

CLIENT REPORT OF 2017 – A SUMMARY

This paper contains an English resume of The Social Legal Aids Client Report of 2017. The report creates and overview of the debt held by an outtake of the clients at TSLA. The paper contains data on 478 clients whose cases at TSLA were ended in 2017.

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Can be found at: socialeretshjaelp.dk

Year: 2019



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1 - Target Group

The data in this report comes from DSRF's own clients, which means that all clients are either socially vulnerable or have an income that causes them to fall below the income threshold for free process.

The 478 socially vulnerable citizens included in the report are distributed over 141 different postal codes across Denmark: from Jerup in Northern Jutland to Padborg in Southern Jutland; from Esbjerg in as countless small towns. In short, they come from all over the country.

The majority (73%) of the clients is men, they usually live for rent in general housing and the vast majority (72%) are on public support. Only 11% of the report's 478 clients in 2017 had a full-time job. Likewise, most of the clients were single and without children living at home, which may be because the citizen has been in such a difficult life situation that the contact with the children has been lost.

2 – Analysis

The 478 clients of the report had, a total debt of approx. € 34,4 mill.. This corresponds to an average debt of € 72.010 per debtor. For a "normal" person who has taken out loans for both a car and a home, this does not sound like much, but if you take our target group, the socially vulnerable, into consideration, of € 72.010 is a lot of money. In addition, it is important to keep in mind that the clients rarely have any assets; they do not have an expensive car, their own house/apartment or other expensive property that they can sell to pay off their debts. The debt is divided into 4,371 different debit items, which means that each client has an average of 9.1 debit items.

Table 1 – Debt distributed between public and private creditors

Creditors	Debt Sum €	Debt sum %	Debit items	Debit Items %	Average value of debit items €
Public	20.021.788	58,2	1.060	24,2	18.923
Private	14.398.904	41,8	3.311	75,8	4.349
Total	34.420.692	100	4.371	100	N/A

Based on our calculations, DSRF's clients owe approx. € 20 mill. to public creditors. This corresponds to 58.2 percent of clients' total debt of € 34,4 mill.. The debt to the public creditors is divided into 1060 different debt items, corresponding to 24.2 percent of the total number of debt items. The debt to the public has an average value of € 18.923. The debt to the private creditors is approx. € 14,4 mill.. This corresponds to 41.8 percent of the total debt of € 34,4 mill.. This debt is divided into 3,311 debt items corresponding to 75.8 percent of the total number of debt items, which gives an average value of € 4.349 per debt items.

In the analysis, we will first introduce you to the citizens' debt to the public creditors, where the

analysis shows that SKAT is the largest of the public creditors. Next, the analysis will start with the distribution of the debt to the private creditors, where we will demonstrate that the secured and unsecured loans from banks and banking licensed companies account for the majority of the citizens' debts to private creditors.

2.1 Public Creditors

In this section, we will review the distribution of the debt items with the public creditors. The public creditors are divided into the categories: (1) Udbetaling Danmark, (2) SKAT, (3) Municipalities, (4) Police and (5) Other public creditors, including among other things transport, SU, license etc..

Table 2 – Debt Distributed between public creditors

Creditors	Debt Sum €	Debt sum %	Debit items	Debit Items %	Average value of debit items €
<i>Udbetaling Danmark</i> ¹	991.400	5	117	11,0	8.473
<i>SKAT</i> ²	16.157.459	80,7	352	33,2	45.901
<i>Municipalities</i>	524.853	2,6	270	25,5	1.944
<i>Police</i>	1.601.790	8	121	11,4	13.238
<i>Other Public Creditors</i>	746.286	3,7	200	18,9	3.730
Total	20.021.788	100	1060	100	N/A

The largest public creditor among DSRF's clients in 2017 was SKAT, who accounted for €16,2 mill., corresponding to 80.7 percent of the total debt to the public, as shown in Table 1. Some of this may be due to the fact that many of the other public debt items are sent for recovery at SKAT after a given period of time, if the original public authority has failed to recover the debt. At SKAT, our clients have a total of 352 debt items corresponding to 33.2 percent of the total number of debt items to the public sector. This means that our clients on average owed € 45.901 per debt item to SKAT.

The clients' second largest debt item to the public totalled € 1,6 mill., corresponding to 8 percent. This debt obligation sum was for the police and covers fines, but also court costs. At the police there are 121 of the debt items to the public, corresponding to 11.4 percent. On average, the clients owed € 13.238 per debt item to the Police. These have been built up in the lawsuits that have been brought against those who are

¹ A Danish authority whose task it is to disburse a number of public payments to the people.

² The Danish tax Authority.

in prison now and those who have been in prison and who have now been released and are trying to live a normal life, but have difficulties doing so because they owe approx. € 13.000 to the state for their legal costs.

