



Provision of an European Platform for the Prevention of Over-indebtedness by the Increase Accessibility and the Improvement of effectiveness of Debt Advice for Citizens in Slovenia (PEPPI)

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Causes, circumstances and triggering events

How individuals and households in European countries end up in over-indebtedness

Dieter Korczak



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Who am I?

Diploma in Economics
Doctor of Sociology

Owner and director of a German social research institute

Lecturer at a University of Applied Sciences
Author of several books and numerous articles

Co-Founder of European Consumer Debt Network(ECDN)
President of ECDN 2015 – 2018 and 2022 – to date

Member of the Financial Services User Group of the EU
Lead coordinator of the Peppi project



DEBT

*„The rich rules over the poor and he, who borrows,
is the creditor's servant“*

Bible, Sayings 22: 7

*„You have to go into debt to be able to live a life,
that is not limited to mere survival“*

Graeber, 2012: 398

*„Poverty is always a question of the distributive justice of a social
and economic system and cannot be reduced to individual failure“*

Iben, 1989: 277

Scientific Approaches to DEBT

Semantic-etymological

Meanings and wordings (debt/ guilt, „to be up to one's neck in debt“)

Religious-philosophical

Debt/ guilt, shame and sin

Cultural-anthropological

Human history of debt, credit and money

Psychological

Subjective qualitative perspective, feelings and emotions

Sociological

Societal structural-functional perspective / social problem

Juridical

Administrative normative law (seizures, foreclosures, evictions, insolvency law)

Micro- economic

Private household planning and budgets, demand and needs, financial obligations

Macro-economic

Financial organization and regulations of the state

Different Forms of DEBT

Financial System	Private System
Overdraft	Utility debts
Loan	Rental debts
Mortgage	Pawnbroking
Credit card loan	Alimony debts
Financed hire purchase	Private debts (relatives, friends)
Buy now - Pay later	Insurance debts
Leasing	Tax debts/Court debts
Quick loans	Gambling debts
Online lenders	Retail debts

Sociological Definition of Over-indebtedness

Over-indebtedness is the non-fulfilment of payment obligations, which leads to the economic and psychosocial destabilisation of debtors.

Over-indebtedness therefore not only means that after deducting the fixed costs of living, the remaining monthly income is no longer sufficient for the instalments to be paid, but also has massive social and psychological consequences.

Korczak 1992

Juridical Definition of Over-indebtedness

Over-indebtedness exists if the debtor's assets no longer cover the existing liabilities
(Section 19 (2) of the Insolvency Law)

German Insolvency Law 2023

EU Definition of Over-indebtedness (I)

Households are considered **over-indebted** if they are having – on an on-going basis – **difficulties meeting** (or are falling behind with) **their commitments**, whether these relate to servicing secured or unsecured borrowing or to payment of rent, utility or other household bills. This may be indicated by, for example, credit arrears, credit defaults, utility/rent arrears or the use of administrative procedures such as consumer insolvency proceedings

EU Commission 2013



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EU Definition of Over-indebtedness (II)

Material deprivation refers to a **state of economic strain and durables**, defined as the enforced inability (rather than the choice not to do so) to pay unexpected expenses, afford a one-week annual holiday away from home, a meal involving meat, chicken or fish every second day, the adequate heating of a dwelling, durable goods like a washing machine, colour television, telephone or car, being confronted with payment arrears (mortgage or rent, utility bills, hire purchase instalments or other loan payments). **Severe material deprivation** rate is defined as the enforced inability to pay for **a t least four** of the above-mentioned items.

EU-SILC 2022

Causes and Triggers

It is important and necessary to **differentiate** between **causes and triggers**.

Causes are causal relationships. The cause precedes the result. Causes regularly have concrete consequences.

Triggers such as e.g. critical life events are events that set in motion another event or chain of events.

Causes

- Payment obligations
- Low income, precariousness
- Socialisation deficits
- Personality factors
- Financial illiteracy
- Failed self-employment
- Critical life events /financial shock
- State regulations

Payment obligations

The negative change in income due to short-time work, unemployment or divorces are common **triggers** for the inability to meet credit obligations in the contractually agreed form and ultimately for the development of over-indebtedness.

Creditor misbehavior, irresponsible lending, aggressive marketing techniques, debt collector activities and **usury** are further triggers ...

Low or precarious income

Triggers for over-indebtedness among low-income earners and people in precarious employment is not only the occurrence of **unemployment** or **disease**, but also hardly foreseen **increases in costs** or contributions, for example, health insurance contributions, energy costs, rent increases and inflationary tendencies.

Consumers struggling to make ends meet seem to be more vulnerable to sub-optimal financial decisions.

The level of household's income is the most important in explaining over-indebtedness !

Socialisation deficits

Due to a lack of financial, often social and psychological resources in vulnerable families, the risk of failure when starting an own household is very high for adolescents and young adults.

In the case of an emotionally and intellectually neglected care of children, this can lead to inadequate financial literacy and low financial skills, combined with higher risk-taking, resulting in financial problems of young adults.

The level of education is one of the key factors impacting over-indebtedness.

Personality factors

Individuals' economic behaviors are underpinned by Psychological Mechanisms.

Individuals' mental states are influenced by economic conditions.

Risk factors are addiction
„sensation seeking behavior“
risk affinity
naivety
economic inexperience
Gaming / gambling
low self-esteem

Financial Illiteracy

Financial education is a core component of the financial empowerment of individuals.

