Experian), has developed a system that can alert banks of customer behaviour indicative of the customer running into difficulties on a loan repayment before they have actually missed a payment. The 'risk triggers' relate to the borrowers behaviour on accounts held with other providers. Other systems record and analyse the patterns of payments, erratic payments result in a pre-emptive contact by the creditor.

4.4.2 Arrears handling

For current purposes, the term arrears handling refers to actions that creditors take from the point when payments are first missed, up to and including debt rescheduling undertaken in collaboration with the debtor (or a nominated third party). Recovery actions taken autonomously by the creditor (or their agent) against the debtor are discussed in the "debt recovery" section (see below).

By collecting information proactively, putting in place early identification systems and reacting quickly to a missed payment creditors can help avoid facilitating or escalating financial difficulties. A shift in the arrears management practices of the credit industry in the UK in recent years reflects the notion that arrears can be mitigated or even prevented through the systems and procedures they have in place much earlier in the process (CMRC, 2003; Dominy and Kempson, 2003), and so reducing the burden of write-offs. Again, this principle is reflected in various codes.

In the UK, the proliferation of such practice in recent years seems to have been a response to increased competition in the market, and the commercial need to retain customers and rehabilitate accounts (CMRC 2003). Country experts indicate that this is also the case in Spain, at least. However, even outside of these circumstances being able to react early and quickly remain important protections from escalation of the situation for consumers who are at risk of over-indebtedness and their creditors because they promote early resolution of the situation.

In practical terms, this involves creditors making personalised contact with the customer as soon as a payment is first missed (using for example a personalised letter or a phone call) to encourage the customer to discuss the issue with them, and making repeated attempts to do so. The Czech Republic banking code provides that the client of a bank has the right to ask the bank for a consultation to discuss the situation and propose a solution. Meanwhile, in Germany, recovery action by the creditor must be delayed by 14 days following default to engage in discussion with the debtor and make attempts at re-scheduling; crucially the customer must be provided with information at this stage. However, in other countries, provision is less personalised. In Greece, creditors are required to provide in writing information about the amount of debt outstanding and interest within 30 days of default.

However, in attempting to contact defaulters, creditors should behave sensitively. The UK Mortgage Code of Business notes that attempts at contact should not cause alarm or undue pressure. A specific recommendation has recently been made under Italy's privacy laws that creditors chasing payments should maintain the privacy of the individual by not contacting the individual at work nor making unsolicited contacts with defaulters' friends, family or work colleagues. Guidance on arrears handling from the UK water services regulator OfWat also acknowledges the need to strike a balance between flexibility in the approach (for example the time of day a call is made) and harassment.

Alongside personalised contact it may be helpful to provide standardised, approved information. In the UK, the Office of Fair Trading has recently launched standardised Information Sheets on arrears and default which are to be included in all domestic customer mailings relating to missed payments across the finance and utility industries[55]. These standardised sheets provide information on customers' rights and responsibilities and on how to obtain independent debt advice. In particular, they advise debtors to contact their creditor to discuss their situation as the first step in the resolution process.

Once contact has been established, it is in the interests of creditors to engage with the customer about their ability to repay and negotiate a realistic repayment plan. This is commonly cited in good practice codes and guidelines in Ireland and the UK. It is implicit in the provisions of the Civil Code in relation to 'amicable agreements' (discussed in the 'non-judicial arrangements' section below) in Germany. There, creditors will often negotiate and accept offers of repayment by debtors in recognition of the savings that are made in avoiding court action and increasing the

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[55] Launched in January 2008; see:
http://www.oft.gov.uk/advice_and_resources/resource_base/legal/cca/CCA2006/information/

likelihood of recovering all the money owed. In Austria, the opportunity for customers to negotiate and agree feasible payment instalments is provided by the Bankruptcy Act, although many creditors do also initiate such action.

Repayment plans are most likely to be realistic if they take into account the total financial commitments of an individual, as well as their account history, and other personal circumstances (that is, taking a 'whole of customer view', Dominy and Kempson, 2003). This notion is reflected in some codes of practice. For example, the Czech Banking Association Code of Conduct provides that "…taking into account previous cooperation, experience with and the difficult situation of the client, the bank may in particular cases show greater degree of tolerance and understanding…" (p.10).

It is likely, of course, that in these circumstances creditors will need to accept some degree of forbearance (in terms of delayed payment, or even partial write-offs), the level of which will vary depending on the number of payments missed and consequently the sums outstanding. Research in the UK indicates that 'debt resting' (that is, setting aside demands for payment for a period of time) is recognised an appropriate strategy if a consumer has had a temporary shock to their financial situation (CMRC, 2003). This echoes the decision taken by the Greek authorities to suspend all payments to credit institutions for a six month period following the recent devastating fires in the Peleponese region, although in Greece it was aimed at pre-empting default. The possibility of a moratorium on payments or a settlement being reached is one of the legislative provisions in the German Civil Code relating to 'amicable agreements'.

Creditors should additionally consider formal referral to debt advisers where possible and good practice would be to accept any repayment plan devised by a debt advisor. This has become common practice among UK banking services: since 2002 retail banks who are members of the British Bankers' Association (BBA) have been required to accept a repayment offer set out by a debt advisor in a standardised 'financial statement form' further to the successful pilot of the scheme in 2000. The pilot found that advisers reported cases being dealt with more quickly and efficiently and the banks reported that it saved their staff valuable time and effort (British Banking Association, 2005).

Finally, the charging of penalty fees and interest surcharges on the grounds of default is likely only to compound the problem if a customer has defaulted for reasons of financial difficulties. As similarly discussed in relation to interest rate caps in the responsible lending section, some legislative regimes regulate the amount of such charges that can be levied (e.g. Austria[56]). Others stipulate the order in which subsequent payments offset capital, original interest, and late payment interest (e.g. Belgium). Regardless of these provisions, it is advisable that these charges are levied proportionately and creditors might seek to waive or reduce them in certain circumstances (Reifner et al, 2003).

[56] Under the following laws: the Zinsenrechtsaenderungsgesetz, (ZinsRÄG) 2002; 1333 ABGB, and BGBI. Nr. 141/1996.

4.4.3 Debt recovery

In the current context "debt recovery" is used interchangeably with "debt collection" to refer to actions taken by creditors (or their agents) to recover money owing, where such actions are undertaken without collaboration, and often at odds, with the debtor. These practices include situations in which creditors sell on debt to another agency. Debt recovery is viewed by some creditors as the natural progression from arrears handling; however, those taking an holistic approach make a clearer distinction, reserving such actions almost exclusively for debtors who are evidently unwilling and able to pay (Dominy and Kempson, 2003).

Given that arrears will normally arise due to financial difficulties – rather than an unwillingness to pay – there is little point in creditors pursuing aggressive and potentially expensive debt collection procedures or court action. Moreover, financial difficulties are often temporary, meaning that creditors often have more to gain financially by providing debtors with the time they need to recover their financial situation and prepare and comply with realistic repayment schedules. Draconian debt recovery procedures are best seen therefore as a last resort and pursued only on a selective basis.

Moreover, where such debt recovery action is deemed necessary there is argument for there being an obligation on creditors to have exhausted all other avenues first. These do exist in some form, but only in a minority of the countries under study. In relation to secured loans there are likely to be more potential avenues. The UK and Irish codes relating to mortgage arrears refer to making all reasonable efforts to re-schedule payment prior to instigating repossession proceedings. Under the Irish mortgage lending code this includes finding alternative options such as trading down, voluntary sale or re-financing through another lender. Additionally, some codes require/advise that attempts to engage with the customer and agree repayment plans continue to be made whilst debt recovery actions are pursued (e.g. Ireland's Good Practice in Housing Management). This would seem to represent best practice.

Debt recovery is perhaps the area of arrears management for which legislation is most likely to exist, although it still varies greatly across the countries studied. Specific debt collection or recovery legislation exists in some countries (for example Belgium, Germany, Finland and Sweden) whilst in others particular aspects are covered directly in wider regulation (such as the Civil Codes in Bulgaria and Germany and the Code of Civil Procedure in Greece) and in yet others only indirectly in wider regulation such as data protection and privacy laws (France, Italy) or protection from harassment laws (Ireland), and general laws relating to seizure (France). A number of countries require that companies involved in debt collection are licensed. Specific licensing for these activities exists in Germany, Norway and Sweden; in Italy a licence is required from the local police, whilst in the UK, debt collection licensing falls under consumer credit licensing legislation. In Poland, Portugal and Spain, there is no legislative provision for the regulation of debt collection whatsoever. Although Poland and Portugal do both have codes of conduct, these are not widely regarded as adequate for the protection of consumers (Reifner et al, 2003).

The use of debt collection agencies (whether in-house or independent) provides an alternative to taking court action, or may occur as a consequence of it. The recent set of recommendation by the Scientific Council of Europe (CJ-S-Debt) group underlined the need for defaulting consumers to be afforded basic protections from debt collection activities. The group recommended that the practices of extra-judicial debt recovery agencies should be delimited – through the internal legislation or practices of member states – advocating that the legitimate interests of creditors are balanced against the protection of the dignity and essential assets of the debtor regardless of any outstanding debts. A basic requirement would appear to be that creditors who pass the debt to another agent for collection or sell on a debt to another company ensure that the contracted organisation operates in accordance with the codes of practice binding the original creditor. This is typical of the regulation within the utility industry in the UK and Ireland.

The need to protect the basic living standards of the individual also has implications for the cancellation of contracts, particularly those relating to utility services, and housing rented through the social sector. This may require that creditors do not have the power to cancel contracts where this would jeopardise the basic needs of the debtor. Since the introduction of the Water Industry Act in 1999, consumers in the UK must not have their water supply cut-off for reasons of non-payment. Although the same provision has not been made for gas and electricity supply, fuel disconnections in the UK sharply declined since the industry put in place new arrangements to protect vulnerable customers from disconnection (the codes stipulate that vulnerable customers must not be disconnected during winter months), at the instigation of the Government's former Department of Trade and Industry and through the Energy Retail Association statutory body[57].

4.5 Debt counselling services

The provision of debt counselling services to over-committed consumers is relatively common in Europe, although it is more developed in some countries than others. Of the countries covered by this study, most have debt counselling services alongside other measures to alleviate over-commitment, such as judicial debt settlement procedures. In some countries (for example, Germany, the Netherlands), the provision of debt counselling pre-dates the introduction of judicial debt settlement procedures. In other countries, debt counselling was introduced in conjunction with judicial procedures (Niemi-Kiesiläinen and Henrikson, 2005).

The countries covered by this study that do not have debt counselling services are Greece, Lithuania, Bulgaria and Spain. Although not currently available in Poland, there are plans to set up debt advice centres.

In many countries, debt counselling is provided by a combination of state, municipal and third sector organisations (Niemi-Kiesiläinen and Henrikson, 2005). The pattern of provision, however, varies from country to country.

In the Nordic countries covered by this study (Finland, Norway and Sweden), state and municipal authorities are the main providers of debt counselling. Indeed, in Norway, Finland and Sweden municipalities have a legal obligation to ensure that over-committed consumers have access to debt counselling.

[57] OfGem (2003) "Preventing debt and disconnection". www.ofgem.gov.uk .

In most of the other countries covered by the study, debt counselling tends to be provided by both municipal and third sector organisations. Municipal provision is often delivered through social welfare agencies such as social services departments (France, UK) or social welfare departments (Germany). In the Netherlands, municipal banks are key actors in providing debt counselling. A wide range of third sector organisations are involved in debt counselling including welfare associations (Germany), consumer associations (Portugal, Poland), and advice centres (Germany, UK).

There seems to be little municipal involvement in the provision of debt counselling in either Italy or Ireland, although the situation in each of these two countries is very different. In Ireland, the state-funded Money Advice and Budgeting Service is the main provider of debt counselling, through a national network of offices. It has been identified as a model of best practice at EU level (Korczak, 2004; see **Box 4**). In contrast, in Italy debt counselling (where it is available) is provided at a local level through anti-usury foundations and associations and welfare associations (such as Caritas).

In some countries (such as Finland, UK), debt counselling is also provided free-of-charge by private sector organisations. In the UK (and possibly elsewhere in Europe), there also exist commercial debt management companies that charge consumers for negotiating lower repayments with creditors and distributing payments to them. Although these companies are licensed, there are some concerns about the level of service they provide (Whyley and Collard, 1999).

In order to be effective in alleviating the problems of over-commitment, debt counselling must be properly resourced. In the countries covered by this study, it is common for debt counselling to be funded (at least in part) by the state. This might be in the form of grants, remuneration for services, or the reimbursement of costs. Charitable foundations or trusts may also provide grant funding (UK). In another model of funding, creditors are asked to make a financial contribution if they receive debt repayments through some debt counselling services (UK).

Country experts, however, commonly report inadequate levels of funding. This lack of resources results in insufficient numbers of staff to deliver debt counselling, heavy workloads and pressure on debt counsellors, patchy geographical coverage, and unacceptable waiting times (in some cases several months).

Box 4 Good practice example: Money Advice and Budgeting Service in Ireland

The Money Advice and Budgeting Service (MABS) was established in 1992 by the Department of Social and Family Affairs (DSFA). By 2007 it had grown to 53 services operating in 65 locations in Ireland. The DSFA has overall responsibility for management of the Programme, including monitoring of projects, financial administration, executive decision-making and facilitation of regional networking. In 2004, MABS National Development Limited was established to support and develop the MABS Service in Ireland.

Key objectives include providing an independent free and confidential Money Advice and Budgeting Service to the target group to facilitate them to cope with their immediate debt problems and become financially independent in the long term, and facilitating the target group to develop the knowledge and skills required to avoid getting into debt or to deal effectively with debt situations that arise.

MABS' target group is individuals or families, primarily those on low incomes, who need assistance in managing their finances in order to avoid getting into difficulties with creditors. The majority of MABS clients are on a low income (over 70%) and 54% are on social welfare. In 2006, MABS saw 12,500 new clients and in September 2007 the overall number of people who were being supported and advised by MABS was 18,451.

MABS is posited as a model of best practice at EU level. Korczak (2004) concluded that the particular strengths of MABS that could be transferred to other EU countries include its 'people-oriented style', central funding and coordination, collection of standard quarterly statistics, evaluation methods, private-public partnership model (i.e. the co-operation between professional and voluntary organisations and financial institutions), and accounting software that enables the services to make a single regular payment for distribution among creditors. Furthermore, the peer review praises the mix of national coordination and local diversity, the strong emphasis on social cohesion and the quality of human contact. MABS has received positive feedback from clients and stakeholders. Almost three-quarters (73%) of MABS clients have paid or are currently paying off their debts, 70% state that they can manage their money better and 82% claim to have greater peace of mind. Moreover, 90% of stakeholders, including creditors, were pleased with the service MABS provides (Korczak, 2004).

