



OVERINDEBTEDNESS IN GERMANY

RESULTS OF RESEARCH 2018

HALF OF OVERINDEBTED GERMANS SPEND MORE THAN 40 PERCENT OF THEIR INCOME ON HOUSING COSTS.

Housing costs increasingly constitute an existential risk. Leading German economic research institutions have shown that rents have risen significantly in many regions, to a point where “for some socioeconomic groups it is difficult to find housing at all”. This is especially the case for overindebted people. About two-thirds of this group are income poor. The income gap between the poor and the rest of the population

is considerable and has increased markedly over the last four years. In 2017, per capita income of overindebted individuals was 881 euro per month, 19 percent below the official poverty threshold based on the most recent figures available, which were published in 2016. It is therefore not surprising that about 27 percent of overindebted people spend at least 50 percent of their income on housing.

SOCIO-ECONOMIC CONDITIONS CONTINUE TO DETERIORATE FOR THE OVERINDEBTED.

According to Creditreform figures, the number of people suffering from overindebtedness has risen consistently. This problem affects 6.91 million German adults. At the same time, the number of new insolvency proceedings declined, falling to only 87,744 in 2017. The number of those awaiting discharge from insolvency has also fallen in recent years to only 589,720 in 2017. The 2014 reform of insolvency legislation, allowing for a faster discharge procedure¹, had virtually no effect in this respect. The figures suggest that more and more overindebted individuals are opting to live in con-

ditions of financial exclusion and are becoming increasingly marginalised. Following introduction of the minimum wage in Germany in 2015, the number of employed people reliant on social welfare (“augmenters”) fell by only 80,000 (seven percent) in 2017 to 1.15 million. The limited size of this reduction resulted from the absence of opportunities for full-time employment, and the rise of the practice of “labour leasing” in the form of precarious low-paid jobs with unfavourable terms and conditions. The number of these precarious contracts exceeded one million in 2017 for the first time.

THE ECONOMIC BOOM DOES NOT TRANSLATE INTO MORE JOBS FOR OVERINDEBTED INDIVIDUALS – JOBLESSNESS REMAINS THE MOST COMMON TRIGGER OF OVERINDEBTEDNESS.

Joblessness and reduced working hours were identified as the triggers of overindebtedness in 26.4 percent of cases. This is roughly the same proportion as in 2011 and, despite the economic upturn and the resulting increase in employment, the incidence of this trigger did not fall. The second largest trigger was income poverty at 10.4 percent. Income poverty declined in significance for the first time in 2017, hav-

ing risen consistently in previous years. Illness, on the other hand, gained in significance, reaching almost 10 percent in 2017. By contrast, separation and divorce fell to 9.5 percent, consumer behaviour fell to 8.7 percent and failed self-employment fell to 8.1 percent. Taken together, these triggers formed the “Big Six”, accounting for over 70 percent of the triggers of over indebtedness.

¹ The standard discharge procedure lasts 6 years during which the overindebted have to apply every euro by which their income exceeds social security levels to servicing their debts as well, and demonstrate that they are seeking employment. If the overindebted repay at least the procedural costs, this leads to a reduction of 1 year and if they repay another 35 percent of their outstanding debts, the procedure is reduced by another 2 years.

INTEREST AND COSTS CHARGED BY INSURERS, MAIL ORDER COMPANIES, DEBT COLLECTORS AND LAWYERS ACCOUNTED FOR AN ADDITIONAL ONE-FIFTH OF DEBTS DUE.

Interest and costs charged by insurers, mail order companies, debt collectors and lawyers together accounted for an additional one-fifth of the debts due. The claims filed by debt collectors, lawyers and insurers amounted to 10 percent of the outstanding debt, which did not include the hidden costs of debt restructuring. More than 60 percent of overindebted

people had outstanding debts of less than 20,000 euro. Debtors owed an average of 15,044 euro spread across less than 10 different creditors. 17 percent had more than 20 debts. The complexity of debt counselling increases significantly as the number of debts rises.

DEBTS OWED TO PUBLIC SECTOR AGENCIES WERE THE MOST COMMON, BANK DEBTS WERE THE HIGHEST.

