

Public services

Addressing household over-indebtedness



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Executive summary

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).

Introduction

This report is aimed at national and EU-level policymakers who are seeking to improve policy responses to over-indebtedness. It discusses over-indebtedness in the EU, its triggers, causes and consequences. The report's main contribution is its mapping of two important policy responses in the EU and Norway: debt advisory services and debt settlement procedures. It discusses differences in approaches and draws conclusions.

The general discussion of over-indebtedness is based on EU survey data analysis and a review of the literature. The mapping exercise draws on information from the EU Member States and Norway provided by the Network of Eurofound Correspondents,¹ a review of the literature, data gathering by the authors and expert feedback. The report builds on previous research by Eurofound, including a mapping of the causes and consequences of over-indebtedness, and identifying population groups at risk and possible policy responses, case studies of debt advisory services, identifying success factors, and an investigation of informal debts with family and friends in the EU (Eurofound, 2010, 2012, 2013).

Definitions used in the report

Consistent use of the terms 'over-indebted', 'debt advisory services' and 'debt settlement procedures' is a challenge in an international context. Different countries and services set varying criteria for individuals to be eligible for support by debt advice services, or to qualify for a debt settlement procedure. Sometimes such criteria are referred to as national definitions of who is 'over-indebted', but these services and procedures may not be accessible for all over-indebted people. The activities of debt advice services differ largely between countries, and debt settlement procedures differ in their characteristics. While acknowledging this complexity and applying the terms somewhat loosely, the report has chosen to use the following definitions.

Over-indebted: Unable to make payments related to commitments. Such commitments include consumer or mortgage debts with financial institutions, but they may also include missed payments of rent, utility bills, internet or phone bills, healthcare or health insurance bills, taxes or fines, and loans from family or friends.

This ensures that the types of debt problem more common among people with low incomes are not overlooked. Over-indebtedness does not mean an occasional missed payment or payment difficulty, but rather more structural payment problems; for instance, when several months of missed utility payments build up into a debt. Someone with a large mortgage – but with enough income to make payments related to it – may be at risk of being over-indebted, but such a person is not considered to be over-indebted in the meaning of the term here. In contrast, someone with no loans from financial institutions, but who has accumulated missed utility payments, would be considered as being over-indebted. The report is concerned with over-indebtedness of households, not of businesses or governments. However, it should be noted that for self-employed people, household and business finances are in practice often hard to separate out fully, and business debts can cause private over-indebtedness.

Debt advisory services: Services which aim to support people with debt problems. This excludes services where the principal aim is to defend the interest of the creditor. However, it may include services funded by creditors. It excludes services where users may have debt problems, but where the service does not specifically deal with such problems (for example, general mental healthcare services). Generally, services which narrowly focus on very specific aspects of solutions to debt problems (guiding people through debt settlement procedures, restructuring loans or providing free legal advice) should not be grouped under the same label as debt advisory services that address wider dimensions of the problem. However, in its mapping exercise, this report sometimes includes such actors, in particular in countries where they play a relatively large role alongside more holistic debt advice services, or where little else is available.

Debt settlement procedures: Structured procedures with the aim of resolving people's debt problems, often with partial cancellation of debts. People in these procedures usually pay instalments over a specified period, or remit income above a certain threshold, to the state and/or creditor(s). These procedures are usually reserved for the most extreme forms of over-indebtedness, when debts are deemed unmanageable or impossible to pay back in full.

¹ More detailed country information is available; unpublished country reports can be requested from Eurofound.

In some countries, multiple procedures exist, while in other countries only one is available. Such procedures may be referred to as in- or out-of-court settlements, and either as amicable or voluntary or not, but they should all have a legal component. National terms that appear to translate easily into ‘bankruptcy’ or ‘debt settlement’ conceal sometimes large differences in meaning. A range of terms are used across the report to refer to different procedures in different countries (see note to Table 3). However, the procedures discussed are all considered to be ‘debt settlement procedures’.

Structure of the report

The report first discusses the role of the EU with regard to measures that aim to prevent over-indebtedness, alleviate its consequences and rehabilitate over-indebted people. It then maps, respectively, debt advisory services and debt settlement procedures in the EU and Norway, and their characteristics. The report discusses the findings and concludes with policy messages to inform those stakeholders seeking to address over-indebtedness.

1 | EU policy context

Overview

As part of its Europe 2020 strategy, the EU set itself the goal of reducing income poverty, material deprivation and social exclusion (European Commission, 2010). In doing so, it is important not only to address the causes of income poverty and deprivation, but also their consequences to prevent social exclusion and poverty traps. Over-indebtedness is both a cause and a consequence of poverty, deprivation and social exclusion. Addressing it helps the EU to achieve its aims. The EU further subscribes to the UN's Sustainable Development Goals (SDGs), which include the aim to 'end poverty in all its forms everywhere' by 2030. Addressing over-indebtedness contributes towards this goal.

In its reflection paper on the social dimension of Europe, the European Commission (2017b) argues that high levels of household debt contribute to many people, including families, facing unpredictable situations and struggling to make ends meet. The EU intends to improve social protection, as stated in the European Pillar of Social Rights. While social protection can prevent over-indebtedness (see section on 'Prevention' below), it can also be hampered by over-indebtedness. For instance, the European Pillar of Social Rights argues for an 'adequate minimum income benefits ensuring a life in dignity at all stages of life'. A minimum income is likely to fail in enabling a life in dignity for over-indebted people.

The EU's 'GDP and beyond' agenda argues that progress should not be measured by income alone, but also for instance by subjective well-being (European Commission, 2009). Over-indebtedness decreases such well-being and thus hampers progress. In addition, trust in government is lower among people with debt problems (Eurofound, 2013). This is particularly the case among people with low incomes, with arrears and difficulties making ends meet. One explanation may be that the debts are often with public authorities (taxes, fines, return of social benefit over-payments, public housing rent, healthcare fees).

The International Monetary Fund argues that 'increases in private sector credit, including household debt, may raise the likelihood of a financial crisis and could lead to lower growth' (IMF, 2017, p. 53). Over-indebtedness comes with further monetary cost for society if it is not addressed, addressed at a late stage, or not addressed well (see Chapter 2). Given the negative consequences of over-indebtedness, in particular on health and employment, addressing it can also contribute towards achieving the SDGs to 'ensure healthy lives and promote

well-being for all at all ages' and to 'promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all'.

The next section maps what is done at EU level and discusses potential avenues for preventive, alleviative and rehabilitative policy action. This is followed by an overview of how over-indebtedness has featured in the European Commission's recommendations to Member States in past years.

Main types of policy action

Preventive measures

Measures that can contribute to preventing over-indebtedness include credit regulation, financial education and social protection. The EU plays a role in all these areas.

Credit regulation

The drive for EU-level credit regulation has generally come from harmonisation of the market, and free movement of people and services, with a role for consumer protection. The Consumer and Mortgage Credit Directives play a key part in credit regulation. These directives set minimum standards, and some Member States go further. Both directives require lenders to provide information on the cost of credit in a clear and comparable way, and to conduct certain checks on people's ability to pay before granting them a loan. Furthermore, they grant people the right to change their mind and withdraw from the agreement, without having to state a reason, within two weeks of signing.

Consumer Credit Directive (2008): This directive covers consumer loans between €200 and €75,000. It includes rules that can contribute to preventing over-indebtedness, such as obliging credit providers to include standardised information about the cost of credit when advertising. It also states that the agreement needs to be 'on paper or on another durable medium'. While this can inhibit digitalisation, it can also prevent easy access to impulsive loans, such as SMS loans, which for loans below €200 (outside the directive) are common in Finland, for instance, where agreements do not need to be on paper, in contrast to Germany, where they do. The directive is being evaluated and its implementation by the Member States has been assessed previously (European Commission, 2014a). There are limitations to the directive's potential to prevent over-indebtedness. Also, smaller loans (usually with particularly high interest rates) fall outside the

directive, as do loans offered by retailers for purchasing goods that are interest free, but which do commit the consumer to a payment plan.

Mortgage Credit Directive (2014): This directive concerns loans with the objective of buying a home. Member States had until 2016 to incorporate it into national law. The directive, for instance, includes the requirement to apply methods for calculating interest rates transparently, and to include worst-case scenarios regarding variable interest rates and foreign currency loans in a standard information sheet, alerting consumers to risks. It emphasises the assessment of credit worthiness, which should go beyond assessing the value of the property compared to the loan, taking into account information about the consumer contained in databases, alongside income, expenditure, savings and assets. Overall, it has been argued that this post-crisis directive includes more aspects relating to ‘responsible credit provision’ than the Consumer Credit Directive (Ferretti and Vandone, 2019).

Interest restrictions: The European Commission has commissioned a further study to explore whether EU-wide interest restrictions would be feasible and desirable (Reifner et al, 2010). The perspective of this study was to examine whether rate caps as a tool for preventing over-indebtedness have negative effects on markets. The study showed that varying types of interest rate caps (most commonly on default interest rates) were in force in Belgium, Finland, France, Germany, Italy, the Netherlands and Poland. In particular, people with low incomes and poor access to credit often rely on relatively small loans with high interest rates. Caps reduce excesses in interest rates, but they arguably also limit the availability of credit to population groups considered at higher risk of defaulting. While no EU-level action was taken, rate restrictions seem to have become more common in the EU.

Financial education

The EU has also been involved in stimulating financial education. For instance, the Mortgage Credit Directive states that ‘Member States shall promote measures that support the education of consumers in relation to responsible borrowing and debt management’, and that ‘the Commission shall publish an assessment of the financial education available to consumers in the Member States and identify examples of best practices which could be further developed in order to increase the financial awareness of consumers’.

Furthermore, the EU has funded financial literacy initiatives, such as the RIC Novo mesto project targeted at Roma (funded by the EU through the Lifelong Learning Programme) and the EDU-FIN project to establish a participatory curriculum on the financial

literacy of young adults. The EU also co-financed (jointly with municipalities) the project ‘Financial education as a chance for a new life’ in Warsaw for people exiting from homelessness.

In general, there has been mixed evidence on the effectiveness of prevention through financial education (CPEC, 2013; Miller et al, 2014; Atfield et al, 2016). It is more likely to be effective among higher income groups and if it is not mandatory, but it is unlikely to change the handling of debt (Kaiser and Menkhoff, 2017).

Social protection

The EU also has a role to play in social protection, aiming to reduce poverty, as well as income and expenditure shocks. The EU aims to reduce poverty in its Europe 2020 Strategy. The European Pillar of Social Rights further emphasises the right to social protection. For instance, it includes the following statements.

- The unemployed have the right to adequate activation support from public employment services to (re)integrate in the labour market and adequate unemployment benefits of reasonable duration, in line with their contributions and national eligibility rules.
- Regardless of the type and duration of their employment relationship, workers, and, under comparable conditions, the self-employed, have the right to adequate social protection.
- Everyone lacking sufficient resources has the right to adequate minimum income benefits ensuring a life in dignity at all stages of life, and effective access to enabling goods and services.
- Workers and the self-employed in retirement have the right to a pension commensurate to their contributions and ensuring an adequate income. Women and men shall have equal opportunities to acquire pension rights. Everyone in old age has the right to resources that ensure living in dignity.

The Social Protection Committee (SPC), an advisory policy committee to the Ministers of the EU Member States in the Employment and Social Affairs Council, has paid ample attention to over-indebtedness in its reporting. Recently, it did so in the context of preventing homelessness among children, arguing for stronger basic minimum income schemes, housing and social assistance benefits, and for early warning detection and debt counselling to prevent evictions (SPC, 2018). It also argues for integrated delivery of early childhood development and protection services; through ‘follow-up house visits and the use of designated family case worker(s) it is possible to coordinate and integrate the various types of support (housing, debt relief, counselling for better parent skills)’ (p. 42).

Overall, such social protection policies play an important role in preventing over-indebtedness (Angel and Heitzmann, 2015).

Alleviative measures

It has proved difficult to avoid over-indebtedness from happening at all. For instance, life events and unanticipated income and expenditure shocks are hard to avoid completely, and even if credit is restricted, people may take out informal loans or default on bills. For people on low incomes, even small shocks can disrupt the fragile balance between income and expenditure. Overall, no single Member State has yet succeeded in eradicating over-indebtedness. So, it is important to have policy responses in place, not only to prevent over-indebtedness, but also to address the problem (preferably at an early stage) when it emerges.

While such alleviative measures are provided to people who already have debt problems they can still have a preventive impact. First, they can prevent debt problems from spiralling further out of control. They can, for instance, contribute to the right of ‘appropriate assistance and protection against forced eviction’ as outlined in the European Pillar of Social Rights. Second, alleviative measures can prevent future recurrence of debt problems. However, they focus on trying to alleviate and solve over-indebtedness after it has already occurred.

A key alleviative measure is good access to quality debt advisory services (see Chapter 3).

References to debt advisory services in Member States have featured in reports commissioned by the European Commission (European Commission, 2008; CPEC, 2013). As early as 1994, an advisory report to the European Commission concluded that the best European response to over-indebtedness should be a combination of legal change and strengthening of debt advice (Huls, 1994).

The European Commission also encourages Member States to learn from each other by dissemination of Member States’ experiences through meetings and conferences. Debt advisory services have featured in such exercises. Examples include the 2018 Debt Advice Stakeholders Forum and a session at the 2015 European Consumer Summit. Within the EU’s open method of coordination, the Irish debt advice service – the Money Advice and Budgeting Service (MABS) – was chosen for a ‘peer review’ as a practice for other Member States to learn from (Korcak, 2004).

Rehabilitative measures

While debt advice can be rehabilitative, a debt settlement procedure is another key policy instrument with a principal focus on financial rehabilitation. The Council of Europe, with its focus on human rights, has adopted a recommendation to its Member States to enact personal insolvency laws (Council of Europe, 2006). Business insolvency is legislated by the EU’s Restructuring, Insolvency and Second Chance Directive (2019/1023). The European Commission has explored possible involvement in private insolvency from this angle. A recent report provides an overview of the arguments and generally judges possible EU-level measures favourably (European Commission, 2017a, pp. 82–85). There is further regulation in place to facilitate cross-border insolvency cases, ‘irrespective of whether the debtor is a natural person or a legal person, a trader or an individual’ (Regulation 2015/848, p. 20). For example, this regulation requires Member States to list insolvency cases in a publicly accessible register as soon as the procedure is initiated.

Household indebtedness and the European Semester

The European Semester has been in place since 2010. Within it, the European Commission undertakes an analysis of Member States’ plans for budget, macroeconomic and structural reforms. The European Commission then provides EU governments with country-specific recommendations (CSRs – see European Commission, undated). This section provides an overview of how household debts have featured in these CSRs.

The European Semester is a complex process, and the topic of over-indebtedness may appear in one country’s CSRs, but not in another that may have similar problems because, for instance, other issues are considered more urgent. Indeed, for some countries where it is a known key issue, the topic does not feature in the CSR (see Chapter 2). However, the CSRs do give hints about the policy prominence of the topic in the countries where it is mentioned, and it confirms that the issue is on the agenda of the EU.

Also worthy of note is that CSRs which refer to household debts focus on mortgage debts, a type of debt which is most common for people on middle and higher incomes. This is probably related to the focus of discussing the topic of household debts from the perspective of how far these debts constitute a risk to

the macroeconomic situation. For example, CSRs largely ignore utility arrears, as well as the perspective that household over-indebtedness comes with negative consequences for the household and for society as a whole beyond financial instability alone (see Chapter 2).

Since the global financial crisis began in 2007, household indebtedness has increasingly featured in the European Semester documents. However, specific recommendations on addressing over-indebtedness were made only rarely. One of the notable exceptions includes the 2014 CSR from Spain, where that country was urged to ‘develop a permanent framework for personal insolvency, paying due attention to balanced creditor and debtor rights’ (European Commission, 2014b, p. 8). Earlier, the 2011 National Reform Programme had noted that ‘household debt rose from 69% of disposable income in 2000 to 130% in late 2007; 45 points of that 61-point increase in borrowing were attributable to mortgage loans for home purchase’ (Spanish Government, 2011, p. 7).

The recommendations for 2018 and 2019 are more closely examined below.

2018: Ten of the 27 CSR documents refer to household debts in the recommendations themselves and/or in the accompanying texts. No CSRs are available for Greece, as it was subject to a macroeconomic adjustment programme and was exempt from monitoring and assessment under the European Semester. Several refer to the high level of household debt, often relating it to large increases in house prices (Belgium, Denmark, Luxembourg, Sweden). Some mention specific risky

features of the debt stock, such as debt being often in foreign currency (Croatia), at variable interest rates (Finland) or with high loan-to-income levels (Denmark, especially Copenhagen; the Netherlands). Some refer to high stocks of non-performing loans (Cyprus, Ireland). Some reports include recommendations to take preventive measures: setting up credit registries (Finland) or reducing the tax deductibility of mortgage interest payments (the Netherlands, Sweden).

2019: Eight of the 28 CSRs referred to household debts. They mainly include the same countries as in 2018, but in the 2019 CSRs for Belgium and Luxembourg no further mention was made of the high levels of household debt and rising house prices. In contrast, the large stocks of private debts and non-performing loans are highlighted for Portugal, while this was not the case in 2018. The CSR for Greece does not include anything about household debt, but its Enhanced Surveillance Report does, providing recommendations to reduce the backlog of non-performing loans (European Commission, 2019).

The CSRs for Bulgaria include comments on debts and insolvency, but household debts seem to be excluded, as the text seems to refer to businesses (for example, ‘high outstanding private-sector debt and the still high share of non-performing loans’ – Council of the European Union, 2019). However, the comments on the insolvency framework (lack of efficiency and effectiveness) also have implications for private insolvency, as the business insolvency procedure has been opened up on a case-by-case basis for households as well (see Chapter 4).

2 Over-indebtedness in the EU

This chapter first discusses the recent context and trends in over-indebtedness. Next, the triggers, causes and consequences of over-indebtedness are discussed, emphasising its heterogeneity, while highlighting groups with similar problems and trends. This is mainly based on a literature review and Eurofound's previous work. The chapter closes by discussing the societal cost that accompanies over-indebtedness.

Extent of the problem and trends

There are many possible indicators of over-indebtedness and of being at risk of becoming over-indebted (European Commission, 2008). First, a broad indicator of being at risk of over-indebtedness is applied here; that is, having arrears at any time during the year related to scheduled payments due to an inability to pay, or having difficulties making ends meet. Next, the analysis focuses on people who have already experienced one of various types of arrears.

There are different degrees of over-indebtedness. The binary approach applied here (being over-indebted or not) masks this. It includes people across a wide spectrum of over-indebtedness, also those for whom the situation may be less serious. An advantage of this broad approach is that it captures people who are at risk of becoming increasingly over-indebted, and for whom early intervention may prevent further escalation. For instance, missed utility payments can be early signs of debt problems, and so are of interest to policymakers who seek to intervene early. People who only have utility arrears may be defaulting on utility bills in order to pay their rent or mortgage, in particular if defaults on utility bills do not lead to disconnection, while defaults on rent or mortgages may lead to losing one's home.

The argument for including people with difficulties making ends meet when discussing the proportion of people at risk of being over-indebted, but without arrears, is along the same lines. They may economise on essential goods and services, or make ends meet by indebting themselves further (for example, through overdrafts), but they are at risk of defaulting on payments related to bills and loans in the near future. There is a second argument for including people with difficulties making ends meet, but without arrears. As discussed below, there is a wide spectrum of possible types of arrears. Certain types of arrears are common in some countries but are not captured by available comparable survey data. An example includes arrears in healthcare or health insurance payments (see below). Given such probable country differences in the types of arrears, inclusion of the 'difficulties making ends meet'

indicator is important when making country comparisons, as it is likely to capture groups of people who have arrears beyond those captured by the data.

The indicator applied here of the risk of over-indebtedness does not capture people with high levels of indebtedness without arrears and difficulties making ends meet. This is most notably the case in some high-income Member States with elevated levels of household indebtedness: Denmark (household debt was 128% of GDP in 2017), the Netherlands (106%), Sweden (88%) and the United Kingdom (UK) (86%) (Eurostat, 2020a). Clearly, if the context changes (increases in unemployment or interest rates), the situation may change drastically for them. It should also be acknowledged that high debt levels themselves can have negative impacts, for instance, on older people's mental well-being (Hiilamo and Grundy, 2020). However, here the focus is on people with arrears or difficulties making ends meet.

Furthermore, the arrears indicator applied here does not capture non-payment due to *unwillingness* to pay rather than *inability* to pay. Data from central banks are available on defaults, regardless of the reasons behind such defaults, so include defaults both due to unwillingness and inability to pay, in contrast to the survey data discussed here. However, these data are not always publicly available, disaggregated for private persons and collected in the same way (the number of missed payments and time of non-payment to qualify as default differs). They also cover differing and limited types of arrears (often focusing on mortgage arrears, and rarely including, for example, utility or telephone bill arrears).

European Union Statistics on Income and Living Conditions (EU-SILC) data are used to show changes in time and differences in trends between countries. Data from the latest European Quality of Life Survey (EQLS) 2016 are used to explore types of debt problems not captured by EU-SILC. The EQLS also contain data on quality of life indicators such as feelings of insecurity, which can be related to debt problems. Due to the homogenous approach to data collection, the EQLS 2016 data are also used for cross-country comparison of levels of debt. The EU-SILC data are somewhat less suitable for such cross-country comparisons, as data collection methods and questionnaires differ across countries. Questions can also differ somewhat. For example, questions in some national questionnaires for 2016 – such as in the UK – do not indicate explicitly that arrears should be because of inability to pay due to financial reasons, but rather consider inability more generally, while most specify financial reasons.

In addition, when asking respondents about arrears in utility bills, some questionnaires explicitly exclude telephone bills (Cyprus, Ireland, Italy), some do not make any statement about whether to include such bills (Belgium, Luxembourg, Malta), and others explicitly include them (France). It is further important to note that proportions based on the EQLS 2016 data refer to individual respondents reporting whether their household had arrears. In the EU-SILC data, the proportion refers to households.

At risk of over-indebtedness

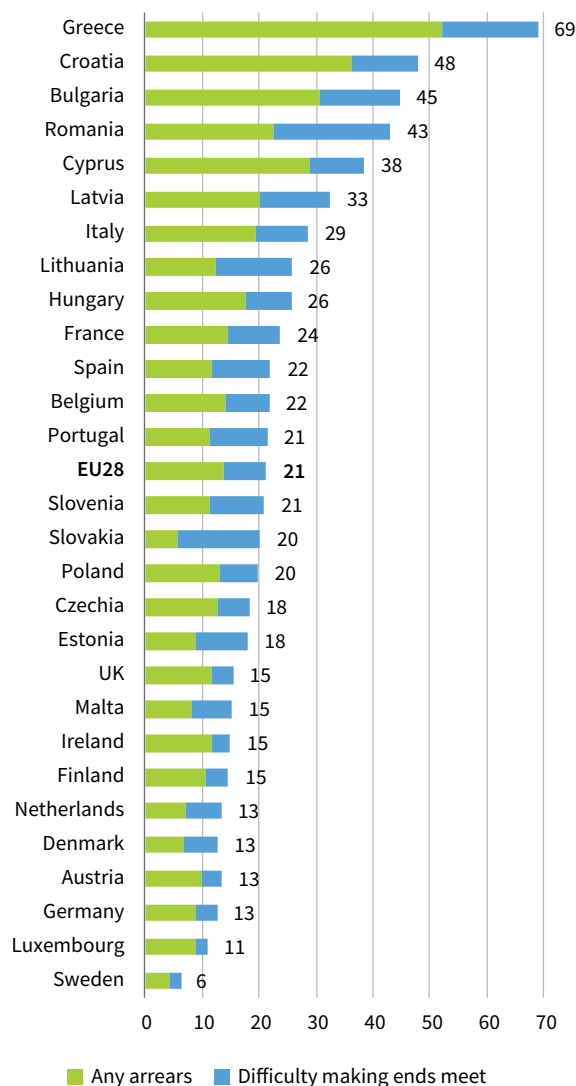
According to the latest EQLS data, nearly 14% of people in the EU report that their household had arrears in rent or mortgages, consumer credit, loans from family or friends, or utility or telephone bills in 2016 (8% of all people in the EU had two or more of the five types of arrears covered by the EQLS). There is wide variation across Member States, but in 20 of the 28 Member States the proportion of people with at least one of the five arrears is 10% or more.