The main criticism of MABS in the peer review is that it has no statutory base (Korczak, 2004). In the latest *Programme for Government 2007 – 2012* the Irish government has committed to establish MABS 'under legislation of a new structure with national leadership for the 21st century which maximises and recognises the current local voluntary involvement together with a strong professional role aimed at continuing to provide strong and confidential support for its clients'. Furthermore, an evaluation of MABS recommended the need for strategic planning at national level; the need for a greater focus on community education which prevents people falling into debt; and the need to focus on low-income consumers (Eustace and Clarke, 2000). In response, MABS has developed its community education function nationally not only for those who are indebted, but to include a preventive role. MABS has also developed a new service delivery model where those with financial literacy and a certain educational standard and income level can access financial counselling through a MABS helpline and those with less capacity will receive one-to-one counselling. Furthermore, MABS is continuing to develop closer relationships with community and voluntary groups.

4.5.1 Regulation and standards

A range of actors are involved in the delivery of debt counselling including social workers (France, Belgium), debt counsellors (UK, Sweden), bank staff (Netherlands, France) and lawyers (Belgium). Those providing debt counselling may do so on a paid basis or voluntarily. In order that over-committed consumers receive consistently high quality advice and assistance, there should be systems in place for regulation and to ensure quality standards.

Earlier research (Reifner et al, 2003) indicates that the regulation of debt counselling is common in countries that have judicial debt settlement procedures. In some countries (Austria, Belgium, Germany, Luxembourg, UK), the organisations and/or the individuals that provide debt counselling have to be licensed or approved. The activities that debt counsellors are allowed or not allowed to undertake may also be set down in the licensing regime or in legislation (Reifner et al, 2003). To be effective, compliance with regulatory conditions should be monitored.

Linked to this, it is important that individual debt counsellors (including volunteers as well as paid staff) be required to have at least a minimum level of training and skills, for example through a system of certification or accreditation. In some countries, this forms part of the regulatory system. Austria, for example, has a certification mark for debt counselling. In the Netherlands, debt counselling officers must have an advanced vocational qualification. Opportunities for refresher or advanced training and continuing professional development should be available and promoted among debt counsellors.

Even trained debt counsellors will come across problems that they cannot solve alone. It has been recognised that it can be helpful for them to be able to call on the support of other professionals. In some countries (such as Belgium, UK), debt counsellors can therefore access specialist support services, for example to help them resolve legal questions.

Probably the most effective way to co-ordinate and develop training and standards is through a central organisation, either some type of ‘umbrella’ organisation for debt counselling (such as ASB Shuldenberatung in Austria, or the Money Advice Trust in the UK), or a national agency (such as the Swedish Consumer Agency). These organisations can also play an important role in representing the interests of debt counselling services and their users at a strategic and political level.

4.5.2 Activities

The activities carried out by debt counselling services vary from country to country. Common activities include: analysis of household income and expenditure, income maximisation, and budgeting advice. Where appropriate, debt counsellors assist over-committed consumers to apply for judicial debt settlement procedures. This can take a significant proportion of a debt counsellor’s time (Valkama, 2004). Alternatively, debt counsellors may help consumers negotiate with their creditors to reach a voluntary or amicable agreement and to set up a repayment plan.

Less common activities include the direct provision of debt consolidation loans (for example through Points Passerelle created by the bank Credit Agricole in France). In Finland, the Guarantee Foundation offers loan guarantees for debt consolidation where there is no other security available; research indicates, however, that default and rescheduling is common with these loans (Valkama et al, 2002).

There is some indication that traditional 'social work' aspects of debt counselling (such as providing psychological support to consumers, and addressing social and other problems related to over-commitment) have declined as debt counsellors focus more on helping people access legal remedies such as debt adjustment (Niemi-Kiesiläinen and Henrikson, 2005). This could have implications for the rehabilitation of over-committed consumers, if underlying problems related to over-commitment are not addressed.

It can be argued that the education and rehabilitation of consumers to help prevent further financial difficulties is implicit in the debt counselling process – for example, through the provision of budgeting help and advice. Over and above this, there are only a small number of countries in this study where debt counsellors explicitly carry out educational activities. In Finland and Sweden, legislation covers both the provision of economic counselling (e.g. budget planning) and debt counselling. Research indicates, however, that very few clients of debt counselling services also receive economic counselling (Valkama, 2004). There was little evidence that debt counselling services monitor clients' rehabilitation post-counselling, for example to ensure that they are keeping to their repayment plan.

Other efforts that may help prevent future over-commitment include the provision of social loans (as mentioned above in section 4.3 above). In some cases, these loans are provided by the same organisations that offer debt counselling (municipal banks in the Netherlands and regional banks in France, through Points Passerelle). In Ireland, the Money Advice and Budgeting Service works in partnership with credit unions to provide low-income consumers with access to loans (by way of a loan guarantee scheme) and bill payment services. Other European countries have also expressed interest in the potential involvement of the financial sector (such as credit unions and municipal, banks) in debt counselling.

4.6 Holistic court procedures

During the recessions that took place in the 1990s many countries recognised the need for courts to adopt a more holistic approach, dealing with the full extent of people's financial difficulties, with the aim of rehabilitation. There are a number of sound reasons for doing so.

Many people facing court proceedings owe money to several creditors and it is more efficient to deal with all of them in a single hearing with a single attachment of earnings if appropriate. This avoids the situation where creditors taking a more sympathetic and rehabilitative approach lose out to those that adopt a more aggressive arrears management, moving swiftly to debt recovery through the courts. It also allows the courts to ensure continuity of essential services such as housing authorities and utility companies, and balance such repayments against those on unsecured credit.

Traditionally most court-based debt recovery procedures have been based on the premise that the debtor is a '*won't*' rather than a '*can't pay'*. Countries that have adopted holistic court procedures have recognised the existence of the 'honest' debtor, who has defaulted on payments as a result of events beyond his or her control. Moreover, they have also devised procedures that help consumers in financial difficulty to get their finances under control and, wherever, possible to repay the money they owe. This manifests itself in three important ways: formal, but non-judicial, debt settlement procedures; judicial debt settlement and personal bankruptcy procedures. In a number of countries these procedures have been designed in conjunction with one another. In Germany and Austria, for example, all three are part of the same legislation.

4.6.1 Judicial debt settlement procedures

A number of the countries studied have introduced judicial debt settlement procedures that consider the totality of a debtor's commitments. As noted above, these mostly arose out of the recession in the early 1990s when many people were taken to court owing money to a number of creditors as a result of events beyond their control. This brought into focus the inefficiency and expense of courts dealing with debts one at a time. Where countries lack legislation of this kind, outcomes of court hearings also tend to be harsh and largely based on the premise that debtors have the money to pay but are avoiding doing so. In Ireland, for example, 'honest' debtors still face the prospect of imprisonment.

Countries covered by this study where well-developed judicial debt settlement procedures exist include: Austria, Belgium, Czech Republic, Finland, France, Germany, Luxembourg, the Netherlands, Norway, Sweden and the UK[58]. A draft Consumer Code in Portugal sets out similar procedures although it is not known when this will be implemented.

These schemes all have a number of features in common. First, they are based on payment plans, although the repayment period differs. The most common repayment period is five years, although it can be longer or shorter than this in certain circumstances. In Luxembourg, Germany and Sweden it can be up to seven years and as long as 10 years in Austria and France in exceptional circumstances. In Austria this would apply where the debtor cannot repay at least 30% of the debt in five years. At the other extreme, the payment period is only three years in the Netherlands, while in Austria it can be as little as two years, providing at least 20% of the debt can be repaid in that time. Peer review of the Dutch system of debt settlement has recommended that the effectiveness of different repayment periods should be analysed (Korczak, 2006).

The second area of similarity is that creditors' participation is compulsory – albeit with some conditions in some circumstances. In Germany, for example, creditors are only compelled to participate if the court feels that the payment offer is fair; and in the Czech Republic the majority decision of creditors (weighted pro rata to the size of their claim) determines whether a debtor's case is handled by debt settlement or personal bankruptcy. Once the decision is taken it is binding on all creditors.

[58] Those that had not include: Bulgaria, Greece, Ireland, Italy, Lithuania, Poland and Spain.

Thirdly, in setting payment plans, courts ensure that the debtor is left with a minimum level of income, taking account of family size. This is often at the level of social assistance, although Norway is notable for having a much higher guaranteed income. This is set at 85% of the level of the minimum pension. This is considerably higher than social assistance levels. In contrast, in the Netherlands, the minimum guaranteed income is just 90% of social assistance, although this does need to be set against the shorter payment period noted above.

Fourthly, courts can write off at least some of the money owed in cases of hardship although full debt write-off is much less common. Additionally, in England and Wales, the court can issue an enforcement restriction order, which prevents creditors taking any enforcement action for up to 12 months, if the debtor expects to be able to raise the money owed in full during that time.

In Norway the court can decide to postpone a payment plan and in France a postponement of up to two years is possible if the debtor's income is too low for a payment plan to be set up without them being left with less than social assistance (Revenu Minimum d'Insertion) to live on. Indeed, the courts in France have a range of other powers mirroring those of the Debt Commission, which include determining that all payments will repay the capital before they settle any interest due; spreading repayments on loans for up to half of its term and reducing the outstanding mortgage debt to the sale value of the home.

The three principal areas of difference are in the relationship between judicial debt settlement and parallel non-judicial procedures, how payments are administered and the conditions attached to access to or participation in debt settlement programmes. Countries can be classified into three groups according to their approach:

- In Belgium, France, Luxembourg and Netherlands, judicial debt settlement arrangements are viewed as a 'last resort', acting as a back-up to non-judicial or amicable ones. The powers of the two are virtually identical, with the main exception that repayment plans ratified by a judge are legally binding on creditors. The high success rate of the Dutch scheme has been attributed to this close link between amicable procedures (van Burgh and others, 2006).
- In a second group of countries, including Austria, Germany and Norway, judicial debt settlement procedures are activated where attempts at setting up a non-judicial one have failed. This was also the case in Sweden until the Debt Relief Act in 2007, which extended the powers of the Enforcement Agency.
- The remaining group of countries with judicial procedures do not have a non-judicial one. These countries include Czech Republic, Finland, the UK, and (since 2007) Sweden, although in Finland and the UK there are strong pressures on creditors to be flexible in arrears management and debt recovery and to reach repayment arrangements outside the jurisdiction of the courts.

There is a variety of arrangements for overseeing and handling repayments made by debtors. In some countries, such as Austria, Finland, Germany and the Netherlands an administrator or trustee is appointed by the court, while in the UK, payments are made through the court itself. In contrast, in Belgium, France, and Luxembourg the procedure is overseen by a debt commission or debt mediator. In Sweden, however, payments are made direct to creditors by the debtor. In the

Netherlands, all the debtor's post is redirected to the trustee - a practice that gives rise to dissatisfaction among debtors (see below). The peer review of the Dutch debt settlement process concluded that there is a need to discuss the role played by mediators and trustees, including the balance between 'the capacity to listen to people's problems and the need for strictness', the skills they require to carry out their functions (Korczak, 2006).

The third significant difference lies in the conditions attached to access or participation in judicial debt settlement procedures. In the Nordic countries (Finland, Norway and Sweden) courts have powers to deny access to anyone who has incurred debts in an irresponsible manner, who has made inadequate attempts to pay back the money owed or who has incurred large debts before filing for debt settlement. The Norwegian country expert noted that, although many people are refused access, there is a dearth of data on the reasons for refusal. In the Netherlands, too, access may be denied if the judge believes that the debtor has not attempted to repay the money owed in good faith. Around one in five (21%) of cases coming before the Dutch courts have been dismissed, with the debtor 'not acting in good faith' accounting for 81% of all dismissals. More specifically this related to debts on fines to the Central Judicial Collection Agency (37%) and fraud (29%) (van Burgh and others, 2006).

In England and Wales, access to debt settlement is restricted to people who already have a court judgement, whose total debts are under £15,000 (approximately €21,000) and who have at least £50 (approximately €70) a month that can be distributed to creditors. People with inadequate income to repay their creditors have access to a simplified form of bankruptcy (see below).

In Austria, Germany and the Netherlands there are strict conditions attached to participation. Debtors must behave responsibly and either work in a job (or look for employment) that will enable them to repay the money they owe. Failure to adhere to the conditions results in the debt settlement process being stopped and bankruptcy proceedings started. The county expert for Germany noted that, when unemployment is high, it is difficult for creditors to comply with the employment and job search requirements. This point was also made in the report of the peer review of the Dutch debt settlement process (Korczak, 2006). In fact, since the inception of the Dutch scheme 17% of debt settlement cases have resulted in bankruptcy. Since 2000, there have been three main reasons for bankruptcy: incurring new debts (39%); prejudicing creditors (44%) and failing to comply with the obligation to provide information (45%). Only a minority (13%) had failed to make adequate efforts to find work – a proportion that rose steeply from 4% in 2000 to 20% in 2005, largely because a more stringent view has been of this since new guidelines in 2005. There have also been increased in proportions incurring new debts (33 to 43%) and failing to comply with the obligation to provide information (39 to 50%) but a fall in proportion prejudicing creditors (49 to 39%) (van Burgh, 2006).

A number of debt settlement procedures are supported by loans for debtors. Amongst other services the municipal banks ('Volkskredietbank') in the Netherlands offer over-indebted individuals, where applicable, loans of up to €4,000 at interest rates below the market rates so that costly debts can be repaid. In Luxembourg a public 'stabilisation' fund (Fonds d'assainissement en en Matière de Surendettement) can grant loans to discharge a debtor's commitments in the context of a collective debt settlement procedure at the instigation of either the debt commission or the judge. The maximum repayment period for these loans is seven years and the amount lent cannot exceed €1,735.25. Monthly payments on the loan are fixed and the legal interest rate is charged. These terms can, however be varied, including granting an interest-free loan, extending the repayment term, suspending repayments and even converting the balance into non-repayable assistance.

With financial support from the Finnish Slot Machine Association since 1995, the Finnish Guarantee Foundation (originally established in 1991) assists over-indebted households by offering guarantees for loans so high-cost credit commitments can be consolidated. The guarantee can be up to €34,000 per household and the interest is below market interest. Thus the Foundation provides a chance for those who otherwise are not able either to settle their debts voluntarily or to get a judicial debt settlement. Debtors must have sufficient income to cope with the payment agreement of the loan without getting into a new debt spiral. During 1995-2007 the Guarantee Foundation granted guarantees to nearly 7,000 household exceeding €100 million. Only about 6% of guarantee cases have resulted in the Foundation having to pay out and debtors pay back a large proportion of the money that is paid out.

The main criticism of existing judicial debt settlement schemes is that they often do little to rehabilitate the debtor and prevent further financial difficulties in future. In the Netherlands debtors must engage in a structured programme of advice and education about budgeting. In addition, all their post is re-directed to the trustee who is handling their case. This second condition is, however, likely to be controversial in other EU countries, partly for practical reasons (it is easy to avoid) and partly on grounds of civil liberty (Korczak, 2006).