Although the level of debt owed to banks has now been in decline for a number of years, it continued to account for the largest share of household debt at 26 percent. By contrast, the proportion of debts owed to public sector agencies, the second largest creditor grouping, has been growing steadily and reached 20 percent in 2017. Debts owed to telecommunication providers followed a similar pattern, although at 12

percent were markedly smaller as a proportion of the whole. In respect of individual claims, bank debts were the largest, typically reaching 2,877 euro. Telecommunication debts came second at only 563 euro. The most common debts were those due to public sector agencies at 18 percent of all claims.

OVERINDEBTEDNESS PROFILE: AGED BETWEEN 25 AND 45, JOBLESS, SINGLE AND OFTEN WITH CHILDREN.

Half of the overindebted were between 25 and 45 years old, and people in this age-group were twice as likely to become overindebted compared with the population as a whole. Being a single parent significantly increased the risk of overin-

debtedness. About 60 percent of those consulted were single; single parents were three times as likely to be overindebted compared with the population as a whole. Roughly half of overindebted individuals were jobless.

Research objective

The annual *iff* overindebtedness report is a national survey of overindebted households in Germany that have sought help from debt advice organisations. The objective of the research is to provide robust data for stakeholder groups in politics, government and money advice, and for affected households and financial services institutions, in order collectively to identify solutions to the problem of overindebtedness and to mitigate its consequences.

Research design

The *iff* overindebtedness report has been published since 2006 and is produced by a team of sociologists, lawyers and economists. 111,538 households provided the data for *iff*'s 2018 overindebtedness report. Those households received debt counselling between 2006 and 2017. Anonymised data gathered from 39 debt counselling centres located in the 16 federal states of Germany ("Bundesländer") were evaluated. The data were process generated, and they were documented, summarised and prepared for statistical analysis in debt advice centres in the course of the advisory process. This was done using CAVIN, the debt advice software produced by *iff*. Most overindebted households analysed were not self-employed; less than one in ten cases of overindebtedness related to failed self-employment.

What is debt, and how is overindebtedness defined?

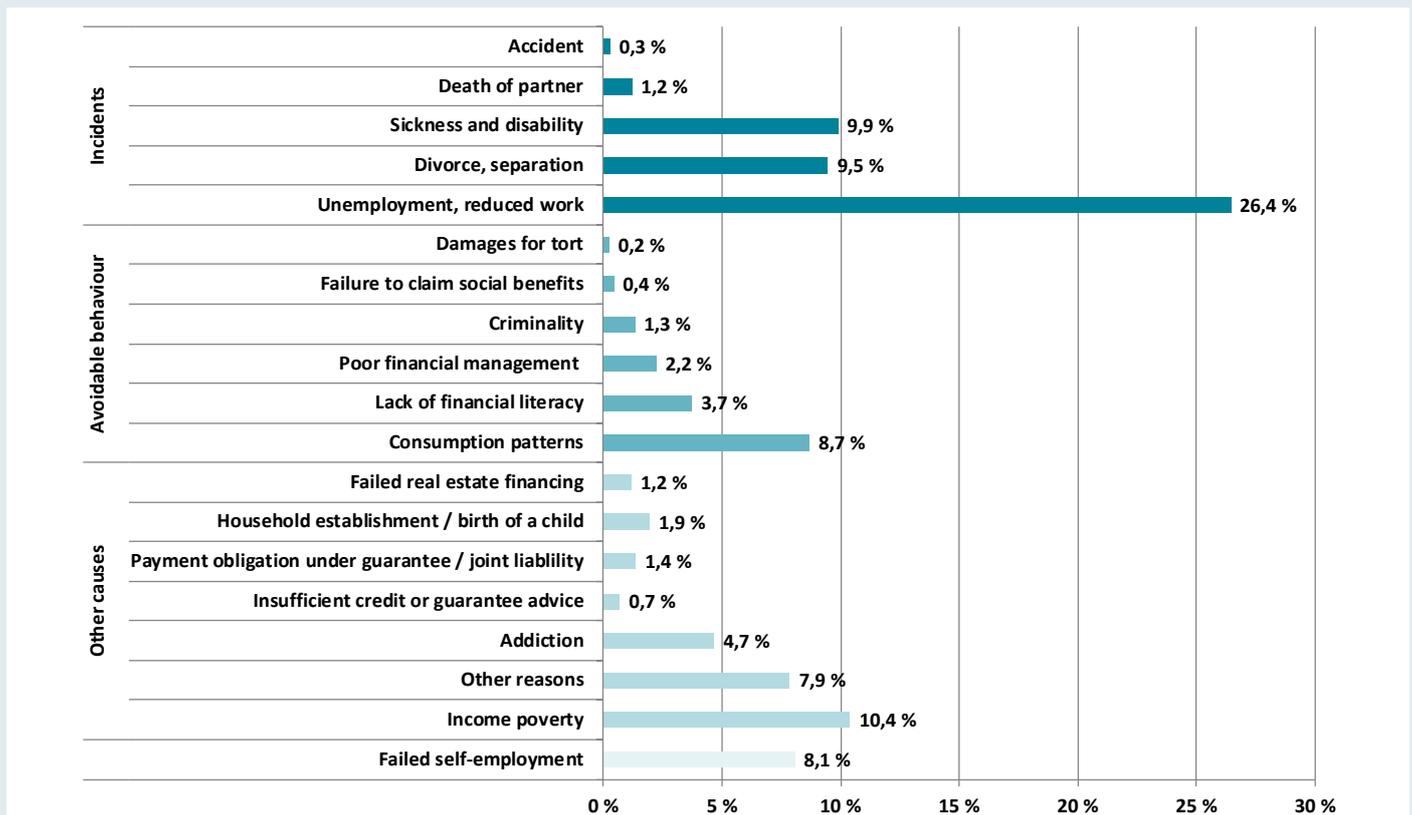
For the purposes of this report, debt and payment obligation refer to the same thing. These commitments are not only normal but desirable in modern society, as they enable investment for the future which would otherwise not be possible. Indebtedness does not only arise from monetary loans. It may also result from long-term continuing obligations and financial commitments such as rent or telecommunications contracts. Overindebtedness can arise from a normal state of indebtedness when a crisis occurs. Relative overindebtedness is a term used to describe situations where individuals are no longer in a position to repay their debts within a reasonable period of time and are unable to make payments from existing assets or income without putting at risk their basic living standards. Absolute overindebtedness (or revealed overindebtedness) refers to situations in which the "hard signs" of overindebtedness are apparent. This may include arrears in payments, credit default notices, loan cancellations, bank account closure and enforcement measures such as a warrant for the disclosure of assets and the initiation of insolvency procedures.

