



Debt advice – what we learned so far and what we are considering to do

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Our study on households' overindebtedness of 2012-2013 – the first cornerstone

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

Main objectives/sections of the 2013 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

Most significant findings of the study – 1 -

The study provided us with significant conclusions; among these, the most relevant ones for debt-advice were as follows:

- in the **definition** of overindebtedness **all types of financial commitments** (e.g. bills or the need to make ends meet) **must be considered**, not only financial debts;
- on the **causes**, although the direct responsibility of the households is often decisive, in most cases overindebtedness is due to **economic difficulties and/or (unfortunate) events in life**;
- "**moral hazard**" seems to be little or negligible – on the contrary, most consumers struggle to repay their debts until this is possible;

Most significant findings of the study – 2 -

- one of the worst consequences for the overindebted households is **financial exclusion**, not only for their (private) life but also due to their reduced capacity to contribute to the economy of the society;
- the **cultural attitudes** are decisive, both to avoid falling into a debt trap and to be able to financially recover effectively if problems arise. In particular, **being debt-free** seems to be key to avoid overindebtedness;
- on remedies, **debt advice is considered amongst the most promising tools** (for example, research from the NL found that 1€ invested in debt-advice means a saving of 3€ of losses for society).

Seminar (January 2013) – availability of debt-advice

The most discussed topic of the 2013 Seminar as regards debt-advice was its availability. Overall, it emerged that **the offer of debt-advice is very different all across the EU.**

- In certain countries debt advice services are available both **free-of-charge**, through local/public authorities, NGOs, Charities and consumer organisations, or also **through paid operators** (e.g. lawyers or financial advisers).
- However, in some other countries or regions, **these services are under-developed** and in practice hardly available.
- In all cases, **funding resulted a key element** of the availability of debt-advice.

Main conclusions of the debate on debt-advice held in the Consumer Summit of June 2015 – 1 -

On the **definition of debt-advice**, the starting point was that debt-advice is a support for overindebted households to repay their debts and have a second chance; however, from the debate, **other important elements came out**.

Firstly, consumer representatives underlined that, in the work of debt-advisors, the **focus should be on the debtor**, although the impact of good debt-advice may be very positive also for creditors.

As a result, their role might be different (and lead to different choices) than that of other experts, whose aim is to provide the solution(s) aimed at facilitating the **resolution** of the debts.

Main conclusions of the debate on debt-advice held in the Consumer Summit of June 2015 – 2 -

Moreover, **a personalised approach to debt advice was considered to be more effective than a standardised one.** For example, research stresses that while a standardised debt-advice has a success rate of only 30%, personalised debt-advice has a success rate of 70%.

Also **banks' representatives agreed** on this point.

In addition, the notion of "**amicable**" **debt-advice** was discussed. Debt-advice is "amicable" when it reconciles the seemingly contradictory aims of all the different stakeholders involved while taking care of the dignity of the debtor.

Main conclusions of the debate on debt-advice held at the Consumer Summit of June 2015 – 3 -

One of the assumptions of an amicable debt-advice is that it is key to clarify to what extent overindebted households can reimburse their debts **while maintaining a decent level of life.**

In the light of the principles mentioned above, the discussion emphasised that **debt-advice is (only) appropriate** for those **households who are in arrears but are still at least partially solvent.**

Once a household is no longer solvent, debt advice should be replaced by the insolvency proceedings.

Main conclusions of the debate on debt-advice held at the Consumer Summit of June 2015 – 4 -

The three main conclusions of the 2015 Workshop concerned therefore:

- 1 – A **possible (innovative) definition of debt advice** (information and support to households in arrears but still at least partially solvent);
- 2 – The **effectiveness of the personalised (and the amicable) debt advice** for the households concerned and the society, as opposed to the standardised debt advice;
- 3 – The **great diversity** of the way debt advice is provided in the EU, in terms of actors (public authorities, NGOs, Charities, consumer organisations, private for profit entities and more) as well as funding, services provided and their impact.

Main conclusions of the debate on debt-advice held at the Consumer Summit of June 2015 – 5 -

As a result, the **three main recommendations** arising from the debate may be summarised as:

- 1 – Need **of additional data and research** on the economic and social impact of debt advice;
- 2 - Need to **involve all stakeholders** in the debt advice process (to ensure it is effective and "amicable");
- 3 – Need to **develop innovative sources of funding** to address the current rising demand.

Follow up of the Commission

In light of the above, DG Justice and Consumers has decided to **consult the relevant stakeholders**, exploring different options to improve our knowledge in this area.

This reflection, focused on the need to help households to avoid any debt-trap, is part of a broader consultation process, based on the **Green Paper on Retail Financial Services**, and concerns also other topics, such as creditworthiness assessment, insolvency and the adaptation of the consumer protection rules to the digitalised financial services market.

Some relevant measures might be part of the **Action Plan** which the Commission is likely to publish in **early 2017**. To this effect, we are happy to listen to your suggestions and opinions.

Thank you for your attention