Bringing these various features together it is possible to identify three broad approaches to judicial debt settlement:

- *Nordic countries*: where access is restricted to people who have behaved 'responsibly' and (except in Sweden) where 'amicable' attempts to arrive at a repayment plan have failed. Full debt write-off is possible.
- *German and Austrian model*, followed also by Portuguese draft Code: where access is based on economic considerations (insolvency) not on past behaviour and moral responsibility of the debtor. Debt settlement is regulated in the general bankruptcy codes and puts emphasis on setting up payment plan to ensure creditors are repaid and debtors earn discharge (including partial debt write-off) by fulfilling this plan. Debtors must behave responsibly, working or looking for a job if not in work. A trustee is appointed by the court to oversee payments.
- *France, Belgium, Netherlands and Luxembourg*: where there is an emphasis on non-judicial debt settlement, where procedures are identical in all respects except the enforceability of payment plans. Procedures and payments are overseen by a debt commission in France, Belgium and Luxembourg.

Debt settlement procedures in the Czech Republic and the UK do not fit into any of these models. Moreover, separate legal procedures exist in England/Wales and Scotland.

There have been a small number of evaluations of judicial debt settlement schemes, which have highlighted several important points. First, access can be impeded by complicated procedures such that debtors need the assistance of a lawyer or debt adviser (Kempson and Collard, 2004; Korczak, 2006) – a point that was also raised by several country experts.

In addition, people are denied access for a variety of other reasons. A survey in Austria found that judicial debt settlement proved possible in only half of possible debt cases. Three main, but overlapping, reasons were identified: unstable personal situation; no assets, and either income too low or debts too high so that it would not be possible to repay the court fees and at least 10% of the debts owed. The groups of people who were least likely to gain access were women, and married women in particular; younger people with children; people on low incomes and those without an income of their own. And the greater the debts the lower the likelihood of debt settlement being granted (Grohs, 2000 p6-8). While a study of administration orders in the UK, showed that the conditions for access at that time – debts of less than £5,000 (€7,000) – meant that the only people able to access the system were those too poor to be able to manage a repayment plan (Kempson and Collard, 2004)

Experience in Sweden shows the importance of realistic payment plans. An evaluation by Konsumentverket highlighted problems of default. Although courts responded positively to debtor requests for a revision to payment levels, the new plans often failed after two years, suggesting that debtors were either over-optimistic about their ability to pay or they had misunderstood the procedure (Konsumentverket 2000). At that time, two groups of people had particularly high levels of default: people with mental health problems and people without a bank account. A second evaluation of the Debt Relief Act, commissioned by the Swedish Government and Parliament, also found an unacceptably high proportion of people getting into financial difficulties during the debt settlement payment plan and recommended that debt counsellors should support and assist debtors throughout the payment plan. This was adopted in the 2007 Debt Relief Act, which also requires the Swedish Consumer Agency (Konsumentverket) to provide support to debt counsellors.

The UK study of administration orders was commissioned to explore the high levels of default and concluded that this was because primarily because participants were too poor to be able to manage a payment plan. Like the Swedish study, it also found that debtors were reluctant to request a revised payment plan (Kempson and Collard, 2004).

Debt settlement procedures in the Netherlands have been subject to extensive and rigorous evaluation. These have identified variations between courts in the percentages of cases accepted for debt settlement (from 69% to 94%) with an average of 79%. These variations were attributed to local differences in both the personality and strictness of the judge, and also the preliminary work in the amicable process. As we note above, the main reason for cases being dismissed was that the debtor was ‘not acting in good faith’, which across all courts accounted for 81% of all dismissals. This proportion also varied across courts (van Burgh and others, 2006). The evaluations have also assessed debtors’ opinions of the debt settlement scheme. On the whole, people were positive about the trustee (73% satisfied) and with the role of the court (86%) and also of other counselling (where they received it) (92%). They were less satisfied with the blocking of their post (49% dissatisfied of which 34% very dissatisfied) (van Burgh and others, 2006).

There has, however, been little research into the long-term impact of debt settlement. Does it help to rehabilitate debtors, or do significant numbers find themselves in financial difficulties again at a later date? In the Dutch debt settlement peer review, it was noted that in France ‘some people who go through [the French system for debt settlement] come back a few years later’ (Korczak, 2006). It should, however, be noted that this referred to the system as a whole, which is heavily weighted in favour of the non-judicial procedure. In Norway, where it is only possible to access debt settlement once, there are concerns that little is known about the outcomes for debtors when they have completed the debt settlement programme and whether it does, as intended, give them a 'new start in life'. Statens institutt for forbruksforskning (SIFO) plans to undertake a study to evaluate the Debt Settlement Act from the debtor's perspective in 2008.

Again it is the Dutch evaluations that provide us with detailed information. Since the inception of the scheme 70% of cases involving individuals have resulted in a fresh start, with 17% resulting in bankruptcy and 1% in composition, a further 13% had 'other outcomes' (The reasons for bankruptcy have been discussed above). On the whole fresh starts were less common where the debtor had received legal aid, 60 compared with 67%, and bankruptcy was more likely, 26 compared with 19% (van Burgh and others, 2006).

The sustainability of these fresh starts was determined through a telephone survey of a sample of people at least one year later[59]. On average, the duration of the fresh start was three years (similar to all going through the debt settlement process). One in three (28%) of individuals said that they currently had some form of consumer credit – the two most common being a consolidation loan (12%) or a bank overdraft (11%); on the other hand nearly half (47%) said that they saved regularly and this was only slightly lower among those with loans. A sizeable minority (12%) had fallen into payment arrears again, although just 8% had arrears of two or more months are considered – the authors did, however, suspect some under-reporting. Few of the people in arrears had sought any professional help and said they expected to be able to sort out their problems without it. Factors associated with a recurrence of arrears include number of children in the household, low income and having taken out new credit (8 times the risk); having received legal aid 2.5 times). But there was no connection with duration of the fresh start, reason for debts that gave rise to the WSNP process, extent of income change since the fresh start, type of household or employment situation. Significantly nor was there a link with having received budgeting counselling before or during the debt settlement process or having received after care following participation. Where arrears occurred they were mainly attributed to high fixed costs (including costs of loans) or overspending (van Burgh and others, 2006).

Synthesising this information it is possible to identify the following key ingredients of an ideal judicial debt settlement scheme:

- link to an amicable procedure that is designed to avoid cases going to court and assist people where it is necessary;
- unrestricted access (except in cases of fraud);
- compulsion on lenders to participate;
- oversight of payments by a trustee of mediator, with an appropriate balance between support for debtors and ensuring strict adherence to repayment plans;

[59] The authors note that they are unable to say how representative the sample is as a about a third of people could not be contacted by phone either because it was the wrong number or the line had been disconnected. Of those where contact was made 75% agreed to be interviewed.

- realistic payment levels that leave the debtor with income for an adequate standard of living, with an automatic procedure triggering revisions to payment plans when default occurs;
- time limit of no more than five years on the payment plans, plus debt write-off, following consideration of whether both lending and borrowing was responsible;
- total debt write-off for those too poor to repay, whose situation unlikely to change in the future;
- assistance with money management and budgeting during the payment plan to help with rehabilitation and prevent further problems.

4.6.2 Personal bankruptcy

Bankruptcy provisions are an important part of a comprehensive approach to over-indebtedness and have been introduced for individuals in most of the countries studied – the exceptions being Greece, Italy and Lithuania. In Poland legislation is planned. Bankruptcy laws for individuals have recently come into force in Portugal (March 2004), Spain (September 2004), and Czech Republic (January 2008). The length of time to discharge varies between countries, but is generally five years of more. New legislation in England and Wales has introduced a wide range of discharge periods ranging from as little as one year, for 'passive' debtors whose problems have been precipitated by events beyond their control, and up to 15 years for people whose bankruptcy is entirely due to their own actions.

Several countries have also recognised the need for a simplified form of bankruptcy (or total debt write-off) for 'honest' or 'passive' debtors who are too poor to pay the money they owe and are likely to remain that way. In France, for example there is a procedure for doing this as part of debt settlement. In England and Wales there is to be a non-judicial process for bankruptcy (debt relief orders) for people with no assets and very low incomes. Similar legislation is planned in Scotland.

Box 5 Good practice example: Debt settlement scheme in France

The Debt Settlement Scheme was set up by the law of 31 December 1989, which created the Households Debt Commissions. The secretariat of these Commissions is ensured by the Banque de France in 1989. It was reformed 1995, and again in 1998 to make it more sympathetic to those suffering 'passive' over-indebtedness and to introduce a minimum guaranteed income, equivalent to RMI (the minimum social revenue) payments from the State. The scheme has both a voluntary stage, and a judicial one.

The request for debt settlement is presented by the debtor, not the creditor, and the procedure is overseen by the Commission (as opposed to trustees, as in other schemes). Whilst the normal payment period is five years, the Commission can extend it to eight years in cases of hardship. Following the reforms in 1998, the Commission can additionally postpone the repayments for up to two years, following which time a new assessment of the feasibility of the payment schedule is undertaken. If this is not feasible the Commission can recommend complete or partial cancellation of debts (this is not, however, bankruptcy).

If a voluntary arrangement cannot be reached between the debtor and the creditor, the debtor may ask the Commission to make proposals for: payments to be spread over a five year period or for up to half the period of the loan; payments to pay off the capital first; in mortgage cases, to reduce outstanding debt to the sale value of the home. These proposals are advisory and not enforceable unless passed to a judge.

If either the debtor or the creditor appeal to the Court, the judge has the power to investigate the situation, verify claims and summon creditor The judge has same range of powers as the Commission and can change the plan proposed by Commission. Debts can be partially written off at the end of payment plan;

Furthermore, since 2003, a bankruptcy procedure (procedure de rétablissement personnel) is also possible, if the situation is 'irremediably compromised'. This procedure can be opened on the initiative of the Commission, of the debtor, or of the judge himself when he examines appeals. In this case the debt can be cancelled in full.

The judicial procedures can be bureaucratic for creditors, so there is an advantage for them to reach a voluntary agreement.

Box 6 Good practice example: Debt settlement in the Netherlands

Consumer Bankruptcy Act which came into force in 1998 covers voluntary as well as the court procedures for the settlement of debts. The Act had three aims: to provide debtors with fresh start; to encourage creditors to reach voluntary settlements; and to reduce no of bankruptcies.

Under the terms of the Act, debtors are obliged to try and reach a voluntary debt settlement before they can go to court for a 'fresh start'. The voluntary settlements are administered locally, by municipalities' social agencies and municipal banks (there are designated debt advisors in almost every municipality but provision not complete).
The debtor must make the agreed payment for three years, and then remaining debt is remitted. There are strict arrangements for oversight through an administrator (trustee), to whom all mail is forwarded. During the arrangement, the debtor has just 95% of national assistance to live on. Advice and education on budgeting is an integral part of the procedure and municipal banks can offer loans and bank cards as appropriate.

If the creditor and debtor cannot reach a settlement the court can be approached to impose a legal debt settlement. The judge may turn down an application for a legal debt settlement if no attempt is believed to have been made to pay off debts in good faith, if the debtor is unlikely to the meet requirements of the process, or if the debtor has addiction or psychological problems. The legal debt settlement is almost identical to amicable settlement except that compliance of debtor and creditor is enforced. As for the amicable arrangements, the debtor is required to meet the payment plan for three years, which most debtors manage to do (there is only a 2% failure rate). The costs of the judicial settlements are borne by the debtor's estate with creditors consequently receiving less money. An obligation to seek work is imposed on the debtor.

An evaluation for Dutch Ministry of Justice (Jungmann *et al.*, 2001) showed the first and third aims being met. However, the number of voluntary agreements fell.

4.7 Non-judicial debt settlement

As noted above, a number of countries with judicial procedures for debt settlement also have preceding formal but non-judicial procedures for debt settlement. These include: Austria, Belgium, France, Germany, Luxembourg, Netherlands, Norway, Sweden and the UK. It should be noted that these non-judicial procedures are quite distinct from debt counselling described in section 4.5 above, although in many cases debt counselling agencies do play a role in the more formal debt settlement programmes as well.

All share a formal procedure for non-judicial debt settlement (in contrast to informal debt counselling described in section 4.5 above) and typically involve the setting up of payment plans following negotiations with creditors and debtors. Creditor participation is not compulsory and the repayment arrangements are not usually legally binding (Norway is the exception and agreements *are* legally binding). Beyond this they differ in a number of key respects, including their relationship with judicial debt settlement procedures, how they are managed, repayment periods and supervision of, and obligations placed on, debtors.

As we have noted above, in France, Belgium, Luxembourg and the Netherlands non-judicial procedures are seen as the bed-rock of debt settlement and involvement of the court is seen as a last resort. They have almost identical powers and procedures to those of the courts, with the exception that the involvement of a judge makes any agreements legally binding on all parties. The process of mediation between a debtor and his/her creditors is overseen by a national ‘Commission’ in France, Belgium and Luxembourg (although in Belgium a judge opens the procedure); in the Netherlands it is administered locally by the municipalities, social agencies and municipal banks.

At the other end of the spectrum, ‘amicable’ arrangements in the UK are entirely separate from judicial procedures for debt settlement. In England and Wales, local insolvency practitioners (most of whom are commercial bodies) set up legally binding repayment agreements (Individual Voluntary Agreements) between debtors and creditors. Access to this procedure is limited to debtors who owe in excess of £15,000 (approximately €21,000); people owing less than this have access to the judicial debt settlement procedure (Administration Orders – see section 4.6 above). Scotland, in contrast, has a Debt Arrangement Scheme. Introduced in 2002, this gives debtors extra time to pay by stabilising debt whilst preventing creditors from taking further enforcement of collection action, although changes made in 2007 mean interest, fees and charges become payable if the Debt Payment Programme is not completed. The scheme requires the involvement of an approved money advisor, as well as an administrator and a payment distributor. The 2007 changes enabled administrators can undertake a ‘fair and reasonable’ test to the application if there is less than full creditor consent; previously this assessment was made by the Sheriff).

In the Netherlands, the nature of the link between the amicable and judicial procedures has been found to be crucial, especially if they are not introduced at the same time. Critics say that when the judicial procedure was introduced in 1998 it undermined the existing amicable arrangements in several ways. First the incentives for creditors to participate in the amicable arrangements were inadequate, and secondly many municipalities took advantage of the introduction of the judicial procedure and reduced funding for the agencies administering the amicable procedures. Moreover, both the average amount owed and the average number of creditors per debtor had increased, making it harder to reach amicable agreements (Jungmann, 2006; Korczak, 2006). Certainly, the success rate of amicable settlements fell from over 50% in 1992 to 9% in 2005 (Jungmann, 2006). The three main reasons for the lack of success of the amicable process are: failure of creditors to agree (52%), insufficient repayment capacity (27%) lack of cooperation of the debtor (21%) (van Burgh and others, 2006).