IN MOST CASES OVERINDEBTED PEOPLE ARE NOT “TO BLAME” FOR THEIR SITUATION - THE MAIN TRIGGERS ARE LIFE CRISES

Figure 1 summarises the frequency with which, in 2017, debt counselling agencies recorded various factors as the main trigger of overindebtedness. These factors can be categorised into specific events, avoidable behaviour and other triggers. Events are factors outside the control of the debtor. These include unemployment, divorce or illness. In a total of 47.3 percent of cases, they together represent the most fre-

quent trigger of overindebtedness. Triggers in the category of “avoidable behaviour” include irrational consumer behaviour and lack of financial literacy (3.7 percent), poor budget management (2.2 percent) and delinquency (1.3 percent) and, as in the previous year, were of secondary significance at 16.4 percent of cases.

Figure 1: The “Big Six” reasons for overindebtedness



Source: CAWIN-data.

Six triggers, collectively “the Big Six”, regularly present as major triggers of overindebtedness and together featured in more than 72.9 percent of cases in 2016. Their trajectory is shown in Figure 2 for the period 2008 to 2017.

The leading trigger of overindebtedness was once again unemployment or reduced employment. Despite the fact that the figures for employment continued on an upward trend in 2017, unemployment or reduced employment was cited as the largest single trigger of overindebtedness in 26.4 percent of cases. In 2011, that is, at the beginning of the current economic up-turn, it stood at roughly the same level.