As stated above, the proportion of people at risk of over-indebtedness as discussed in this report also includes people reporting difficulties making ends meet. The EQLS asks respondents whether their households are able to make ends meet 'very easily', 'easily', 'fairly easily', 'with some difficulty', 'with difficulty' or 'with great difficulty'. Here, only the final two of the six answers are considered as 'difficulties making ends meet'. People who report being able to make ends meet 'with some difficulty' (and who do not have arrears) are thus not considered at risk of over-indebtedness. Overall, including people with difficulties making ends meet (but without arrears) adds 8 percentage points to the proportion of people in the EU at risk of over-indebtedness, bringing it to a total of 21% (Figure 1).

Arrears – An overview

The EQLS has gradually asked respondents about more types of arrears. In 2003 and 2007 it included utility and rent or mortgage arrears. In 2012, two types of arrears were added: those related to consumer credit and to loans from family and friends. In 2016 arrears from payments related to telephone and internet bills were added. Each addition has revealed considerable proportions of the population with these arrears. They include significant shares of the population who do not have any of the other recorded arrears and would thus have been missed had these arrears not been added to the questionnaire.

Figure 1: Proportion of people aged 18+ at risk of over-indebtedness: arrears* or difficulties making ends meet, 2016, by Member State and EU28 (%)



Notes: *Arrears could apply to rent or mortgage payments, consumer credit, loans from family or friends, or utility or telephone bills. Figure based on responses to questions 88 and 93 from EQLS 2016. Q88: 'A household may have different sources of income and more than one household member may contribute to it. Thinking of your household's total monthly income: is your household able to make ends meet...?' Answer categories are: 1. Very easily; 2. Easily; 3. Fairly easily; 4. With some difficulty; 5. With difficulty; 6. With great difficulty. Only people who respond 'with difficulty' or 'with great difficulty' are considered at risk of over-indebtedness. Q93: 'Has your household been in arrears at any time during the past 12 months, that is, unable to pay as scheduled any of the following? a. Rent or mortgage payments for accommodation; b. Utility bills, such as electricity, water, gas; c. Payments related to consumer loans, including credit card overdrafts (to buy electrical appliances, a car, furniture, etc.); d. Telephone, mobile or internet connection bills; e. Payments related to informal loans from friends or relatives not living in your household'. Answer categories are: Yes, No, (Don't know), (Refusal). 'Refusal' and 'no answer' are excluded as invalid answers, thus excluding an observation if the answer falls in one of these two categories for at least one of the type of arrears. Arguably, people with arrears problems are more likely to fall in these categories. If people in these categories are all included as having arrears, the proportion at the EU level rises from 14% to 21%.
Source: Eurofound analysis of EQLS 2016

Certain types of arrears not included in the EQLS, but which are likely to be experienced by certain groups, include those related to the following bills.

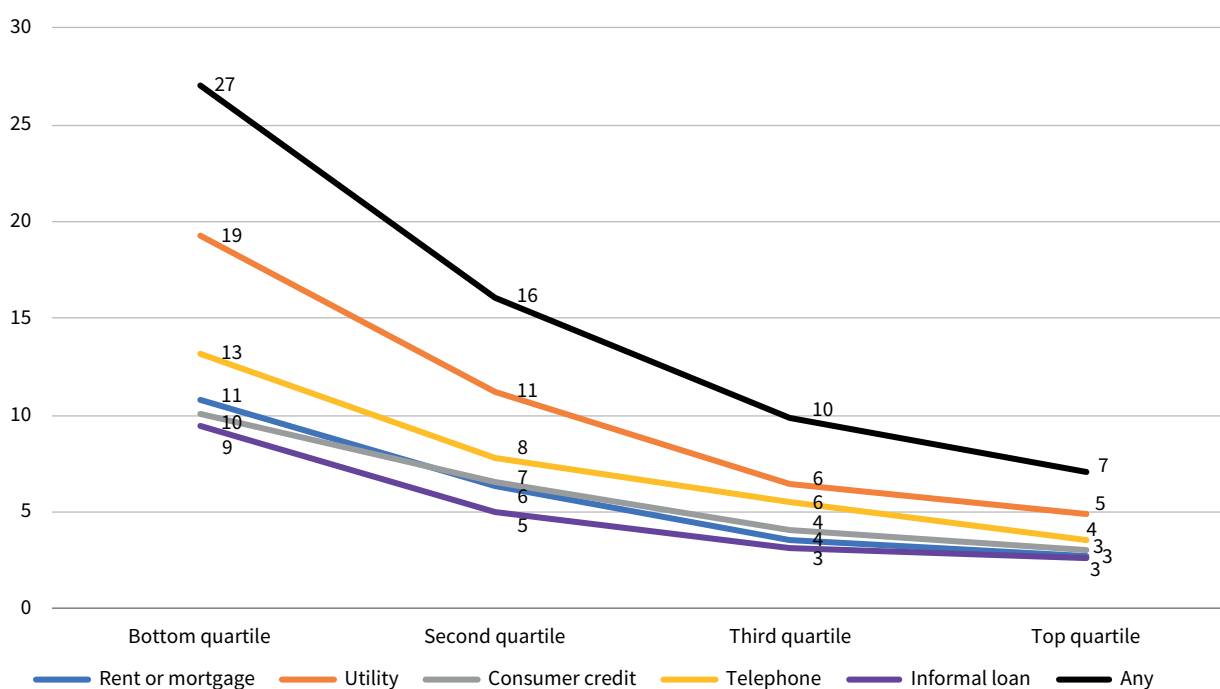
- Healthcare or health insurance fees:** In the Netherlands in 2014, 298,000 people aged 18 or over (2.2% of the total) had not paid their mandatory healthcare insurance contribution for at least six months (CBS, 2019). In 2015, measures were taken including an option to grant people in this group a discharge from due payments, partly explaining a decrease in numbers since then. However, in late 2018, the number was still just above 206,000 (1.5% of the total). In Flanders (Belgium), 48% of people who approached debt advice services for help in 2017 had healthcare debts, ranking second after utility debts (57%), and before telecoms debts (41%).
- Fines:** A study among NGOs (non-governmental organisations) in Lithuania identified penalties for using public transport without a ticket as a main cause of over-indebtedness among its clients, mainly with low incomes (Nacionalinis skurdo mažinimo organizacijų tinklas, 2017).
- Taxes:** In Denmark, people had a total of DKK 25.227 billion (€3.376 billion) in personal tax arrears in 2018, having steadily increased from DKK 14.483 billion (€1.938 billion) in 2013 (Statistics Denmark, 2019). No national data are available on the number of people with such arrears, but information from a Danish service provider does give some insight into

the commonality of the problem. Social Legal Aid (TSLA) offers help with debt problems to low-income households. Tax arrears may be referred more often to that service (by the tax authority) than people with other arrears (in particular by non-public creditors). However, debts owed to the Danish tax authorities are cited most frequently among users: of 428 users reported upon, 407 had tax debts (Løper, 2019a).

Overall, many personal and household arrears and debts may be with the government. For example, in Lithuania, the debts of 9% of the population are in the hands of the ‘judicial officer’ (Chamber of Judicial Officers, 2018). Of these debts, 61% concern debts to the state (Ministry of Justice, 2018). It should be mentioned, though, that public authorities may be more inclined to transfer debts to judicial officers than private creditors.

Generally, arrears decrease by income quartile, and are particularly high for the bottom income group. However, they also affect significant proportions of people in higher income quartiles (Figure 2). Some types of arrears show a larger income gradient than others. For instance, utility arrears are particularly common among the bottom quartile, while for consumer credit this is less the case (Eurofound, 2017). The debts of higher income groups are more likely to be related to large mortgages and to be relatively large. Furthermore, the EQLS does not record whether people on low incomes have experienced a reduction in their income.

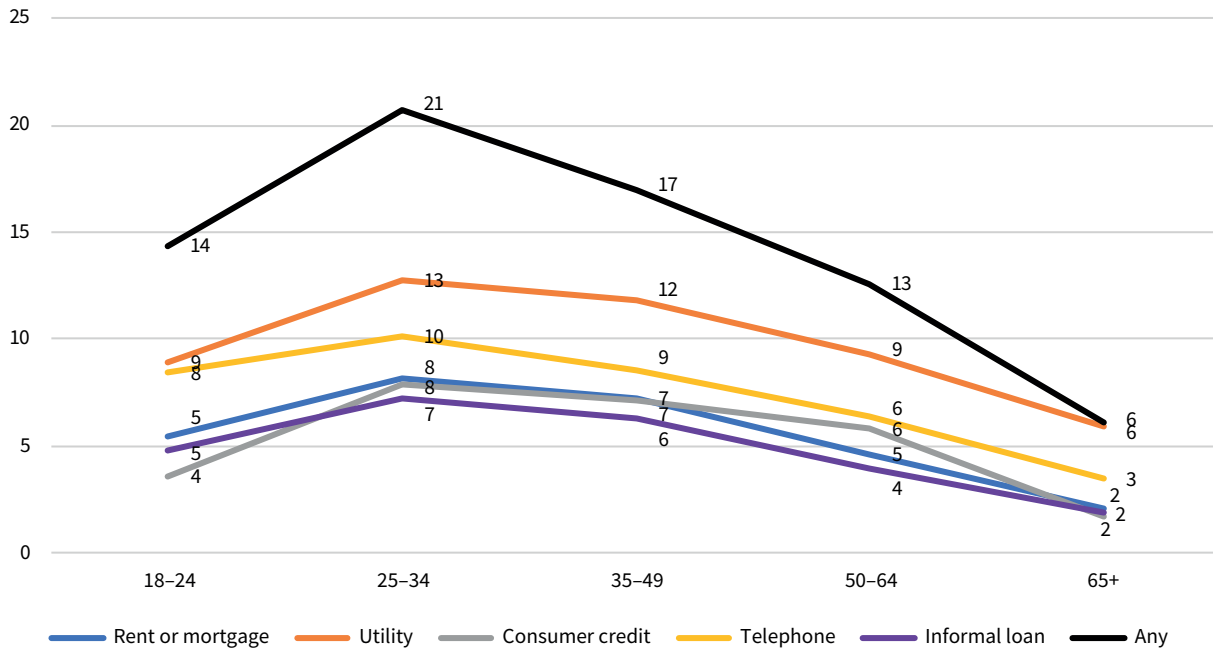
Figure 2: Proportion of people with arrears, by income quartile and type of arrears, 2016, EU28 (%)



Notes: Figure is based on data from question 93 from EQLS 2016. See Figure 1 notes for Q93 and answer categories.

Source: Eurofound analysis of EQLS 2016

Figure 3: Proportion of people with arrears, by age group and type of arrears, 2016, EU28 (%)



Notes: Figure is based on data from question 93 from EQLS 2016. See Figure 1 notes for Q93 and answer categories.
 Source: Eurofound analysis of EQLS 2016

Thus, the lower income quartiles may contain people who were previously in the higher income quartile, whose arrears began when their income dropped.

Arrears are particularly common among 25–34-year-olds (Figure 3). There are some subtle differences in the type of arrears with, for instance, telephone bill arrears being relatively common among the younger group in the EQLS (18–24 years) and consumer credit arrears being relatively common among 50–64-year-olds (Eurofound, 2017).

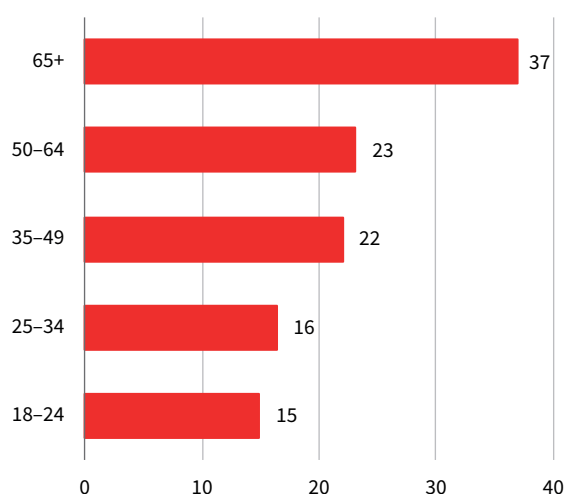
While people aged 65+ least often have arrears, one should be cautious about concluding that over-indebtedness is less of a problem for this oldest age group. While it is less likely for people in this group to be over-indebted, if they are indebted, it is often a particularly large problem as many have little prospect of income increases and recovery. For instance, among people with any of the arrears covered, those aged 65+ are most likely to report that they also have great difficulties making ends meet: 37% (Figure 4a). The EQLS also includes five questions about people’s mental well-being, such as asking to what extent people felt ‘calm and relaxed’ in the past two weeks. Together, they constitute the World Health Organization’s Five

Well-Being Index (WHO-5), which can range from 0 to 100 (for details, see EQLS 2016). People with a WHO-5 score of 50 or lower are considered at risk of depression. In the EU overall, among all people aged 18+ the average score was 64 in 2016. For each age group, the average score is lower among people with arrears than among those without. This gap between those with arrears and those without increases by age, from a 7-point lower WHO-5 for 18–24-year-olds with arrears than among those without, to an 11-point difference for 50–64-year-olds with and without arrears. The gap is by far largest for people aged 65+: 16 points. Among people with arrears, the WHO-5 is by far lowest among the 65+ age group (Figure 4b).

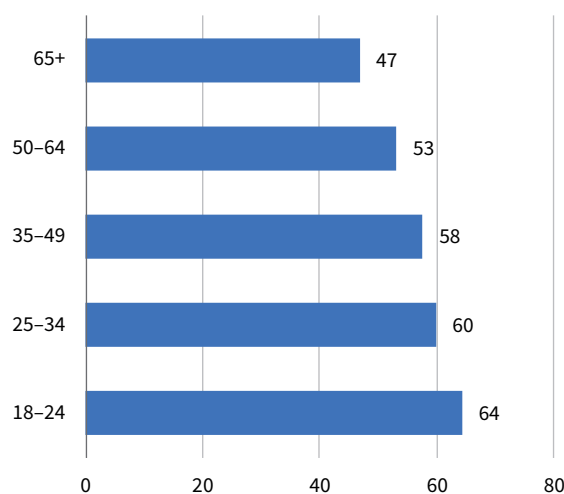
Arrears in rent payments are higher among people living in social housing (13%) than among those in privately rented accommodation (9%). However, this difference can be partly explained by the fact that people living in privately rented accommodation tend to be in higher income quartiles (Eurofound, 2017). If only the bottom income quartile is considered, people in social housing do not report rental arrears more often: 16% of people in privately rented accommodation, compared to 15% of those who live in social housing. One in 20 (5%) people who own their home with a mortgage reported mortgage arrears in 2016.

Figure 4: People with arrears, reporting great difficulties making ends meet and the WHO-5, by age group, 2016

4a: Proportion of people with any arrears, reporting great difficulties making ends meet by age group, 2016, EU28 (%)



4b: WHO-5 score by age group of people with any arrears, 2016, EU28 (max. 100)



Notes: Figures 4a and 4b are based on data from questions 93 and 51 from EQLS 2016. See Figure 1 notes for Q93 and answer categories. Q51: 'Please indicate for each of the five statements which is closest to how you have been feeling over the last two weeks. a. I have felt cheerful and in good spirits. b. I have felt calm and relaxed. c. I have felt active and vigorous. d. I woke up feeling fresh and rested. e. My daily life has been filled with things that interest me.' Answer categories are: All of the time, Most of the time, More than half of the time, Less than half of the time, Some of the time, At no time, (Don't know), (Refusal). The WHO-5 score is calculated from responses to five items, such as 'My daily life has been filled with things that interest me', on a six-point scale (0-5) ranging from 'all of the time' to 'at no time'. The scores to these five questions can amount to a maximum raw score of 25, which is then multiplied by 4 to get a maximum of 100.

Source: Eurofound analysis of EQLS 2016

Arrears are particularly common for the long-term unemployed, with almost one in three reporting utility arrears (31%). Arrears among the long-term unemployed can be explained by low incomes, but also for instance by spending more time at home and hence using more utilities (Eurofound, 2012).

Trends in arrears

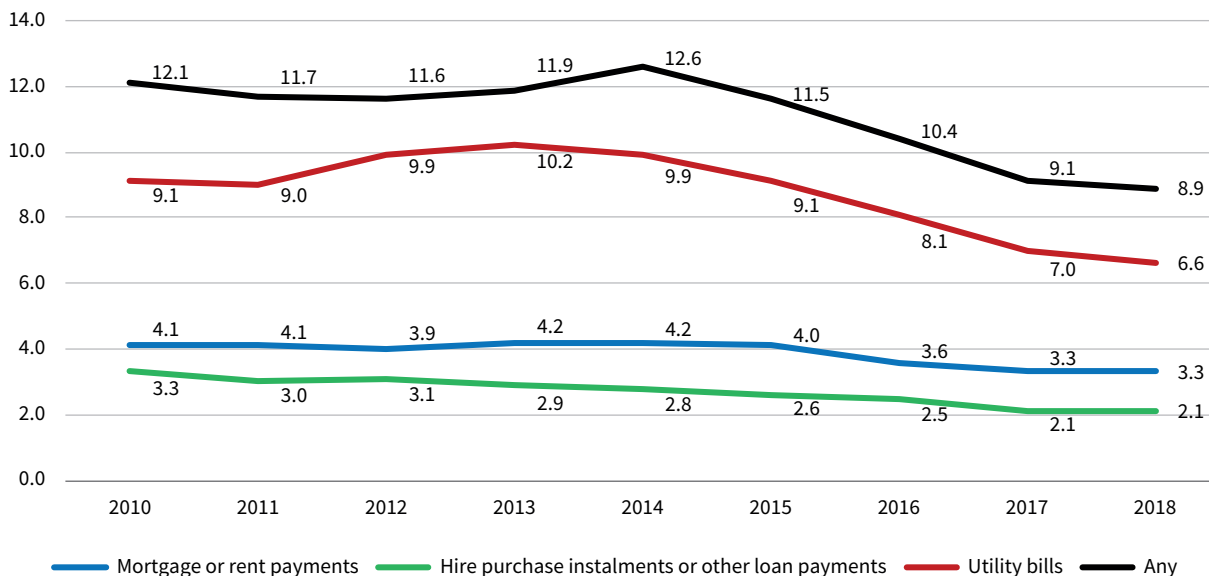
The EU28 data from EU-SILC on utility, mortgage or rent and hire purchase arrears are only available from 2010, as data for Croatia are lacking before that year. Excluding Croatia, the EU27 showed an increase of people reporting at least one of these three types of arrears since the onset of the global financial crisis, from 10.0% in 2007 to 11.9% in 2010.

In the EU28, from 2010 to 2012 arrears decreased before reaching a new peak around 2013-2014, depending on the type of arrears (Figure 5). The number of people reporting at least one of the three types of arrears peaked in 2014 at 12.6%, above the 2010 level (12.1%).

This may be partly explained by cuts in entitlements to services and monetary benefits being implemented a few years after the onset of the crisis, that is, the so-called 'lagged impact of the crisis' (Eurofound, 2014).

There has been a steep and consistent decrease in arrears since 2014 (Figure 5). However, some countries show recent increases in arrears overall, or for specific types of arrears. For instance, from 2017 to 2018, the proportion of households reporting any of the three types of arrears increased in Belgium (from 5.3% to 6.1%), Denmark (from 6.0% to 8.7%), Estonia (from 7.3% to 8.0%), Germany (from 4.4% to 4.6%), Lithuania (from 8.7 to 10.3%), Malta (from 6.5% to 8.1%), Slovakia (from 7.4% to 9.9%), Spain (from 9.0% to 9.1%), UK (from 8.0% to 8.8%). In Denmark and Germany, the increase started from 2016, when proportions were respectively 5.8% and 4.2%. The statistical significance of these changes has not been verified, but these countries seem not to have followed the decreasing trend, and for all except Spain the increase has been considerable (at least 0.7 percentage points) or already consistent from 2016.

Figure 5: Proportion of households with arrears in mortgage or rent, utility bills and hire purchase instalments, 2010–2017, EU28 (%)



Source: EU-SILC data from the online Eurostat database, downloaded 22 January 2020

Furthermore, increases have occurred for some population groups. Two groups for which macrodata from EU-SILC are available, and for which arrears are particularly common, include single parents and people at risk of poverty (earning below 60% of median equivalised income).

- **Single-parent households:** From 2017 to 2018, the proportion of single parents with any of the three arrears types increased slightly, from 19.0% to 19.1%. In the case of hire purchase instalments or other loan payments and utility arrears the proportion went up from 3.3% to 4.0% and from 13.6% to 13.8%, respectively. The proportion of single parents with mortgage or rent arrears, decreased slightly (from 9.7% to 9.6%) but followed an increase from 2016 to 2017 from 8.6% to 9.7%. The proportion of single parents with any of the three arrears types increased in most of the countries where an overall increase in arrears was noted (with increases of 1.6 percentage points or more in Belgium, Denmark, Estonia, Spain, Slovakia and the UK) and in some countries where no overall increase occurred (Bulgaria, Croatia and Sweden).
- **Households at risk of poverty:** Overall, the proportion of households at risk of poverty with any of the three arrears dropped from 20.9% to 19.7% between 2017 and 2018. However, there was an increase for this group in eight Member States: Denmark, Ireland, Latvia, Lithuania, Hungary, Romania, Slovakia and Finland. If 2018 is compared with 2016, there has also been an increase in France, Germany and the UK.

Explanations of these recent trends are likely to differ per country. For example, in the UK recent increases among single parents and households at risk of poverty may partly be explained by a tightening of elements in the benefits system (StepChange, 2019).

A focus on trends in arrears ignores the absolute proportions, for example, there may be a decreasing trend, but proportions can still be high. Particularly high proportions of arrears can be found among groups which experience both of the vulnerabilities discussed above. In 2018, 29.3% of single-parent households at risk of poverty in the EU reported at least one type of arrears (up from 28.3% in 2017). It is not only single parents at risk of poverty who often experience arrears; 25.2% of couples with children in the household who are at risk of poverty also report arrears (down from 26.2% in 2017). While still at high levels and recent increases have been observed for single parents at risk of poverty in particular, in the EU as a whole proportions have decreased dramatically in recent years, dropping from 2014 peaks of 36.3% and 34.2%, to 29.3% and 25.2% respectively for single parents and couples below the poverty threshold.

