



Main results of the study on households' over-indebtedness

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Objectives of the study

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



Information sources

Main sources on households' over-indebtedness:

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

Surveys specifically carried out for this study:

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

Definition

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

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

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

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



Level of over-indebtedness

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

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

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

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

Types of over-indebted households

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

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

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

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

Causes (1)

We identified two broad categories of causes among the drivers of households over-indebtedness:

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

Exogenous causes seem more prominent than endogenous ones.

9 out of 10 respondents think that macro-economic factors are among the most important causes of financial difficulties. In addition, higher unemployment is associated with high arrears, while increases in disposable income are associated with lower frequencies of arrears.



Causes (2)

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

The use of consumer credit is positively associated with the likelihood of arrears, in particular arrears on utility bills.

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

In contrast, the frequency of arrears is much less linked to the absolute level of debt.

No simple direct relationship between the levels of mortgage credit and the levels of arrears.



Cultural attitudes

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

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

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

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



Consequences

Consequences for individual households impact their personal welfare and are often considered as punitive:

Reduced standard of living, social stigma and exclusion, deteriorating health and well-being, relationship difficulty or breakdown, sanctions for non-payment, housing exclusion, financial exclusion, reduced labour market activity.

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

But the consequences have a broader impact on society (impact on overall demand, social cohesion, etc.).



Prevention

The following measures were listed by the stakeholders:

- Early identification of households at risk.
- Requiring lenders to comply with responsible lending provisions (e.g. from the Consumer Credit Directive and from national provisions).
- Financial education and responsible borrowing to prevent poor financial choices which might contribute to over-indebtedness.

Measures to alleviate the impact

- **Debt advice** is considered quite effective (research from the NL found that one euro invested in debt-advice means a saving of 3 euros of losses for the society). Unfortunately not equally common in the EU (better developed and more widely available in EU15 than EU12).
- **Informally brokered arrangements** are available in most Member States but vary from case to case and between Member States.
- **Formal out-of-court debt settlement** procedures are less common and may differ substantially between Member States.
- **Court-based** consumer insolvency procedures formally available in several Member States. But some specific legal tools for the discharge of debts, such as the "personal bankruptcy" or the "datio in solutum" available in a few EU Member States only.
- **Direct financial support** for households is reported as relatively rare.



Thank you for your attention