The **incapacity to deal with financial products** and the **lack of money management skills** are important causes of over-indebtedness.

If the financial competence is too low, the risk of wrong decisions increases, which have serious financial consequences.

Failed Self-Employment (I)

The reasons for the failure of self-employment can be manifold:

- Insufficient commercial knowledge,
- ineffective marketing or sales structures,
- misjudgement
- market problems,
- production or sales problems,
- unpaid VAT,
- low start-up capital, e
- excessive credit burdens,
- disruptive technologies.

Failed Self-Employment (II)

Over-indebtedness in the case of self-employment can be triggered by

- decline in turnover/ loss of income,
- collapse of supply chains,
- loss of markets,
- legislative restrictions,
- burnout of the self-employed.

Critical Life-Events / Financial Shock

Critical life events can be both the cause and trigger of over-indebtedness.

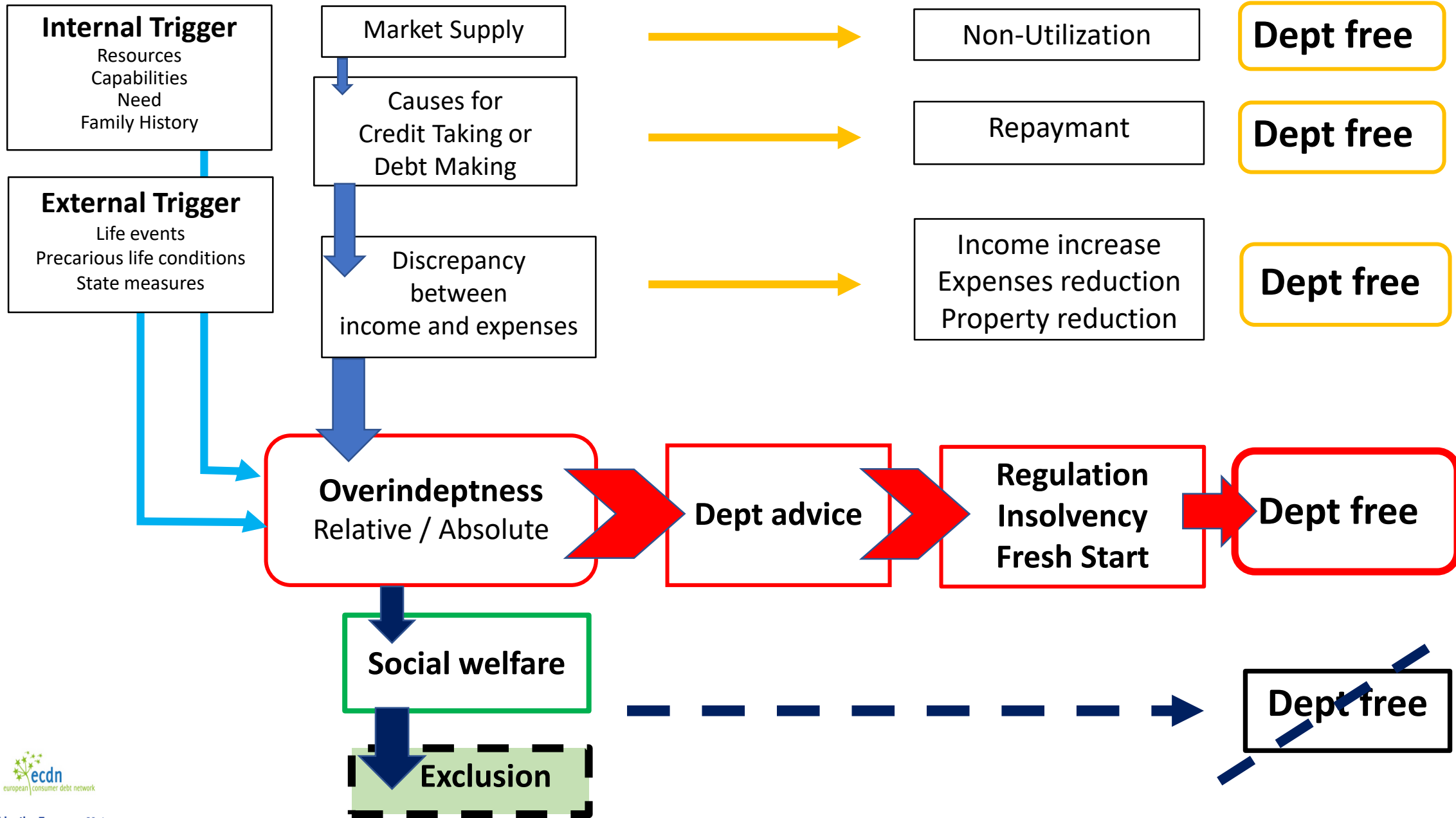
Unemployment is one of the most significant indicators triggering over-indebtedness.

Event	Stress Grade
Death of spouse	100
Divorce	73
Separation of spouse	65
Imprisonment	63
Death of a family member	63
Accident or sickness	53
Marriage	50
Unemployment	47

Regulations by the State

Market-regulating interventions by governments (example: Lock downs) can lead to significant **decrease of income** and **increase of household expenditure** (costs of living), which are difficult to capture by many households.

For example, the increase of interest rates by the ECB leads for many households to massive financing problems in the mortgage sector.



Thank you for your attention.

<https://www.ecdn.eu>

The European Knowledge Platform for Debt Advice



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