It should be emphasised that there are many other groups in vulnerable situations that could be highlighted. For example, single men emerge as a risk group when looking at the characteristics of users of debt advice services. For instance, in the Netherlands, the dominant group of people contacting debt advice services are single men aged between 26 and 45 years, often without employment and with a lower standard of education (NVVK, undated). In Germany, it is estimated that half the individuals receiving debt advice

are one-person households, more than any other type of household (Destatis, 2019). Of these, most are single men (62%). They may have gone through an adverse life event such as divorce. Among users of free legal counselling from TSLA in Denmark, single men (without full employment, living in public housing) stand out (Løper, 2019a, 2019b). As is common for publicly financed debt counselling in Denmark, only people with low incomes are entitled to these services. It seems unlikely that these data can be explained by men being more likely than women to seek help in all these countries.

What do the EU-SILC data suggest about this gender gap in over-indebtedness? EU-level data show recent decreases in arrears among single men but confirm that single men are more often at risk of over-indebtedness than single women. In 2018, 8.8% of single men had arrears in mortgage or rent payments, utility bills or hire purchase payments, compared to 6.1% among single women. The gender gap is even larger if looking only at single households with income below 60% of the median: 17.0% for men versus 9.5% for women. This may be partly explained by single women being relatively often in an older age group, which comes with fewer debt problems, but single men in low-income groups are an important risk group that needs special attention.

As noted above, the situation may be changing, however. For example, before 2013 in England and Wales, men were more likely than women to use debt settlement procedures, but since then the situation has reversed with more women using debt settlement procedures. EU-level data suggest a narrowing of the gender gap in over-indebtedness among single people. The difference in the proportion of people with arrears between single men and women dropped from a 3.8 percentage-point difference between single men (10.8%) and women (7.0%) in 2015 to a 2.7 percentage-point difference in 2018, and for those at risk of poverty from an 8.6 percentage-point difference to a 7.5 percentage-point difference in the same period.

Comparing results

It is interesting to compare the EQLS analysis of being at risk of over-indebtedness (Figure 1) with the countries for which over-indebtedness is highlighted in the CSRs, and with the countries for which arrears have recently increased according to EU-SILC data.

Household over-indebtedness is not highlighted in the CSRs for Greece, Hungary, Italy, Latvia, Lithuania or Romania, while the data presented in Figure 1 show that these are among the countries where the largest proportions of people are at risk of being over-indebted (more than one-quarter of the adult population). As discussed above, this may be explained by these

countries having other issues that were judged more important to highlight in the CSRs, or by the CSRs' focus on mortgage arrears. In contrast, for some of the countries where – according to the data presented in Figure 1 – the proportion of people at risk of being over-indebted is relatively low (even if still over one-tenth, except for Sweden), the problem of over-indebtedness is highlighted in the CSRs: Denmark, Finland, the Netherlands and Sweden. This can partly be explained by Figure 1 focusing on current problems and disregarding debt levels, while CSRs highlight future risks and pay attention to debt levels.

Countries that do not stand out in terms of levels of over-indebtedness in Figure 1, and for which the CSRs refer to household debts as a problem, did emerge as countries where there have been recent increases in arrears: Estonia, Germany, Malta and the UK.

Overall, there is only one country in the EU where the proportion of people at risk of over-indebtedness is below the EU average (according to the EQLS analysis), where household debt is not a looming problem (according to the CSRs) and where there has been no recent increase in arrears (according to the EU-SILC data): Austria. However, even in this country, signals of emerging debt problems can be identified, with a steady increase of people at risk of poverty reporting arrears in rent or mortgage payments from 9.9% in 2014 to 12.3% in 2018.

It is interesting to complement the data presented here on trends in over-indebtedness with usage data from debt advisory services and debt settlement procedures (see sections on 'Numbers of users' in Chapters 3 and 4). As discussed below, it is difficult to interpret these numbers, as there are various alternative explanations for fluctuations in the usage of these services and procedures. However, the data clearly show that the problem of over-indebtedness did not disappear after the financial crisis. There have occasionally been drops in usage of these services and procedures, but these have been small, and often usage has increased rather than decreased in recent years.

Triggers and consequences

Over-indebtedness is a heterogeneous problem, and the causes and consequences can be hard to disentangle. For example, poverty can be both a cause and a consequence of over-indebtedness. Mechanisms can be complex: on the one hand, poor mental health can be a consequence of over-indebtedness, directly or through relationship problems; on the other hand, it can also contribute to job loss, thereby triggering loss of income and over-indebtedness. The next section first comments on possible triggers and causes, and then discusses consequences and societal costs.

Triggers and causes

It is not always clear whether something is a cause of over-indebtedness, or rather a trigger that – depending on the situation – can contribute towards someone becoming over-indebted. For instance, sudden unemployment can cause someone to be unable to make mortgage payments, but other factors moderate whether this trigger leads to over-indebtedness: applying for and being granted a particularly large mortgage (in turn, possibly triggered by high house prices), lack of savings and the absence of adequate unemployment benefits.

Given this complexity, when looking at the triggers of over-indebtedness rather than pinpointing the causes, it is more appropriate to distinguish broad profiles, which generally require different policy responses. The following three very broad groups can be identified (Huls, 1994; Eurofound, 2011).

1. **People who have experienced a risky life event such as unemployment, relationship breakdown, leaving the parental home, illness or unexpected home repairs.** Such events can trigger income and expenditure shocks, in some cases instantly turning indebtedness into over-indebtedness. This group increased in size during the financial crisis, with households hit by unemployment and salary or social benefit reductions. Households that have, or until recently had, higher incomes can more often be found in this first group and their debt problems more often relate to mortgage payments.

Examples of policy responses: facilitating a move into a cheaper home or a change of mortgage term, combined with support in finding a job (if inactive or unemployed), and social protection measures.

2. **People who, without such a life event, gradually become overcommitted.** They make use of available forms of credit, sometimes without realising that they might not be able to repay their debts in the future. Lack of financial management skills and aggressive marketing by lenders may both be sources of this tendency. Another potential cause includes escalating consumption habits, in some cases triggered by addiction (alcohol, drugs, gambling).

Examples of policy responses: addressing addictions or consumption habits, linking credit registries (to prevent people from taking out credit after credit), stimulating saving and restricting aggressive marketing for loans (including spreading out or delaying consumer payments).

3. **People with low incomes who need to obtain credit or default on payments to attain a reasonable standard of living.** These include people whose income comes from unemployment or social benefits, but there have been reports of increasing shares of the working poor among them, in particular people with part-time jobs, zero-hour contracts and the self-employed with little work (James, forthcoming). This group often faces relatively high interest rates.

Examples of policy responses: more general measures addressing income poverty and improving access to services such as healthcare and childcare.

Consequences and societal costs

Possible consequences of over-indebtedness include feelings of insecurity, housing insecurity and homelessness, financial hardship, poor health (physical and mental), family stress and relationship breakdown, stigma, strain on social relations, exclusion from basic financial services, barriers to obtaining employment, work accidents and industrial disease, absenteeism at work and reduced organisational commitment, and lack of trust in institutions such as banks and governments (see Eurofound, 2011 for an overview of the literature; Eurofound, 2014; Turunen and Hiilamo, 2014; Bejaković and Mrnjavac, 2017; Blázquez and Budría, 2018).

Given these possible consequences of over-indebtedness, it comes as no surprise that over-indebtedness is also associated with monetary costs for society. Societal cost can involve costs for various stakeholders – including, for example, employers (More-Hollerweger et al, 2013) – but the focus here is on costs for the taxpayer, or ‘public costs’.

No study was identified that systematically maps these costs across the EU. However, a number of national studies exist that list the types of cost that accompany over-indebtedness, more generally about over-indebtedness (Jungmann et al, 2014 – the Netherlands), or assessing debt advice services (Regioplan, 2011 – the Netherlands; More-Hollerweger et al, 2013 – Austria; Konsumentverket, 2014 – Sweden). For example, an Austrian study commissioned by the debt advice service maps public costs to estimate the return on investment of debt advice (More-Hollerweger et al, 2013). It estimates that every euro invested in state-approved debt advice services creates a return of €5.3. Such estimates are highly context-specific (in this case for the situation in Austria in 2011), but the message is important: debt advice comes at a cost, but providing no, little or late support may be even more costly.

Other assessments of debt advisory services refer less to societal cost, but they do discuss the potential benefits of debt advice. This includes evidence from Germany (Kuhlemann and Walbrühl, 2007; Ansen and Schwarting, 2015; ISS, 2017) and the UK (Plesance and Balmer, 2007; Atfield et al, 2016). Some of these benefits (such as improved social integration) can be translated into corresponding costs of over-indebtedness if debt advice is not provided.

These studies most often refer to the following potential consequences of leaving over-indebtedness unaddressed or addressing it late.

- **Unemployment and inactivity:** Debt problems can reduce the employability of non-working people, reduce income earning capacity (for example, among the self-employed), reduce productivity at work and cause job loss. Through this pathway, over-indebtedness can lead to public cost by reducing tax income, hampering economic growth, increasing unemployment and social benefit expenditure, and increasing demands on public reintegration (into the labour market) interventions.
- **Bad health:** Debt problems can cause mental and physical health issues. This increases the need for healthcare services.
- **Non-payment of bills:** Debt problems can lead to arrears with public institutions. These may be social housing tenants; utility telephone and internet providers; healthcare insurers or providers; or public authorities (taxes, fines). Such arrears can further lead to administrative and legal costs for the entities involved.

Albeit less frequently, the literature listed above also mentions other costs, including:

- **Homelessness:** Costs of homelessness (for example, sheltered housing) resulting from evictions caused by over-indebtedness.
- **Negative impact on children:** Cost of development support for children, related to the impact on children of tensions (and poverty) in the household, caused by over-indebtedness.
- **Criminal activity:** Costs for the legal system and police of the small group who engages in illegal activity due to over-indebtedness.

3 Debt advisory services

This chapter maps debt advisory services across the EU, examines the characteristics of these services and explores trends in their availability and features. It further discusses access problems and usage data. Examples from Norway are also provided. Similar EU-level mapping exercises have been carried out previously, with a somewhat varying focus (Eurofound, 2010; CPEC, 2013).

Availability of services

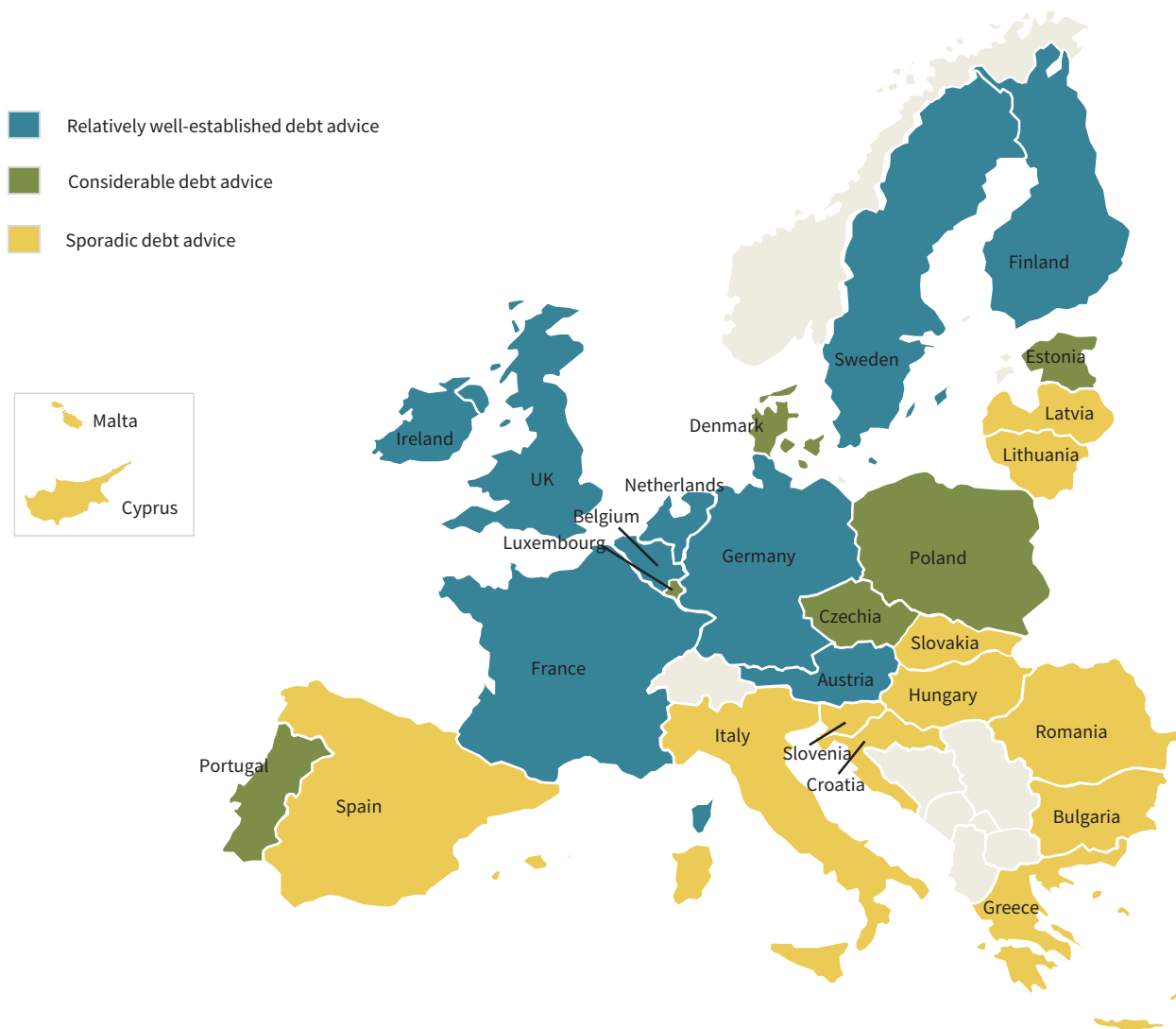
Debt advice is a relatively well-established service in only some Member States, including Austria, Belgium, France, Germany, Ireland, the Netherlands, Sweden and the UK. Services in these countries basically cover the entire country and are used by relatively large sections of the population. They often build on years of experience. For instance, ASB Schuldnerberatungen in Austria was established in 1995. Crésus in France started in 1992 in the Alsace region and later expanded across the country. MABS in Ireland started as a pilot in 1992, mainly as a response to illegal money-lending practices, and achieved national coverage three years later. However, there often remains room for improvement in access and quality, and necessary adjustment to changing contexts.

In the countries where debt advice is least developed or absent, over-indebted people often turn to private lawyers, unregulated financial counsellors, relief organisations, social workers or consumer organisations without well-developed debt advice.

From this research, it appears that countries with a particularly weak tradition of debt advice include Bulgaria, Croatia, Cyprus, Italy, Lithuania, Malta, Slovenia and Spain.

Figure 6 presents a qualitative categorisation of three levels of development of debt advice. Countries which are marked in blue have a greater number of services – and these are relatively well-established and easy to access – than countries marked in green. In turn, the countries marked in green have more structured debt advice than the countries marked in yellow, even if large gaps in availability, access and quality remain. Countries marked in yellow usually have little more than some local, relatively small-scale NGOs and lawyers or consultants as providers of debt advice. It should be noted that there are considerable differences between countries of the same colour, not only in the type of services provided and how they are structured, but also in the extent of how accessible and well-established their debt services are. For instance, in Hungary and Romania at least some actors have been identified that provide debt advice, even if on a limited scale. In other countries (Bulgaria, Croatia, Cyprus, Malta), close to no support has been identified.

Figure 6: Availability of debt advice in the EU28, 2019



Source: Eurofound (2020), *Addressing household over-indebtedness – compiled by Eurofound from the contributions of the Network of Eurofound Correspondents, Eurofound’s own investigation and feedback by experts*

Table 1 presents an overview of organisations that provide debt advice services in the EU28 and Norway. It includes wide-ranging types of organisations, which provide a broad spectrum of support to over-indebted people. For countries where debt advice services are basically absent, the table mentions organisations that play some role in supporting over-indebted people, even if one could argue that they may not strictly be debt advisors, but similar actors are excluded for countries where service providers are present who are closer to this report’s understanding of what a debt advice service is. While Table 1 aims to be as comprehensive as possible, this remains a challenge.

Some organisations may be missing: mainly smaller ones, but also larger ones whose principal purpose is not providing debt advice, but sections of which in practice do provide such advice. In addition, more detailed information may have emerged for some countries than for others, with, for instance, smaller relief organisations being mentioned in some but not in others where they may play a similar role.

Table 1 distinguishes between main providers of debt advice and smaller actors. Sometimes this distinction is clear-cut, for example with MABS in Ireland, which clearly is the main provider, while other actors are more specialised in specific aspects of debt problems or play a more minor role. In other cases, the distinction is less well defined.

Table 1: Debt advisory services in the EU28 and Norway, 2019

Country	Main provider	Other providers
Austria	ASB Schuldnerberatungen (regional government)	Private lawyers
Belgium	Centre public d'aide sociale (CPAS)/Openbaar Centrum voor Maatschappelijk Welzijn (OCMW) (municipal services under regional organisation)	Centre d'Accompagnement et de Formation pour Adultes (CAFA), Centre Social Protestant/Protestants Sociaal Centrum (NGOs)
Bulgaria	–	Private lawyers and consultants
Croatia	–	Private lawyers and consultants
Cyprus	–	Private lawyers, financial advisers, Movement Against Foreclosures (an NGO providing advice to prevent foreclosure)
Czechia	Poradna (counselling in stringency)	Člověk v tísni, Association of Civic Counselling Centres, Caritas, Diaconia of the Evangelical Church of Czech Brethren (Deccb)
Denmark	Forbrugerrådet Tænk (consumer council)	KFUM's Social Arbejde, Den Sociale Retshjælp, Settlementet, Dansk Folkehjælp, Finans Danmark, Café Exit and a variety of smaller NGOs and volunteer centres
Estonia	Local government (required to provide services or contract out to a company/NGO)	Eesti Töötukassa (E-töötukassa), variety of NGOs
Finland	Oikeusaputoimisto (public legal aid offices)	Takuusäätiö
France	Crésus Associations, Points conseil budget (PCB) (semi-public bodies)	Variety of smaller NGOs: Débiteurs Anonymes, L'Association Française des Etablissements de Crédit et des Entreprises d'Investissement (Afecei), Association nationale de défense des consommateurs et usagers (CLCV), Fédération Léo Lagrange, Union Nationale des Associations Familiales (UNAF), Agence Nationale pour l'Information sur le Logement (ANUL), Centres communaux d'action sociale (CCAS)
Germany	Caritas, German Red Cross, Der Paritätische, Arbeiterwohlfahrt (AWO) (welfare organisations)	Municipalities
Greece	Consumer organisations: Consumers' Federation (INKA) and Consumers' Association 'The Quality of Life' (Ekpizo) (consumer organisations)	KEYD-GEYD (public organisation), Union for Working Consumers of Greece (EEKE)
Hungary	Charity Service of the Order of Malta's Hítel-S (Credit-able) Programme, Financial Consumer Protection Centres of the Central Bank of Hungary	Tutor Foundation, BAGÁzs Association, Caritas (regional organisations)
Ireland	Money Advice and Budgeting Service (MABS)	Irish Mortgage Holders Organisation (IMHO), Free Legal Advice Centres (FLACs), Phoenix Project, Society of Saint Vincent de Paul (SVP), private for-profit businesses
Italy	–	Private businesses, Caritas in some cities in South Tyrol region, organisations granting access to a debt restructuring fund (such as consumer association Adiconsum)
Latvia	–	Latvijaskreditņēmēju asociācija (Latvian Borrowers' Association), Maksātnespējas kontroles dienests, (insolvency control service), Patērētāju tiesību aizsardzības centrs (consumer rights protection centre), Finance Latvia, Zvērinātu tiesu izpildītāju padome (Latvian Council of Bailiffs)
Lithuania	–	State-Guaranteed Legal Aid Service (SGLAS), private lawyers and consultants
Luxembourg	Service d'information et de conseil en matière de surendettement (SICS) comprised of Ligue Médico-Sociale and Inter-Actions	Small NGOs and for-profit services
Malta	–	Caritas Malta
Netherlands	Municipalities provide or contract out to an NGO: ABC-West, Combiwel, Doras	SchuldHulpMaatje, Humanitas
Norway	Arbeids- og velferdsforvaltningen (Norwegian Labour and Welfare Administration) (NAV)	Gjeldsofferalliansen, Den Norske Advokatforening, Jussbuss
Poland	Citizens' advice bureaux	Stowarzyszenie Krzewienia Edukacji Finansowej (SKEF), Rzecznik Finansowy (RF)

Country	Main provider	Other providers
Portugal	Gabinete de Apoio ao Sobre-endividamento (GAS), Rede de Apoio ao Consumidor Endividado (RACE)	União Geral de Consumidores (UGC), Associação de Consumidores de Portugal (ACOP), Gabinete de Orientação ao Endividamento do Consumidor (GOEC)
Romania	Autoritatea pentru protectia consumatorului (ANPC)	Crede-re, Asociația Utilizatorilor Români de Servicii Financiare (AURSF), Asociația Parakletos, private practitioners and companies
Slovakia	Centrum právnej pomoci (CPP)	Private consultancy firms and banks
Slovenia	–	SOS Debts Programme (Prelomi), Kralji ulice, Zveza potrošnikov Slovenije (ZPS)
Spain	–	Asociación de Usuarios de Bancos, Cajas y Seguros (Adicae), FACUA–Consumers in Action, regional/municipal debt advice organisations
Sweden	Municipalities provide or contract out to neighbouring municipality, or occasionally to private provider	–
United Kingdom	National Association of Citizens Advice Bureaux (Citizens Advice), StepChange	Debt Advice Foundation, Money Advice Trust, private for-profit businesses

Note: – = data not obtained or data not available.

Source: Compiled by Eurofound from the contributions of the Network of Eurofound Correspondents, Eurofound's own investigation and feedback by experts (see Contributions and Acknowledgements)

Type of services

The type of services provided by debt advisory services to over-indebted people varies between countries, services and individual users. The balance of focus on the various activities depends on the country context (Dubois and Anderson, 2011). If prevention effectively decreases over-indebtedness and the economy is stable (with few people losing their jobs), less debt help will be needed. If there is an effective debt settlement procedure to address insolvency, debt advice is likely to focus more often on specific preparation for this procedure. The division of labour between various institutions in an individual country also matters. For instance, if there is a public institution that focuses on supporting people to access debt settlement procedures, other organisations can focus instead on different support for over-indebted people. The activities also depend on the nature of the organisation that has developed them. Debt advice which has developed within a consumer organisation may, for instance, focus more on helping people in disputes and negotiations with creditors, while that which originated in relief organisations may focus more on material support.