There is also variation in the way these procedures are managed and administered. Some, such as Belgium for example, are administered centrally; in France, they are administered at the sub-regional (département) level; others – the Netherlands and the UK, for example – depend on local provision. While local provision can be more responsive to local needs, it also leads to uneven provision across a country (see also Korczak, 2006). Unlike other countries, amicable arrangements in the UK are administered by fee-charging private sector firms of insolvency practitioners. This is controversial and has been criticised by both (free) not-for-profit debt advice agencies and by creditors. As a consequence a Code of Practice is being compiled that will create industry standards to regulate how responsible debt practitioners market and advertise their services. The standards will also cover the quality of advice customers receive from IVA providers on the register as well as the transparency of the charges and fees which will be made.
As in the judicial procedures, there are wide variations in the length of payment period, although five years is the most common. In the Netherlands, for example it is a fixed period of three years. While in France the normal period is five years but can be extended to up to eight years in cases of hardship. Moreover, the French Commission has a wide range of powers to make proposals if a voluntary arrangement cannot be reached. This includes: being able to determine that all repayments will go first to repaying the capital on credit; spreading repayments for up to half the term of the loan and, in mortgage cases, reducing the outstanding debt to the sale value of the home. These powers are, however, advisory and are only enforceable when they have been passed by a judge.

The fourth area of significant difference lies in the extent of supervision and support of debtor. Both are most extensive in the case of the Netherlands, where there is strict oversight of the debtor by a trustee, to whom all mail is redirected. Participants in the non-judicial scheme must attempt to maximise their income from earnings and all but 90% of the social assistance level for someone in their circumstances is allocated to repaying the money owed to their creditors. They must also engage with budgeting advice and education. In return at the end of three years, any remaining debt is written off.

Information gained from country experts suggests the following key ingredients for a successful non-judicial debt settlement scheme. First, there should be in-built incentives for creditors to participate (including supervision of debtor; realistic payment plans; no fees or much lower fees than court) and disincentives for them to use judicial procedures (for example, costs recovered from the debtor. Secondly there need to be incentives for debtors to participate, such as time limits on the payment plans; plus partial debt write-off, following consideration of whether both lending and borrowing was responsible, and advice and support on budgeting to make payment easier and relapse less likely.

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Appendix A: Tables

Table A 1
Percentage of households with arrears on bills in the last 12 months, by type of bills and by country (EU SILC, 2005)

Country	"Any arrears": arrears in last 12 months on mortgage, rent, utility bills, hire purchase or loan[1]	Arrears in last 12 months on mortgage or rent[1]	Arrears in last 12 months on utility bills	Arrears in last 12 months on hire purchase or loan[1]	*Unweighted base[2]*
Austria	3	1	2	1	*5,148*
Belgium	7	3	5	2	*5,137*
Cyprus	19	7	9	11	*3,746*
Czech Republic	10	6	6	3	*4,351*
Germany	6	3	3	3	*13,100*
Denmark	7	3	3	4	*5,956*
Estonia	10	1	9	1	*4,169*
Spain	5	2	3	2	*12,993*
Finland	10	4	6	3	*11,228*
France	9	5	6	2	*9,754*
Greece	33	7	27	12	*5,568*
Hungary	15	2	13	3	*6,927*
Ireland	8	4	6	3	*6,085*
Iceland	14	8	7	8	*2,938*
Italy	11	3	9	2	*22,032*
Lithuania	20	1	19	2	*4,441*
Luxemburg	4	2	3	1	*3,622*
Latvia	23	5	18	5	*3,843*
Netherlands	6	4	3	1	*9,347*
Norway	11	6	8	5	*5,991*
Poland	23	2	21	6	*16,263*
Portugal	6	2	5	1	*4,620*
Sweden	9	6	5	5	*6,043*
Slovenia	14	2	11	5	*8,287*
Slovak Republic	10	4	8	2	*5,147*

United Kingdom	6	5	0	3	*9,820*
Total	10	4	6	3	*196,556*

Notes:
1. 'Not applicable' for reasons of having no rent, mortgage or loan repayments to pay are included in the base.
2. Base shown is for 'any arrears'. Bases to other measures vary slightly.

The head of household is defined as the person responsible for the accommodation, and where there is more than one such person it is the oldest of these.
Data are weighted by the household weight.
0' indicates a value greater than zero but less than 0.5.

Table A 2
Percentage of experiencing arrears or financial difficulties, by socio-demographic characteritics (EU SILC, 2005)

		"Any arrears": arrears in last 12 months on mortgage, rent, utility bills, hire purchase or loan[1]	"Any heavy burden": on credit or housing costs[1]	Unable to meet unexpected financial expenses	Great difficulty in making ends meet	*Unweighted base[3]*
Age of head of household	18 to 29	16	31	50	8	*12,196*
	30 to 39	13	34	36	8	*30,076*
	40 to 49	12	36	34	9	*40,812*
	50 to 59	10	33	32	10	*40,590*
	60 to 69	6	29	29	7	*31,688*
	70 and over	4	28	33	8	*36,502*
Total		10	32	34	9	*191,864*
Marital status of head of household	Never married	12	29	41	8	*32,665*
	Married	8	31	27	7	*113,679*
	Separated or divorced	12	35	45	11	*20,121*
	Widowed	8	37	44	12	*25,346*
Total		10	32	34	9	*191,811*
Self defined current economic status of head of household	Working full time	9	30	28	6	*91,873*
	Working part-time	12	31	36	7	*12,155*
	Unemployed	27	52	69	27	*8,522*
	Other inactive person	7	32	37	10	*79,028*
Total		10	32	34	9	*191,578*
Tenure status	Owner occupier or free of charge	7	31	28	8	*156,628*
	Rented, at or below market/prevailing rate	14	35	50	10	*39,877*
Total		10	32	34	9	*196,505*

Family type	One adult, no children	9	30	42	10	*44,029*
	Two adults, no children	6	25	25	6	*55,415*
	Single parent, with dependent child(ren)	22	47	63	16	*8,840*
	Two adults, with dependent child(ren)	12	35	31	8	*53,809*
	Other households	12	41	35	12	*33,559*
Total		10	32	34	9	*195,652*
Household gross income (Percentile of EU population)[2]	Lowest quintile	19	43	67	21	*34,153*
	Second quintile	10	31	44	8	*21,324*
	Middle quintile	8	26	32	5	*22,038*
	Fourth quintile	6	23	23	2	*24,886*
	Highest quintile	3	16	10	1	*34,522*
Total		9	28	35	8	*136,923*
Household disposable income (Percentile of EU population)	Lowest quintile	18	43	61	20	*51,845*
	Second quintile	11	35	43	10	*31,367*
	Middle quintile	9	32	33	7	*32,500*
	Fourth quintile	7	28	23	4	*34,492*
	Highest quintile	4	21	12	2	*46,288*
Total		10	32	34	9	*196,492*
Household disposable income (Percentile of EU population)	Lowest one third	15	40	55	16	*73,455*
	Middle third	9	32	33	7	*53,154*
	Highest one third	5	24	15	3	*69,883*
Total		10	32	34	9	*196,492*
Country	Austria	3	15	27	3	*5,148*
	Belgium	7	34	24	7	*5,137*
	Cyprus	19	67	46	14	*3,746*
	Czech Republic	10	27	44	10	*4,351*
	Germany	6	27	29	4	*13,100*

	Denmark	7	8	27	3	*5,956*
	Estonia	10	30	40	1	*4,169*
	Spain	5	48	34	10	*12,993*
	Finland	10	21	36	3	*11,228*
	France	9	24	36	3	*9,754*
	Greece	33	27	41	18	*5,568*
	Hungary	15	28	58	13	*6,927*
	Ireland	8	25	23	9	*6,085*
	Iceland	14	17	38	7	*2,938*
	Italy	11	52	29	15	*22,032*
	Lithuania	20	40	68	11	*4,441*
	Luxemburg	4	30	21	2	*3,622*
	Latvia	23	37	74	27	*3,843*
	Netherlands	6	20	28	5	*9,347*
	Norway	11	9	32	4	*5,991*
	Poland	23	50	64	26	*16,263*
	Portugal	6	24	21	17	*4,620*
	Sweden	9	16	17	4	*6,043*
	Slovenia	14	35	46	7	*8,287*
	Slovak Republic	10	42	62	12	*5,147*
	United Kingdom	6	26	31	5	*9,820*
Total		10	32	34	9	*196,556*

Notes:
1. 'Not applicable' for reasons of having no rent, mortgage or loan repayments to pay are included in the base.
2. Household gross income was not available for a minority of countries
3. Base shown is for 'any arrears'. Bases to other measures vary slightly.
The head of household is defined as the person responsible for the accommodation, and where there is more than one such person it is the oldest of these.
Data are weighted by the household weight.

Table A 3
Results of logistic regression to assess likelihood of experiencing financial difficulties (EU SILC, 2005)

		"Any arrears": arrears in last 12 mths on mortgage, rent, utility bills, hire purchase or loan[1]		"Any heavy burden": on credit or housing costs[1]		Unable to meet unexpected financial expenses		Great difficulty in making ends meet	
		Sig.	Exp(B)	Sig.	Exp(B)	Sig.	Exp(B)	Sig.	Exp(B)
Age	*Oldest group (reference)*	*0.00*		*0.00*		*0.00*		*0.00*	
	16 to 19	0.00	1.9	0.03	0.7	0.00	1.4	0.19	1.2
	20 to 29	0.00	3.1	0.00	1.3	0.00	1.8	0.07	1.1
	30 to 39	0.00	3.5	0.00	1.5	0.00	1.6	0.00	1.5
	40 to 49	0.00	3.4	0.00	1.7	0.00	1.6	0.00	1.9
	50 to 59	0.00	2.7	0.00	1.5	0.00	1.4	0.00	1.9
	60 to 69	0.00	1.6	0.00	1.2	0.18	1.0	0.00	1.2
Family type [2]	*One adult, no children (reference)*	*0.00*		*0.00*		*0.00*		*0.00*	
	Two adults, no children	0.64	1.0	0.68	1.0	0.00	0.8	0.00	0.8
	Single parent, with dependent child(ren)	0.00	2.2	0.00	2.1	0.00	2.4	0.00	2.1
	Two adults, with dependent child(ren)	0.00	1.7	0.00	1.5	0.00	1.2	0.00	1.1
	Other households	0.00	2.0	0.00	1.7	0.00	1.3	0.00	1.2
Marital status [2]	*Married (reference)*	*0.00*		*0.00*		*0.00*		*0.00*	
	Never married	0.90	1.0	0.00	0.9	0.00	1.2	0.00	1.2
	Separate or divorced	0.00	1.4	0.00	1.4	0.00	1.6	0.00	1.7
	Widowed	0.00	1.3	0.00	1.3	0.00	1.7	0.00	1.5
	Working full time (reference)	*0.00*		*0.00*		*0.00*		*0.00*	
Current economic status	Working part-time	0.00	1.5	0.00	1.2	0.00	1.6	0.00	1.6
	Unemployed	0.00	2.6	0.00	2.2	0.00	3.6	0.00	4.9
	Other inactive person	0.00	1.4	0.00	1.6	0.00	2.1	0.00	2.3

Housing tenure	*Owner occupier or free of charge (reference)*	*0.00*		*0.00*		*0.00*		*0.00*	
	Rented, at or below market/prevailing rate	0.00	2.5	0.00	1.7	0.00	2.8	0.00	2.2
Household disposable income	*Highest one third (reference)*	*0.00*		*0.00*		*0.00*		*0.00*	
	Lowest one third	0.00	3.0	0.00	2.3	0.00	4.9	0.00	4.3
	Middle third	0.00	1.8	0.00	1.5	0.00	2.2	0.00	2.2
	Pseudo R^2	0.20		0.19		0.30		0.23	

Notes:
1. 'Not applicable' for reasons of having no rent, mortgage or loan repayments to pay are included in the base.
2. Due to substantial overlap between family type and marital status, these two measures were not included in the same models. Instead, for each of the four outcome measures of interest we first ran one model with family type and excluding marital status and then separately ran a model which excluded family type but included marital status (whilst also controlling for the presence of dependent children; not shown). The results reported for the remaining measures relate to the version containing family status; however these did not vary substantially between the versions using family type and the versions using marital status.

Although the results for country of residence are not shown, country was included in the regression analysis to control for influences particular to the countries in which people live.

The base is all households. The same models were also run on the subset of the sample where the household head is of working age (aged 18 to 65 inclusive) and there were no substantive differences in the results. Results are available from PFRC on request.

Exp(B) is also referred to as the odds ratio.

The models were run on unweighted data.

Appendix B: Over-indebtedness definitions

Land		Institution/Source	Definition	Source
EU	**EU**	**Group of Specialists for Legal Solutions to Debt Problems (CJ-S-DEBT)**	The Group agreed that over-indebtedness is a changing concept, which can cover at the same time problems with credits and difficulties with day-to-day bills. For the purposes of this Recommendation over-indebtedness means, but is not limited to, the situation where the debt burden of an individual or a family manifestly and/or on a long-term basis exceeds the payment capacity.	Final Activity Report of the Group of Specialists for Legal Solutions to Debt Problems (CJ-S-DEBT)
EU	**EU**	**Economic and Social Committee (2000)**	Objectively unable, on a structural and ongoing basis, to pay short-term debts taken out to meet the needs considered to be essential, from their habitual income provided by work, financial investments or other usual sources, without recourse to loans to finance debts contracted previously.	Economic and Social Committee of the European Commission (2000), 'Production and Consumption on Household Over-indebtedness', CES 212.
EU	**AD/EU**	**OCR Macro for DG Health & Consumer Protection (2001)**	A person is over-indebted if he or she considers that he or she has difficulties in repaying debts, whether it be a consumer debt or a mortgage.	OCR Macro for DG Health & Consumer Protection (2001)
EU	**AD/EU**	**Reifner et al for the Commission (2003)**	A situation in which consumers will definitely not be able to meet their financial obligations in the near future. It is defined by an overall deterioration of their dependants' economic situation and will gradually lead to social exclusion, a higher cost of living (the poor pay more) and less participation in overall economic development and social progress.	Reifner et al for the Commission (2003)
AUS	**G**	**Federal Ministry for Social Affairs and Consumer Protection (Bundesministerium für Soziales und Konsumentenschutz)**	Individuals or households can be regarded as over-indebted if after deduction of current costs of living like food, clothes, rent, social and cultural needs/requirements, they are not able to discharge all payment obligations.	Counselling agency IFS-debt (IFS Schuldnerberatung)
BEL	**G**	**Ministry of Finance**	An individual can be declared insolvent and benefit from debt settlement if his/her income does not allow him/her to, in a sustainable way, pay his/her due debts, Bankruptcy Law of 1997	Legislation
BU			A preferred measure is not identifiable, because the government has not issued any official document relating to over-indebtedness	
CZ			A preferred measure is not identifiable, because the government has not issued any official document relating to over-indebtedness	
FI	**G**		Insolvency means other than temporary inability of the debtor to pay his debts as they become due. The following shall be taken into account: 1) the funds from the liquidation of the assets of the debtor; 2) the income of the debtor and his earning potential, in view of his age, working capacity and other circumstances; 3) the necessary living expenses of the debtor; 4) the maintenance liability of the debtor; and 5) the other circumstances affecting the financial status of the debtor	Legislation
FI	**G**	**Ministry of Trade and Industry**	Number of persons who are participating in the debt adjustment program.	