The clients owe approx. € 990.000 to Udbetaling Danmark. This is approx. 5 percent of the public debt. In addition, it can be seen that the clients with debt to Udbetaling Danmark have 117 debt items, which corresponds to 11 percent of the total number of debt items. The average debt to Udbetaling Danmark was € 8.473 per debt item. Debt to Udbetaling Danmark comes from overpaid housing support and non-payment of child support.

To the municipalities, the clients owe approx. € 525.000; which corresponds to 2.6 percent of the debt obligation to the public sector. These are expenses that come from e.g. deposit loans, library fines or payment of stays at municipal institutions. The municipalities accounted for 270 of the debt items to the public, corresponding to approx. 25.5 percent. It averaged € 1.944 per debt item.

Finally, the clients owe €746.000 to Other public creditors, this corresponds to 3.7 percent. This covers e.g. unpaid license, SU loans and bus fines. These are divided into 200 different debt items, which gives an average value of €3.730 per debt item. Here, the bus fines are probably at the lower end, while the SU loans are at the higher end.

2.2 Private Creditors

The majority of our clients' debts are to the public creditors, which may be due to SKAT's problems in recovering the debt due to errors in the EFI recovery system. Nevertheless, in the report, we have placed the emphasis on the credit to private creditors. This is because there is often great political and media focus on debt to private creditors. In the report, the private creditors are divided into eight categories:

- 1) Fast, unsecured consumer and payday loans, from e.g. vivus.dk, turbolån.dk, Netkredit, GoKredit, kvikau-tomaten.dk, Ferratum, SMS-quick loans etc. that are members of the Danish Credit Council.
- 2) Secured and unsecured bank loans. This includes individual mortgage loans, ordinary consumer loans, car loans admitted to both banks and companies with a banking license, etc.
- 3) Quick Consumption Loans and Loans Issued by Banks and Businesses with Banking Licenses. For example, 'SparXpress', 'EkspressBank', 'ResursBank', 'BasisBank' and their subcontractors (such as LånLet), 'Santander Consumer Bank', 'Norwegian GE Money Bank', 'AvartoFinance', various card issuers with the possibility of quick credit such as 'Remember', 'AcceptCard', 'EnterCard' and others.
- 4) Other uncertain consumer and payday loans covering all the payday loans issued by non-bank merchants that are not members of the Danish Credit Council.
- 5) Leasing and installment companies such as D:E:R and L'Easy
- 6) Overdue bills for transport, various subscriptions (e.g. magazines, fitness membership etc.), dental bills etc.
- 7) Overdue bills for insurance companies

8) Overdue bills for mobile, TV and Internet subscriptions.

Our clients' debt obligations to the private creditors generally fall into two categories: (1) Different consumer loans issued by digital loan providers, banks and banking licensed companies. These debt obligations account for 54% of clients' debt to the private creditors, which corresponds to approx. € 7,8 mill.. (2) Overdue bills in connection with fines, subscriptions, mobile and internet subscriptions or insurance agreements and leasing / instalment agreements – i.e. debt obligations in connection with the purchase of products. These account for 20.2% of clients' debt to private creditors. For the remaining c. 4% of debt the debt, it has not been possible to identify the original creditor. Of the 3 % that leasing and instalment accounts for in the debt obligation to the private creditors, D.E.R. and L'Easey accounts for approx. 76 %. This means that L'Easy and D:E:R together account for just over 2% of total debt to private creditors. This shows that we work with citizens who often do not have the resources to oversee their small bills and commitments that pile up.

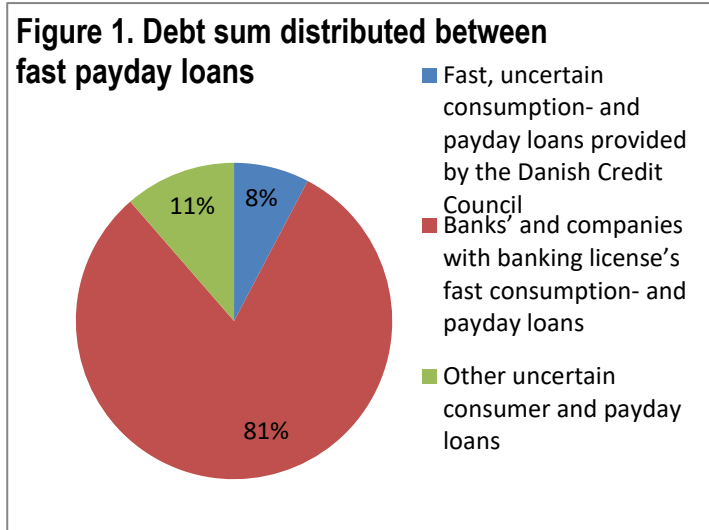
Table 3 - Debt Distributed between private creditors		
Creditors	Debt Sum €	Debt sum %
Loans for Consumption		
<i>Fast, uncertain consumption- and payday loans provided by the Danish Credit Council</i>	117.104	0,8
<i>Banks' and companies with banking license's fast consumption- and payday loans</i>	1.229.803	8,5
<i>Secured and no secured bank loans^{3 4}</i>	6.264.077	43,5
<i>Other uncertain consumer and payday loans</i>	173.138	1,2
Total	7.784.120	54
Forfaldne regninger på diverse købsprodukter		
<i>Leasing and instalment</i>	425.957	3
<i>Overdue bills for subscriptions, transport-fines etc.</i>	1.581.075	11
<i>Insurance</i>	392.742	2,7
<i>TV/Internet/cell phone-bills</i>	506.470	3,5
Total⁵	2.906.244	20,2