Debt services have not always been consciously designed up front, but in some cases have emerged in response to needs. For instance, there are relief organisations, free legal aid offices and general citizen support services that have gradually focused some of their services more on debt advice in response to the observed needs of the population. Organisations may run specific campaigns, develop specific parts of the organisation that deal with over-indebtedness, or aim

to provide relief to people who contact them on an ad hoc basis. Caritas in Malta is an example of the latter approach. Other organisations focus specifically on one type of support and have come to provide much help to people with debt problems. They may not always provide a wide range of debt advice services, but they do play an important role in support for people with debt problems in the specific country context, where often few alternatives are available (for example, SGLAS in Lithuania provides legal aid).

Overall, the services provided may include a budget overview, (economic) crisis intervention, budget planning and psychosocial counselling, and legal advice. Types of debt counselling can be subdivided according to the criteria of financial and legal counselling, practical life counselling, psychosocial help and preventive pedagogical counselling (Korczak, 2019). Some organisations also provide financial relief, to facilitate access to basic goods or to contribute to fees which may be in place for specialised help or debt settlement procedures. For this report, activities have been grouped under three main categories: money and debt management, legal counselling, and linking to or providing other social services.

Money and debt management

Within the broad area of money and debt management, multiple activities are usually conducted. They include helping people to prioritise payments, to create structure among the often overwhelming number of letters by creditors (a source of stress with the associated risk that people stop opening such post), and to ensure timely response to letters (which can, for instance, prevent disconnection or eviction).

Another specific money and debt management activity includes restructuring (often multiple high-interest) loans into one cheaper loan, sometimes using a specific fund. For instance, in Italy, the fund for the prevention of usury (Fondo per la prevenzione del fenomeno dell'usura, established in 1996) provides credit to over-indebted individuals (and businesses), which is guaranteed by public funds. It is accessible through various organisations. For instance, the consumer association Adiconsum uses it for loans up to €30,000, with a seven-year term at an interest rate of around 2%. In Luxembourg, such consolidation can be part of the debt settlement procedure. The Minister for Family Affairs, on the initiative of the Mediation Committee in over-indebtedness (Commission de médiation en matière de surendettement), can grant consolidation loans from a specific public fund with fixed interest rates and a maximum duration of seven years. In Finland, similarly, Takuusäätiö guarantees restructured loans.

Legal counselling

Legal counselling deals with disputes between the debtor and creditors, and may play a role in verifying the legality of creditors' claims.

Debt advisory services also provide support in accessing debt settlement procedures: they inform people about the process, help people access them (applications and funding), and support people in going through the process. For example, in Sweden 59% of the debtors approved for debt settlement were assisted by debt advisors (Kronofogden, 2018). The Czech debt advice service Poradna estimates it spends about two-thirds of its time on supporting people in the debt settlement application process, in order to avoid rejections due to procedural problems, such as submitting forms after the deadline, including the wrong documents, or failing to open or understand related post. In Poland, a 2015 change in the bankruptcy law increased the number of users of SKEF's debt advice services, who were supported in filing bankruptcy petitions (even though SKEF is not a licenced supporter of legal debt settlement procedures). In 2018, for example, 77 applications were prepared, 53 were proceeded by the court and 46 were successful.

Linking to or providing other social services

Debt advisory services can also support people by helping them to access a tailored range of social services. They can serve as a point of contact that can obtain a good understanding of the over-indebted household's situation. The organisation can then trigger a range of referrals to appropriate services. These may include mental healthcare, employment and welfare services. Effective referral from debt advisory services to other services is considered key in achieving sustainable solutions (Eurofound, 2011).

With regard to psychological support, debt advice as such can provide comfort (Atfield et al, 2016). It is rarer for debt advisory services to specifically provide psychological help themselves. Only small-scale examples were identified. They mainly concern support in addressing addictions, where these have contributed to over-indebtedness (for example, Débiteurs Anonymes in Paris addressing consumer addictions; Adiconsum in Italy addressing gambling addictions).

Providers of debt advice

There are different types of providers of debt advice. Seven types are listed here and illustrated by examples.

1. Consumer organisations: Adicae in Spain, GAS in Portugal, and Ekpizo in Greece
2. Local authorities: in the Netherlands and Sweden
3. National consumer debt advice organisations: MABS in Ireland
4. Charities: Charity Service of the Order of Malta in Hungary
5. Social security/unemployment insurance organisations: NAV in Norway and E-töötukassa in Estonia
6. Employers: the military in Belgium
7. Private consultants and lawyers: in Bulgaria, Croatia and Cyprus

Many countries have various types of providers providing support alongside each other, and the overall landscape is complex. To get a better understanding of this, two key organisational aspects are discussed: the funding and targeting of debt advice services.

Funding

Complexity involved

The funding entity is often not the same as the provider. In some cases, funding is public but provision may be private. For example, in Sweden municipalities may outsource debt advice to private actors (although only 4 of the 290 municipalities did this in 2019; 70 outsourced debt advice to neighbouring municipalities).

Several Member States have various organisations providing some form of debt advice, and they can be funded in different ways. For instance, in Portugal debt advice services are provided by fee-paying member-funded consumer organisations. However, a number of municipalities provide some advice as part of the RACE network, and there is private for-profit debt advice. Some debt advice (provided by various actors) is funded from unclaimed amounts paid by the customers of an electricity company that demanded collateral, a practice later declared illegal. In Slovakia, debt advice is provided by a membership-funded consumer

organisation, but the Ministry of Justice also funds debt advice.

A single debt advice provider can be funded by different sources. For example, the NGO *Kerk in Actie* in the Netherlands receives public funds but is also funded by charity. Some debt advice in Germany and the UK is funded by charities, but several of these charities are largely publicly funded by municipalities and the regional (Germany) or national and regional (UK) government for their debt advice activities, and the local government also funds advice provided by other bodies.

The chain of funding can further complicate the situation. For instance, in the UK, the largest funder of debt advice (the Money Advice Service) is partly publicly funded, and in turn funds the main two debt advice providers (StepChange and Citizens Advice), which also receive direct public funding from the national government (administered through the Money and Pensions Service) and regional government.

In some cases, the source of funding differs between beneficiaries. In Germany, national law stipulates that municipalities and regions are responsible for financing debt counselling. However, regulations on the amount and scope vary greatly between individual municipalities and regions. German law stipulates that the municipalities and the regions are responsible for financing debt counselling. The regulations on the amount and scope vary greatly between individual municipalities and states. Municipalities finance the costs of debt counselling for persons receiving social benefits within one of the two basic security systems: for those who are judged able to work and those who are not. The regions finance the preparation of private insolvency proceedings. There are also some services which charities finance with their own resources to support groups excluded by some municipalities, such as self-employed or pensioners.

The overall situation in a country in terms of funding and provision can thus be rather complex. To further illustrate this: in Belgium, debt advice is provided by municipalities, NGOs and lawyers; it is regulated nationally; and it is financed predominantly by the Energy Fund (consumers' energy bill contributions, implemented by private utility companies) and complementary funding from regional government.

International funds also play a role. For instance, the 2014–2016 Citizens Advice Bureau's project 'Support for the people in debt' in Warsaw was financed by European Economic Area Grants.

The level of continuity of funding varies between organisations, ranging from project-based debt advice to established structures with more open-ended funding arrangements. For instance, Denmark's *Forbrugerrådet Tænk* debt counselling service relies on project-based funding.

Some providers work partly with volunteers. An example includes *Débiteurs Anonymes* in Paris, where advice is given by former users of the service.

Funding by creditors

Funding of debt advice services by creditors deserves special attention. Several interesting models have emerged, with varying degrees of voluntary and mandatory components.

In some cases, creditors have established and funded debt advice services jointly. For instance, the debt advisory organisation *Poradna* in Czechia was established in 2007 by a bank and consumer association and is now almost exclusively funded by a number of banks. The *IMHO* in Ireland was established and is funded by three banks. In Denmark, banks pay a part of the hours that employees spend as debt advisers (not as part of their normal work, but as voluntary workers). In other cases discussed below, creditors play a less direct role, but do contribute with specific funding.

Contributing creditors do not only include financial institutions, but also for instance the gambling industry and telecoms companies. In Finland, *Takuusäätiö* was established and is funded by the gambling industry. The fund for the prevention of usury (*Fondo per la prevenzione del fenomeno dell'usura*) in Italy is financed by legal proceedings raising administrative fines and sanctions in the field of money laundering and currency violations.

Sometimes, contributions comprise a proportion of the money recovered from debt advice users, with the support of the services. The UK's debt advice funder – the Money Advice Service – raises mandatory levies from authorised financial firms, payment institutions and e-money issuers. One of the two main debt advice providers in the UK (StepChange), besides receiving funds from the Money Advice Service and other sources, also receives funds directly from creditors. These are not mandatory levies, but voluntarily agreed contributions determined on the following principle: each year, StepChange reports the debts recovered for each creditor through payment plans with debtors; the creditors are then asked to contribute a proportion of this amount.

In Belgium, contributions are based on the proportion of arrears. The Belgian 1998 debt settlement law established that debtors whose assets are insufficient to cover debt mediation can obtain support from a fund to cover debt mediation. This fund (*Fonds de traitement du surendettement/Fonds ter bestrijding van de overmatige schuldenlast*) is managed by the Federal Public Service Economy. Lenders contribute to the fund based on the total amount of arrears in the payment of credit contracts recorded on 31 December of the preceding year: 0.03% for mortgage loans and 0.3% for consumer loans. Postal and telecommunications, insurance and gambling companies further contribute

fixed amounts of €1,200,000, €600,000 and €200,000, respectively.

Overall picture

While acknowledging the complexity of funding sources, one can still draw broad distinctions for country groups based on how debt advice is predominantly funded. In some countries, debt advice is largely funded from public tax revenues. In others, it is mainly privately funded, by charities, or by membership or user fees. While worthy of note, the other funding sources mentioned above (for example, creditor contributions) constitute a more limited share of funding for debt advice services in the Member States.

In the overview of public and private funding sources provided below, entities are listed that are closest to the provider, if this provider is of the same nature in terms of being public or private. For instance, in some countries funding comes from tax revenue by national government but is then transferred to a public body that provides the service (Ireland, Luxembourg), or to municipalities that do so. In such cases, the public body or municipalities, respectively, are listed as the funder.

Predominantly publicly funded debt advice:

- Local government: Estonia, Finland, the Netherlands, Poland, Sweden
- Regional government: Austria, Belgium
- Public authorities or bodies: Ireland, Luxembourg
- NGO activities significantly financed by public funds: Denmark, France, Germany, the UK

Relatively large share of privately funded debt advice:

- NGOs: Czechia, Hungary
- Few debt advisory services available (non-specific, scattered and rare):
 - Some membership-funded consumer organisations – Greece, Slovakia, Spain, Portugal
 - Mainly reliant on legal services (sometimes publicly funded) and consultants, and a small role for NGOs – Bulgaria, Croatia, Cyprus, Italy, Latvia, Lithuania, Malta, Romania, Slovenia

Targeting

The services of debt advice providers may target or cover specific groups or focus on certain geographic areas. This is discussed below, taking a comprehensive perspective, including organisations that have not been identified as key debt advice services in Table 1 because they may be relatively small or highly specialised on certain aspects of support.

There may be a geographic component of coverage, where providers operate more locally, even if formally still being accessible for everybody in the country. An

example is SKEF in Poland, which is in theory accessible to people from across the country, but in practice is mainly used by people located in the four cities where it has Centres of Financial and Consumer Advice. Denmark's Forbrugerrådet Tænk debt service has centres in seven towns.

Providers may in other cases be formally restricted to people living in a certain area, but which taken together cover the whole country. This is often the case in countries where local or regional governments provide debt advisory services within a national framework. This may lead to wide heterogeneity in the types of services provided, such as in the Netherlands, where local governments are given a large degree of freedom in organising the service. Even when nation-covering services are available, additional support may be provided to residents of a certain area, such as for instance by the NGO CAFA in the locality of Saint-Gillis/Sint-Gillis in Belgium.

Debt advice providers may alternatively not be part of a nation-covering structure, while having a geographically restricted target population. For instance, in Italy, Caritas provides debt advice in only a few cities in the South Tyrol region.

Certain organisations may also focus on people in situations that often go hand in hand with debt problems, as follows.

- **The unemployed or those with notice of redundancy:** In Estonia, people without work or facing unemployment who are registered in the E-töötukassa are entitled to its debt counselling services, established by the Employment Programme 2017–2020.
- **Recipients of social assistance:** In Warsaw (Poland), recipients of social assistance were entitled to debt advice in the 2014–2016 Citizens Advice Bureau's project 'Support for the People in debt'.
- **People leaving prison:** Services for people leaving prison sometimes include debt advice (Café Exit in Copenhagen; in the Netherlands; all regional governments in Germany).

Other organisations more generally focus on specific population groups. These groups may more often have certain types of debt problems, but not necessarily. A Dutch organisation for instance focuses on youth. National Traveller MABS in Ireland focuses on Irish Travellers. A Warsaw-based organisation focusing on support for the disabled also provides some support for the over-indebted. There are also examples of debt advice being a special benefit to which employees of an organisation are entitled. These may concern occupations where debt problems – and the stress (and/or impact) that accompanies it – may be particularly risky. For instance, in Belgium, people in the military are entitled to such support.

Some organisations focus on supporting people with specific types of debt problems or needs, including the following.

- **Certain credit practices:** for example, some bank practices in Cyprus; car loan practices in Hungary.
- **Consumer behaviour/addictions:** for example, Débiteurs Anonymes in Paris follow the methods of Alcoholics Anonymous; the Marianne von Weizsäcker Foundation in Germany for over-indebted drug addicts.
- **Mortgage debt:** for example, the Servicio de Intermediación Hipotecaria in Madrid
- **Consequences of over-indebtedness:** for example, trying to avoid foreclosures, including Movement Against Foreclosures in Cyprus; Fachstelle für Wohnungssicherung (FAWOS) in Vienna; Ofideute in Barcelona.
- **Need for certain types of advice:** these include free legal advice bodies such as FLAC in Ireland, CPP in Slovakia and SGLAS in Lithuania.

Barriers to access

Lack of availability is a key access problem. In several countries, there are no specific services to which people who are over-indebted can turn when they need help, besides private lawyers or small-scale relief organisations (see section on ‘Availability of services’ at the beginning of this chapter).

However, even when there are services in place, there are still barriers to access. These may relate to entitlement criteria. For instance, some exclude people outside the target population group (see section on ‘Targeting’ above). In some cases, the services are not accessible for the self-employed (some municipal services in the Netherlands), and if they are, the services may not always be well prepared to deal with business debts.

In other instances, services are available and people are entitled to use them, but other barriers stop them from doing so. The services may have limited capacity. Barriers can also relate to distance: when debt advice is located only in larger towns, it can be more of a barrier for people in rural areas to access them. People may also be unaware of the services or their entitlement to use them. User fees can also stop people from using debt advice. A further barrier could be lack of trust in whether the provider defends the interest of the debtor well enough, or a perceived or real lack of quality. The final group of barriers are those when services exist, someone is entitled to use them, could do so and would like the existing services in principle, but the over-indebted person does not contact the provider – including unawareness and stigma.

The following barriers are briefly discussed in more depth: lack of capacity, user fees, lack of awareness and social stigma.

Lack of capacity

Clearly, capacity problems are the most severe in all those countries where few debt advice services are available. However, lack of capacity is even an issue in countries marked in green in Figure 6 (those with considerable debt advice availability). It can cause the following problems.

- **Waiting times:** This is a risk for people with debt problems, as debts can spiral quickly out of control. For instance, in Norway, one in ten municipalities had more than a month of waiting time in 2014, and ten municipalities had a waiting time of three to eight months (VG, 2014). Before a 2019 reform, waiting lists were also often noted in Finland, especially in larger cities.
- **Lower quality of service provision:** For example, an assessment of debt advice services in Sweden argued that municipalities do not adapt the budget in relation to the number of debtors. This means that municipalities with few debtors (usually municipalities whose inhabitants have high incomes) can spend more time per debtor than municipalities with many debtors (Konsumentverket, 2018).

User fees

The public providers of debt advice and the welfare organisations listed in Table 1 do not charge any fees to users. However, in several countries there are actors taking the role of debt advisors that do charge user fees. This certainly applies to countries where people mainly rely on private lawyers and consultants. For instance, unregulated financial counsellors in Cyprus ask €50 for the initial consultation and between €500 and €1,000 for their full range of services. The Latvijaskredītņēmēju asociācija in Latvia also charges consultation fees. Consumer organisations often restrict themselves to fee-paying members, but membership is open to everyone and fees are usually modest. Sometimes, the services they provide for over-indebted people are available to non-members as well, which is the case for Adiconsum in Italy and for Forbrugerrådet Tænk in Denmark.

Lack of awareness

People can be unaware that debt services are available to them. Such non-take-up results in people not receiving the most adequate (or cost-effective) services, receiving delayed support or not receiving debt advice at all. It may also lead to people paying for services that they could have obtained for free.

It has been argued that one should be cautious about using terms such as ‘unawareness’ (and ‘non-take-up’), as the terms put the onus on the user. Usually, unawareness is caused by the complexity and lack of proactiveness inherent in the system, as well as a lack of clear and well-disseminated information (Eurofound, 2015).

Due to the nature of this problem, it is particularly hard to find consistent data on this barrier. However, unawareness has been mentioned as an access problem in various Member States (Konsumentverket, 2018, 2019; Kruk and Tokarczyk, 2019). Furthermore, as debt services have often been developed only recently, initial increases in numbers of users are likely to be explained partly by increased awareness (see section on ‘Numbers of users’ below).

Social stigma

People may not turn to, or may delay turning to, debt advice services as a result of shame and perceived or real stigma (Atfield et al, 2016; Konsumentverket, 2019). It has been argued previously that options to contact debt advice services by phone or the internet can help in addressing this (Eurofound, 2012). For example, *Débiteurs Anonymes* in Paris facilitates online and telephone contact. NAV financial advice and debt counselling was established in 2009 in Norway to provide advice to people anonymously over the phone and by chat. Several of the other services listed in Table 1 also offer this service (for example, MABS).

Quality

Access to debt advisory services is particularly effective if these services are of high quality. Previous research by Eurofound (2012) focused on factors that are important for the quality of the service. It highlighted, for instance, that debt advice should offer customised, consistent approaches. Registration of debt advisors, conditional on training, can help to assure quality. It is important to build relationships of trust, to fully understand the nature of a household’s situation and to develop an appropriate response. As far as possible, the household should be put in control, contributing actively to the solution. It is also key for debt advisory services to effectively refer debt advice users to other services (such as welfare offices and health services), and to be considered a reliable partner by creditors and authorities.

Numbers of users

Challenges

Given the diversity in the activities of debt advice services across the EU, it is questionable how meaningful an international comparison of data on the numbers of users is.

There are also several challenges in collecting data. First, the picture of debt advice is often complex, with multiple providers in some countries sometimes with slightly different roles. For example, Denmark’s *Forbrugerrådet Tænk* (with about 120 volunteers) has helped over 15,000 people since 2010. To get a full picture of the numbers of people helped, however,

comparable data from users of the other providers in Denmark listed in Table 1 should be added. This is a complex task.

When there are many small organisations active in an area, it can be particularly challenging to obtain aggregate data. This is the case in decentralised settings, for example, where municipalities have a large role in designing debt services (such as in the Netherlands) and in countries where multiple private actors play a role (such as in the UK). Data may be available from umbrella organisations: for instance, the *Nederlandse Vereniging voor Volkskrediet (NVVK)*, undated) in the Netherlands, which showed a 10% drop in new users among its member organisations, from 92,100 in 2017 to 86,200 in 2018 (excluding the self-employed) after increases in previous years. However, these data are only based on reports from members, not from all debt advice providers. In Germany, there are organisations which collect data among large samples of providers, such as a study of 124,997 cases from 44 debt advisory services. The largest were found to be: the German Red Cross debt advisory service in Hamburg (7,535 counselling cases, 6% of all cases), *Hamburger Arbeit GmbH* in Hamburg (7,114 cases, 5.7% of all cases) and *Insolvenzhilfeverein Wilhelmshaven* in Lower Saxony (6,550 cases, 5.2% of all cases) (iff, 2019). According to the Federal Statistical Office of Germany, the number of people advised was 571,467 in 2018 (up from 2017, but down from a peak in 2015 at 647,136). These numbers are estimates, extrapolated from data from 559 of the approximately 1,450 municipal, private, welfare and consumer organisation offices providing debt counselling in Germany (Destatis, 2019).

It can be particularly hard to convince private actors to collect and reveal user data. This concerns for-profit advice organisations, but it can also apply to private NGOs. For instance, *Débiteurs Anonymes* in Paris reports to be reluctant about collecting any data at all due to its emphasis on anonymity. Sometimes larger consumer or relief organisations provide debt advice to people. They may have demarcated specific sections of the organisation to deal with this. In other cases, they may have responded incrementally to requests from people contacting them, and only structured the help within their organisation after some time. User data may be available but not specifically for support with over-indebtedness, and further specification may not be a priority.

If data are available, they may only relate to a few years, or they may be concerned with the total number of users since the service’s establishment, without annual specifications. For instance, the number of persons who turned to Estonian local governments for help is only available for 2016 and 2017 at the time of writing this report: 2,240 and 2,143, respectively. SKEF in Poland documents the number of users of their services overall,

but it only started to do so separately for people who receive advice regarding their debt problems in 2012.

The way in which usage is recorded differs. For instance, some organisations measure the number of people currently supported with debt advice, while others count the number of times they were contacted. The figures from the Federal Statistical Office of Germany referred to above include all persons counselled in a given year and as counselling often lasts longer than one calendar year, they include ongoing as well as new cases. Data from organisations which report both first-time contacts and number of people advised give some insight into how these numbers can differ: in 2018, ASB Schuldnerberatungen in Austria advised 62,862 people, of which 19,458 were first-time contacts. In 2017, the Crésus federation network in France advised and supported 33,720 over-indebted households over terms of three months to seven years. This compares to 5,469 new users that year (excluding general financial education and micro-credit provision), steadily up from

4,772 in 2015 but down in 2018 to 5,227. When an organisation focuses on recording new clients (such as MABS in Ireland), it can, however, also be a challenge to interpret changes, as the number of long-term users may be rising while the number of new clients is falling. Another challenge in interpreting user data is that it is difficult to assess the quality of data, with different organisations applying different quality standards.

Usage trends

Regardless of the challenges, user numbers reveal something about the role of debt advice services in different countries, they can indicate trends and they do shed light on the respective role of various providers in one country. User numbers also give an impression of the volumes involved. Table 2 presents illustrations of the usage of debt advice services for which relatively abundant data with clear mention of the measurements were obtained. When available, the number of new users only is reported.

Table 2: Illustrations of user numbers of debt advisory services, 2008–2018

Year	Country and service provider							
	Poland – SKEF	Czechia – Poradna	Estonia – E-töötukassa	Ireland – MABS	Luxembourg – SICS	Austria – ASB Schuldnerberatungen	Hungary – Hitel-S (Credit-able) Programme	Germany – Municipal, private, welfare and consumer organisation offices providing debt counselling services
2008	–	4,120	–	19,041	724	22,305	–	–
2009	–	11,386	–	22,962	836	22,465	–	–
2010	–	10,939	–	25,274	926	21,069	–	–
2011	–	11,724	–	26,881	786	21,820	–	–
2012	348	10,949	–	26,163	674	21,140	–	–
2013	545	11,450	1,518	24,377	688	20,403	550	–
2014	565	11,137	1,374	20,412	413	20,772	690	460,626
2015	1,246	11,108	1,281	19,990	444	19,006	790	647,136
2016	1,527	9,710	1,308	19,866	349	17,881	820	617,237
2017	1,672	9,103	1,549	19,292	332	19,567	820	560,673
2018	1,411	7,963	–	17,465	271	19,458	700	571,467
Per 10,000 adult population	0.5	9.2	14.5	48.1	5.6	26.7	0.9	82.5
Measure	Number of users receiving advice regarding over-indebtedness	Number of contacts/ phone calls/ meetings	Persons who received debt advice	New users only	First time contacts (phone, in writing, face-to-face)	Number of persons contacting a debt advice centre for the first time via telephone, in writing or face-to-face	Number of debtors helped	Estimate of persons advised

Notes: Peaks are in bold. – = data not obtained or data not available.