DN	**G**	**Government**	Debtors without assets who are caught in the deadlock of permanent indebtedness.	
FR	**G**	**Commissions du Surendettement (Over-indebtedness Commissions)**	Over-indebtedness of individuals is characterized by the manifest inability of the debtor, who is acting in good faith, to repay his/her debts.	
FR	**G**	**Banque de France (2004)**	The manifest impossibility for a debtor in good faith to meet his/her debts taken as a whole as they fall due and payable. Case law: individuals are over-indebted if repayment of debts reduces their minimum income requirement (the amount that cannot be seized or the Revenu Minimum d'Insertion (income support level).	Banque de France (2004)
GER	**G**	**Federal Ministry for Family Affairs, Senior Citizens, Women and Youth (2004)**	A private household is over-indebted if its income is not sufficient for servicing debt on time without reducing its standard of living (after accounting for the costs of living expenses) over a longer period.	01.10.2004 Überschuldung privater Haushalte – Eine Information nach Stichworten
GER	**G**	**German Insolvency Code**	The current or future impossibility to amortise the debts on schedule. Difficulties in repayment (illiquidity) lead to a notice of cancellation of the credit agreement. The German Civil Code (Bürgerliches Gesetzbuch, BGB) empowers the creditor to do so after two instalments overdue. While the debtor may have been in financial difficulties for a long time ('hidden over-indebtedness'), it is the cancellation of the credit agreement that constitutes formally the status of over-indebtedness.	Legislation
GR			A preferred measure is not identifiable, because the government has not issued any official document relating to over-indebtedness	
IR	**G**	**Government Department of Social and Family Affairs**	Households are over-indebted if they are persistently unable to meet from their income reasonable living expenses and deferred payments as they fall due.	Money Advice and Budgeting Service (MABS)
IT	**G**	**Ministry of Economics**	Over-indebtedness is a situation of non temporary difficulties of regularly honouring his/her commitment using his/her income and his/her assets (real estates and other mobile properties).	Proposal of Law on over-indebtedness, n° 412 May 3rd 2006
LT			A preferred measure is not identifiable, because the government has not issued any official document relating to over-indebtedness	
LX	**G**	**Ministry of Finance**	Same as Belgium: an individual can be declared insolvent and benefit from debt settlement if his/her income does not allow him/her to, in a sustainable way, pay his/her due debts. Law of 2000 on the prevention of over-indebtedness.	Legislation
NL	**G**	**Ministry of Finance**	Individuals are considered to be over-indebted if they meet the conditions to benefit from the debt settlement scheme Schuldsanering – for that it is sufficient that an individual, in good faith, is unable to meet his/her debt commitments.	Debt settlement scheme Schuldsanering

NW	**G**	**Ministry of Children and Equality**	A person can be regarded as over-indebted if he meets the first condition to obtain debt settlement. This is the case if the debtor is permanently incapable of meeting [his] obligations, Debt Settlement Act of 1992	Legislation
NW	**PS**	**Private sector**	A wider definition is practised by debt counsellors at the social security offices. They count debt problem cases as instances of problematic debts - i.e. as cases where debt obligations rather than unstable or low income are the main features of the economic situation. The ratio between income and debts are not fixed by definition.	Debt counsellors
PL	**G**	**As the proposal has not been adopted yet, there is currently no ministry involved**	Currently in the legislative process, the proposal for legislation on over-indebtedness uses the following measure: a person is over-indebted if he cannot pay his debts and the total of his debts is superior to the total of his assets. This appears to be a definition combining arrears and the debt-to-income ratio.	Project of Act on prevention of insolvency and bankruptcy of a natural person, issue 776, 9 May 2006
PT	**G**	**Directorate-General for Consumer Affairs, a department of the Ministry of Economics and Innovation**	Over-indebtedness is a situation were there is a lack of income or other liquid assets so that people are incapable of paying their debts on a structural basis	
SP		**No active policies**	Over-indebtedness is the situation where a consumer – in good faith – is not able (actually and persistently) to repay all his/her debts (debts which have been incurred for reasons different from businesses).	In 2004 a proposal (n°622/000012) was presented to the Senate but it was withdrawn in February 2005. Since then no further significant developments have occurred.
SW	**G**	**Law**	The Adjustment of Debts Act includes other than temporary inability of the debtor to repay his debts as they become due. An additional criterion is that there are special reasons for granting adjustment. Consideration is here given to the length and reason of indebtedness and to the efforts by the debtor, to the best of his ability, to reach agreement on an instalment schedule with the creditors.	Legislation
SW	**G**	**Government agency Swedish Consumer Agency (Konsumentverket).**	The debtor/household is insolvent. By insolvent it is meant that the amount of debts have become so extensive that the debtor has no chance to fulfil his obligations if loans are due.	
UK	**PS**	**OXERA**	Objectively unable, on a structural and ongoing basis, to pay short-term debts taken out to meet the needs considered to be essential, from their habitual income provided by work, financial investments or other usual sources, without recourse to loans to finance debts contracted previously.	
UK	**PS**	**Call credit**	Over-indebtedness is when this debt becomes too much for the debtor to cope with, i.e. they cannot meet repayments because they do not have enough income to cover the costs of their agreements – they have too much credit for their level of income.	

Note: G denotes government, AD advise and PS private sector.

Appendix C: Economic indicators

The term ***financial arrears*** describes missed, late or unpaid payments on different types of commitments of the consumer. Such commitments can be further divided into: arrears on consumer credit commitments (all kinds of credit with exception of mortgage), arrears on mortgages, on rent and service utility bills and on unsecured loans/credits (on credit card bills, etc.).
The second category is also divided into several sub-categories: Whereas the ***household debt serviceratio*** is estimated in several European countries, we did not find information on other sub-categories (such as homeowner financial obligations ratio). The country where this scheme is applied is the United States, where the Federal Reserve Bank collects information on the debt serviceratio (like some European countries).
Also, the ***debt-income ratio*** can be further separated into the ratio of debt relating to unsecured credit and the one relating to secured credit. This ratio is an *indebtedness* indicator and only provides an incomplete picture of the household balance sheet as the household's accumulation of assets is as important as the accumulation of liabilities.[60] Furthermore one can differentiate between aggregate measures of debt-to-income of household sector (exists in all the countries) and debt-to-income ratio of individual households (does not exist in all the countries).

[60] This is in fact the case for all indicators that are related to one side of the household balance sheet.

Appendix D: Information base in individual countries

		Individual Countries: Information Base																			EU	
Indicators	**Variables**	**Austria**	**Belgium**	**Bulgaria**	**Czech Rep.**	**Finland**	**France**	**Germany**	**Greece**	**Ireland**	**Italy**	**Lithuania**	**Luxemburg**	**Netherlands**	**Norway**	**Poland**	**Portugal**	**Spain**	**Sweden**	**UK**	**EU-SILC**	**EU-SILC Mod**
Economic Indicators																						
Financial Arrears	Consumer credit arrears	x	x	x	x	x	x	x	x	x	x	x		x		x	x	x	x	x	x	x
	Mortgage arrears	x	x				x	x	x	x	x	x		x	x	x	x	x		x	x	x
	Rent, utility bills (gas, water, electric.)	x	x				x	x	x	x		x		x	x		x	x		x	x	x
Debt ratios	Aggregated debt-income ratio	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x		
	Aggregated debt service burden		x	x		x	x	x	x		x	x			x	x	x	x	x	x		
Legal/administrative Indicators																						
	Court-arranged solutions to debt	x	x		x	x	x	x		x			x	x	x		x	x	x	x		
	Solutions outside the courts	x	x			x	x	x		x				x	x	x	x		x	x		
	Debt write-offs by creditors	x	x	x		x	x	x			x				x	x				x		
Subjective indicators																						
	Survey questions on fin. problems	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x

Appendix E: detailed list of information in individual countries

E.1. Financial Arrears

Austria	In ***Austria,*** the KSV1870 is one of the main institutions collecting information on private individuals and their repayment behaviour. It runs three databases, the Consumer Credit Register Konsumentenkreditevidenz), Commercial Credit Register (Warenkredit-Evidenz) and the warning list (Warnliste). The first aforementioned database encompasses amount and maturity of loans, guarantees, but also negative financial features such as admonitions, past due payments, judicial procedures and written-off loans.
Belgium	In ***Belgium,*** there is no credit reporting agency, but the Belgian National Bank (Banque Nationale de Belgique) collects information on private individuals in its Central office for credits to private individuals. This is a register with payment defaults. By 2006, it had registered 4.5 million borrowers, of which 330,000 had payment defaults. The information on payment defaults includes the existence of such a default, date and amount as well as regularization. Once a year, the Central Bank publishes a special brochure which presents information about trends in several variables stored in the database, such as payment delinquencies on different types of credit including mortgages.
	Information on arrears on rent is not collected centrally and no data are yet available on arrears on water bills. Liberalisation of the energy market at a regional level lead to the creation of a regulator authority for each region, for which the regulating authority has to report annually on the way the public social protection law is implemented. For that reason, the regulator surveys data on households that have a delinquency with regards to electricity or gas and the number of households with a repayment plan. However, the data has only existed in Flanders since 2004 and in Wallonia since 2005. Surveying has not yet begun for Brussels. Since last year, the task of the Observatoire du Crédit has been to collect the regulators' data in order to analyze it for policy recommendations.
Bulgaria	In ***Bulgaria***, there are public and private institutions that collect information about repayment problems. The Bulgarian National Bank (BNB) set up a register in 1998 which stored information on individuals and companies. It is a register with positive and negative information and a threshold for specific types of credit such as overdrafts on debt cards. The information in the BNB Central Credit Registry covers the banking sector and only loans that exceed 10,000 BG Leva (5,112.997 Euro). There are also several private sector institutions. In 2005 the Icelandic Creditinfo Group established Creditinfo Bulgaria by starting with a negative information sharing mechanism. The company is collecting information on both companies and individuals respectively. *Experian* has also announced that it will open an office in Bulgaria (Experian-Scorex Bulgarian Credit Bureau). The company states that it will collect positive and negative information from sources such as banks, leasing companies, telecom operators, retail companies and credit card issuers on past payment behaviour of borrowers (individuals and companies) and their current debt servicing status.
Czech Republic	There are several data collectors and we can only refer to one bureau as an example of what is collected in terms of information in the ***Czech Republic***. Data on financial commitments are collected by the Czech Banking Credit Bureau which includes the existence of a client's financial obligation in connection to credit and how the client performed in terms of paying back the credit. Also, the failures to fulfil the contractual obligations are stored along with the amount and instalments of existing credits (including credit cards) as well as the client's repayment history. The Central Register of Credits at the Czech National Bank only holds information about individual entrepreneurs and legal entities.
Finland	In ***Finland***, the dominant credit information provider is Suomen Asiakastieto Oy. It collects information on the financial standing of consumers (payment default entries). There are a range of entries that the company collects: bankruptcy petitions, court decisions in debt restructuring, etc. However, there are especially delays in payments on hire-purchase agreements and consumer credit transactions collected. A payment has to be over 60 days late considered the original due date. The company publishes new payment default entries on aggregated levels on its website, among other data such as judgments or impediments for enforcement.

France	In *France*, the Banque de France hosts a database which contains information on arrears (Fichier des incidents de remboursement des crédits aux particuliers, FICP). In particular, this database stores incidents that map if a consumer is two instalments in arrears (on monthly paid credits), on credits where the instalments are not paid monthly, the delay must be more than 60 days. This includes for credits without fixed instalments on any incidents where a person owes 500.00 Euros or more 60 days after the person has received a warning. The National Institute of Statistics (Institut National de la Statistique et des Études Économiques, INSEE) started a large scale household survey (the enquête logement) in 2002, which takes place every four to five years and covers 45,000 households and reports on people with arrears on rent.
Germany	***Germany*** is at the forefront of data collection, as its main credit reporting agency, the Schufa Holding AG (henceforth Schufa) stored information on 64 million individuals in Germany (in 2007). The company collects information on payment delays on financial commitments, including different types of consumer credits, credit cards and leasing, but excluding mortgages (where there is no obligation to report information). The information collection also includes negative entries on telecommunications bills. There are other credit reporting agencies, but the Schufa seems to hold most files. The company also publishes an aggregated index, the Private Indebtedness Index (Privat-Verschuldungsindex).
	Schufa also collects data about the amount of the first negative entry in the database concerning telecommunication bills, but no statistics on arrears on utility service bills or arrears on rent is being kept. There is also a Central Register of Credits (Evidenzzentrale) at the Deutsche Bundesbank. However, this register has a very high threshold of reporting indebtedness of borrowers (1,5 million Euro in 2007), thus it captures only a small proportion of private persons. Data concerning arrears on rent (so-called Mietrückstände) by tenants are collected by the Eigentümerschutz-Gemeinschaft Haus & Grund association. These numbers are estimated and published in aggregated form as volume of overall rent arrears.
Greece	Tiresias Bank Information Systems S.A. is one of the dominant companies in the market in *Greece*. In addition to the usual information on arrears, this company also collects slightly different information such as data on bounced cheques, termination of personal and consumer loan agreements and the termination of card contracts. Furthermore, the credit reporting agency Creditinfo collects information on defaults and stores data on more than 1 million individuals. In addition, the Bank of Greece collects annual data of the ratio of mortgages in arrears in relation to total unsecured debts. It further collects data to calculate the ratio of unsecured debts in arrears in relation to the total of unsecured debts on an annual basis.
Ireland	The Irish Credit Bureau (ICB) collects the information from the banking sector in ***Ireland***. The payment history contains payments made over the most recent 24 months (with 1-5 payments in arrears). Information is held for 5 years after closing of the account. Data of failure to clear off any loan or if the loan was settled for less than what is owed are also stored on file. Researchers in the country often also use characteristics of over-indebted households derived from the longitudinal survey of approximately 10,000 individuals (Living in Ireland Survey 1994-2001) or the Monetary Advice & Budgeting Service (MABS). Rent arrears, on the other hand, are collected by local authorities (municipalities), of which some publish annual reports containing – among others – the amount of rent and housing loans collected as a proportion of the total amount due as well as the number of months accounts have been in arrears.
Italy	***Italy*** is a country where extensive information is gathered from public and private institutions. The country has a public credit registry at the central bank, which was established in 1962 as the Central Credit Register (Centrale dei Rischi) which focuses on monitoring systemic risk. There is a high threshold of 77,500 Euro. It registers bank loans and informs participants about the aggregate indebtedness (Jentzsch 2007). The only data available from the Bank of Italy are so-called bad-debts. The data is available in the Statistical Bulletin of the Bank of Italy.
	In the private sector, there is the Italian credit reporting agency Centrale Rischi Finanzaria (CRIF) which collects information on instalment loans (personal loans, mortgages, leasing contracts and salary loans) and non-instalment credit and credit cards. Among other features, the agency collects information on delays in instalment payments and stores them for different time periods. The Consorzio per la Tutela del Credito also collects primarily negative information items: on the type of credit, the amount of credit and repayment modalities as well as the performance of the contract.
Lithuania	In ***Lithuania***, the credit reporting agency JSC Creditinfo collects information on repayment delays on consumer credit and mortgages or telecom payment defaults. Lithuania also seems to have a rather detailed provision of data on arrears on rent and utility service bills. The JSC Creditcollect and the JSC Creditinfo provide data to their subscribers.