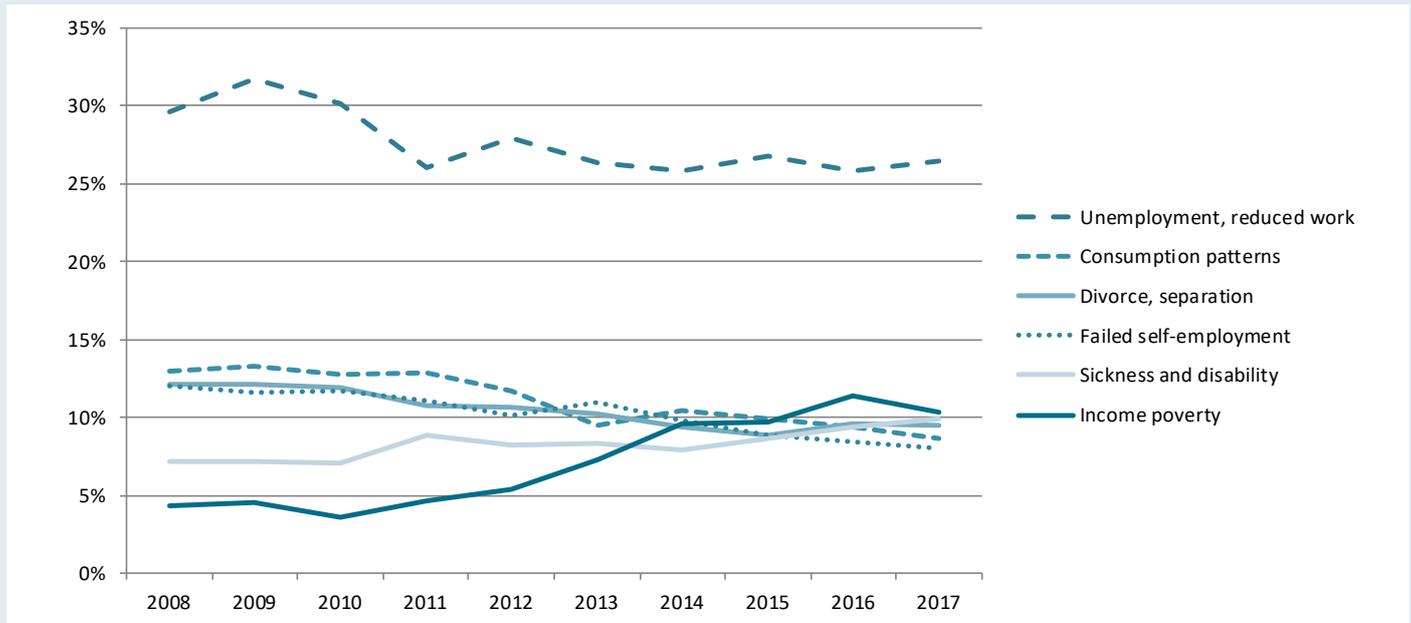
Income poverty ranked second at 10.4 percent. In 2017, the incidence of this trigger fell for the first time in several years, dropping by about one percentage point. During the same period, income poverty in Germany rose much less steeply than in previous years, stagnating from 2015 to 2016 at a level of 15.7 (the most recent reference period).

The significance of sickness continued to rise and reached almost 10 percent (9.9 percent) of triggers, becoming almost as significant as income poverty.

The significance of divorce and separation remained at the same level as the previous year (9.2%). Incidence of this trigger fell by almost one-third as a proportion of Big Six triggers overall, while divorce rates in the population as a whole fell by only one-fifth.

8.7 percent of overindebted clients gave consumption patterns as the main cause of overindebtedness. The proportion who cited failed self-employment as the main trigger was 8.1 percent in 2017, continuing its relative reduction. The number of the self-employed in the overall population decreased only very slightly during the same period. However, because of the limited availability of debt counselling for the self-employed, this figure was likely to have been an underestimate.