³ We have chosen to remove an outlier, one client owing c. € 3,1 mil. on a single debt item.

⁴ Also contains companies with a banking license.

⁵ We have chosen to remove c. € 510.000, c. 3,6 % from the data; this is because we have not been able to track the original creditor.

2.2.1 Debt due to Quick Loans



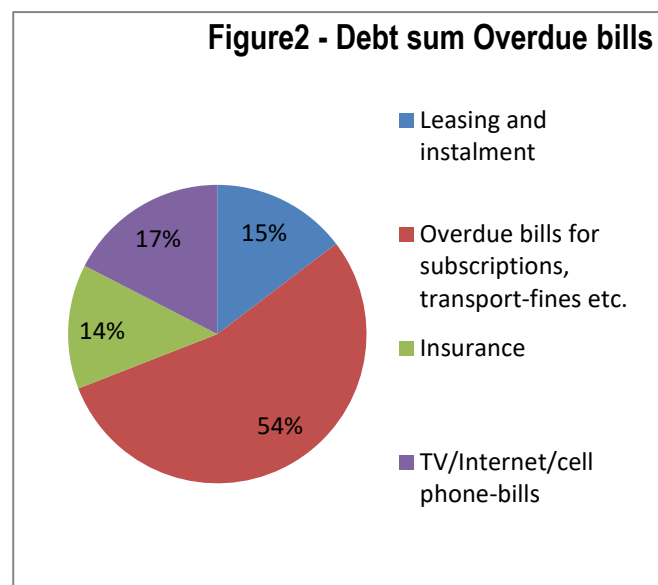
Of DSRF's clients' total debt to private creditors in 2017, 10.5% of the debt was to providers of fast digital consumption and payday loans corresponding to approx. € 1,5 mill. (see Table 3). Fast, digital consumer loans thus constitute a significant part of the debt of DSRF's clients' - but significantly less than the debt to the secured and unsecured bank loans. As shown in Table 3, the € 1,5 mill. is even less than the debt to overdue bills, which is just under € 1,6 mill.. Figure 1 shows the

distribution of the € 1,5 mill., collectively held by the "Digital loans under the Danish Credit Council", the "Other unsecured consumer and payday loans" and "Banks' quick consumption and payday loans".

Looking only at the type of fast consumer loan, which is currently the subject of public debate, among other things in connection with the introduction of a 48 hour period of consideration, and DR1's documentary series "The Kings of Payday Loans" - the "Fast, unsecured consumer and quick loans under Danish credit council" and "Other uncertain consumer and quick loans" - it is worth noting that these cf. Table 3 hold a total of approx. 2% of the clients' total debt to the private creditors - and, according to Figure 1, 19% of the clients' debt in payday loans. The vast majority, 81%, cf. Figure 1, of the fast consumption and payday loans are issued by banks and companies with a banking license such as SparXpress, Ekspress Bank and their like.

2.2.2 Debt due to Consumption

20.2% of DSRF's client's debt to private creditors has built up in connection with the purchase of various products, including subscriptions and overdue bills (see Table 3). In other words, there is a lack of payment in connection with the purchase of a product. Here, in particular, various overdue bills for transport, fitness subscriptions, lease subscriptions and other, make up the largest share of 54%. Lack of payments to housing companies, bills for TV, internet and mobile subscriptions as well as bills for insurance companies take up a large portion too. This shows that our clients have extensive and consistent debt problems - from large and expensive debt items such as bank loans and payday loans issued by banking licensed companies, but also to ongoing



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rent decay and minor bills for insurance and magazine subscriptions.

3 – Discussion

The above analysis has shown that the report's 478 clients in total have had a debt of approx. € 34,4 mill. This debt has been distributed so that the clients owed € 20 mill. divided into 1060 different debt items for the public creditors and € 14,3 mill. distributed into 3,311 debt items for the private creditors.