Netherlands	In the ***Netherlands***, data on *arrears* is published on an annual basis by the Central Bureau for Statistics (Centraal Bureau voor de Statistiek). The data is drawn from different surveys. For instance, in the past, the Socio-economic Panel (Sociaal-economisch panelonderzoek) was used for the years 2000-2002 which included around 5,000 households. This was followed by the POLS (Permanent onderzoek leefsituatie) for the years 2003-2004. Data for 2005, on the other hand, was collected by the European Union Statistics on Income and Living Conditions (EU-SILC). In addition, only data on arrears on financial commitments of low income households (also defined by a survey, the so-called Inkomenspanelonderzoek) is collected. The Bureau Krediet Registratie (BKR) is the dominant information sharing mechanism, but doesn't issue any detailed statistics. The bureau collects positive and negative information and covers approximately 10 million people (2007). The information covers several types of credit facilities such as personal credits, mortgages and credit facilities from mail order houses and telecom providers. Statistics on arrears on mortgages are obtained through different surveys, equivalent to data on arrears on financial commitment mentioned above. The three surveys used (SEP, POLS, EU-SILC) provide annual data for low income households with one or more arrears for mortgage. In addition, there are three different surveys that gather annual information on arrears on gas, electricity and water bills. Again, however, only data on low income households is compiled.
Norway	Data for ***Norway*** is drawn from a survey with a sample size of only 2,500 households. The Financial Supervisory Authority of Norway (Kredittilsynet) collects house loan statistics (Boliglånsstatistikken) based on information about the 100 first mortgage loans after a certain date reported by a sample of banks in Norway. The Association of Norwegian Finance Houses (Finanseringsselskapenes forening) collects data from eleven large credit card companies to establish credit card statistics including loans without security (Kortstatistikk inkl. også blancolån).
Poland	In ***Poland*** the National Bank of Poland (NBP) is responsible for reporting on a monthly basis on poor quality credits to individuals. Reporting started in 1996. Since the data is collected from all banks, it is considered to be a reliable source of statistical data on banks in Poland. There are, however, other sources which might have to be consulted in order to draw conclusions about the situation on arrears on financial commitment in Poland.
	The National Debt Register, for example, is a public institution, which collects data on economic entities and individuals with unpaid overdue arrears. The NBP twice a year collects information for an indicator regarding poor quality housing credits to households as a percentage of all household credits for housing purposes, for instance.
	At the same time data is collected from all banks on an annual basis by the *General* Inspectorate of Banking Supervision. It serves as an indicator for poor quality consumption credits in banks, as a percentage of all consumption credits. 'Poor' in this context is defined as debts that were not paid off for longer than six months. There are also several credit bureaus in the country. Biuro Informacji Kredytowej S.A. collects positive and negative information: no threshold is applied to the loans or default information collected.
Portugal	***Portugal*** has both public and private information sources on data for payment difficulties. At the Banco de Portugal, there is the Central Credit Register. This register covers institutions that extend credit to individuals and organisations. It collects information on the outstanding loans to individuals and organisations (total liability over 50 euros), this includes performing as well as non-performing debtors. The information covers several types of credit, ranging from mortgages to consumer loans, overdrafts, credit cards or leasing. The agency classifies loans as in arrears if principal and interest are not paid by the agreed date, where the case has been submitted to the credit institution's litigation service and where a loan has been written off the balance sheet with collection still possible. Specifically, arrears arise from being 30 days over the due payment date. There is also a credit reporting agency that collects information on payment delays from borrowers named Credinformações, which partially belongs to Equifax. It stores positive and negative information such as the number and amount of credits, summary of current balance as well as the evolution of loans over the past years inclusive of the payment delays. Furthermore, the company collects information about legal procedures.
Spain	In ***Spain***, there is also extensive reporting on financial difficulties. For instance, there is the Central Credit Register (Central de Información de Riesgos) at the Bank of Spain which collects borrower information from financial institutions. Financial institutions (banks, saving banks, credit cooperatives, specialized credit institutions and other financial institutions) have to report borrowers above the threshold of 6,000 Euro. It contains both positive and negative information in the same database, for instance, the database registers the characteristics of the credits (amount, type of loans and maturity).
	There is a competitive credit reporting industry with several players. These bureaus register arrears on debts and financial commitments. For instance, Equifax Ibérica S.L. provides information on several types of credit (including mortgages to consumer loans), but also overdrafts, credit cards or leasing just as in Portugal. The arrears arise, if payments have not been made from more than 30 days past due date. The collection is comprehensive in terms of institutions covered: the company collects information on leasing and factoring, insurance companies, petrol and telecom providers. In addition, there is the Register of Arrears on Credit Agreements (Registro de Aceptaciones Impagadas, RAI) which collects information on dishonoured cheques or other payment instruments above the threshold of 300 euros. RAI provides information on the amount and number of arrears and default on payment instruments.

Sweden	In ***Sweden***, there is no public credit register, but a range of credit bureaus that are in competition with each other; to mention a few, there are AAA Soliditet, D&B, CreditSafe or the Upplysningscentralen (UC) (Jentzsch 2007). These agencies compile positive and negative information. For instance, UC manages a database, where banks and other financial institutions exchange positive and negative information. A consumer report contains identification information, property owner details, balance of debt with the enforcement service, payment complaints (and the amount affected) and public and private claims or most recent inquiries. It is estimated that more than 6.5 million negative entries are stored in the database. However, the Swedish Enforcement Authority (Kronofogdemyndigheten) is responsible for a nationwide, public register of *payment defaults*. More than 500 thousands Swedish citizens are registered in this register.
United Kingdom	The ***United Kingdom*** has by far the most extensive credit market, thus the country also leads in terms of data collection on repayment difficulties. First and foremost, there are three main credit reporting agencies, Callcredit Plc, Equifax Plc and Experian Ltd. These agencies have extensive information collections about repayment patterns of British consumers. In addition to secured and unsecured credit, these include payment details for other commitments such as mobile and fixed line telephone services, utilities and subscriptions for television services. Information is collected about up to date payments, but also 1-5 months late payments or if a consumer was more than 6 months late as well as accounts that are in default (where the credit agreements ended) are stored. The status of current accounts typically reflects the latest update by the lender.
United Kingdom	The Council of Mortgage Lenders compiles information on the number of UK mortgage arrears and provides statistics divided into different time periods (3-6 months in arrears, 6-12 months in arrears, greater than 12 months in arrears). These are based on a sample of the largest lenders.
United Kingdom	Since 1993, the UK Government has commissioned an annual household survey of housing, which includes information on mortgage and rent arrears. This survey gives insights into the number of people in arrears and the number of people in difficulty with housing repayments. From the database, information on the estimated number and percentage of social tenants in arrears per year can be gathered. The continuous survey reported annually provides breakdowns by economic status, income, region, household type and type of tenure.
United Kingdom	With regards to arrears on rent and service utility bills, the Chartered Institute of Public Finance and Accountancy (CIPFA) collects data from local authorities on arrears on rent and tax non-payments. Additionally, data on how long the tenants have been in arrears is also collected. With respect to arrears on water bills, the economic regulator for the water and sewerage industry in England and Wales, Water Services Regulation Authority (OFWAT), provides annual information from all the water companies revenues outstanding. All water companies in the UK are required to complete the information for the OFWAT regulatory authority, therefore providing a representative data set not only on the value the arrears amount to, but also on the length of time the arrears have been outstanding.

E.2 Household debt service ratio

Austria	In Austria, Statistic Austria states that data on amortization of credit debt is not available as such data could only be surveyed on a voluntary basis. An attempt to compile such information was undertaken in the Survey of Consumption Expenditures (Konsumerhebung), which last took place in 2004/2005, but failed for reasons of lacking clarity of questions asked and/or imprecise or incomplete answers given by the heads of households. In the future, however, such data may become available.
	In 2004, the Austrian Central Bank conducted a survey on financial assets of 2,556 households. In this descriptive presentation of the analysis of micro-data, information on the debt situation of households is addressed. However, no data on the debt service ratio was compiled. Information from the umbrella organization of Austrian debt counselling agencies states that data on debt service ratio is not collected in Austria. Even though data from clients of debt counselling agencies may allow such an analysis, the bias of the results should be noted. Firstly, debt counselling agencies generally are not able to compile representative data, secondly, only a sub-group of those borrowers is able to service debt and thus debt service can be recorded. This further limits the scope of the results.
Belgium	In Belgium, the National Bank of Belgium calculates the ratio between household debt service and household disposable income and publishes this ratio in the Financial Stability Review. In their analysis the National Bank of Belgium mostly focuses on the debt service burden resulting from mortgage loans. The collection of these data started in 2002.
Bulgaria	In Bulgaria, the debt service ratio is not explicitly stated but data availability allows for the calculation of the ratio. In its tables Household Income, Expenditures and Consumption, the National Statistical Institute provides the total income average per household as well as the time series debt paid out on a monthly basis. These data is available for the years 2002 onwards.
Czech Republic	Even though the Central Bank of the Czech Republic collects data about the ratio between household debt and disposable income of households, there is no data on the debt service ratio to the disposable income of the households available.
Finland	In Finland, on the other hand, Statistics Finland provides information in their National Accounts statistics from which the service ratio could potentially be calculated.
France	In France, studies of over-indebtedness use as their principle indicator the "taux d'effort", which constitutes a measure equivalent to what is being understood with household debt service ratio. It uses as the numerator all monthly payments with regard to debt, i.e. reimbursement as well as due interest payments, and divides those figures by the monthly disposable income for the respective household.
Germany	Germany is one of the sixty countries taking part in a pilot study conducted by the International Monetary Fund for which a chosen set of indicators is meant to assess the stability of the national financial system. The results for Germany were published on the German Federal Bank's (Deutsche Bundesbank) website in December 2006 and include an assessment of the vulnerability of households through the use of flow of funds, sector sheets as well as other macro- and microeconomic data.
	One of the indicators included is the debt service and other principal payments to income, which measures the households' ability to service their debt. It needs to be pointed out that data on the household sector is generated by the compilation of data drawn from the financial and national accounts. As they are secondary statistics, they rely on the correctness and status of information of the primary statistics (such as national financial accounts). Another source of information is the Socio-economic panel (Sozio-oekonomisches Panel, SOEP), which is an annually repeated representative survey conducted by interviewing more than 12,000 households in Germany. Even though the ratio is not explicitly published, existing data on household income and outstanding financial burden (split up into amortization and interests payments on mortgage credit and consumer credit) allows the calculation of the ratio.
	This way of obtaining the needed data on the debt service of households in relation to their income is also possible by using data published in cooperation with the Federal Statistical Office of Germany (Statistisches Bundesamt Deutschland) together with the Statistical Offices of the federal states. The so-called Sample of Income and Consumption (Einkommens- und Verbrauchsstichprobe, EVS) is a quota sample using data of roughly 75,000 households who voluntarily participate in the survey conducted every five years. Data for Germany at present exists for the years 1993, 1998 and 2003 and will again be available in 2008, including numbers on household income and its use on amortization of credit and payment of accrued interests. Hence, calculation of the ratio is possible.

Greece	In Greece, the ratio is calculated by the Bank of Greece and published annually in the Governor's Annual Report. The debt service ratio, in the report referred to as debt service cost ratio, is defined as the ratio of monthly instalments to monthly income (Governor's Annual Report 2005). It is used as an indicator of direct financial stress on the households, therefore thoroughly discussed and illustrated by graphs and tables.
Ireland	In Ireland, the debt service to disposable income ratio is calculated and divides clients of the Money Advice and Budgeting Service (MABS) into four categories by Stuart Stamp. The researcher uses the MABS 2006 client database and aims to compare the nature of over-indebtedness of these groups. The four groups are: clients in receipt of social welfare income only; clients in receipt of social welfare plus other income; clients in receipt of a wage/salary only; clients in receipt of a wage/salary plus other income. Results of the calculations will be available in 2008.
Italy	The Survey on Household Income and Wealth (Indagine sui bilanci delle famiglie) in Italy constitutes a gathering of information on the incomes and savings of Italian households. Distributed to about 300 Italian municipalities, the sample of the most recent surveys compiles data of about 8,000 households or 24,000 individuals. In the 2004 Survey on Household Income and Wealth, data was compiled on the principal and interest payments on the loan with regards to the purchase or renovation of property, thus allowing the calculation of a (specific) debt service ratio.
Lithuania	The Bank of Lithuania reports, that such data is not yet available, but will possibly be collected from next year onwards. However, a household survey covering 293 households allows a calculation of the debt serviceto income ratio with regards to housing loans.
Luxembourg	In Luxemburg, there is no data available on the ratio between debt serviceand disposable income of households. There is also no separate data on the households' disposable income available.
Netherlands	In the Netherlands, on the other hand, the annual Household Survey of the Dutch Central Bank (DNB Household Survey) is conducted by Centerdata, an institute for applied economic research and survey research for the social sciences. In the poll, which comprises the data of around 1,500 households, no data on debt payments of households is collected. Therefore, despite the availability of data on disposable income, the debt service ratio cannot be calculated.
Norway	In Norway, the Central Bank publishes its Financial Stability Report with data on the household debt burden. Hereby, household debt burden is defined as loan debt as a percentage of liquid disposable income adjusted for estimated reinvested dividend payments and thus does not account for aggregate debt payment data. According to information given by the Central Bank, estimations would have to be conducted in order to obtain data on the amortization payments, but that has so far not been done. However, as available data is based upon information from delivered income tax forms, the interest burden is calculated and its average for the years 1987-1993, 1994-2005, 2006 and projections for 2007, 2008 and 2009-2010 are reported in the most recent Financial Stability Report.
Portugal	For Poland, Dawid Zochowski of the National Bank of Poland and Warsaw School of Economics, and Slawomir Zajaczkowski of the National Bank of Poland use data of the Polish Household Budget Survey to define three measures of debt burden before calculating its dispersion in time and distribution among income groups. In their paper, The Distribution and Dispersion of Debt Burden Ratios Among Households in Poland and its Implications for Financial Stability (2006), they address in detail the evaluation of debt service burden in Poland and provide a comparison to other European countries. Hereby, the debt service burden is defined as the ratio of total principal and interest instalments paid by households to disposable income. In the paper, the ratio is calculated and presented for the years 2003 to 2005 and a break-down into total debt service burden (upper bound and lower bound is calculated) as well as the debt service burden with regards to housing loans. No official data is available from the National Bank of Poland on a recurring basis.
	In Portugal, only data on the ratio of household debt to household disposable income can be found. Data on the debt serviceratio of households is not available.
Spain	The Financial Survey of families (Encuesta Financiera de las Familias) in Spain is conducted by the Bank of Spain and provides data on the ratio of household debt payments to gross income. This survey is a new statistic of the Bank of Spain who in 2001 decided to start collecting data on assets, liabilities and socio-economic characteristics of households. Data of the 2004 report is based on the fourth quarter of 2002 and comprises 5,143 valid interviews. According to the Bank of Spain, this is a study to be presented every two years.