Sources: Data provided by organisations listed, and for Germany by Destatis (2019); 2018 population (18+) data from Eurostat [demo_pjan]

Interpreting trends

Broadly speaking, changes across time in the use of a debt advice service can be explained by fluctuations in the awareness among the population of the services' existence, their role, or of the conditions associated with accessing them (such as being free of charge). The debt advisory service Poradna in Czechia (established in November 2007) showed a surge from 2008 to 2009, which can mainly be explained by increased awareness of its existence, rather than by the financial crisis.

Fluctuations can also be explained by changes in capacity of debt advice services over time. The Hitel-S (Credit-able) Programme in Hungary was established in 2009, but in the years following 2013 – for which data are available – it was still increasing its capacity.

Changes in the population covered will also affect trends in usage. In the case of the E-töötukassa in Estonia, the relatively steep increase from 2016 to 2017 shown in Table 2 seems to relate partly to the implementation of the 'workability reform' in 2016. The aim of the reform is to bring persons with reduced work ability (back) into the labour market and it is implemented through the E-töötukassa. Therefore, the number of E-töötukassa clients increased, and as the persons with reduced work ability/disabilities on average have debt problems more often, the receivers of the debt counselling service increased.

The prevalence of debt problems in a country or region also affects take-up of the advisory services. In Ireland, for example, MABS is a well-established debt advisory service, and changes in awareness are less likely to be an issue than for a service that has been recently established. Also, it is a clear main player in the debt advice sector, with national coverage, so the growth of new clients each year from 2008 to 2011 can probably largely be explained by increased need due to the global financial crisis. The decline afterwards is probably connected to economic recovery. As another example, SICS in Luxembourg shows a decline in users – following a continuous increase from 483 in 2006 (not shown in Table 2, which starts in 2008) to a peak of 926 in 2010 – which can largely be explained by economic recovery following the crisis.

The role of a service respective to other providers due to changing budget, geographical presence, or the establishment or abolition of an alternative service provider may affect its usage. SICS in Luxembourg shows a drop in users from 2013 to 2014, many of whom were absorbed by an alternative body established in 2013 (Mediation Committee), which decides on the admissibility of cases for debt settlement procedures. The drop in user numbers over that time period may also partly be explained by a change in the rules regarding how data are collected.

In addition, fluctuations in usage of specific debt advice services can be explained by changes in the legal context. For instance, if the use of certified debt advice is mandated in order to be entitled to debt settlement programmes, usage of non-certified debt services can decrease. In Ireland, the availability of more accessible debt relief options from 2012–2013 may have led to some individuals seeking advice directly from private personal insolvency practitioners, even if many may have contacted MABS as well.

Recent reforms

Debt advice has become more common. Most of the organisations listed in Table 1 were established after the global financial crisis began in 2007. In several countries, services had been available for longer, but the public sector adopted a more structural role (France, Poland, Portugal). In other countries where debt services were basically absent, the public sector has taken on more of a role (Denmark), or there are signs that may indicate that there could at some stage be a development in that direction (Italy).

- **France:** Budget advice points are being rolled out across the country, following a pilot which started in 2016 in four regions.
- **Poland:** SKEF was the main debt advice provider until 2019, when 1,529 citizens' advice bureaux were opened. These offices provide (mainly legal) support to people who cannot afford private support on a broad range of issues, but the topic of 'indebtedness' seems to be considered key, as 20 hours of training for advisers (out of a total of 70 hours) are dedicated to it.
- **Portugal:** In 2013, the government created a network of institutions to support people in financial distress (RACE network). It consists of about 20 public and private (for-profit and not-for-profit) entities. They are, however, not legally allowed to negotiate with financial institutions on behalf of the debtor, one reason why the larger consumer organisation GAS reportedly stayed out of the network.
- **Denmark:** Since 2010, the Ministry of Social Affairs has financially supported debt advice on a temporary basis (previously as 3-year projects, currently as 2-year projects), which is provided by volunteers from a number of NGOs (the largest being the Forbrugerrådet Tænk). No debt advisory services existed previously, besides some small initiatives such as debt counselling for ex-prisoners. Social Legal Aid did exist, but the nationwide organisation referred to in this report (with a stronger focus on debt advice) was created in 2007.

- **Italy:** The country lacks structural debt advice, but the 2012 establishment of ‘crisis settlement boards’ may at some stage develop into a debt advice structure, as their duties aim to ‘undertake any initiative functional to the drafting of the restructuring plan’ (Comparato, 2016).

In some countries, specialised services have been established in response to a surge in certain problems or a change in the law. For example, in Spain various organisations emerged supporting people at risk of eviction, in response to increases in the number of foreclosures. In Cyprus, the Movement Against Foreclosures was established in 2013 as a response to a new law which made foreclosure easier.

There have also been changes in the way debt advice is organised. In Finland, the government responded to a 2015 report from the Ministry of Employment and the Economy reviewing the state of the debt advisory services. The system was seen as complicated and bureaucratic, and the services provided did not fulfil their objectives. Regional differences in the provision and accessibility of the services were seen as a major problem (TEM, 2015; Peura-Kapanen et al, 2016). In some cases, waiting times were several months (HS, 2018). As a response, in 2019 responsibility for the services was transferred from the municipalities to the national government and was provided through the state legal aid offices, which are under the administrative branch of the Ministry of Justice (Act on Financial and Debt Counselling (Laki talous- ja velkaneuvonnasta 813/2017)).

The nature of the advice given has also changed, in response to a changing context. A key factor which has impacted debt advice is the establishment of accessible debt settlement procedures. Debt advisory services took on a larger role in supporting people to access these procedures and helping them to successfully negotiate them. This is, for instance, the case for MABS in Ireland.

Sometimes services have been established for the very purpose of helping people through such procedures. The use of services offered by such specific organisations, or by debt advice services, may have become a legal requirement in order to be able to access the procedure. Examples include the Maksātnešpējaskontrolesdienests in Latvia and the Commission de médiation en matière de surendettement in Luxembourg which was established in 2013 when an earlier (2000) law was replaced by a procedure that can clear the debts of a debtor. The CPP in Slovakia was established in 2005, but in 2017 – following a change in the debt settlement law – it became the only authorised institution through which a petition for bankruptcy can be filed. The establishment of debt advice services was sometimes linked to the establishment of such legal procedures, even if the service takes a broader role and is not a public body required to be used for accessing the procedure. For instance, in Czechia Poradna’s establishment coincided with the implementation of the 2008 Insolvency Act.

4 Debt settlement procedures

This chapter examines debt settlement procedures for over-indebted people across the EU and Norway, problems in accessing these procedures, and their characteristics. It ends with a discussion on trends in take-up, availability and features.

There have been other important similar mapping exercises (Ferretti, 2016; McCormack et al, 2017). This report adds to these studies by providing a 2019 update in an area where considerable changes have occurred in the past few years. It also complements them by focusing more on access problems and certain characteristics that relate to the social situation of over-indebted people, and by going beyond mapping laws in particular by discussing usage of the procedures in practice.

In general, these procedures seek to clear people of their debt problems (to varying extents), on the condition that they successfully go through the procedure. These procedures often comprise a payment plan, with a set period during which the debtor needs to make certain payments, usually from the sale of specified assets and all income above a mandated threshold. Normally, the remaining debt is only waived after that period. In some cases, the remaining debt is waived at the start of the procedure, followed by a payment plan or by a period during which the financial situation of the debtor is monitored. For instance, in Luxembourg's Personal Recovery Procedure, debtors whose financial situation is 'irremediably compromised' can obtain an immediate debt discharge following asset liquidation, without any need for payment. However, the debtor's financial situation is monitored for the next seven years and, if it improves, a reassessment is made and a payment plan may be established.

Partial debt relief is not the only virtue of these procedures. They can, for instance, also contribute to solving the situation by preventing debts from spiralling further out of control by setting limits on interest and fines that can be charged by creditors, from the moment that the debtor has started the procedure (Romania, the UK). The procedures can also bring order to the debtor's financial situation. They can help to simplify the situation, by preventing the need to make payments to many different creditors. This can be done by requiring debtors to make payments to one entity, which then distributes parts of this to the – often multiple – creditors (UK).

Some countries have one debt settlement procedure in place. Other countries have multiple procedures in place, for different situations. For example, in Cyprus and Ireland there are different procedures, mainly

depending on the amount and type of debts a person has, with generally lighter processes for people with smaller debts and debts other than mortgage arrears or which are not backed up by an underlying asset (so-called 'unsecured debts' such as credit card, healthcare, utility, telephone or tax arrears).

Essentially, all procedures are to be initiated by the debtor. However, in some countries, under certain circumstances the creditor may do so as well (insolvency proceedings by liquidation of assets in Romania and the UK), or the creditor may need to agree to a procedure (Lithuania). In Portugal, a debtor can request a debt restructuring procedure (PERSI – Procedimento Extrajudicial de Regularização de Situações de Incumprimento), but creditors can also register debtors for the procedure if they are one or two months overdue on a payment.

All Member States have debt settlement/bankruptcy procedures for businesses. Some procedures are accessible for businesses and private persons (Spain), while others are meant for private persons only, and a separate procedure is in place for businesses (Italy, Romania, and debt settlement in Sweden). In some cases, a law which only applied to businesses was broadened and adjusted to also apply to persons, such as in Spain in 2015. In the case of Bulgaria, private persons also started using the business debt settlement procedure, not due to changes in the law, but rather on a case-by-case basis, following a precedent in 2015. In other cases, the procedure was tailor-made to the situation of over-indebted persons.

Table 3 presents an overview of debt settlement procedures for private persons in the EU28 and Norway. Besides a brief description of the procedures, it gives an overview of their length. Some other features of debt settlement procedures are discussed in more detail in the next sections. The focus is on access and aspects of debt settlement procedures that relate to working lives, living conditions and social protection.

Some of the procedures listed have a somewhat different purpose than the focus of this report, such as the bankruptcy procedures in Denmark, the Netherlands and Sweden. They do not lead to (partial) dismissal of debts afterwards (even if dismissal may sometimes be agreed with the creditors, as in the Netherlands). They are usually initiated by the creditors and imply that the person loses control over assets and cash, and it is known what assets and liabilities the debtor has. The assets are used to partially pay the debts, and remaining debts can be claimed at a later stage. The procedures can sometimes be a precondition

for a shorter debt settlement process, as in Denmark. Such bankruptcy procedures are still included here, however, as they are open to private persons. In

practice, they are mostly used by businesses (or the self-employed) and there are other procedures in place that tend to be used by private persons.

Table 3: Debt settlement procedures for over-indebted people, EU28 and Norway, 2019

Country	Procedure(s)*	Years**
Austria	<p>Out-of-court settlement – All debtors are encouraged to reach an extrajudicial agreement with creditor(s)</p> <p>Restructuring plan – No assets are liquidated. The debtor repays 20% of debts over five years (no need to be accepted by creditors)</p> <p>Repayment plan – All assets not required for a modest living are liquidated and a repayment plan with a fixed monthly payment is proposed to creditors</p> <p>Absorption plan – Repayment plan rejected or debtor earns subsistence minimum (€933 + €186/dependent)</p>	<p>Restructuring plan – 5 years</p> <p>Repayment plan – Maximum of 7 years</p> <p>Absorption plan – 5 years (during which all earnings above subsistence minimum income level are paid to creditors)</p>
Belgium	<p>Collective debt settlement – Debtor and mediator propose repayment plan to creditor(s) or judge imposes a plan</p> <p>Full liquidation – If debtor judged incapable of making any repayments, full liquidation of assets</p>	<p>Collective debt settlement – 7 years maximum (potentially more if debtor wants to keep residence)</p> <p>Full liquidation – 5-year probationary period</p>
Bulgaria	A 2015 Interpretative Decision allows debtors to use the bankruptcy law (previously for business only) on a case-by-case basis. All non-essential goods and pay above subsistence minimum is liable to seizure	3–5 years
Croatia	Consumer bankruptcy – If out-of-court settlement attempts fail (mandatory to try), assets are liquidated and all income over a subsistence minimum goes to creditor(s)	1–5 years
Cyprus	<p>Personal repayment plan – Debtor negotiates repayment plan with creditors; monthly instalments above subsistence minimum are paid. Can be imposed against creditor's will</p> <p>Debt relief order – Immediate debt write-off for debtor (co-debtors still liable) for unsecured debts < €25,000, net monthly income < €200, no assets</p> <p>Bankruptcy of natural persons – Liquidation of all non-essential assets (must have at least €15,000 of unsecured debt)</p>	<p>Personal repayment plan – 5 years with possibility to extend to 6 years</p> <p>Debt relief order – Immediate if eligible</p> <p>Bankruptcy of natural persons – 3 years</p>
Czechia	<p>Informal settlement – Encouraged to directly negotiate a repayment plan or payment holiday with creditors</p> <p>Debt relief proposal – Debtor and accredited advisor draft a repayment plan that is agreed upon with creditors. Can include asset sales and/or repayment schedule</p>	<p>Informal settlement – 1 month to reach an agreement</p> <p>Debt relief proposal – Maximum 5 years</p>
Denmark	<p>Bankruptcy – Assets are seized and sold</p> <p>Debt settlement procedure – Debtor hands over portion of income for agreed time frame</p>	<p>Bankruptcy – Debt settlement procedure shortened to 2 years</p> <p>Debt settlement procedure – 3–5-year repayment period</p>
Estonia	<p>Enforcement – Invoked against debtor in order to have debts repaid in full; must hand over all income above statutory minimum; at end of process, debtor must petition court to have all remaining debts discharged</p> <p>Debt restructuring procedure – Debtor can attempt to reach agreement on restructuring debt or repayment period/procedures, in order to make repayment more feasible (does not end enforcement or prevent creditors from pursuing enforcement)</p> <p>Personal bankruptcy – Sale of estate and subsequent fixed payment plan to debtors for remaining debt</p>	<p>Enforcement – Until debts are repaid in full; maximum of 10-year repayment period</p> <p>Debt restructuring procedure – 7-year maximum repayment period</p> <p>Personal bankruptcy – Usually 3–5 years</p>
Finland	Debt adjustment – Repayment plan is constructed with the help of a debt counsellor, in which all income above a guaranteed minimum is paid to creditors	Debt adjustment – Usually 3–5 years; this can be extended to up to 10 years if debtor desires to keep the home

Country	Procedure(s)*	Years**
France	Debtors submit applications to household debt commissions (HDCs), who prescribe a repayment plan Personal resettlement procedure – If unable to pay anything, cancellation of debts and liquidation of qualifying assets Repayment plan – HDC mediates negotiations between debtor and creditor(s) or imposes a repayment plan	Personal resettlement procedure – Immediate if eligible Repayment plan – 7-year maximum repayment period (no maximum if debtor wants to keep primary residence)
Germany	Consumer insolvency – Debtor first submits settlement plan via court to creditors. If they reject the plan, the debtor's assets are sold and income above a minimum is designated to the creditors	Consumer insolvency – Usually 6 years
Greece	Private Insolvency Act – Asset liquidation, if necessary, to satisfy creditors, followed by payment period Mortgage debt settlement procedure – Must attempt out-of-court settlement first through digital platform; must have mortgage-secured loan on house due three months until 31 December 2018; home valued maximum €250,000; debtor's income must be below a threshold	Private Insolvency Act – 3 years Mortgage debt settlement procedure – Usually lasts around 3 months, followed by payment period of up to 25 years
Hungary	Out-of-court settlement – Debtor attempts to reach agreement with debtors on repayment (needs consensus) Court settlement procedure – Debt between €6,000 and €187,000, €1,600 overdue in the past 90 days. Family Insolvency Service counsellor helps debtor draft a repayment plan Court settlement decision – If no agreement can be reached, judge issues a repayment plan that usually combines asset sales and structured repayments	Out-of-court settlement – Debtor has 120 days to reach agreement with creditor(s) Court settlement procedure – 5–7-year repayment period Court settlement decision – 5–7-year repayment period
Ireland	Debt relief notice – Non-mortgage debts < €35,000, assets < €400, and net monthly income < €60 Debt settlement arrangement – Unsecured debts of any level Personal insolvency arrangement – Unsecured and secured debts of any level Bankruptcy – Debts > €20,000, asset liquidation followed by repayment plan for remaining debts	Debt relief notice – Maximum 3 years (early discharge if 50% paid back before 3 years) Debt settlement arrangement – Maximum 5 years (1-year extension possible) Personal insolvency arrangement – Maximum 6 years (with 1-year extension possible); secured debts are restructured and can feature a 'clawback' for up to 20 years Bankruptcy – 1 year to sell assets, 3-year subsequent repayment plan
Italy	Debt restructuring – Debtor, with help of a crisis resolution body, proposes restructuring and repayment plan to creditors (60% must approve) Consumer plan – Debtor can present a repayment plan, which can be approved by the judge if deemed suitable Asset liquidation – Liquidation and subsequent repayment plan devised with help of a crisis resolution body	Debt restructuring – No temporal limit on plan that can be agreed upon between debtor and creditors Asset liquidation – Maximum 4-year period before debt discharge is possible
Latvia	Bankruptcy – Assets are sold and if outstanding debts remain after sale, a repayment plan is agreed	Bankruptcy – If a repayment plan is required, maximum 3 years (6 months if debtor can repay 50% of debts, 12 months if 35%, 18 months if 20%)
Lithuania	Personal bankruptcy procedure – Asset sale followed by payment plan agreed by debtor and creditors	Personal bankruptcy procedure – Maximum 3 years
Luxembourg	Mediation Committee rules on admissibility of cases and mediates entire judicial process Conventional settlement procedure – Debtor, SICS and Mediation Committee propose settlement plan to creditors. If plan is not accepted, next step is judicial settlement procedure Judicial settlement procedure – Judge imposes a repayment plan on the debtor and creditor(s) Personal recovery procedure – Debtor's financial situation must be 'irremediably compromised'; debt discharge after asset liquidation	Conventional/judicial settlement procedure – Maximum 7 years (this can be extended if debtor desires to keep residence) Personal recovery procedure – Immediate if eligible (if the situation of the debtor improves in the next 7 years, the Commission reassesses)
Malta	Not available – Only for the self-employed	–

Country	Procedure(s)*	Years**
Netherlands	<p>Amicable debt settlement (<i>Minnelijk traject</i>) – Out-of-court procedure between debtor and creditor(s) to create a new payment plan (lots of flexibility)</p> <p>Legal debt settlement (<i>Schuldsanering</i>) – Judge hands down repayment decision to debtor and creditor(s)</p> <p>Personal bankruptcy (<i>Faillissement</i>) – Debtor unable to meet demands of settlement procedures or cannot pay bills; debtor loses control over assets and income to repay creditors</p>	<p>Amicable debt settlement – Usually 3 years</p> <p>Legal debt settlement – 3–5 years</p> <p>Personal bankruptcy – Proceedings usually last 6–12 months</p>
Norway	<p>Voluntary debt settlement – Debtor, with help of the Enforcement Office, drafts a repayment plan for creditors</p> <p>Compulsory debt settlement – Debtor, with help of the Enforcement Office, submits a repayment proposal to court</p>	<p>Voluntary/compulsory debt settlement – Maximum 5 years</p>
Poland	<p>Personal bankruptcy – Asset liquidation followed by a repayment plan for remaining debts</p>	<p>Personal bankruptcy – Maximum 3 years (possibility to extend 18 months if schedule is not met)</p>
Portugal	<p>Out-of-court procedure – If a debtor is late with payments to a credit institution or requests to enter the procedure, credit institution proposes a repayment plan (procedure also known as PERSI)</p> <p>Special procedure for payment agreement – Debtor submits declaration to court signed by at least one creditor indicating immediate risk of insolvency, then two months to negotiate, with a mediator, a repayment plan with creditors (need majority of creditors to accept). Procedure also known as the PEAP (Processo especial para acordo de pagamento)</p> <p>Insolvency – Unable to reach PEAP agreement (or inability to pay), asset liquidation and period during which all income above a minimum is designated to creditors</p>	<p>Out-of-court procedure – Negotiations usually take a couple of months, repayment plans have no limitations</p> <p>Special procedure for payment agreement – Strict 2-month limit for negotiations, repayment plans have no limitations</p> <p>Insolvency – Repayment period can last for a maximum of 5 years</p>
Romania	<p>Debt settlement – Debt totals at least 15 minimum wages. An out-of-court repayment plan is agreed upon by debtor and creditor(s)</p> <p>Liquidation – If debt settlement fails, assets are liquidated and a recovery plan is implemented for the remaining debts</p> <p>Simplified insolvency procedure – Similar to liquidation, but only for debts < 10 minimum wages, and debtor above retirement age or lost ‘half of work capacity’</p>	<p>Debt settlement – Maximum repayment period of 5 years (may be extended 1 extra year)</p> <p>Liquidation – 1–5-year repayment period (early discharge if 50% repaid in 1 year, or 40% repaid in 3 years)</p> <p>Simplified insolvency procedure – 3-year maximum repayment period</p>
Slovakia	<p>Personal bankruptcy – Insolvent debtors have two possible routes: liquidation or repayment schedule. Liquidation results in sale of all assets, whereas the repayment route results in a protracted schedule of repayments but not all assets are sold</p> <p>Repayment schedule – To qualify for a repayment schedule rather than liquidation, a debtor must be able to repay at least 30% of unsecured debt in five years, and recover at least 10% more for creditors than would be possible through liquidation</p> <p>Debt discharge – If the debtor has no assets and no capacity to pay, debt is completely discharged</p>	<p>Liquidation – No indication of time frame, though much quicker than repayment</p> <p>Repayment schedule – No indication of limit on repayment period</p> <p>Debt discharge – Immediate if eligible</p>
Slovenia	<p>Personal bankruptcy – Asset liquidation followed by repayment plan to recover remaining debts</p>	<p>Personal bankruptcy – Usually 2–5-year liquidation and repayment</p>
Spain	<p>Second Chance Act – Debtor and mediator negotiate a repayment and/or liquidation plan with creditors. If no agreement can be reached, a judge passes down a liquidation/repayment decision (if no capacity to repay, judge usually exonerates individual)</p>	<p>Second Chance Act – Maximum 10 years (and negotiations between debtor and creditors may last a maximum of 2 months)</p>

Country	Procedure(s)*	Years**
Sweden	<p>Personal bankruptcy – Liquidation/sale of non-essential assets</p> <p>Debt reconstruction, regular – If there is a capacity to pay above a reserved amount, a repayment plan to the creditors is established. Without capacity to pay, the reconstruction will not entail any requirement for the debtor to pay</p>	<p>Personal bankruptcy – No time frame</p> <p>Debt reconstruction, regular – Usually 5 years (possibility to shorten/prolong the repayment plan); maximum 7 years</p>
United Kingdom***	<p>Administration order – Debts < GBP 5,000 (€5,891 as at 5 December 2019). Debtor pays court monthly amount for creditors (seldom used)</p> <p>Bankruptcy – Assets liquidated and sold, with potential for other restrictions imposed during process</p> <p>Debt management plan – Informal plan between debtor and creditor(s) to pay back debt in full over an extended time period with more favourable conditions for the debtor (this plan can be ceased by either party at any point)</p> <p>Debt relief order – Debts must total < GBP 20,000 (€23,562), debtor is not a homeowner, has assets < GBP 1,000 (€1,178), and below GBP 50 (€59) of monthly disposable income</p> <p>12-month moratorium on qualifying debt payments (not including interest and fees). If after 12 months the financial situation of the debtor has not significantly improved, the remaining qualifying debts are discharged</p> <p>Individual voluntary arrangement – Debts > GBP 8,000 (€9,425). Creditors representing 75% of credit must accept repayment plan, recovering part of debts between debtor and creditor(s)</p>	<p>Administration order – Up to 3 years</p> <p>Bankruptcy – Process usually lasts around 12 months</p> <p>Debt management plan – No limitations on informal agreement reached between parties</p> <p>Debt relief order – 12-month moratorium</p> <p>Individual voluntary arrangement – 5-year maximum repayment period</p>

Notes: * Generally, English terms that match the national terms to some extent are used, but these should not be taken too literally, as a 'bankruptcy' in one country may well be more similar to a 'debt restructuring' procedure in another country. Alternative names such as 'debt relief order' in the UK or 'second chance' in Spain may be similar to the term 'bankruptcy' elsewhere.

