E C R I

CENTRE FOR EUROPEAN POLICY STUDIES

Workshop on Financial Exclusion, Expectations and Over-Commitment

Minutes

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1 Place du Congrès, 1000 Brussels

Throughout Europe, more and more households are financing their purchases with credit. This development has led to worries that it might result in over-commitment of consumers (over-indebtedness) and cause a rise in the number of households in financial difficulties. At national and at EU level, public authorities are stepping up their efforts to prevent these problems. To discuss the latest research on financial exclusion and over-indebtedness, the Centre for European Policy Studies (CEPS) and the European Credit research Institute (ECRI) held a workshop on May 8, 2007 in Brussels. The event brought together the most recent academic research on financial exclusion and over-indebtedness. Together with academics, policy-makers and industry officials, we discussed the latest insights on why people get over-committed and on how to prevent financial exclusion.

The Chief Executive Officer of CEPS, **Karel Lannoo, opened the workshop and** welcomed all participants on behalf of CEPS and ECRI. The first speaker, **Assistant Professor Maria Cristina Rossi (University of Rome Tor Vergata)** presented a report written for the European Commission, which aimed to find the best way to measure over-indebtedness in the EU countries. The authors of the report had identified three ways of measuring over-indebtedness: administrative measures, based on the number of court cases due to the non-payment of debts; objective measures, based on the ratio of the amount of debt owed by the household to its total income; and subjective measures, based on the individuals' own assessment of being over-indebted. Ms Rossi and her colleagues chose to focus on the subjective measures of over-indebtedness. For instance, they used as indicator the number of respondents to the European Community Household Panel (ECHP) who said that the repayment of their unsecured debts was either "a heavy burden" or "somewhat of a burden". This approach leads to a very high percentage of overindebted households.

In the ensuing debate, Karel van den Bosch, Professor at the Department of Sociology (**University of Antwerp)** commented that it was problematic to compare subjective data across countries, as answers are influenced by the different cultures. For example, surveys show that countries from the South of Europe tend to systematically give more pessimistic and negative

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answers than countries from the North of Europe. This could explain why this study had found higher levels of over-indebtedness in southern European countries. **Dr. Nicola Jentzsch (Head of Research of ECRI)** added that the question of whether respondents considered the repayment of their debt to be "somewhat of a burden" could be misleading, because all debt repayments were mostly "a burden" and therefore not necessarily an indicator of over-indebtedness. **Rosa-Maria Gelpi (Vice-President of Cetelem)** said that it was advisable to include mortgages in measurements of over-indebtedness, as opposed to including only unsecured debt, since to have a complete picture of the financial situation of a household it is necessary to look at all the commitments.

In the second presentation of the day, **Adele Atkinson, Senior Research Fellow at the Personal Finance Research Centre (PFRC) at the University of Bristol**, presented a study by the PFRC that analysed the types of financial difficulties encountered by British households. The study, entitled "Overstretched: People at Risk of Financial Difficulties" classified individuals into five groups, according to their financial situation. Group 1 (58% of the population) was "financially sound" and Group 2 (25%) was "managing reasonably well". Group 3 (9%) of the population, was "showing signs of financial stress", often due to an myopic planning and therefore excessive borrowing and/or insufficient saving. Group 4 (6% of the population), was "struggling on a low income": for this group, financial difficulties were due to their low income, rather than to an inefficient management of their personal finances. Group 5 (2% of the population) was "struggling and over-indebted": this group had the most serious financial difficulties, and could be considered over-indebted. **Simon Begley**, **Policy Advisor at the UK Financial Services Authority (FSA)** commented that this survey was widely used by the FSA in its strategy against financial exclusion in the UK.

Professor Dieter Steinbauer (Managing Director) and Astrid Berle (Head of International Affairs) from the Schufa Holding AG presented Schufa's Debt Compass and Private Indebtedness Index. Ms Berle explained that Schufa is Germany's largest credit bureau, and as such collects extensive data about the credit history of German individuals. Schufa uses the data to construct a "debt compass": individuals are classified by classes of risk, according to their number of negative entries - the number of times that they were late in the payment of a debt by three months or more. The classification goes from green (no negative entries) to red (high number of negative entries). Based on these numbers, Schufa also constructs a "Private Indebtedness Index", which it uses to measure levels of indebtedness in the different regions of Germany.

Adele Atkinson (PFRC) asked if the existence of these measures of over-indebtedness in Germany had helped to fight over-indebtedness. Professor Dieter Steinbauer replied that it was the case, because this data allows banks to identify the individuals at risk of having financial difficulties and to deny them further credit. Moreover, the existence of the data lowers the default risk of individuals, which allows banks to provide credit at lower interest rates.

Lise Disneur, Senior Research Fellow at Reseau Financement Alternatif, started the afternoon sessions by presenting the situation in Belgium regarding the right to minimal banking services. As part of the fight against financial exclusion, the Belgian government enacted a law that states that all individuals are entitled to a bank account; banks are therefore obliged to provide a minimum set of banking services to any individual that requests it. Ms Disneur explained the evolution of this law in Belgium over the past ten years, and noted that some problems still remained, due in particular to the fact that most people were not aware of their rights under this law. **Nicola Jentzsch** (ECRI/CEPS) asked Ms Disneur's opinion as to what could be done to make people more aware of the existence of the law. Ms Disneur replied that it would be useful to inform social workers about this, so that they can in turn inform people who might benefit from the law. Another option would be to require banks to provide this information. It would also be useful to simplify the system for complaints which is available to the people to whom a bank denies the opening of a bank account.

Georges Gloukoviezoff, Researcher at the University of Lyon presented his research on financial exclusion and over-indebtedness. Mr. Gloukoviezoff explained that over-indebtedness can be defined as "the inability of a debtor to meet all his/her debts which become a major burden for him/her", while financial exclusion is generally defined as "non-access to mainstream financial products". Mr. Gloukoviezoff argued that these two problems were highly correlated, since over-indebted individuals often become financially excluded and, similarly, individuals with difficult access to financial products tended to have difficulties running their personal finances, which in turn could lead to over-indebtedness.

Antoine Saint-Denis, European Commission, DG Employment and Social Affairs concluded the day's presentations by explaining the policies of the European Commission on financial exclusion and over-indebtedness. Mr. Saint-Denis explained that those policies were part of the Commission's Strategy for Social Inclusion, as it is felt that access to finance is an important element in the fight against poverty. The Social Inclusion Strategy is based on the Open Method of Coordination, whereby the Commission only sets common objectives for the Member States in this area, and national governments are free to choose which policies they want to put into place to meet those objectives. Apart from coordinating national policies, the Commission is also active in improving the data on financial exclusion/over-indebtedness available at EU level, in creating European networks to tackle these issues and in funding research in this area. **David Rees (Group Legal Adviser, Provident Financial)** commented that it was important to keep in mind concerns about financial exclusion during the revision of the Consumer Credit Directive. In particular, clauses relating to "responsible lending" could potentially increase problems of financial exclusion, by leading to a rise in the number of people who are refused credit. The workshop was concluded by Nicola Jentzsch who thanked all participants for their contributions.

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