Sweden	In Sweden, the Financial Stability Report by the Bank of Sweden contains analyses and assessments, where data on the debt to disposable income ratio is available, a ratio of debt service to disposable income is not calculated. However, the report gives valuable clues on the interest expenditure ratio of private households arising from borrowing. This ratio is defined as post-tax interest expenditure relative to disposable income. The reason for the availability of the interest expenditure ratio (as opposed to the availability of debt service) is the obligation of the financial institutes to deliver the data on the interest payments for tax collection reasons.
United Kingdom	In the United Kingdom, the debt service ratio is calculated by two institutions. The Bank of England hereby makes use of its NMG Survey. Waldron and Young (2006) looked at the proportion of a household income spent on mortgage repayments in the Bank of England Quarterly. The work was commissioned to NMG Research, which looked at a representative sample of 1,844 individuals in 2006 in Britain. Even though conducted annually, it so far only covers the years 2004 and 2005. Only respondents who were chief income earners or main shoppers were asked to take part.

E.3 Court-arranged solutions to debt

Austria	For instance, in *Austria*, bankruptcy proceedings for natural persons who do not operate a business are described as *debt settlement proceedings* (Schuldenregulierungsverfahren). Bankruptcy has to be reported by all private persons who are unable to repay debts in due time. If the procedure is not opened on time with damages for creditors, borrowers are even at risk of becoming subject to criminal procedures. The inability to repay is defined as inability to service debt in due time consider taking into account the general economic situation of the individual. The statistics are collected by the Statistical Office of Austria.
Belgium	In *Belgium*, insolvency implies that a debtor is unable to repay his debts to his creditor(s). There are legal procedures that allow creditors to obtain payment in whole or in part. However, only commercially active people (entrepreneurs) can apply for judicial administration and may be declared bankrupt. For natural persons (non-entrepreneurs), there is a procedure laid down in the Judicial Code. Any borrower can apply for that procedure if he/she is unable to service his debts permanently. The data is collected by the National Bank of Belgium to which the courts send the information.
Czech Republic	In the *Czech Republic*, a new law introduced the concept of personal bankruptcy. This law has only recently been in existence. It implies a legal procedure for handling a situation in which the individual is unable to pay personal debt such as the discharge of debt. The information on bankruptcy is collected by the Ministry of Justice.
Finland	In *Finland*, insolvency describes situations were a debtor is more than temporarily unable to pay his debts. With regard to private individuals, there are procedures for debts adjustments. The procedures are set out in the Act Concerning the Adjustment of Debts of Private Individuals (Velkajärjestelylaki/Lag om skuldsanering för privatpersoner). Statistics Finland publishes statistics on the bankruptcy cases instigated by district courts, which refer to enterprises, corporations or natural persons.
France	In *France*, since 1 March 1990, the Banque de France has provided the secretariat for the household debt commissions, which were created by the Act of 31 December 1989 (amended in 1995, 1998 and 2003). In the loi de lutte contre les exclusions of 29 July 1998, the possibility of a moratorium of debt was introduced. A situation for such a moratorium to be considered would be the case of insolvency – where there is an absence of resources and goods that allows paying back debts. Repayments of debts and interest are then suspended for a 2 year period. The data is collected by the *Banque de France* in the FICP. Finally, an individual bankruptcy procedure is accessible to people whose financial situation is irremediably jeopardized. It is then up to a judge (Juge de l'exécution) to decide whether to allow bankruptcy or not. This procedure has existed since 2003. And social support is possible in theory (Art. L.332-9, Code de la consummation).
Germany	Insolvency of private persons is regulated by the insolvency code (Insolvenzordnung) in *Germany*. Grounds for opening insolvency proceedings are inability to make payment and/or over-indebtedness by the borrower. Inability to make payment exists if a debtor is not in a position to meet the payment obligations which are due (Section 17(2) InsO). Over-indebtedness exists if the debtor's assets no longer cover the existing obligations (see Section 18(2) InsO). Numbers on personal insolvencies are collected by Federal Statistical Office Germany and the Federation of Consumer Organizations.
Ireland	The inability to repay debt is also central in *Ireland's* Bankruptcy law. According to the Act (Bankruptcy proceedings is Section 7(1) (f), a debtor has committed an act of bankruptcy if execution against him has been levied by the seizure of his goods under an order of any court or if a return of no goods has been made by the sheriff or county registrar whether by endorsement on the order or otherwise. Courts Service of Ireland collects administrative data on the number of summonses granted under the 1988 Bankruptcy Act.
Luxembourg	In *Luxembourg* insolvency is defined as a situation where a debtor's liabilities surpass his/her assets. The country has various insolvency proceedings, but one applies to natural persons who are not engaged in commercial activities. The collective debt settlement procedure is open only to insolvent natural persons who are not traders. In these procedures, a repayment plan is developed. The Ministry of Justice collects data on bankruptcy decisions by courts.
Netherlands	The Bankruptcy Act (Wet schuldsanering natuurlijke personen) in the *Netherlands* lays down the procedure of how to deal with over-indebtedness in the Netherlands. In addition, there is the Debt Rescheduling for Natural Persons Act. In the case of bankruptcy the borrower must be in the situation where he/she has ceased to make payments. While the bankruptcy is open to both natural persons and corporate bodies, debt restructuring is only open to natural persons. The statistic called Statistiek WSNP (Wet Schuldensanering Natuurlijke Personen) is an administrative database from courts; a series of complementary data is published in the Monitor WSNP, including additional surveys on the period after debt resettlement.

Norway	In Norway bankruptcy procedures are not typically used by individuals, unless they are owners of firms. Instead, the exit out of severe debt problems is a debt settlement. In Norway the majority of debt settlements are court-arranged solutions, as they come into existence by formal procedures administered by the enforcement officer in the municipalities. Statistics about debt settlements are routinely reported by the Brønnøysund Registry Centre which is a public data bank owned by the Ministry of Trade and Industry. The data can be accessed by most professional organisations and even private individuals, and annual statistics are published by the Ministry of Justice.
Spain	In *Spain*, a debtor is considered to be in a situation of insolvency if he cannot discharge his liabilities on a regular basis. The new Insolvency Law (Law 22/2003 of 9 July 2003) provides for a single legal proceeding for those situations of crisis for a common debtor. Detailed data on bankruptcy declarations is provided by the National Statistical Institute, which offers a break-down into total bankruptcies and the type of company (which includes the necessary data for insolvencies of individuals) as well as the type of bankruptcy (unforeseen, guilty, etc.) At present, data is available up to the third quarter of 2004.
Portugal	In *Portugal*, insolvency is defined as a debtor's inability to meet his commitments as they fall due. Potential insolvencies become so-called actual insolvencies in cases where the debtor applies to the court for a declaration of insolvency (Insolvency Act 2004). Data is collected and published by the Portuguese Ministry of Justice.
Sweden	In *Sweden,* insolvency is defined in the Swedish Bankruptcy Act (1987:672) as being unable to pay one's debts in a proper manner where such inability is not temporary. Persons who are insolvent can be declared bankrupt (*i konkurs*) irrespective of whether they are legal or natural persons. The Statistical Office of Sweden refers to the Swedish Institute of Growth Policy Studies for data on bankruptcies.
United Kingdom	In the *United Kingdom*, characteristics of insolvency procedures and the referring laws have to be examined separately. However, the definition of insolvency is the same for all the countries. It is defined as having insufficient assets to meet all debts, or being unable to pay debts when they are due. This involves the realization and distribution of an individual's assets. People are made bankrupt by the court following an application of a creditor or by individuals themselves. In England and Wales, the applying law is the Insolvency Act of 1986 and data about insolvencies is collected by the Registry Trust Limited, the Department for Constitutional Affairs and the Insolvency Service and is based on administrative data from courts.

E.4 Administrative solutions unrelated to court action

Austria	In Austria, the Debt Report (Schuldenreport) of ASB Schuldnerberatung GmbH provides statistics on persons who are using debt counselling, about median debt recorded, the main characteristics of debtors as well as reasons for falling into over-indebtedness.
Belgium	In Belgium, it is primarily the Credit and Indebtedness Observatory (l'Observatoire du Crédit et de l'Endettement) which centralizes some of the economic, social and legal data on over-committed individuals. However, the institution collects information on debt mediations (médiateurs de dettes) only for the Belgian region of Wallonia. These numbers are currently not available for the other regions. For these numbers, demographic information is collected as well as the amount of debt and information related to work and the family situation. This data is published annually.
Finland	In Finland, there is extensive information on users of credit advice agencies, both from the public body that deals with consumer issues (the Consumer Agency) and from the private organisations that deal with over-indebtedness. In addition, the Guarantee Foundation records calls on their debt-line and once a year publishes data that is included in a report. This line is open for people in financial difficulties. This information is for internal research purposes and thus not disclosed to the public.
France	In France there is extensive data on the number of individuals using the Over-indebtedness Commissions (Commissions du Surendettement). In particular, the Commissions collect annual data on the number of households benefiting from repayment schedules.
Germany	In Germany, there is no systematically collected representative data, although surveys exist that are published by different institutions. For instance, the Verbraucherzentrale Bundesverband publishes the Debt Report (Schuldenreport) together with a number of other associations in debt counselling. This report also includes households that are at risk of becoming overindebted, the monthly disposable income leaves roughly 100 Euro for the household, to keep up with recurring financial obligations.[1] The report provides statistics of indebted and over-indebted households for the years 2000-2005. Other non-profit institutions that collect and publish statistics are the GP-Forschungsgruppe and the Institut fuer Finanzdienstleistungen (IFF). In the past, the GP-Forschungsgruppe has defined over-indebtedness as the case where the income is no longer sufficient to fulfil the current financial obligations after the necessary costs for living has been deducted. It has published several reports (1992, 1997, 1988-1999) on the number of overindebted households in Germany. This is done, by primarily evaluating German debt counselling agencies. The IFF has also published several studies on the subject matter, one the latest ones is using data on persons that have reported to debt advisory associations, because of over-indebtedness (including demographics of overindebted households).
Ireland	In Ireland, the MABS has a computerised system that holds the data on individuals consulting the debt advice agency.
Netherlands	In the Netherlands, the local government-owned agencies for debt counselling collect data on the number of persons assisted with debt-rescheduling plans.
Norway	In *Norway*, as explained in the previous section, most debt settlement procedures are court-based. There also exist non-court based settlements, which are negotiated through economic counsellors at the social security offices. However, there is no regular collection of statistics about the number of cases handled by this system, there only exist occasional surveys on the number of cases by SIFO.
Portugal	In Portugal, the main organization that supports over-indebted consumers is the DECO. This is a private non-profit organization, but it is supported by the Portuguese government. The DECO compiles extensive data on its users, their financial problems and socio-economic characteristics. This data is often used to build indicators of financial difficulties.
UK	The UK is the EU country with the largest number of organisations dealing with over-indebtedness. Therefore a very large quantity of data is available. The NGO Money Trust Agency is currently attempting to establish systematically a list of all the existing data of this type. The Consumer Credit Counselling Service also provides detailed information about people assisted with *Debt Management Plans*.

E.5 Debt write-offs by Creditors

Austria	In Austria, the KSV 1870 collects data on debt write-offs by banks and saves these in its credit register as soon as it receives a report from the creditor.
Belgium	In Belgium, data on the write-offs after completion of the legal procedure, called Règlement collectif des dettes, is published annually.
Bulgaria	In Bulgaria, the Bulgarian National Bank collects information on debt write-offs from trade banks; however, this information is not published and is thus not available to the general public.
Germany	In Germany the SCHUFA collects data on debt write-offs. They collect data on all debts that are considered uncollectible and where the debtor is not asked to repay his/her debt. It is not necessary that the debt be written-off in the balance sheet of the creditor.
Italy	In Italy, the Bank of Italy collects information on gross write-offs of bad loans.
France	In France, the data is collected by the Banque de France, which registers it in the credit register FICP.
Finland	In Finland, Statistics Finland issues data about debt write-offs, including those related to credit card accounts. However, data on individual units may not be disclosed.
Norway	In Norway, the Bank of Norway reports twice a year on loss on loans form Norwegian banks.
Poland	In Poland, the Central Bank annually collects data on specific provisioning against irregular assets. The available data is going back to 1998.
UK	In the UK there exists detailed data on debt write-offs, which is commonly used by policy makers. The Bank of England reports annually on credit write-offs and other revaluations of loans by banks. It also collects data on credit card write offs. This way, over 99% of total bank lending to UK residents is covered.