Figure 2: "Big Six" triggers of overindebtedness

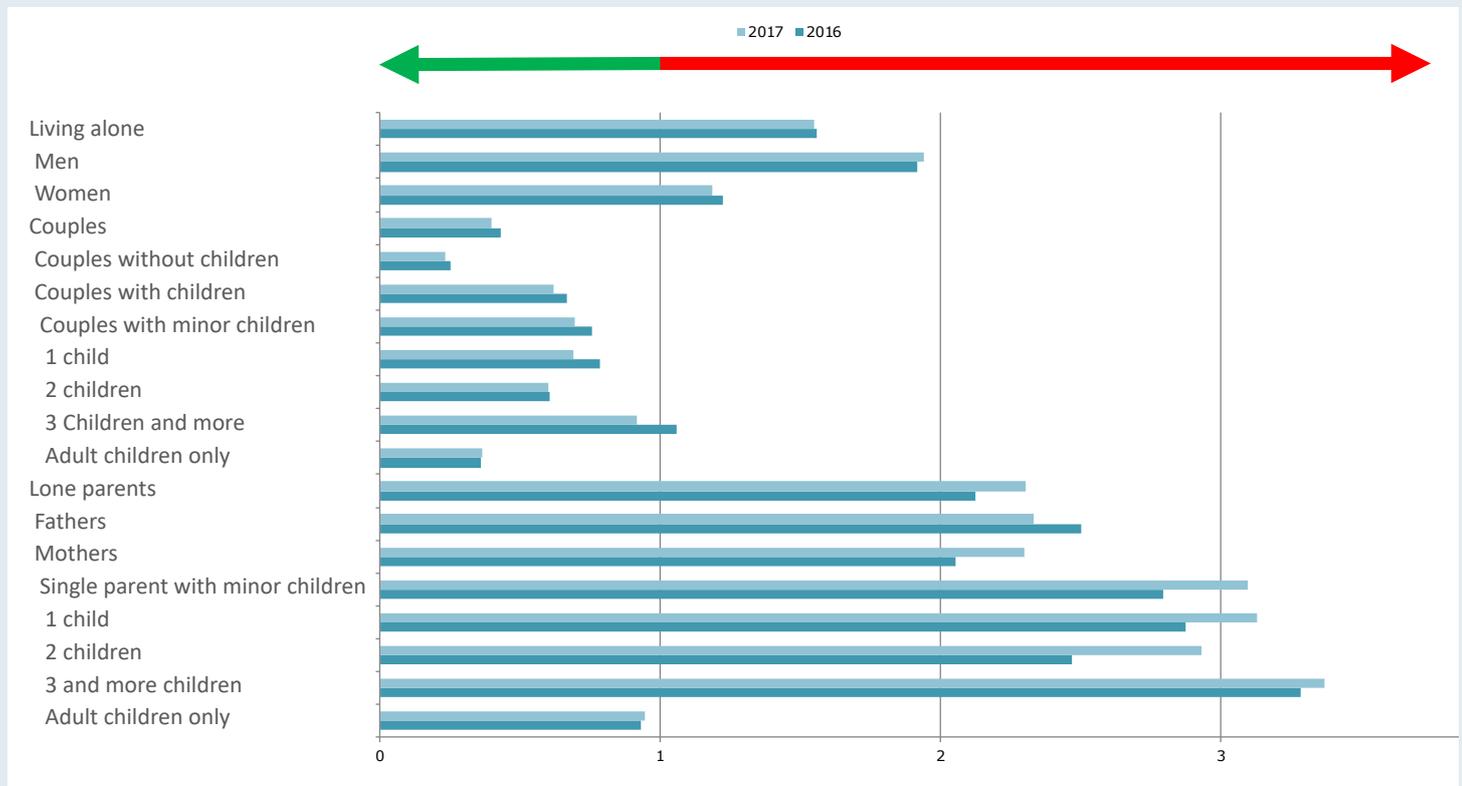


Source: CAWIN-data.

SINGLE PARENTS AS THE MOST VULNERABLE HOUSEHOLDS

Single people formed the largest group of households facing overindebtedness (64.11 percent), followed by couples (21.6 percent) and single parents (14.4 percent).

Figure 3: Impact indices² 2016 and 2017



Source: CAWIN-data, Federal Statistical Office.

Single parents were at greater risk of overindebtedness, that risk rising with the number of children. Those at least risk of overindebtedness were childless couples or couples with adult children only (Figure 3).

² If the impact is less than one, the risk is low, the more the value is exceeded by one, the higher the risk. Affection refers to the proportion of overindebted people (dividend) and the population (divisor).

THE OVERINDEBTED ARE AMONG THE POOREST OF THE POOR

The income of clients seeking debt counselling is low. In 2017, their monthly net household income averaged 1,055 euro. More significantly, per capita income, which provides a needs-weighted indicator of income, rose from 771 euro to 881 euro between 2008 and 2017 (Figure 4). However, most of this 14 percent increase has been absorbed by inflation. Price-adjusted data show that this increase fell to only three percent (Figure 5).

In fact, the small increase experienced between 2016 to 2017 proved to be a decrease when adjusted for inflation. The gap between the income of overindebted people and the poverty threshold is now 19 percent. In 2015 it was only 15 percent and has risen by one percentage point a year since then.

