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OBSERVATOIRE DE L'ÉPARGNE EUROPÉENNE



**Towards a common operational European definition of over-indebtedness
Promoting financial inclusion for all in the European Union**

Brussels, Hotel Bedford, 11 December 2007

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Policies to tackle over-indebtedness

Countries vary widely in extent to which over-indebtedness is recognised and debated

- I. **Wide ranging debate and policy responses, following 1990s recession**
- II. **Some policy interest, but no major legal reform and few measures to prevent over-indebtedness**
- III. **Only just beginning to recognise the issue**

Six key building blocks for a comprehensive policy response to over-indebtedness

Preventing over-indebtedness

- Responsible lending
- Responsible borrowing and money management
- Responsible arrears management

Alleviating over-indebtedness and rehabilitating

- Debt-counselling services
- Holistic judicial processes
- Non-judicial (amicable) processes

Responsible lending

Most countries have legislation on responsible lending

- **EC Consumer Credit Directive**
- **Monitoring compliance and sanctions important**

Credit reporting underpins responsible lending

Other responses include:

- **Interest rate ceilings**
- **Affordable credit and**
- **Tackling illegal lending**

Responsible borrowing and money management

Financial capability, budgeting and money management can be improved through information; education & advice

Provision highly variable across countries

Best practice, ensures that skills are developed amongst:

- Young people still in school
- The general population
- Those in difficulties, in order to prevent further problems

Responsible arrears management

Creditors can help to prevent over-indebtedness by:

- **Providing appropriate payment methods**
- **Contacting defaulters at the first sign of arrears**
- **Keeping procedures and systems flexible**
- **Negotiating repayment plans**

Again provision highly variable across countries

Best practice:

- **Enforceable provision with compliance monitored**
- **Protection of dignity and minimum living standards**

Debt advice and counselling services

Relatively common, but better-developed in some countries

Primary focus is resolution of financial difficulties

- Some preventative work
- Access to ancillary services

Provided free of charge by not-for-profit or public bodies

Best practice:

- Adequate funding or legal duty to provide
- Quality ensured by certification/accreditation

Judicial processes, including bankruptcy

Holistic judicial debt settlement in many countries

- Ensures efficient and humane debt resolution
- **Best practice:**
 - Unrestricted access for most debtors
 - Compulsion on lenders to participate
 - Realistic payment levels
 - Time limit on repayment schedule
 - Link to preventative measures for rehabilitation

Personal bankruptcy provisions in most countries

- **Best practice:**
 - No fault provisions

Non-judicial procedures for debt settlement

A successful alternative to the court process, provided in a minority of countries

Advantages over judicial proceedings:

- **Less costly**
- **Can avoid adverse credit record from court judgement**

Best practice:

- **Unrestricted access for most debtors**
- **Realistic payment levels and time limit on repayments**
- **Link to preventative measures for rehabilitation**
- **Under-pinned by referral to judge if needed**

Both debates and policy responses vary widely

Six key building blocks for a comprehensive response:

Preventing over-indebtedness

Responsible lending

Responsible borrowing and money management

Responsible arrears management

Alleviating over-indebtedness and rehabilitating

Debt-counselling services

Holistic judicial processes

Non-judicial (amicable) processes

Still much to be done

Preventative policies much less developed

Need overall policies for tackling over-indebtedness