** If not mentioned otherwise, the period refers to the repayment period alone (not to preceding procedures).

*** These procedures apply to England, Wales and Northern Ireland. Scotland has similar procedures, but they differ in name and in details.

For example, the Scottish version of the individual voluntary arrangement (called the protected trust deed) lasts shorter (four years) and debtors who owe less (GBP 5,000 (€5,891) or more) can qualify.

Source: Compiled by Eurofound from the contributions of its Network of Eurofound Correspondents, own investigation and feedback by experts (see Acknowledgements and Contributions)

Barriers to access

Access criteria

To qualify for a debt settlement procedure, a debtor's debts need to be unmanageable. This may be regardless of, for instance, owning real estate greater than the value of outstanding debts, such as in France. There are multiple other conditions for using the procedures. Some of them are procedural, such as in Portugal, where discharge of debts can be denied if the debtor has not filed for bankruptcy quickly enough after becoming insolvent (within six months). Others include, for example, the need to have at least two creditors (Czechia, bankruptcy in the Netherlands). In the following, some particularly frequent conditions are discussed.

Often, a **minimum amount of debt** or arrears is required. In Latvia, the debtor must have over €5,000 due, but the amount can be smaller if it is forecast to rise to over €10,000 in the next year. In some countries, such limits are formulated in terms of minimum wages or welfare payments. For instance, in Lithuania debts should be over 25 minimum wages, and in Romania 15 minimum wages (a procedure for debts below 10 minimum wages is available only for retirees and

people with disabilities). While some countries only have a maximum amount only (Spain: €5 million), it is more common for countries to have both a maximum and a minimum, such as Hungary, where debts must be between HUF 2 million (€6,032) and HUF 60 million (€180,966). In countries with multiple procedures, there can be a minimum and/or maximum amount, but debts beyond these limits can use other debt settlement procedures (Cyprus, Ireland). In some cases, a minimum threshold is set not at one point in time but must have been in existence for a specific period, such as in Croatia where debt needs to have been HRK 20,000 (€2,685) for at least three years.

Most procedures are only accessible for people who have **not recently already gone through the process**. Some procedures can only be used once in a lifetime (each procedure in Ireland, Norway, Sweden). Often, the limit is 10 years (Czechia, Latvia, Slovenia, Spain). Sometimes, the limit is less, for instance five years in Belgium and Romania, and two years in Luxembourg. In countries with multiple debt settlement procedures, the limits may differ between procedures. For instance, in Cyprus for a personal repayment plan, the debtor should not have been bankrupt or should not have been reinstated from bankruptcy in the past five years, and

should not have benefited from a debt relief order in the past three years. If the debtors have already gone through a personal repayment plan, they need to wait 20 years. Bankruptcy can be used again six years after a previous bankruptcy. Overall, however, exceptions are often allowed if reasons are judged to be valid. In Norway, criteria considered include how long ago the previous debt settlement took place, whether that settlement procedure was completed or not, and whether the current debt problems can be linked to the former ones. It is rare for procedures to lack any limits on reapplying, which is the case for the payment plan procedure in France.

Usually, procedures are only accessible for debtors who **acted in good faith** (personal repayment plan in Cyprus, France, Hungary, Italy; *schuldsanering* in the Netherlands). However, the precise formulation and interpretation differs across countries, and have for instance been considered as more lenient in France (a test of good faith) than in the Nordic countries, where the debtor's behaviour when running into debt and solving the debt problem should be assessed as having been appropriate or against general payment morality (Niemi, 2018). Explicit dishonest behaviour is sometimes an exclusion criterion. For instance, Latvia mentions false information provision to creditors as a reason for exclusion from debt settlement. Overall, it is common to require applicants, or people who are undergoing the procedure, to demonstrate that they are honest consumers, exhibiting good conduct for several years (Spain), or that they are cooperating with good will. Only then can they access or successfully complete the procedure.

Debtors are sometimes required to **have tried to settle debts with creditors** before being allowed to initiate a debt settlement procedure (for example, Greece's mortgage debt settlement procedure). Such settlements are usually referred to as 'amicable', 'voluntary' or 'out-of-court'. However, 'amicable' or 'voluntary' suggests that debtors and creditors can entirely voluntarily negotiate such a settlement ('voluntary') with a more or less equal voice, or at least with good understanding ('amicable'). This is usually not the case. There is often considerable pressure involved, with an alternative debt discharge procedure looming when no agreement is reached. That alternative may appear more favourable to the creditors or to the debtors, depending on the country context and the specific case. Pressure comes from time limits. For instance, in Czechia, debtors and creditors have one month after the onset of the pre-procedure to reach an agreement, in Spain and Portugal two months and in Hungary 120 days. Furthermore, while some countries require all creditors to agree (Austria – except for the absorption plan), others can enforce an agreement on some creditors if a certain proportion of them agree, meaning a certain share of the creditors (50% in Hungary and Portugal), or creditors representing at

least a certain share of the debt (60% in Luxembourg; 75% in an individual voluntary arrangement in the UK). Furthermore, the settlement may be out of court, but it is still within a legal framework, and – as previously mentioned – often an attempt at settlement is a legal requirement to be considered for a mandated debt settlement procedure (which may itself be in or out of court). This is the case, for example, in Belgium, Croatia and Germany. Norway also encourages debtors to reach a settlement with creditors before imposing one on them. In Cyprus, the personal repayment plan requires agreement of a payment plan with creditors, but it can be imposed on creditors in the case of a mortgage on a primary residence worth less than €350,000, and when income has dropped at least 25% for uncontrollable reasons. Similarly, in the French payment plan procedure, a plan can be imposed if the debtor has no real estate and/or cannot reach an agreement with creditor(s).

Fees

In some countries, no fees or administrative/procedural costs (hereafter 'fees' for ease of reading) are charged to people who go through debt settlement procedures (Croatia, the Netherlands, Norway). However, in many countries, they are. The way fees are implemented, and their magnitude, differ between countries and, when countries have more than one debt settlement procedure, between procedures. Costs are usually covered by the debtor. In practice, however, these fees reduce the amount of funds left for their creditors, so they are arguably indirectly paid by creditors. In some cases, fees are paid by the entity that makes the request for debt settlement, not necessarily the debtor (Slovenia).

In some countries, fees are paid as a lump sum: Denmark (for bankruptcy only), Germany, Hungary, Ireland, Latvia, Lithuania, Poland, Slovakia and the UK. In other countries, fees are integrated into the repayment plan or paid from the sale of assets: Austria, Belgium, Cyprus (for bankruptcy), Czechia, Estonia, Finland, Ireland (for repayment plans), Latvia (for bankruptcy), Slovenia and Sweden. In yet other countries, fees are outside the payment plan, but can be paid in instalments (UK), or through a loan (in Slovakia through a three-year loan).

Fee amounts can also vary. They sometimes depend on individual circumstances and the specifics of the case, such as the amount of debt. For instance, in Spain costs vary between €2,500 and €4,000, and in Poland between one-quarter and four times an average business sector monthly wage. In Sweden, the amount of fees paid depends on the length of the procedure, with an annual SEK 500 (€47) fee for the enforcement authority's work to pay the creditors. In Cyprus, fees for the repayment plan vary from €750 to €2,450 for debts amounting to €100,000. The fee is increased by 20% if the repayment plan is accepted or imposed by the

court. Elsewhere, fees are fixed amounts, such as bankruptcy application fees in Czechia (about €80: €40 for the administrator and €40 for the creditors), Denmark (DKK 10,000 (€1,338)), Ireland (€270), Latvia (two months' minimum salary), Slovakia (€500 bankruptcy application fee and €166 for the repayment schedule route) and the UK (GBP 680 (€801)). In the UK, the upfront fee consists of a deposit (GBP 550 (€648)) and an adjudicator's fee (GBP 130 (€153)).

Payment is often made to the administrator of the case or payment plan (this is the case for Latvia and Poland, or similar to Slovakia's repayment plan). In some of the countries, the fee may not be for the procedure, but a lawyer may be needed who charges a fee. For example, in Portugal, such legal costs for a bankruptcy procedure are usually between €2,000 and €5,000.

In some cases, the fee can be waived entirely if it is demonstrated that the debtor is unable to pay it (Germany, Poland – where the fee is then paid by the central bank), or it is in practice sometimes paid by charities (UK). In Luxembourg, fees are at the discretion of a judge.

Other access problems

Access problems beyond the formal legal ones may be similarly important in practice. For example, as is the case for debt advice services, unawareness has also been identified as an important barrier for debt settlement procedures (SOU, 2013; Lajoie, forthcoming). People may be unaware of the existence of the procedure, that they can use it, or how to apply for it. The complexity of the procedure or the overall institutional landscape can be an important cause of unawareness. A 2016 report in Hungary argued that the 2015 debt settlement procedure in Hungary had hardly been used due to its 'excessive administrative burdens' (Csizmady and Hegedüs, 2016, p. 27).

Lack of administrative capacity also restricts access, for example, in Greece (European Commission, 2019). Other reasons include: the stigmatisation of going through a debt settlement procedure (which besides seeking more advantageous arrangements has also been cited as a reason for seeking bankruptcy in another country), communication problems (migrants, people with low education), or fear about the consequences (such as not being able to obtain credit in the future).

People may be discouraged by their social network or professionals from applying. For example, people in Ireland can only apply for debt settlement procedures through intermediaries: personal insolvency practitioners. It has been argued that the lower than expected take-up of debt settlement procedures in Ireland can be partly explained by these intermediaries emphasising the personal responsibility of the debtor and opposing debtors from easily joining debt programmes. After such experiences, over-indebted people in turn discourage others to engage with the intermediaries (Roche, 2018). In Belgium, reports have emerged of users who have been disappointed by using the debt settlement procedure, contributing to discouraging others from applying (Observatoire Credit, 2018).

Overly strict application of criteria by authorities or intermediaries due to the fear of 'moral hazard' has also been referred to as a reason for low take-up (Lajoie, forthcoming).

Duration of procedures

Table 3 presents an overview of the length of the various procedures. Depending on the circumstances, the maximum length of most procedures lies in the range from 6 months (Latvia, and bankruptcy in the Netherlands) to up to 10 years (Estonia, Finland). Most commonly, though, debt settlement procedures last between three and five years. Sometimes the duration is fixed; sometimes it depends on the specific situation. For instance, in Czechia, the standard procedure is a maximum length of five years, but a maximum of three years in the case of old age, disability and survivor pensioners, and for people who incurred most of the debts concerned (two-thirds or more) when they were under 18 years old. The three-year simplified procedure in Romania is only accessible for people without sizeable assets or income who are above the standard retirement age or who are disabled (Apan, 2017).

Sometimes there is a standard length for debt settlement procedures, but this can be extended during the process: for example, in Hungary, where it can be extended from five to seven years.

It should be mentioned that the time periods reported in Table 3 and in this section ignore the fact that the process leading up to the start of the procedure may also take some time. For instance, in Poland, the liquidation of assets before starting the three-year debt settlement procedure can last up to three years. In Sweden, the handling time for the *skuldsanering* is about five to seven months.

Threshold for repayments

In most procedures, debtors face an income threshold above which they need to hand over income, either forming the basis of a pre-set payment schedule or on an ongoing basis. Payments are used to pay off parts of the debt and contribute towards administrative costs. The income considered may be from work or from benefits. While the focus of this section is on regular income, it may also relate to other sources for which there may be special conditions. For instance, in Germany, in cases where the debtor receives an inheritance, half of it must be forfeited.

The next sections discuss how the threshold below which income can be kept is set, with a focus on some key aspects with respect to private and working life.

Determining the threshold for repayments

The income threshold is usually set to allow people a basic standard of living. This level of standard of living may, for instance, be 'reasonable' (Ireland; Romania) or 'modest' (Austria, for the repayment plan procedure). Usually, the income threshold is set at the start of the procedure, but not always. In France, repayment capacity is calculated on a monthly basis. It is the difference between the resources available for a debtor's household and its 'current life budget'.

Some procedures take as a standard the minimum wage or benefits. For instance, in Lithuania the threshold is usually set at three times the minimum wage (unless a judge takes a well-founded decision otherwise). In Slovakia, it is equal to the subsistence minimum, as is the case for the absorption plan procedure in Austria.

Often, more individually tailored approaches are taken. In setting a threshold, a set of standardised factors to allow for some basic level of living expenses is usually considered. These usually relate to expenses needed to ensure a certain level of living conditions for dependents in the household, which may also be considered in setting the subsistence minimum. Frequently, issues such as housing security and allowing the debtor to pursue work are also taken into consideration when setting the threshold. These three factors are discussed below. However, there are also other factors, such as expenses for medical reasons (the Netherlands – unless deemed too expensive) or medicines (Denmark).

An example of a particularly individualised approach can be found in Ireland. For each of its four debt settlement arrangements, the income threshold depends on living expenses that are judged reasonable, depending on an assessment of one's physical, psychological and social needs, so that one should be able to participate in community life. These include the need for food, clothing, health, household goods and services, communications, socialising, education,

transport, household energy, childcare, insurance and modest allowances for savings and contingencies. During the Irish bankruptcy procedure, essential assets up to a value of €6,000 are protected.

Protection of dependents

Procedures often include some sort of protection of dependents/children during debt settlement procedures (Austria, Belgium, Bulgaria, Cyprus, Czechia, Denmark, Italy, Latvia, Sweden). Such protection is sometimes explicitly about children, while for instance Cyprus mentions dependents more generally. Protection involves, for example, exempting child benefits from the income to be handed over or increasing the threshold below which income can be retained by the level of child benefit received (Austria, Belgium, Latvia, Sweden). The threshold for households with children may also be increased by an amount unrelated to child benefits. For instance, in Czechia, the threshold is increased by about one-quarter for each dependent. In Denmark, expenses for children and others in the household are also to some extent free from confiscation. In Bulgaria, the threshold is increased by a specific fixed amount identified for each family member. In Ireland, in each of the four procedures, dependents (need for childcare, household goods, etc.) are considered when determining the threshold.

Protection of the home

Protection of the home is a key element in some of the debt settlement procedures. This usually concerns only the main dwelling, often referred to as the 'family home'. Furthermore, its rent or value should not be considered too high (Hungary, Norway) or its size too large (Bulgaria). For example, in Bulgaria the law defines 30 square metres for each family member as exempt from enforcement. With larger homes, the debtor has the right to keep part of the home up to the specified size (if the debtor does not possess any other home), if it can be separated into another dwelling. In Denmark, mortgage payments are considered as expenses that are exempt from confiscation. Some procedures enable homeowners to keep their dwelling by possible extension of the procedures' duration. For instance, in Finland a debt settlement procedure typically lasts 3 years, but it may last up to 10 years if the home is protected. In France, the maximum duration of seven years can be extended if it allows persons to keep their main residence.

Some Member States lack formal protection of the home in their debt settlement procedures. For example, in Slovenia, the debtor's dwelling is not exempted, so the administrator must sell it if necessary. The household must leave the home within three months of the administrator's notice. The mortgage debt settlement procedure in Greece protects the main dwelling by settling debts spread over equal monthly

payments of loans in 25 years (at most up to the age of 80 years) up to debt which amounts to at most 120% of the value of the home. This measure was temporary, and only confirmed until 31 December 2019. As an example, under the procedure, if someone had a debt of €200,000 for a house worth €100,000, that person would need to pay back €120,000 to keep the house.

Protection of goods essential for work

Goods essential for work are also frequently exempted (Austria, Bulgaria, Cyprus, France, Ireland, Italy, Luxembourg, the Netherlands, Norway). Sometimes, more general reference is made to goods needed for professional activity (Austria), while in other countries laws are specific about the type of goods this could include, such as machinery, tools and books in Bulgaria. For cars, there may be a limit to their value. In Ireland, only cars worth below €2,000 are excluded during the debt relief notice. Enabling people to pursue an economic activity is sometimes an argument used more generally in favour of introducing a higher threshold than the absolute minimum standard of living (Lithuania). In some cases, goods needed for economic activity are included in goods exempted to pursue daily life activities, rather than specifically for work. In Cyprus, for example, a vehicle valued up to €3,000 is exempted if it is needed by the debtor to pursue daily life activities. Books are also exempted.

Deducting payments directly from income at the source

During the debt settlement procedure, in some countries or cases, payments may be deducted directly from the debtor's wages or benefits.

Deducting payments directly from income is often not the standard procedure, but it may be ordered by the court. Some countries, though, in general do not deduct payments from wages directly (France; Poland – only during the stage at which all assets are liquidated, not during the payment plan that follows). Sometimes income can only be withheld if it serves to pay off specific debts, such as debt to public authorities (tax office, police) in Norway. In some countries, income is only withheld if the debtor requests it, for example, in Latvia and (only in the conventional settlement plan procedure) in Luxembourg.

The entire income may be sent to a third party, which then transfers it (partly) to the debtor. This is the case in Belgium, and in Luxembourg for the judicial settlement procedure (where the wage is transferred to the managing entity of the settlement plan). However, often part of the wage can be directly withheld at the source (Austria, Czechia, Germany, Greece, Hungary, Slovakia, Slovenia). This usually means that income from work that is above the threshold that people are entitled to retain is directly transferred from the employer to the debt settlement administrator.

Incentives to maximise income

Several countries' debt settlement procedures usually require inactive or unemployed debtors of working age to search for work (Austria, Belgium, Germany, bankruptcy in Estonia, Hungary, Slovenia, Sweden). Occasionally, the requirement even applies to the period before entering the settlement. For example, in Spain, up to four years prior to the request for the procedure, the debtor should not have rejected an offer of employment 'adequate to its capacity' (without further specification).

However, financial incentives for debtors to increase their income during the debt settlement procedure are more limited. When there is a fixed payment plan agreed at the start of the procedure, with fixed periodical amounts to be paid, there can be some incentives. However, these fixed amounts may be adjusted upwards when the situation of the debtor improves (Hungary). In the debt relief notice procedure in Ireland, debtors are required to report if their financial situation improves and may then be required to make higher contributions. In procedures where debts are waived at the start, debtors can have disincentives to maximise their income during the observational period that follows. In the Luxembourgian personal recovery procedures, debts are waived, and no payments need to be made by people who are 'irremediably compromised'. However, their situation is monitored and if it improves in the next seven years, a reassessment can rule for a payment plan. Sometimes the reverse is also true: if the situation worsens, payment plans are relaxed. For example, in Poland, if the debtor's situation worsens (for example, through becoming unemployed), the court may reduce the scheduled payments and write off any remaining debts.

Few countries have systems in place which provide financial incentives for over-indebted people in debt settlement procedures to maximise their income. Among those countries that have at least some incentives in place, two types of incentives can be identified: (1) additional payments to shorten the procedure's duration; (2) retention of part of additionally earned income.

As an example of the first type of incentive, in Czechia, the five-year period is shortened to three years if at least 60% of the initial outstanding debt has been paid off. In Germany, the debtor can be discharged of residual debts after three years (instead of six years' normal duration of proceedings) if at least 35% of debts have been paid off. The debtor must apply for early discharge; this is not automatic. In Sweden, the debtor can shorten the period through higher-than-agreed instalments.

In the case of the second incentive, schemes that set payment plans at the start of the procedure with fixed payments rather than requiring debtors to hand over everything above an income threshold, and that do not adjust to changes in the income situation, do provide a financial incentive for people to maximise their income. They can keep all the additional income above the fixed amount to be paid. However, set payments are usually adjusted upwards (or downwards) when the situation of the debtor changes (Luxembourg). In some countries, though, upward adjustments are below the full additional income, leaving some incentive to earn more (Finland). In Denmark, the debtor can keep ‘natural income increases’: that is, if the debtor receives a pay rise while doing the same job, with the job being appropriate for the skills of the debtor, or if the debtor works more than full-time hours. However, if, for instance, a highly educated person is working in a low-paid blue-collar job when the settlement is made, and then after the settlement gets a high-paid white-collar job, creditors can apply for a larger share of the debtor’s income. In Latvia, when income increases during the procedure, debtors are allowed to maintain a larger share of their property.

Opportunity for a fresh start?

Debt settlement procedures in principle aim to provide a solution for over-indebted people. However, they do not all provide the same level of ‘fresh start’ for people who embark on these procedures.

First, embarking on a debt settlement procedure does not necessarily imply that it will be successfully completed. For instance, in the case of the Romanian simplified insolvency proceeding, if after three years the committee judges that the debtor has not fulfilled all obligations, the debtor is required to pay all debts, as well as any interest and penalties that would have accrued if their suspension during the procedure had not been in place. Failure rates can be considerable. For example, in Croatia, from 2016 until August 2018, over 1,200 people filed for bankruptcy, with 71% resulting in unsuccessful out-of-court settlements.

Second, even for people who successfully complete debt settlement procedures, there are limitations to the possibility of a fresh start. The report’s focus here is on some key elements surrounding the lack of a fresh start for this group. It should be acknowledged that there are also other elements that are not discussed here, including the long-lasting consequences of over-indebtedness, including stigma (see section on ‘Consequences and societal costs’ above). The prospects of a fresh start also depend on the extent of the resources people are left with after the procedure, which differs between countries and procedures. For instance, in Slovakia, bankruptcy is more favourable in this regard than the debt settlement procedure.