The considerably larger debt to the public creditors in relation to the debt to the private creditors is due to a number of factors. Firstly if a citizen has a negative ability to pay the public creditors stops collecting the debt. This does not apply to the private creditors. In addition, there is a higher installment payment for the private – i.e. you pay more on your private debt than you do for your public debt. Secondly, it may also be that you are not actually aware that you owe money to the public; a good example of this is the debt that was forgiven for a large number of Danes in December 2018, where many simply did not know that they owed money to the public creditors (Secher 2018). Thirdly, the EFI public recovery system may not have worked, so SKAT and the public have generally not been able to recover the debts our clients and other citizens have had to them. One final reason why we see this distribution between the public and the private must be that our target group would not normally be able to enter a bank and take up a larger consumer loan for eg. a home or a car, why they probably only occupy smaller but more private loans including among other things. payday loans.

After almost four years without any actual recovery of the debt to the public creditors, the Debt collection authority began to recover the debt again in spring of 2019. Of the total of € 15,5 bill., which the Danes owe to the public creditors, the Debt collection authority expects only to be able to recover € 3,6 bill. of this, which is due to a so-called quoted price (Rosenberg 2019). In addition, the debt that the Debt collection authority expects to recover is of more recent date which has emerged within the past few years. This is because the older the debt, the more difficult it is to determine how much the Danes actually owe, as well as the actual legal basis and thus the legality of this debt (Ibid.). It should be noted here that most of the DSRF clients, who in this report have debt to the public, will fall into the category of older debt, which therefore will not be recovered.

A large part of the debt to the private creditors, 54%, originates, cf. Table 3, from companies with banking license and unsecured loans in general. This may be due to factors such as not making an optimal credit assessment. If an optimal credit rating is not made, it could be due to corporate policy, i.e. the companies actively choose not to make this assessment, or it may be due to the lack of a proper debt register that makes it possible to make a more correct credit rating. Finally, this may also be due to lack of rules in the area of credit rating.

4 - Conclusion

Strengthened efforts are needed to ensure that the socially vulnerable citizens with debt problems can get qualified and early debt counselling so that they can break the negative debt circle. In 2008 and in 2013, the EU Commission published two major studies on over-indebtedness in the EU. Both studies concluded that the most effective tool to help Europeans deal with their debts was personal debt counselling (Commission 2019). Therefore, based on the Commission's conclusion, the above analysis and the TSLA's experience in debt counselling over the past 12 years, TSLA makes the following five key recommendations on how to improve debt-servicing and debt-relief efforts in the future:

- 1) A fixed grant should in the Finance Act be allocated to free debt counselling, which debt counselling organizations that meet established (inter)national quality standards can apply for funds. In addition, private creditors should also help finance the qualified debt counselling, which they do in Ireland and they ought to initiate collaboration to refer to debt counselling in their advertisements in the same way that gambling companies and online casinos today refer to the gambling addiction hotline.
- 2) It should be a requirement that if Debt Counselling Organizations want support via the Finance Act, they must comply with certain quality standards including, among other things, to have an ethics code, competence requirements, the possibility of evaluating the advice and a professional liability insurance, to ensure adequate, timely and qualified debt counselling across the country to socially vulnerable citizens with debt challenges.
- 3) A National Complaint Body should be set up to which citizens can complain about poor or faulty debt counselling so that this will have consequences for their providers of such counselling. Likewise, a Board of Compensation should be set up to make decisions on whether a debt counselling provider must pay compensation for poor or faulty debt counselling. The possibility of claims of compensation, as with vehicles, assumes that the company must have a liability insurance that ensures that the injured client actually receives the compensation owed to them.
- 4) As our analysis shows, companies without a banking license such as Vivus.dk, ferratum.dk and turbolån.dk etc., only holds a relatively small part of our clients' debt, therefore, we believe that any new political interventions against the "payday loans market" should not only cover these, but also "payday loans" from actual banking institutions and companies with banking licenses, otherwise we will not solve the problem.
- 5) In Denmark we currently have KreditStatus and KreditRegisteret, but these debt registers typically do not include the banks and companies with a banking license, which, according to the analysis, constitute 81% of the debt problem in connection with payday loans. Therefore, a national debt register should be established where all creditors, including banks and non-bank licensed companies, are obliged to share debt data so that the loan applicant, creditors and debt counsellors can, at all times, get a full view of a loan applicant's debt. This should give creditors an opportunity to make a proper

credit rating, avoiding people who should not take out a loan from doing so. Similarly, debt counsellors must have access to the register if the citizen consents thereto through a 'Power of Attorney'.

5 - Literature

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