E.6 Subjective indicators

Austria	Austria, the Debt Report (Schuldenreport) of ASB Schuldnerberatung GmbH provides statistics on persons who use debt counselling, about median debt recorded, the main characteristics of debtors as well as reasons for falling into over-indebtedness. The debt advice agencies define over-indebtedness as the inability to discharge all payment obligations after deduction of current costs of living like expenses for food, clothing, rent and social and cultural needs. The National Bank of Austria conducted a "survey on financial assets of private households", in which people were asked to give facts about their financial situation. Included were questions about whether savings exist and/or if financial resources allowed the households to save. The survey, conducted in 2004, comprised data of 2,556 households, allowing for the break-down into age, education and profession of the head of the household, household size, among others.
Belgium	In Belgium, there is nothing specific besides the EU Survey on Income and Living Conditions (EU-SILC) and a study on the possibility to build indicators on SILC data. In Belgium, it is primarily the Credit and Indebtedness Observatory (l'Observatoire du Crédit et de l'Endettement) which centralizes some of the economic, social and legal data on over-committed individuals. However, the Institute collects information on debt mediations (médiateurs de dettes) only for the Belgian region of Wallonia. These numbers are currently not available for the other regions. For these numbers, demographic information is collected as well as the amount of debt and information related to work and family situation. The data is published annually.
Czech Republic	In the Czech Republic, it is the Czech Statistical Office that collects information in the "Living Conditions Survey." In 2005, it was asked whether consumers have problems in repaying consumer credit. This is the national module of the EU-SILC and covers roughly 4,300 households that are interviewed.
Finland	In Finland, it is the Guarantee Foundation that records calls on their debt-line and once a year publishes data that is included in a report. This line is open for people in financial difficulties. The information is for internal research purposes only and is therefore not disclosed to the public. Statistics Finland records the number of households whose debts exceed their ability to repay. This is based upon household interviews and data from administrative registers. This kind of survey last took place in 2001-2002 with data available as of the beginning of 2003 and is currently being conducted again. The data from the 2006 survey will be ready at the end of 2007.
Germany	In Germany, there is no systematically collected representative data, although surveys exist that are published by different institutions. For instance, the Verbraucherzentrale Bundesverband publishes the Debt Report (Schuldenreport) together with a number of other associations in debt counselling. This report also includes households that are at risk of becoming overindebted, the monthly disposable income leaves roughly 100 Euro for the household, to keep up with recurring financial obligations.[1] The report provides statistics of indebted and over-indebted households for the years 2000-2005. Other non-profit institutions that collect and publish statistics are the GP-Forschungsgruppe and the Institut fuer Finanzdienstleistungen (IFF). In the past, the GP-Forschungsgruppe has defined over-indebtedness as the case where the income is no longer sufficient to fulfil the current financial obligations after the necessary costs for living has been deducted. It has published several reports (1992, 1997, 1988-1999) on the number of overindebted households in Germany. This is done, by primarily evaluating German debt counselling agencies. The IFF has also published several studies on the subject matter, one the latest ones is using data on persons that have reported to debt advisory associations, because of over-indebtedness (including demographics of overindebted households).
France	In France, the Household Indebtedness Observatory (Observatoire de l'endettement des ménages) of the French Banking Federation collects information via questionnaires from households on replies where they state that repayment of credit is "really too heavy.".
Greece	There are two large scale surveys in Greece, which provide insights into the extent of financial difficulties. The first is a survey done on behalf of the Bank of Greece, which was initiated in 2002 and repeated in 2005 (with no provision of being regularly repeated). These numbers are published in the Report of the Governor of the Bank of Greece. The National Statistical Service of Greece conducted a survey in 2004 with revised figures presented in 2005 on indicators of social exclusion, where it also asked the question as to whether households have difficulties in financing their debt.
Ireland	In Ireland, the Central Statistics Office (CSO) is the main statistical agency. The CSO carries out the EU-SILC Survey which examines the number of people who have got into debt for ordinary living expenses in the previous 12 months. The Economic and Social Research Institute (ESRI), on the other hand, is an institution that focuses on Ireland's economic and social development. ESRI carries out an annual Consumer Survey which asks people about the types of debt they have, the amounts they owe and whether they consider the debt to be a burden to their household. The data is used to construct the IIB Bank/ESRI Consumer Sentiment Index and by the Commission as input for the construction of its EU-15 Consumer Confidence Indicator.

Italy	In Italy, self-reporting is also recorded. For instance, the Bank of Italy reports data from the Survey on Households Income and Wealth (SHIW).[2] The data is provided every two years and a sample used in the most recent surveys (2004) covers 8,012 families. Closely related is question C29 of the SHIW Questionnaire about the present financial situation.[3] Consumers Associations offer some kind of advice services to persons in financial difficulties, and produce brochures to disseminate information concerning how to deal with banks and how to properly face the problems linked to banking relationships and over-commitments. The most active are Adiconsum, Altroconsumo and Movimento dei Consumatori.
Lithuania	In Lithuania, data is not published periodically, only conclusions are presented. It was found that FNS Gallup, a company focusing on media research, advertising monitoring and media intelligence, occasionally surveys the population with regards to debt and financial commitment. The results, broken down by gender and age, cannot be considered hard statistics. However, conclusions drawn are published and presented in newspapers and on the internet. The consumer survey of the "Department of Statistics to the Government of the Republic of Lithuania" gives some insight into the subjectively felt financial situation of households. In this survey, 1,200 respondents (with a minimum age of 16) are interviewed each month, being asked 12 questions plus an additional 3 questions each quarter, to which one of five possible answers has to be given ("fairly better", "better", "neutral", "worse", "markedly worse"). This allows for an evaluation of the financial situation of households as well as the construction of a consumer confidence index. The reason for scarce data provision on subjective measures of over-indebtedness is that debt advice centres – where data could easily be obtained through personal interviews – do not (yet) exist in Lithuania, as the State does not (yet) finance such agencies due to the lack of corresponding legal provisions.
Luxembourg	In Luxembourg, the "Socio-economic Panel Life in Luxembourg" constitutes a representative survey of households in Luxemburg carried out by the Centre for Population, Poverty and Socio-Economic Policy Studies (Centre d'Etudes de Populations, de Pauvreté et de Politiques Socio-Economiques, CEPS) and the International Network for Studies in Technology, Environment, Alternatives, Development (INSTEAD) in cooperation with Statistics Luxembourg (STATEC). It started in 2003 in compliance with the set up of the EU-SILC survey and will be conducted every year. The respondents – 3,500 households comprising 9,500 individuals – are asked to answer questions relating to their monthly resources and the resulting difficulties in making ends meet.
Netherlands	Statistics Netherlands annually publishes the results of its "Survey of the Economic Situation of Households" (Consumenten Conjunctuur Onderzoek), for which statistics on the economic and financial situation of households, drawn out of interviews of 1,000 households each month, are presented. One of the questions aims to gain insight into the number of low-income households which claim to borrow in order to make ends meet. A follow up question then tries to evaluate the severity of the situation by having the respondents choose to characterize their ability to make ends meet as either "difficult" or "very difficult".
Norway	In Norway, the non-bias governmental institute "National Institute of Consumer Research" (SIFO) conducts the SIFO survey, which is intended to be run every year.[4] The self-proclaimed central theme of the survey within the area of consumer economy is debt problems of households and there ability to meet unforeseen expenses. In order to provide for a valuable evaluation, the data are broken down into age, income, education, family type and employment.
Poland	In Poland, there are three major surveys covering subjective over-indebtedness. The University of Finance and Management in Warsaw asks a sample of 3,000 households to give information about their financial situation and measures their income, debts, savings etc. The survey is repeated every two years. The PBS social research agency interviewed 1,030 persons what kind of financial products they use, in what situations they take loans, how many outstanding loans they have, the purpose the money was borrowed for and the level of their liabilities. Additionally, The Taylor Nelson Sofres PLC research group asked 972 persons to report on their financial liabilities, the level of the liabilities, the purpose the money was borrowed for and the institution that it was borrowed from (2004).
Spain	In Spain, the Bank of Spain reports data from the Survey on Households Income and Wealth (SHIW), which is provided every two years and covered 5,143 interviews in 2002. With regards to the financial situation of the household several questions were asked, e.g. whether the household had financial difficulties which resulted in a delay of the payment of any of their debts over the last year (question C29), with possible answers being "yes", "no" and "no debt". Furthermore, question 12.6 was aimed at gaining insight into how households make ends meet with the six possible answers ranging from "with a lot of difficulties" to "very easily". In addition, questions with regard to whether some money was saved or if larger-scale purchases could currently be undertaken in order to try to deepen the analysis.
Sweden	In Sweden, the Statistics Sweden (SCB) provides the so-called HEK-Survey, a detailed annual survey of the household sector with data on income, debt and wealth. The survey is based on an administrative register – information collected from government bodies responsible for income transfers and taxation. Furthermore, approximately half of the participating households are selected for interviews.

United Kingdom	In the United Kingdom, a number of surveys are used for mapping financial difficulties. The Institute for Social and Economic Research at Essex University undertakes the British Household Panel Survey (BHPS) which covers 10,000 households in England, Scotland and Wales. Northern Ireland has had its own separate panel survey since 2001. Every five years the BHPS covers difficulties in payments, the credit payment burden and the burden of secured and unsecured borrowing repayments. The Bank of England has commissioned NMG to undertake ad hoc surveys asking whether unsecured borrowing is a burden and reporting the percentage of people replying that their debts are a heavy burden and/or somewhat a burden. The Wealth and Assets Survey, by the Office for National Statistics, collects information about going into insolvency, arrears on any payments, whether borrowing or household bills, including the number of months in arrears. It also includes information on amounts of all mortgage and non mortgage borrowing. The sample will be base on 32,000 households in wave one (2 years). No data is yet available. Furthermore, the Government has commissioned the National Centre for Social Research to carry out the Survey of English Housing which includes questions on difficulties with mortgage repayments and with rent. With the subjective answers given, the Bank of England calculates the percentage of owners with mortgage repayment difficulties. This survey is repeated annually.

Table 2
Overview of insolvency/bankruptcy laws for individuals in 19 countries

Country	Law	Year
Austria	Konkursordnung (zum Privatkonkurs)	1995
Belgium	Loi sur le règlement collectif des dettes	1998/2004
Bulgaria	There exists no law for individual bankruptcies	
Czech Republic	There exists no law for individual bankruptcies	
Finland	Act on the Adjustment of the Debts of a Private Individual	1993
France	Loi sur le surendettement	1989
Germany	Insolvenzordnung	1994
Greece	There exists no law for individual bankruptcies	
Ireland	Bankruptcy Act	1988
Italy	There exists no law for individual bankruptcies	
Lithuania	There exists no law for individual bankruptcies	
Luxemburg	Loi la prévention du surendettement; Civil Procedure Code	2000
Netherlands	Bankruptcy Act (Faillissementswet)	1896
Norway	Consumer Bankruptcy Act	1992
Poland	There exists no law for individual bankruptcies	
Portugal	Insolvency Act	2004
Spain	Insolvency Act	2003
Sweden	Skuldssaneringslag	1994
United Kingdom	Insolvency Act	1986

Appendix F: Recommendation CM/Rec (2007) 8 of the Committee of Ministers to member states on legal solutions to debt problems

(Adopted by the Committee of Ministers on 20 June 2007 at the 999bis meeting of the Ministers' Deputies)

The Committee of Ministers, under the terms of Article 15.*b* of the Statute of the Council of Europe,

Acknowledging that member states have entered an era where the use of credit has become an essential part of their economies;

Taking into account that the development of the consumer credit market can be beneficial both for the economic growth of member states and for the well-being of individuals;

Noting that although in the majority of cases credit contracts operate without difficulty, increased lending leads to increased debt problems and, in some cases, to over-indebtedness;

Bearing in mind that over-indebtedness of individuals and families has become an increasingly widespread problem in most member states, which frequently leads to social and health problems and social exclusion of families and may put children's basic needs at risk;

Stressing the responsibility of member states for the effects of their economic and social policies;

Agreeing upon the utmost importance of political, legal and practical measures which the governments of member states should adopt in order to prevent and solve debt problems effectively;

Underlining the need to strike a balance between the legitimate interests of creditors and the basic rights of debtors;

Taking into account Resolution No. 1 on seeking legal solutions to debt problems in a credit society, adopted by the European Ministers of Justice at their 26th Conference (2005);

Recalling Recommendation Rec(2003)17 of the Committee of Ministers to member states on enforcement;

Bearing in mind other work carried out at a European level concerning the settlement of disputes between creditors and debtors, Recommends that the governments of the member states, when formulating their internal legislation and practice and when seeking legal solutions to debt problems and to over-indebtedness:

1. note that for the purposes of this recommendation over-indebtedness means, but is not limited to, the situation where the debt burden of an individual or a family manifestly and/or on a long-term basis exceeds the repayment capacity;

2. aim to prevent over-indebtedness of individuals and families in particular by:

   a. collecting information and statistics on debt problems and analysing the situation of over-indebted individuals and families in their countries;

   b. introducing and developing financial literacy on the rights of consumers in general, and budget management in particular, as part of the national education system;

   c. effective access to impartial financial, social and legal advice and counselling to those who have problems with and questions about their debts;

   d. providing the necessary measures and regulations to ensure responsible practices during all phases of the credit relationship including marketing of credit as well as the collection and use of credit data and other financial information;

   e. safeguarding the rights of the guarantors to information as well as preventing the irresponsible use of guarantees;

3. take appropriate measures to alleviate the effects of the recovery of debt in particular by:

   a. ensuring an efficient and unbiased enforcement system as well as appropriate legislation, which defines the powers of enforcement agents;

   b. respecting the debtor’s rights and human dignity at all stages of debt collection and debt enforcement procedures without infringing the rights of creditors;

c. introducing enforcement alleviation procedures, including the protection of the essential assets of the debtor and garnishment of part of his/her revenue, which take into account the need to strike a balance between the protection of at least the basic living needs of the debtor and his/her family and the efficiency of debt recovery;

d. ensuring the rights of the guarantors of the debtor at all stages of debt enforcement procedure, including, as far as possible, the right to treatment equal to that accorded to the debtor;

e. facilitating the recognition and enforcement in member states of payment judgments and repayment plans emanating from the competent authorities in other member states;

4. introduce mechanisms necessary to facilitate rehabilitation of over-indebted individuals and families and their reintegration into society in particular by:

a. ensuring that debtors have effective access to impartial advice and to debt adjustment in accordance with the criteria established by national law;

b. ensuring that payment plans in debt adjustment are reasonable, in accordance with national practices, both in repayment obligations and in duration;

c. ensuring that debt adjustment covers all debts, excluding only those covered by special waivers provided under national law;

d. establishing mechanisms for extra-judicial settlements and encouraging such settlements between the debtor and creditor;

e. effectively limiting the means of creditors to hinder debt settlements unreasonably;

f. encouraging effective financial and social inclusion of over-indebted individuals and families, in particular by promoting their access to the labour market;

g. encouraging the active participation of the debtor in debt settlement and, where necessary, counselling and advice following the debt settlement;

h. allowing partial or total discharge of the debts of individuals and, where applicable, families in cases of over-indebtedness where other measures have proved to be ineffective, with a view to providing them with a new opportunity for engaging in economic and social activities;

5. facilitate the implementation of this recommendation in particular by:

a. setting up policies relating to debt management and to treatment of over-indebted individuals and families and ensuring uniformity of such policies;

b. ensuring effective co-operation between the competent bodies and professionals involved in the prevention of over-indebtedness, the alleviation of the effects of the recovery of debts and the rehabilitation of over-indebted individuals and families;

c. setting up debt advice, counselling and mediation mechanisms, as well as ensuring, or at least encouraging, effective participation of lending institutions and other public and private creditors in implementing national policies for debt management;

d. ensuring appropriate quality standards and impartiality of the services provided by the responsible bodies and professionals as well as effective mechanisms for controlling these standards;

e. providing easy access to information about consumer rights, which should be readily understood by the general public.