Certain debts are excluded from settlement procedures, so that people are left with these debts even after successfully completing the procedure. These often include fines (Belgium, Cyprus, Germany) and alimony payments (Belgium, Cyprus, Czechia, Slovakia). Tax debts are sometimes excluded as well (Spain, Latvia, Luxembourg), usually alongside fines and other debts to public authorities. In some countries where large student debts are relatively common, these can also be excluded from the settlement (UK). Informal debts with illegal money lenders, or with friends or relatives, are also often not included, but there are some examples of procedures that include debts with friends and relatives (Hungary, Slovenia, Sweden, the UK). Within countries, procedures differ regarding the levels of debts people are left with after going through the process. In the Netherlands, *faillissement* leaves the debtor with debts (similar to bankruptcy in Denmark and Sweden – see above), while *schuldsanering* generally does not. The Greek mortgage debt settlement procedure only covers mortgages, so people are left with all other types of debts after going through the process. The Private Insolvency Act covers a broader set of debts (but not mortgages since the separate procedure was introduced).

In some cases, people who have successfully completed a debt settlement procedure remain listed on a register. There can be more than one register, such as in the UK, where names are kept in a special bankruptcy registry and credit file. These registers are usually widely accessible. For instance, in Luxembourg, every person can in principle access the registry, but only if a request is justified. The length of time names are kept on the register after successful completion of a debt settlement procedure varies: 1 year in Belgium, 5 years in France, 7 years in Luxembourg (for the personal recovery procedure) and 10 years in Lithuania. In Luxembourg, the debtor remains on the register for seven years after the closure of the personal recovery procedure. In the case of Luxembourg’s collective debt settlement, the debtor can ask to be deleted from the register immediately after having gone through the procedure.

Current pension receipts are usually part of the income that needs to be handed over, if they are above the set threshold or according to the payment plan. Future pensions and pension savings are usually exempted. However, they may still be affected in some respects; for instance, in the UK contributions made to pension plans can be limited during the bankruptcy procedure, and bankruptcy may be refused if the debtor can draw down a lump sum from their pension that is enough to clear the debts.

Numbers of users

Challenges

The collection and cross-country comparison of the numbers of users of debt settlement procedures are less challenging than for those of debt advisory services.

First, there are generally national procedures in place, without the fragmentation that applies to debt service provision. Thus, the number of users does say something about how commonly they are accessed in the country.

Second, data tend to be collected more homogeneously. There is some diversity in approaches but data usually relate to the number of people who are applying for the procedure, have embarked on it, or who have successfully finished it. Still, for some countries only data on applications were obtained (Finland), while for many others the data obtained only related to initiated procedures (Latvia).

Third, because procedures are run by public authorities, which are often subject to accountability processes and public scrutiny, the collecting and reporting of usage data is relatively common. Nevertheless, data are still sometimes lacking for some years. Furthermore, when procedures are for both businesses and private persons, the data do not always specify the different groups.

Illustrations of usage trends

If one purely maps the presence of a debt settlement legal framework – whether a country has one or not – there is a risk in overlooking whether there are access problems, and whether the procedure is effectively used in practice as a solution to over-indebtedness. Data on the number of users can address this shortcoming.

Table 4 provides some illustrations of usage data for debt settlement procedures in various countries. To put the numbers into perspective, given the varying population sizes, the table also includes usage data per 10,000 people aged 18+ in the countries in 2018.

Table 4: Debt settlement procedure usage data, 2005–2018

Year	Belgium	Czechia	Germany	Latvia	Lithuania	Poland	Slovenia	Spain	Sweden
2005	–	–	66,945	–	–	–	–	<u>74</u>	–
2006	–	–	94,389	–	–	–	–	52	–
2007	–	–	103,085	–	–	–	–	114	–
2008	–	<u>645</u>	95,730	<u>5</u>	–	–	<u>98</u>	404	–
2009	15,904	2,164	98,776	134	–	<u>10</u>	418	1,022	–
2010	17,865	5,907	106,290	272	–	12	756	972	4,851
2011	17,544	11,604	101,069	880	–	14	1,124	953	5,311
2012	16,092	17,979	95,560	1,458	–	24	1,040	976	4,640
2013	17,678	22,058	89,207	1,610	<u>118</u>	28	879	794	5,357
2014	17,552	24,890	84,443	1,413	369	32	4,040	716	5,879
2015	15,877	23,412	78,230	1,688	448	2,112	4,164	649	5,154
2016	15,355	22,287	75,169	1,841	455	4,434	3,499	956	7,592
2017	14,442	19,334	69,960	1,875	470	5,535	2,374	1,492	9,954
2018	12,458	18,189	65,564	1,996	396	6,570	–	1,760	10,752
Per 10,000 adult population*	13.7	21.0	9.5	12.7	1.7	2.1	14.0	0.5	13.4
Measure	New procedures/ collective debt proceedings	Debt relief petitions/ relief petitions granted	Consumer insolvency procedures started	Initiated insolvency processes	Initiated bankruptcy procedures	Debt settlement announcements	Newly filed personal bankruptcies	Bankruptcies	Accepted for debt settlement procedure

Notes: Peaks are in bold. ‘–’ can mean that Eurofound did not obtain the data, or that it was not available. When the number is underlined, it means that it is the first year of the procedure’s existence. The data refer to procedures for ‘private persons’, not for businesses.

* Based on the latest debt settlement procedures available in the table, and on 2018 population (18+) data from Eurostat [demo_pjan].

Source: Compiled by Eurofound, based on sources provided by the Network of Eurofound Correspondents and own research

Differences in usage between countries and procedures

Usage data can reveal whether a procedure is hardly used or ineffective. In Poland, before 2015, when a reform which reduced costs and simplified the debt settlement procedure was introduced, only between 10 and 32 people had used the procedure annually since its original implementation in 2009. In Ireland, between 29 and 35 people were declared bankrupt annually between 2010 and 2012, the years before the 12-year bankruptcy procedure was replaced. For both countries during these periods, the ‘box could be ticked’ with respect to having a debt settlement framework, even if in practice these procedures were hardly used.

Furthermore, usage data can provide an instant indication of how common it is to use debt settlement procedures as a tool to solve over-indebtedness. For instance, in the UK, for three procedures (bankruptcy, DRO, IVA) together, the number was 115,299 in 2018 (25.0/10,000 adult population). In other countries, debt settlement procedures are clearly less frequently used as a solution for over-indebtedness. For instance, in Hungary, in the same year (August 2017–August 2018), 272 procedures were accepted (0.3/10,000 adult population), and from the time of the procedure’s establishment (August 2015) until 7 February 2019, 1,460 settlement procedures were initiated, of which 229 were rejected or cancelled. It is also revealing to compare usage data for Latvia (12.7/10,000 adult population) and Lithuania (1.7/10,000 adult population), suggesting the procedure in Lithuania to be more restrictive than that in Latvia. This concurs with reports that people in Lithuania turn to Latvia to go through the procedure there.

When there are multiple debt settlement procedures in place in a country, usage data can further instantly reveal what constitutes the most common avenue for debtors to take. For instance, in the Netherlands in 2017, 8,357 persons embarked on the *schuldsanering* (1,402 of them self-employed), while 1,329 (576 of them self-employed) were declared bankrupt (CBS, 2019), clearly demonstrating that *schuldsanering* is a more common route for over-indebted persons.

Data are sometimes available both for the number of applications to a procedure and for the number of applications accepted. The gap between the two figures can reveal access problems or inadequate communication on qualifying criteria for the procedure; that is, awareness of the procedure is greater than that about access of criteria. However, it can be hard to interpret differences between the number of applications and admissions in a specific year. Processing applications can run well into the next year due to the length of the procedure or a lack of administrative capacity. This is for instance the case in Sweden. However, if the total number of applications

and admissions for the *schuldsanering* from 2010 to 2018 are aggregated, it suggests that about two-fifths of applications are rejected (it should further be noted that not all of the remaining three-fifths that do enter the procedure successfully complete the payment plan). This rejection rate is high compared to some other countries. For instance, in Finland, between 10% and 14% of applications were rejected annually during 2008–2016 (Fredriksson and Kärkkäinen, 2016). In Czechia, in 2018, 855 of the 19,044 applications were rejected (4%). While prior to 2017 the rejection rate in Czechia was higher, it was still about half that of Sweden for the period from 2008 to 2018 where 22% of all applications were rejected.

Interpreting trends in time

Overall, the interpretation of changes over time in the use of debt settlement procedures results in broadly similar explanations as for debt advisory services. However, more detailed analysis reveals some important differences in interpretation.

First, fluctuations can be explained by changes in the prevalence of more severe forms of over-indebtedness. While the situation of debt advisory users may be more diverse, debt settlement usage captures only the ‘tip of the iceberg’ in terms of the severity of debt problems. Debt settlement procedures are usually intended for the most severe forms of over-indebtedness. As discussed above, there are restrictions to accessing these procedures, and even people who would qualify to use them may not do so due to non-legal barriers to access the procedures (for example, unawareness, stigma).

In England and Wales, there has been an increase in the number of people using any of three debt settlement procedures (bankruptcy, DRO, IVA) since 2015, by about 7 additional users per 10,000 adults, to 25.0 per 10,000 adults in 2018 (UK Government, 2019). This seems mostly related to a recent increase in debt problems in the UK among specific population groups, such as people at risk of poverty and single parents (see Chapter 2).

Increases in debt problems in a country may lead to constant large volumes of initiated procedures even after the economic situation has improved. Greece is a clear example here, with the Greek authorities in March 2019 reporting an average monthly processing rate of 3,504 cases to deal with a backlog of almost 90,000 pending cases (European Commission, 2019).

Second, the use of debt settlement procedures can be influenced by the anticipation or implementation of a legal reform. In Slovenia, the sharp drop in usage in 2013 and increase in 2014 can be explained by the upfront fee of about €2,000 being abolished from 2014, with people anticipating this change in 2013 and the procedure becoming more accessible (or more attractive) for larger numbers of people thereafter.

In Sweden, the sharp increase in usage since 2017 can probably largely be explained by the procedure becoming increasingly accessible and attractive (see section on ‘Trends in reforms’ below). Applications had already gone up every year between 2008 (6,528) and 2016 (12,395), but then jumped to 19,506 in 2017. Numbers then decreased somewhat to 18,237 in 2018, probably explained by some of the 2017 increase consisting of people having waited until 2017 to apply for the procedure, with no such backlog in 2018. Over the period 2010–2018, about 62% of applications were approved, which explains the lower figures in Table 2.

Third, shifts to a different procedure or service can affect usage. Since a peak in 2013, there has been a steady decrease in the use of *schuldsanering* in the Netherlands. This may partly be explained by an improving economy and partly by increased problems in accessing the procedure (Jungmann et al, 2018). However, usage data suggest that it is also partly explained by people using a procedure (*Bewind*) that was already in existence, but which has seen a surge in usage. This procedure was not principally used for people with debt problems, but rather more generally for people judged unable to manage their own finances, appointing a ‘*bewindvoerder*’ who manages the finances on their behalf.

In the UK, it is deceptive to only look at the numbers for one of the procedures rather than at all available procedures together. There has been a shift from bankruptcies (74,670 in 2009, 16,582 in 2018) to individual voluntary arrangements (47,641 in 2009, 71,034 in 2018).

In Denmark, there had been a continuous increase in the number of people who have concluded a debt settlement procedure following the financial crisis and up until 2014, when the number was 5,974 (up from 5,002 in 2009). Since then, the number has continuously and relatively steeply decreased to 4,267 in 2018. This is probably due to the improving economy, but the recent establishment of debt advisory services, which for some people avoids the need to go through a debt settlement procedure, may also play a role.

Fourth, shifts in usage of debt settlement procedures may be based on changes in awareness about a procedure's existence, its conditions, and how it is accessed. The increase in use of the debt settlement procedure in Lithuania from its establishment in 2013 to 2017 may be largely due to such increases in awareness. Similarly, the increases in uptake in the first years for Czechia, Latvia and Slovenia in Table 4 can probably be partly explained by increased awareness.

Recent reforms

Overall, availability of debt settlement procedures in the EU has increased. Countries have also made existing procedures more accessible. Furthermore, other measures have been taken to make these procedures more effective in solving over-indebtedness, along with improved protection of living standards for the households involved.

However, before discussing these developments in more detail, it should be emphasised that (as discussed above) there are still many challenges in terms of availability, accessibility, effectiveness in solving over-indebtedness and protection of the household's living standards.

Furthermore, not all developments have been in the same direction. For example, in Slovenia, a report must be included in the application for bankruptcy showing the debtor's property history. In 2016, the period for which this was required increased from the past three years to five years, as it was argued that there were persons who had renounced all their property rights to relatives or friends, waited three years and then filed for bankruptcy. A 2020 Italian reform (outlined below) restricts the number of times someone can be discharged from debt to two (but reduces the number of years that need to be between these two times). In Greece, it has been argued that the 2015 reform of the 2010 Private Insolvency Act has weakened the protection of the home (Tsiafoutis, 2016). Until 2019 the principal residence was protected for all debts (mortgage/consumer/private/public), against a payment of up to 80% of its value under the Private Insolvency Act. The 2019 mortgage debt settlement procedure changed this, requiring higher payment (120%) and applying only to mortgage debts up to €130,000 (€100,000 for business debts), with stricter income limitations. Therefore, someone can now only keep a house if the debt is €130,000 or less. If someone owns a house worth €100,000, the house can only be kept if the debt is at most €130,000 and €120,000 is paid (120% of the debt). This is contrary to the previous regime, under which one had to pay €80,000 (80%), irrespective of the amount of debts.

Increased availability

There has been a clear trend across the EU to establish debt settlement procedures. Denmark was the first country in Europe to establish a private debt settlement procedure, in 1984. A small group of other countries followed in the early 1990s (Niemi, 2018). However, many Member States have only established such procedures in the 21st century. Some countries have established a private debt settlement procedure very recently, such as Lithuania in 2013, Hungary in 2015, Romania in 2018.² Italy established a debt settlement procedure in 2012, and later that year added a procedure that allowed people to present a repayment plan to be approved by the judge, if deemed suitable.

Many other countries established procedures during the financial crisis, when the problem came to the fore (Czechia in 2008, Poland in 2009). The 2009 Memorandum of Understanding between the International Monetary Fund and the Latvian government urged Latvia to improve the regulatory framework to help address debt problems for individuals (and businesses). Such responses to crises have been common. Early private debt settlement procedures in Finland and Norway (1993) also came as a response to their debt crises in the late 1980s.

Increased accessibility

Procedures have often become more accessible. For example, in Slovenia, since 2014 debtors have no longer needed to pay the upfront fee of around €2,000 for the cost of proceedings (Božič, 2015). In Poland, since 2015, debtors no longer need to either cover costs, nor to show that the situation is not their fault.

In Sweden, it was in principle impossible to be granted debt reconstruction more than once (SOU, 2013). In 2016, it became easier to obtain a debt settlement procedure for a second time if the first attempt had failed. In Italy, a 2020 reorganisation of the bankruptcy law (approved in 2019) will reduce the number of years during which people cannot use the procedure again from eight to five years.

In the Netherlands, some municipalities excluded people from the *schuldsanering* debt settlement procedure if they had not finalised their divorce, had no income, or were being treated for addictions (Jungmann et al, 2014). Research in 2018 by the Dutch National Ombudsman revealed that such exclusion criteria are still applied by many municipalities, but less frequently and strictly.

Some countries have further opened up procedures for smaller debts. In Cyprus in 2015, the minimum debt was lowered from €50,000 to €15,000. Latvia, in 2014, lowered the minimum from €7,114 to €5,000 for debts for which the due date has come into force, and from €14,228 to €10,000 for those due within a year. It is further preparing a simplified procedure for debts between €2,000 and €5,000 for persons who have no property, mortgage loans or foreign creditors.

Procedures: Shorter, simpler and more protective

The duration of debt settlement procedures has been reduced, and shorter procedures have been included. Lithuania reduced the length of its debt settlement procedure from five to three years in 2016. In Finland, the ‘typical duration’ was shortened from five to three years in 2014. In Ireland, there was only one bankruptcy procedure, which lasted 12 years. In 2013, this was reduced to three years, and in 2016 to one year. In 2013, three new debt settlement procedures were added, of up to three, five and six years, respectively. In November 2017, Austria shortened the absorption procedure from seven to five years. In France, in 2016 the maximum duration was shortened from eight to seven years. Furthermore, in 2018, mandatory negotiation with the creditors was abolished for people without assets, effectively shortening the procedure for this group by over three months.

Procedures have also become administratively easier, such as in Sweden, where as part of the November 2016 reforms debtors can now provide an estimate of their debts, instead of specifying them in detail as before. The debtor also now pays one amount each month to the enforcement authority, instead of numerous small amounts to each creditor, as before.

In Luxembourg, the 2013 law replaced a more restrictive 2010 law, facilitating the discharge of debts. In particular, instead of all creditors having to agree, now only 60% of them need to agree with a payment plan.

Procedures have also provided more of a fresh start. Some countries have opened up procedures for specific types of debts previously excluded, such as Norway in 2005 and Greece’s Private Insolvency Act in 2015, when the procedures started applying for tax debts as well. Technically, Czechia already had a personal insolvency procedure before 2008, but people were usually left with debts if not paid off in full during the period (which lasted 9.2 years on average), in practice pushing

² Unless otherwise mentioned, the years mentioned here and below refer to when the laws came into effect: that is, the date when people could actually use procedures, rather than when the laws were approved.

debtors into the shadow economy (Paseková et al, 2016). In France, in 2016, the period for which people needed to remain included in the registry after finalising the debt settlement procedure was reduced from eight to five years. In Austria, from November 2017, the requirement to pay at least 10% of debts has been dropped.

There has also been stronger protection of children in the household. In Sweden, as part of the new Debt Reconstructing Act (adopted in November 2016), the payment schedule was adjusted in favour of households with children, and two months of free instalments were implemented.

Some countries have sought to increase incentives to pay off as much debt as possible, increase income and discourage undeclared work. In Germany, since 2014, the debtor can be discharged of residual debts after three years (instead of six years, which is the normal duration of proceedings) if at least 35% of debts have been paid off. In Latvia, debtors who pay back at least 50% of their debts were already granted a shorter period. However, since 2014, this was reduced from 12 to 6 months. In Czechia, since June 2019, the unrecoverable amount of the debtor's salary has been increased, with the stated aim of motivating the indebted persons to repay their debts and not to conceal their income.

5 Discussion on advisory services and settlement procedures

Over-indebtedness can have a wide range of negative consequences. If left unaddressed, under-addressed or addressed late, it leads to costs for the taxpayer: for instance, through its negative impact on health. Improvement of the policy response to over-indebtedness has often come as a reaction to a crisis with large increases in the number of over-indebted people. Policymakers may want to further improve the policy response to over-indebtedness before another crisis emerges, rather than as a reaction to it.

Deregulation of financial markets and the introduction of new forms of credit have contributed to an increased role of credit in consumption (Hohnen et al, 2019). Member States have seen an expansion of credit in the past decades, with post-communist countries following this trend more recently (Ferretti and Vandone, 2019). Countries where the scale of the issue has increased (and the nature of the issue changed) only recently, have understandably lagged behind in developing an institutional response to the problem of over-indebtedness. It has been argued that large reliance on debts jeopardises financial stability, but also that debts contribute to economic growth. This report leaves the broader discussion of the role of debt and consumerism in our society for others to discuss. It rather seeks to contribute towards addressing over-indebtedness, while taking this broader context for granted.

Over-indebtedness often emerges from the accumulation of missed bill payments (rent, utilities, telephone, internet, healthcare bills or insurance, taxes, fines), or missed payments related to loans with friends and family, rather than from debts with financial institutions. Such arrears are relatively common for low-income groups. They should be of further relevance to policymakers interested in early intervention strategies, as such arrears can be an early signal of situations that can spiral out of control. People with such arrears, may also have loans with financial institutions on which they may default at a later stage.

This report combines various approaches in assessing the state of and recent trends in over-indebtedness in the EU. Arrears are on the increase in several Member States, and among specific groups, especially single parents and people at risk of poverty. The EU's CSRs for 2017 and 2018 together highlight the risk of the household debt situation for many of the other Member States. Trends in the use of debt advice services and debt settlement procedures also support the view that

the problem has certainly not disappeared in the EU, and increases can be observed in some Member States.

An effective approach to over-indebtedness should encompass a range of preventative, alleviative and rehabilitative measures. In this report's Introduction, various EU actions of these types of policy measures are discussed. An example of a relatively broad policy reform approach is the current 'Broad debt approach' (*Brede schuldaanpak*) by the Dutch Ministry of Social Affairs and Employment, which maps and seeks to improve a wide spectrum of policy measures.

Ideally, over-indebtedness should be prevented. There is an important role for credit regulation, the enforcement of responsible borrowing and advertising, for comprehensive credit registries, and for social protection. As discussed in this report, the EU plays a key role in this regard (see Chapter 1). There may also be a role for rate caps, in order to prevent ultra-high interest rates for smaller loans. For instance, as from 2019, interest rates above 20% per year are prohibited in Finland. This rate cap applies to loans where the borrower receives cash and to consumer credits relating to the purchase of goods or services. Mortgages and car loans are excluded. Other costs associated with loans are limited to €150. Sweden has legal limits to the costs of credit spanning the entire duration of the credit, which can prevent credit providers from charging higher costs by stimulating longer borrowing terms. It is important not only to focus on interest rates, but also to include other costs involved, such as required payment protection insurances. Besides reducing the cost of credit, such measures can also result in people at high risk of default not gaining access to credit. Measures could also be strengthened to prevent loans from being too easily accessible, for example, through mobile phone apps. The current EU Consumer Credit Directive does not cover loans below €200. Such small loans can be costly, and people may take out multiple loans and enter into so-called 'credit chains', outside formal registries, thereby running the risk that problems will be detected and addressed late. The directive also does not cover interest-free loans for purchasing goods with spread payments. Such financial products put people at risk of taking on commitments that they may not be able to pay back. For people who start defaulting, it is important for regulators to consider not only interest rates, but also the administration fees and fines accumulating when people default, which contributes to debts spiralling further out of control.

Policymakers should take a broad perspective when thinking about measures to prevent over-indebtedness. This may go well beyond those measures that directly address the problem, as discussed above. For instance, debt problems often emerge because people do not receive the social benefits to which they are entitled. Enforcing these rights can contribute towards preventing over-indebtedness (Eurofound, 2015). Another example concerns tax debts (including fines and administrative fees). Such debts can stem from complex tax systems that lack proactiveness and automaticity, resulting in unawareness of population groups as to how to appropriately declare and pay taxes, and in requests by the tax authorities for payments long after the relevant fiscal year (Algemene Rekenkamer, 2019; Løper, 2019b). For instance, in the Netherlands, particularly lower income groups with children in the household are often faced with unexpected requests for the return of tax credits from the tax authorities, often long after the year the payment refers to. Simplifying these systems and making them more automatic can help.

There are also measures that may not prevent over-indebtedness but do contribute towards preventing its negative consequences. For instance, aspects of the debt collection process and easier dispute resolution with banks and insurance companies can cause over-indebtedness to lead to a smaller degree to poor health (Angel, 2016). In France, since 2014, banks are obliged to identify clients in vulnerable situations (including those accepted for a debt settlement procedure) and offer them a basic bank account at capped costs, thus preventing financial exclusion and enabling, for example, direct debit payments, which are usually cheaper than other forms of payment. Belgium has a 'budgetmeter', which guarantees a minimum amount of electricity being delivered to the household, regardless of non-payment of utilities, and financial support can be requested to maintain a minimum level of gas supply during the winter months (Vlaanderen.be, 2019).

