

# Addressing household over-indebtedness

Over-indebtedness is an ongoing concern in Europe. For some Member States and population groups, recent increases in over-indebtedness can be observed. This report provides an overview of the main causes, triggers and consequences of household over-indebtedness. It also investigates two policy responses in the EU and Norway: debt advisory services and debt settlement procedures.

## Policy context

Over-indebtedness is both a cause and a consequence of poverty, deprivation and social exclusion. To address this issue, it is important to develop policies that encompass a range of preventive, alleviative and rehabilitative measures. Prevention can be addressed, for example, through credit regulation, such as the EU Consumer and Mortgage Credit Directives. It can also be reinforced through social protection – one of the principles of the European Pillar of Social Rights – by reducing income or expenditure shocks following unemployment or health problems.

This report examines debt advisory services and debt settlement procedures across the EU and Norway. Following the global financial crisis, these services and procedures are more widely available in many Member States. However, there are gaps in terms of access. By learning from practices across the EU, there is an opportunity at regional, national and EU levels to develop policies that serve to address household indebtedness.

## Key findings

- In 2016, 14% of people (EU28) reported they were unable to make scheduled payments related to rent or mortgages, consumer credit, loans from family or friends, or utility or telephone bills. That proportion rises to 21% if people who are not in arrears but have trouble making ends meet are included.
- People aged 25–49 years are most at risk. However, over-indebted people aged 65+ experience greater financial problems and lower mental well-being.

- From 2017 to 2018, there was an EU-wide increase of arrears among single parents at risk of poverty.
- Debt advisory services have become more widely available and accessible. However, even in countries with well-established services, people experience problems accessing them.
- Many countries have complex webs of support and legislation that are hard to understand and many over-indebted people do not get suitable help or fail to access appropriate debt settlement procedures.
- In some countries, debt advisory services are absent or have particularly limited capacity, coverage or scope: for example, Bulgaria, Croatia, Cyprus, Estonia, Italy, Lithuania, Malta, Romania, Slovenia.
- Overall, Member States have converged in establishing debt settlement procedures to provide a way out of over-indebtedness. Malta and, to a lesser extent, Bulgaria lag behind.
- While Member States have converged in establishing procedures, there are significant differences between Member States in terms of accessibility and the solutions provided.

## Policy pointers

- If over-indebtedness is not addressed in an appropriate and timely way, there can be negative consequences for affected individuals, households and society. Problems resulting from over-indebtedness can include mental and physical health problems, unemployment and inactivity.
- Since the global financial crisis in 2007, many countries have strengthened their institutional responses to over-indebtedness. Policymakers should not wait for another crisis before making further improvements.
- Credit regulation is key, reducing the incentives for people to take on commitments they cannot repay, or smaller and different types of commitments not covered by the EU Consumer and Mortgage Credit Directives. Policymakers should consider administration fees and fines, as well as interest rates.

- While policymakers often focus on mortgage or consumer debts with financial institutions, debt problems in low-income groups often relate to non-payment of utility or telephone bills, rent, taxes or fines, debts with friends, or healthcare costs. Policymakers interested in early intervention should not overlook this.
- It is often hard for the self-employed to disentangle private and business debts. Legal procedures and debt advice should acknowledge this problem, particularly as self-employment levels in some Member States are rising.

### Debt advisory services

- Debt advisory services should adhere to quality standards and have well-trained advisors. They should build trusted relations with debtors to understand household situations and work towards solutions, as well as being viewed as a reliable partner by creditors and authorities.
- An important part of early intervention is awareness of support options. Ways to raise awareness may include social partners sharing knowledge of imminent redundancies, creditors sending out payment notices, public services (for example, employment offices, primary care providers) and authorities responding to debt settlement applications.
- Purely legal responses to over-indebtedness may not address its inherent causes and may lead to the problem recurring. This is a risk in countries where free legal advice is the main support service, or where debt settlement procedures are more accessible and debt advice focuses on helping people access and complete these procedures.
- Debt advice with a narrow financial perspective may not provide a sustainable solution if it does not address the root causes of the problem. If debt advisors are social workers, legal and financial expertise may be lacking. Such gaps in expertise can be filled by cooperation with specialist service providers.
- Debt advisory services can avert the need for people to go through debt settlement procedures, which often involve prolonged deprivation for the household and significant costs for the system.

### Debt settlement procedures

- To provide a ‘light at the end of the tunnel’, debt settlement procedures should not be too lengthy. In most Member States, procedures do not last over five years. The time needed to start the procedure should not be underestimated. Policymakers can address concerns about abuse by differentiating between types of debt settlement procedures.
- The administrative complexity of debt settlement procedures should be minimal. If success of applications and completion of the procedure require significant support, they risk being unequal and unfair.
- Incentives to maximise income and find work are often lacking during the debt settlement procedure. Improved incentives should prevent undeclared work, allow an opportunity to increase debt repayments and improve the prospects of the over-indebted household.
- For debt settlement to lead to a fresh start, it should cover most debts (and not exclude tax debts, for example). The debtor should be removed from registers, whether public or those of creditors.
- There is a case for EU action on debt settlement procedures to ensure their availability, enable countries to learn from practices elsewhere, avoid access problems (including upfront fees) and guarantee a level of well-being for people undergoing such procedures (including some level of protection of their home).

#### Further information

The report *Addressing household over-indebtedness* is available at <http://eurofound.link/ef19044>

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