Figure 4: Per capita income and poverty threshold over time

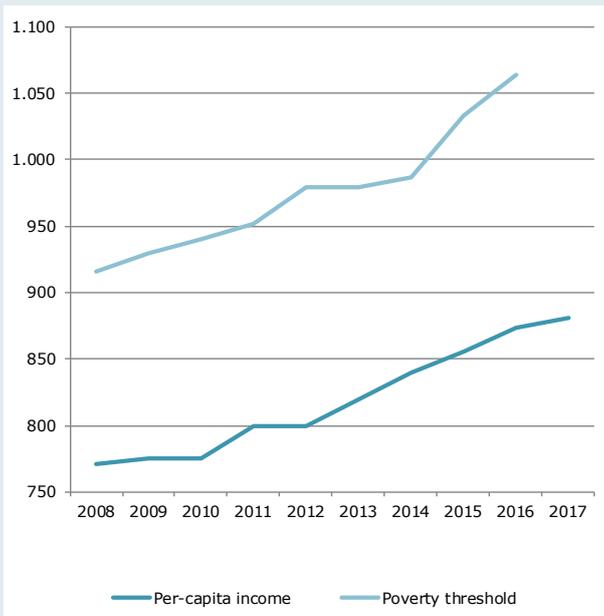
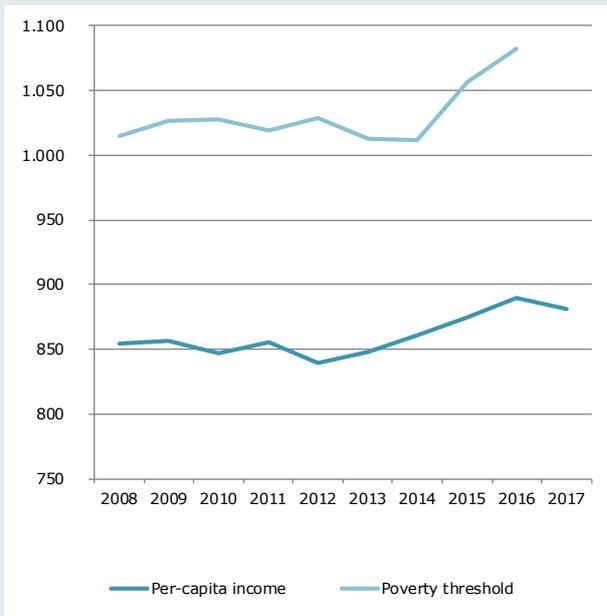


Figure 5: Per capita income and poverty threshold over time (price-adjusted)



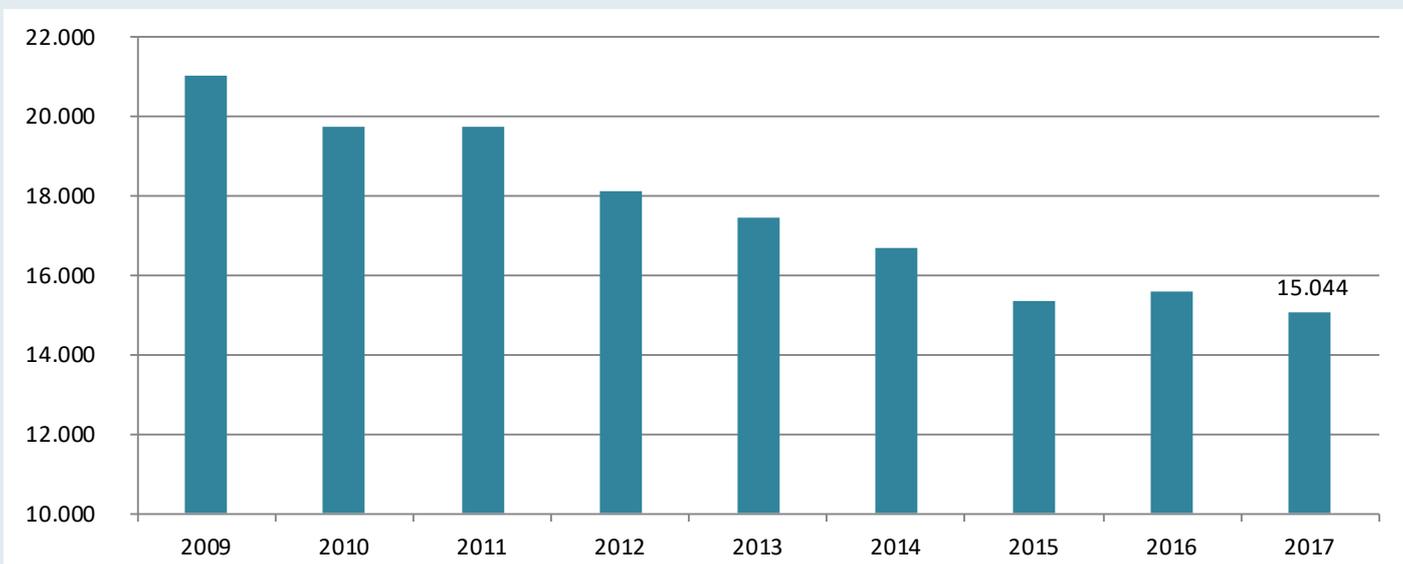
Source: CAWIN-data, Federal Statistical Office.

