European Foundation for the Improvement of Living and Working Conditions

Household debt advisory services in the European Union

Executive summary

Introduction

Many EU citizens are struggling to service their mortgages or consumer credit, and to pay their rent and utility bills. In 2010, more than one in four persons reported that they felt at risk of becoming over-indebted, while 11.6% were in arrears with payments related to such debts or bills (up from 9.9% in 2007).

This Eurofound study focuses on debt advisory services, especially on how access to and quality of services can be improved. The study identifies successful debt counselling measures and outlines the conditions that contribute to good practice.

Building on an earlier working paper, the study brings together international data and literature on the topic, providing an overview and a comparative perspective. Most importantly, the research draws on evidence from country studies in Hungary, Ireland, Portugal and Sweden. Each country study includes case studies of specific debt advisory services. Debt advisors, households that received help from debt advisors and other stakeholders were interviewed about their experiences with, and views on, what works and what does not, and under which circumstances.

Policy context

The Europe 2020 Strategy includes a headline target to lift 20 million people out of poverty by 2020. An increasingly prominent cause of poverty is over-indebtedness. Management of over-indebtedness is critical in the effective reduction of poverty. However, because of the economic recession, increasing numbers of households who were not previously at risk of poverty are now encountering problems with debt.

Key findings

For many people, the economic and financial crisis has resulted in a fall in income due to reduced working hours or unemployment. In autumn 2008, one out of every five households in the EU reported a major drop in income over the previous year. Households who made long-term financial commitments in better times are now often unable to service their debts. Some people may fall behind with utility bills because of reduced income and other bills, a common occurrence among the unemployed who face higher utility bills, not least as a result of increased time spent at home.

Poor households are more likely to take out small loans to service payments, finance emergency home repairs and pay for goods. Such small, easily accessible loans often come with high interest rates or encourage consumers to buy products they cannot afford. Missed payments can easily spiral out of control, with cumulative interest payments, fines and administrative costs.

For those new to debt problems and those who live in chronic poverty, debt advisory services can help to get their finances – and often their lives – back on track. When no help is available there are costs for the household and for society, as over-indebtedness can lead to, or be a symptom of, a broad range of problems, including social and health issues such as depression and relationship breakdown.

The crisis has generated challenges because of increased demand for support services in the face of reduced resources. The study identifies ways to tackle the situation and improve access to services. It finds that the quality of debt advisory services can be enhanced by offering tailored approaches, leaving the household in control as much as possible and building relationships of trust between all the stakeholders.

Policy pointers

Provide timely access

- Providing timely help can be challenging, especially when those in need are socially excluded. Potentially helpful measures include anonymous first-contact options, multiple language and media channels, targeted marketing, early-warning systems and outreach services.

- The social partners can play an important role by providing information on available services to employees, as debt problems often arise as a result of sudden, unexpected unemployment.

- Waiting lists, non-availability of services and exclusion criteria such as debt or income limits were identified as barriers to access. Prompt referral and 'minimum service systems' could help ease the negative impact of such barriers.

Enhance quality

- Debt service provision requires consistent, customised approaches. In some cases, a quick and simple solution will do, while in other cases it takes more time to develop a sustainable solution.

- Advice manuals were found to be useful, as were debt advisory teams composed of people from different backgrounds working together to developing long-term solutions for specific cases.

- It can take time to build relationships of trust, to fully understand a household's situation and to develop an appropriate response. The case studies point to several factors that can be effective, including sharing experiences of other households with debt problems.

- A credible and well-communicated assurance of confidentiality is crucial. Face-to-face encounters usually enhance trust, but do not have the same value in all stages of the process or in all cases.

- It is vital to build good relationships between debt advisors and other stakeholders, such as creditors, welfare offices and health services. Honest and consistent communication is an essential factor in building sustainable trust.

- It is important for the services to put the household in control, and ensure it is contributing actively to the solution, while offering support. Not only does this contribute to the household's sense of being in control, but it also motivates creditors and debt advisors in their efforts to facilitate an appropriate solution.

- Often it is essential for the household in debt to establish a reliable payment record during the process, not least in order to guarantee access to cheaper future credit.

Develop sound institutions

- Quality assurance requires the registration of debt advice providers and training of debt advisors. In addition, there is a need for enhanced integration of support areas such as legal assistance, financial advice, monetary relief and mental health care.

- Overlap between different institutions providing help does not always need to be viewed as inefficient. Organisations with different backgrounds have different strengths.

- There should be a holistic approach to debt problems, with a wide range of preventive, remedial or curative, alleviative and rehabilitative measures in place. The European Commission's Consumer Credit Directive (2008/48/EC), for example, sets out important preventative measures.

- Sound legal debt settlement and bankruptcy procedures are crucial. While legal processes should not be too short and open to abuse, they should also not be too long and inaccessible. It is important for households to have incentives to maximise earnings during such procedures where all income earned above a certain minimum is transferred to creditors, often for several years.

- Finally, housing policies can play a role in emergency situations, for example, facilitating the household's transfer to a more affordable dwelling. This is important, because households with debt problems often fear losing the roof over their heads and problems often arise from costs related to housing in the first place.

Further information

The working paper, *Managing household debts: Social service provision in the EU* (2010), and the research report, *Household debt advisory services in the European Union* (2012), are available at http://www.eurofound.europa.eu/areas/socialprotection/householdebts.htm

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