This report, however, focused on two important policy instruments to address over-indebtedness: debt advice services and debt settlement procedures.

Debt advisory services

Previous research by Eurofound (2012) has focused on the quality of debt advice. Training and quality standards can be important for achieving consistent high-quality services. For instance, the central government requires municipalities in Sweden to provide debt advice services, but it does not specify detailed requirements about the quality of the services, and there are differences between municipalities. As a response to this, the Konsumentverket (2018) has established recommendations for municipalities, with

the aim of raising quality standards. For instance, it recommends that debt advisors should at least have a college degree (in economics, law or behavioural science) and receive a specific introduction to the profession of debt advice. For debt advice to be effective, it should be adjusted to the needs of the individual case. Some cases require a straightforward administrative solution; others demand more complex combinations of services. Eurofound's (2011, 2012) research has put particular emphasis on the importance of effective referral to (and from) a broad range of services, and on building trustworthy relationships. To understand the situation well, get a full picture of the debts and identify underlying problems, it is important for debt advisors to establish relationships of trust with their users. It is key to look beyond the individual and to get a good understanding of the specific household context. To work towards solutions, debt advice service providers should be further trusted by creditors and authorities, in order to better engage with them in discussion and negotiation.

The focus of the current report is on access rather than quality. This seems appropriate, given the lack of availability of debt advice in most Member States, and the considerable extent of access problems in many others.

Proactive systems can help with early intervention and with addressing unawareness. Such systems may consist of information about debt advisory services to be distributed to people at risk of over-indebtedness. Trade unions and employers may for instance provide this information when redundancies are looming, or information could be available at employment agencies or waiting rooms of primary healthcare services. Creditors can also include information about debt advice services in the notice letters they send out to clients with arrears. However, if over-indebted people receive this information from creditors, there is a risk that debtors may then see the services as defending mainly the interests of the creditors, deterring them from contacting the services. This can be prevented if it is clearly communicated that creditors include this information as a government requirement. There are also examples of advisory services that are alerted when people are in arrears, for instance, with utility bills or social housing rent (Vroeg Eropaf in Amsterdam) or when there is a court case for an eviction (FAWOS in Vienna). Advisory services then proactively contact the household in question to offer its service. For a service to be effective, it is once again important for over-indebted people to trust the service (Eurofound, 2012).

Overall, the current situation of debt advice provision in Member States can be complex, with multiple smaller actors playing a role. This can be a problem for debtors seeking help, and for social service providers trying to support them. For instance, in the Netherlands

approaches differ considerably between municipalities, and there are also NGOs working outside the municipal debt advice framework. In the UK, there are several larger organisations operating alongside multiple smaller ones. Such diversity does not need to be a problem. One-stop shops and umbrella organisations can help to make actors, and differences between them, easier to comprehend for over-indebted people and social service providers alike. Finland responded to the diversity in service provision, and accessibility (waiting lists) across municipalities and perceived complexity, by centralising and harmonising debt advice services in 2019.

Private for-profit providers of debt advice services have emerged. When these are private lawyers in a regulated profession who help over-indebted people with legal issues related to their debts, this may not be a problem. Furthermore, private for-profit providers may fill gaps in a national context where there is little else for people to turn to. However, there are concerns about the quality and incentives of for-profit debt advice companies (Eurofound, 2012; Comparato, 2016). It can also be of concern that internet search engines list private companies (paying an advertisement fee) when people are seeking debt help in countries where alternatives are available. People who are unaware of alternatives could thus opt for debt advice from a for-profit company, which may not be the best and charges a fee, while there are free alternatives available (Germany, Ireland, the UK).

Public funding may be the best option to ensure the availability and continuity of debt advisory services, their clarity – to ensure people find their way to the service – and the provision of unbiased and homogeneous services. It can improve fairness, in a context where outcomes for debtors can depend on how well the debt advisor represents their interest. An advantage of publicly provided debt advice is that it may carry more weight in working towards a solution with creditors. In Norway, the national public authority that provides debt help is the same as that which hands out benefits and pensions. An advantage of this is that it has a relatively good overview of the debtor's situation. A general disadvantage of this role for the public sector can be that over-indebted people may not always trust public authorities to the extent that they may trust for instance an NGO, in particular if their debts are with public bodies (Eurofound, 2013). For others, the reverse may be true. Thus, some diversity in the organisations offering support, or at least those who serve as a first contact point and refer the over-indebted person effectively to the appropriate service, can be beneficial (Eurofound, 2012). Currently, NGOs fill important gaps, providing services for people who do not fulfil the criteria to be entitled to public debt advice (such as in the Netherlands), or when no public services are

available. In the latter case, however, the gaps filled tend to be rather limited. An example includes Malta, where an NGO offers support on an ad hoc basis, as a proper debt advice structure is lacking.

It can be argued that creditors should contribute towards funding debt advice. Creditors benefit from the service when it helps to recover (part of) the debts. Creditors can also be considered as having contributed towards over-indebtedness emerging in the first place, so they may be expected to contribute towards offsetting the problem's cost to society. However, the independence from creditors of debt advice is at risk if creditors play a direct role in providing the advice, have a large say as the main funder, or when the debt advice has financial incentives in favour of the creditors. The section on 'Funding by creditors' in Chapter 3 mapped various voluntary and mandatory funding models. In the UK, funding models exist where creditors pay debt advice services a proportion of the recovered debt. In theory, this could lead to perverse incentives for the debt advice provider, in tilting the balance of service provision towards maximum recovery of debts rather than towards supporting the over-indebted person. Research in the UK has suggested that debt advice can be perceived as overly focusing on the debtor's 'payment ethics', rather than on supporting the over-indebted person (James, forthcoming). A particularly interesting model can be found in Belgium, where financial institutions contribute a fixed proportion of the amount of registered arrears to the debt advice services. This arguably provides an additional incentive for financial institutions to prevent arrears and provide some compensation for the cost of over-indebtedness to society. The gambling industry and other creditors (utility and telecoms companies) also contribute, albeit through lump sum payments.

To provide a sustainable solution to over-indebtedness and to reduce its negative impacts, support for the debtor may be needed in finding a well-paid job, budgeting, financial education, upfront expenses needed to systematically reduce other costs (moving to cheaper and/or better insulated accommodation), ensuring people receive the social benefits they are entitled to, psychological help, addressing addictions, or different social work-related issues. Debt advice service may not always be the best actor to provide this support, but it can play a central role in referring people to a range of services. Such a holistic approach by debt advice services is an important aspect of quality (Eurofound, 2012). It is hard for one person to have expertise in these multiple issues, so it is crucial that advisors acknowledge their limitations, and that people with different skills cooperate in providing the service, either within one provider or in close cooperation with other service providers.

However, there is currently often a risk of overly narrowly focused debt advice in terms of service provision. For some cases, such a narrow focus may be appropriate, but for other cases there is a risk of missing out important aspects when working towards a solution, leaving root causes of problems unaddressed. In particular, some of the organisations in Member States where people with debt problems often turn have a strong legal focus. This is the case when free legal advice offices play a relatively large role (Finland, Latvia, Poland). Other providers of support for over-indebted people have a strong financial focus on the debt itself; for example, when the main activity is to restructure loans into a single cheaper one (Takuusäätiö in Finland; fund for the prevention of usury in Italy). Similarly, a narrow 'social' focus can be a problem. For instance, in Germany, debt advisors tend to be social workers. It is important to acknowledge that they may lack the necessary financial and legal expertise. Furthermore, debt advice services have increasingly focused on helping people to access and negotiate debt settlement procedures, because such rehabilitative procedures have become increasingly available and accessible. Overly focusing on these procedures may again risk failing to work towards a sustainable solution, which prevents problems from reoccurring. If the causes of over-indebtedness in the specific case are not holistically addressed, this can result in the failure of debt settlement procedures.

Debt advisory services can play an important role in preventing the need for enrolment in a settlement procedure. Such procedures can be an effective way out of over-indebtedness, but they tend to be associated with poverty and deprivation, during and after the procedure. The negative impact may not only be material; debt settlement procedures can also come with mental health and social issues. For instance, a study from Sweden showed that 90% of people going through the procedure had reduced contact with their children (Konsumentverket, 2014).

As debt settlement procedures focus on a legal solution, they may not always be the best tool to prevent the negative consequences of over-indebtedness and the associated costs to society. They tend to be resource-intensive for the administrative system, both in terms of human and financial resources, and creditors can lose out because they are often paid only after procedural expenses have been deducted. Mechanisms whereby people can contact debt advisory services before entering into legal procedures thus seem advantageous to over-indebted people, creditors, public administration and society. An interesting approach can be found in the Netherlands, where people who are over-indebted must contact the local government department, which provides debt advice, before they are able to apply for a debt settlement procedure. However, in practice there are challenges, for instance, delaying and reducing access to debt

settlement procedures for those people for whom such a procedure is the best solution (Jungmann et al, 2018).

Debt settlement procedures

In most countries, debt settlement legislation is relatively new and is slowly taking shape in more effective forms, informed by experience and adjusting to (changing) contexts. This report contributes towards understanding the situation by focusing on what these laws mean in practice, discussing barriers to using the laws, features of the laws that relate to living conditions and employment, and trends in numbers of users.

There has been a trend towards shortening the duration of debt settlement procedures, with few of them now lasting over five years (unless they include protection of the home through rescheduled mortgage payments). Some countries clearly lag behind, running the risk that over-indebted people fail to 'see light at the end of the tunnel'. It should be taken into account that people may also take considerable time in becoming aware of these procedures and in successfully applying for them.

Easy ways out of debt problems can be associated with creditors being less inclined to provide credit. This may lead to high interest rates or informal lending with its associated risks (Eurofound, 2013). For instance, the 2014 reform in Poland has facilitated the discharge of debts, and it has been suggested that, as a result, financial institutions consider more carefully the clients' situation when granting loans (Bigaj, 2015). However, reduced access to large loans can also contribute towards dampening house prices (as demand for expensive housing decreases), and to preventing over-indebtedness (as it is harder to get credit in the first place). When debt relief is granted too late, the physical, mental and social situation of the over-indebted person may have deteriorated too much for debt relief to be rehabilitative (Konsumentverket, 2014). It is understandable that countries do not want to invite abuse by shortening the periods too much. However, these periods can be devastating, with possible long-term negative impacts when people cannot live decently during these periods, and when they lack a future perspective and the incentive to take up employment.

While difficult to detect, no study has found evidence of widespread abuse, and there is increasing consensus among experts that over-indebted people have rarely become over-indebted on purpose (Ramsay, 2017; Niemi, 2018). This view has strengthened in the aftermath of the global financial crisis, which began in 2007 and left many people over-indebted, including many who would not generally be considered to be in a vulnerable situation. In designing debt settlement procedures, it is important to seek a good balance on issues such as the risk of abuse by the debtor (for example, European Commission, 2019),

legitimate interests of the creditors to have loans repaid, and the living conditions of the debtor. Debt settlement procedures in the EU basically all have some sort of 'good faith' criteria, thus restricting access for people who have committed fraud. Repeated use of debt settlement procedures is also often limited. Furthermore, countries to varying degrees provide different conditions for different cases. For instance, in the UK, a one-year debt relief order procedure (among the shortest in the EU) can be used by people with low incomes and few assets, who clearly cannot pay back all their commitments.

When debtors need to pay fees in relation to the debt settlement procedure, this can be a barrier to access. However, this is only the case if fees are to be paid up front (rather than being included in a payment plan), or if there is a need for the services of a fee-charging lawyer or other actor providing support. In some countries, authorities have some discretion in setting the amount to be paid. While it is important to apply similar fees for similar cases in order to ensure fairness, this discretion can reduce barriers, as the specific situations of debtors are taken into account.

Small debts are often excluded from debt settlement procedures. This can be understood from the point of view of their disproportional administrative cost and prevention of use of the procedure for debts that may not be among the most problematic. However, there are also risks involved. Small debts can spiral further out of control, and they can cause deprivation for a low-income household. Small debts can furthermore have large consequences. For instance, in Lithuania, a person can be evicted from the family home for debts exceeding around €4,000, less than one-third of the threshold for which one qualifies for bankruptcy. It is thus important for people who are rejected for a debt settlement procedure on the basis of a debt threshold to be offered an alternative (along with the rejection) – such as access to debt advisory services. For people who do not even apply for a debt settlement procedure because they are aware of these minimum thresholds, the channels that make them aware of these thresholds should similarly inform them about alternative support.

There is clear potential for providing more incentives for people to maximise their income and seek work during debt settlement procedures, and this situation has improved little since it was first noted (Eurofound, 2013). Rather than stipulating legal requirements to demonstrate efforts in such a direction (included in many of the procedures mapped in this report), financial incentives could be more effective. For instance, rather than having to hand over all income above a certain threshold, this could be restricted to a set proportion of the income; or the settlement term shortened when the repaid amount increases. To be properly incentivised, people need to notice the

difference straight away, not only after a couple of years, or only after a certain proportion of the debt is repaid. Furthermore, even smaller increases in income should pay off. Larger increases may be unrealistic for many. For example, an evaluation of the measure in Germany to reduce the term if 35% of debts were repaid revealed that fewer than 2% had availed of this option (BMJV, 2018).

Providing people with proper incentives to increase income also discourages undeclared work, and thus improves people's social security situation and future pensions – and increase the tax base.

To stimulate people's ability to work, it is important that not only expenses and goods for the continuation of current work are taken into consideration (which many procedures do) when setting the payment plan or income threshold above which contributions need to be made, but also those that are essential for looking for a (better) job – such as facilitating internet access, a computer and physical mobility (access to public or private transport). Furthermore, the cost of childcare and long-term care should be considered, in order to enable people with caring commitments to work (Eurofound, 2019).

Increases in income are not realistic for everybody, and income may also decrease. Overall, decent living standards should be guaranteed, and poverty and social exclusion should be prevented.

As mapped in this report, countries have various ways of guaranteeing some level of well-being during these periods. The calculation of the income threshold (or of the payment plan) varies from highly flexible approaches, taking into account the specific situation of the debtor and adjusting it on a monthly basis during the procedure (France), to more fixed approaches where, for instance, the threshold above which all income should be handed over to the authorities/creditors is set at three times the minimum wage (Lithuania). There is a trade-off between the resources needed to conduct the exercise and the desire to tailor it to the specific situation of the debtor. It is difficult to take into account all the possible factors. For example, it is uncommon to adjust thresholds according to whether people live in an expensive capital city or in cheaper parts of the country. Furthermore, highly flexible approaches, tailored to specific situations, provide a constant challenge if they are to be consistently applied across the country, posing risks to fairness. Overall, this discussion could be more closely related to that surrounding 'reference budgets' (European Commission, 2015) and 'living wages' (Eurofound, 2018). To ensure social protection, the focus should not be limited to income, but also consider access to services such as childcare, education, housing, healthcare and long-term care.

If debt settlement procedures are truly intended to get people's finances and lives back on track, it is important that they encompass all types of debts. For some types of debt, though, it may be understandable to exclude them or unrealistic to include them fully. Examples include the following.

- **Debts related to criminal activity:** These debts are often excluded, and a moral argument can be presented in defence of this approach. However, for instance, the reintegration of ex-detainees can be hampered by these types of debts falling outside debt settlement procedures. In Germany, debts arising 'from an unlawful act', such as fines, compensation for pain and suffering, and court fees are excluded. Some German regions, however, provide funds to cover these debts, while others do not.
- **Educational debts:** In countries where students tend to finance their education through loans, educational debts may be excluded (such as in the UK), in order to avoid that students wipe out their education loans soon after their studies, when their income is still low.
- **Maintenance fees:** These are often excluded, and their inclusion (and thus their partial cancellation) may lead financial problems to spread to households, usually those with children.
- **Informal debts with family and friends:** These are often not included in debt settlement procedures. If they are (Hungary, the UK), they usually rank low in order of debts to be repaid, with informal creditors receiving very little (minimum 5% in Hungary), if anything. Over-indebted people may not always reveal all their debts, in particular informal ones. As pointed out in previous research, trusted relationships with debt advisors can help to get a comprehensive picture. Furthermore, it may be hard to implement debt settlement in the private sphere. Non-payment of informal debts can lead to further tensions with people close to the indebted (and can spread debt problems). Such tensions risk the loss of social support for people with financial problems, who often need such support for their mental well-being (Eurofound, 2013).

Several debt settlement procedures exclude debts to public authorities, including tax debts or fines (Latvia, Luxembourg, Spain). It has also been suggested that such debts to authorities contribute towards lower levels of trust in government among low-income groups with debt problems, as many of their debts may be to the government. In general, if the intention of a debt settlement procedure is truly to provide the opportunity of a fresh start, it could be argued that such debts should also be included in the procedures.

Some countries have included more debts in the procedure, such as Greece (in its Private Insolvency Law) and Norway, which both now include tax debts that previously were not included.

After a debtor has completed a debt settlement procedure or 'probation period', a fresh start might imply that their names are deleted from credit registers. This, for instance, prevents the refusal of credit or jobs by potential creditors or employers who consult the register. However, several Member States require names to remain on such registers long after finalising the procedure. For a truly fresh start, it is not enough for names to be deleted from the register as soon as people finish the procedure. Other key factors to be considered include a critical assessment of the procedure for obtaining access to the register, and restrictions on copying and storing names from the register. Furthermore, deletion of the names from these registries may have little impact if laws do not change the rules of the credit reporting systems which may be used by creditors, insurance companies, employers and landlords. These systems can determine the availability of services for people who have gone through debt settlement procedures (Ramsay, 2017).

Laws may seem straightforward, but access to debt settlement procedures is not always equal for people in similar situations. This may be due to differences in awareness of the existence of the procedures, or in how to apply, or differences in understanding the criteria to qualify. Acceptance to a debt settlement procedure may not only depend on someone's situation, but also on the quality of the application. The fact that there is a large role for debt advice and other service providers in preparing applications for debt settlement processes already suggests that acceptance depends on the quality of the support received. To ensure equal treatment and prevent unfairness, this should not be the case. For instance, in the UK there is an increase in the number of clients whose individual voluntary arrangements have failed. It has been argued that these people may have qualified for procedures that would have been more advantageous for the debtor, but debt management companies have instead steered people towards individual voluntary arrangements, generally resulting in larger fees. In the case of Greece, the European Commission argues for the need of a single personal insolvency framework. It argues that the current 'multiplicity of frameworks' increases the risk of 'an erroneous choice of framework or even procedural abuse' (European Commission, 2019, p. 45), with the two procedures in Table 3 in place, along with two procedures for businesses (out-of-court mechanism for business debts and the bankruptcy code) that may be used by private individuals with business and private debts, which are often difficult to disentangle.

One argument for a role of the EU in debt settlement procedures is as follows. The free movement of people makes it easier for EU citizens to use procedures in other Member States, according to EU Regulation 2015/848. The outcome of these procedures then needs to be recognised in debtors' home countries. This has led to 'bankruptcy tourism', for instance from Austria and Germany to France, the UK and more recently Ireland, from Lithuania to Latvia, and (mainly until 2013, when it had a 12-year bankruptcy period) from Ireland to the UK. Courts do not generally record numbers on this topic, but there have been reports in the media, for instance, that over 130 Irish citizens or people with Irish addresses declared themselves bankrupt in the UK between 2010 and 2013 (Thejournal.ie, 2013). Law companies also advertise this option, for instance attracting people from Germany to opt for debt settlement in Ireland rather than in the UK, in the context of Brexit. There are also court cases: for example, in Lithuania when bailiffs continued to claim repayment of debts when a Lithuanian citizen returned to Lithuania after going bankrupt in Latvia (after fulfilling the requirement to take up six months' residency). The court clarified (in line with EU Regulation 2015/848) that if bankruptcy proceedings are carried out in Latvia, no recovery proceedings are allowed in any other Member State, including Lithuania.

The number of people seeking debt settlement in another Member State may be unclear and relatively small, but the practice can fuel feelings of unfairness in the country of origin and a lack of trust in the system, when covered by the popular press. Those who find their way to procedures in other Member States are likely to be better off, able to afford legal advice to guide them through the process and the required temporary change of residence. Seeking bankruptcy in another Member State is rarely an option for over-indebted people at the lower end of the socioeconomic ladder.

Member States often had regulations in place for business insolvency long before debt settlement became an option for private individuals. They have by and large now added the latter, explicitly as an add-on to the business insolvency procedure (and in Bulgaria based on case law ruling), or as a separate new tailor-made law. Many countries have done so only in the past few years. The EU may wish to mirror this recent trend and reconsider establishing general guidelines for personal insolvency alongside its existing legal framework for business insolvency.

6 Conclusions and policy pointers

In the aftermath of the global financial crisis, debt advisory services and debt settlement procedures have generally become more widely available and accessible. However, gaps in availability, access and quality remain. Over-indebtedness leads to a wide array of social and economic costs for society, and to reduced well-being for over-indebted individuals and their dependents. It also comes with public expenditure related in particular to healthcare needs, unemployment and inactivity.

About one-third of Member States have well-established debt advice services in place. However, varying access problems also remain in those countries where debt advice is best established. Many debt advice services have been mapped in this research, but they rarely provide a full range of services, and few are accessible homogeneously within a country. For an effective and sustainable solution to over-indebtedness, it is important not to approach this issue purely as a legal or financial problem. Debt advisory services that acknowledge this point can be key to the solution, with a particular potential for publicly funded services to ensure continuity, quality and accessibility. Models for funding by creditors that ensure the independence of service provision and provide creditors with additional incentives to contribute towards the prevention of over-indebtedness have also been discussed in this report. Debt advisory services can play a larger role in early intervention and provide an alternative for debt settlement procedures. Such procedures can offer a way out of over-indebtedness, but they imply financial cost and prolonged deprivation during and after these processes.

All Member States now have some sort of private debt settlement in place, except for Malta (and to a lesser extent Bulgaria, where access by individuals to legislation earlier used exclusively by business, is based on recent case law). However, it is important to look beyond whether a country has such a procedure in place or not. This research has revealed large differences between Member States in the characteristics of these procedures, their accessibility and use, and the extent to which they provide an effective solution. Furthermore, the procedures lack financial incentives for people to engage in the labour market to their full potential while going through these procedures. This constitutes a problem for over-indebted people, governments and creditors alike.

Freedom of movement of people, services and goods in the EU may justify some further alignment of procedures, as people may decide to reside anywhere in the EU, and outcomes of procedures used in another Member State apply across the whole EU (Regulation 2015/848).

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 to be seen 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).

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The issue of over-indebtedness continues to be a concern, particularly among some population groups and in Member States where recent increases can be observed. This report provides an overview of the main causes, triggers and consequences of household over-indebtedness, including the costs to society. It then examines two policy responses in the EU and Norway: debt advisory services and debt settlement procedures. While the findings show that in the wake of the global financial crisis, such services and procedures have generally become more widely available and accessible, gaps remain. The overall aim of the report is to draw the attention of national and EU-level policymakers to ways to improve policy responses to household over-indebtedness.

The European Foundation for the Improvement of Living and Working Conditions (Eurofound) is a tripartite European Union Agency established in 1975. Its role is to provide knowledge in the area of social, employment and work-related policies according to Regulation (EU) 2019/127.