AVERAGE DEBT CONTINUES TO FALL

The level of debt among those seeking advice has been steadily reducing (Figure 6). It shrank noticeably following the

financial crisis and amounted to 15,044 Euro in 2017. In the last 3 years the level has remained more or less constant.

Figure 6: Debt amount (in euro, median, price-adjusted) 2004 to 2016

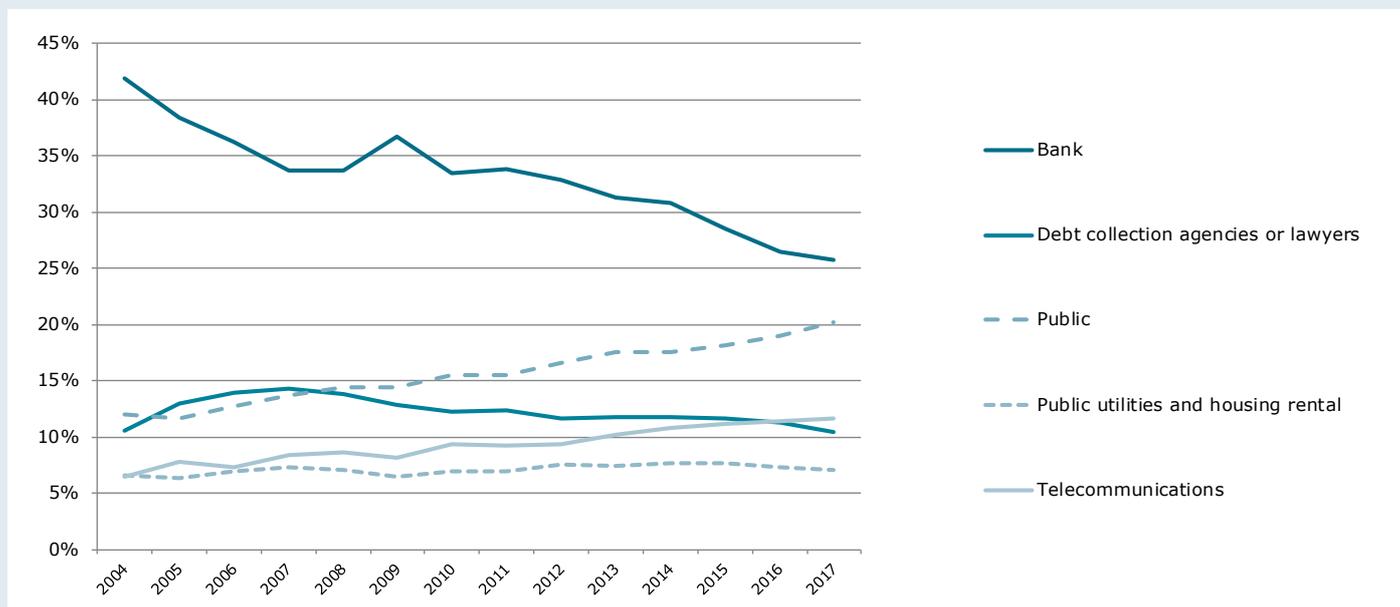


Source: CAWIN-data, Federal Statistical Office.

Figure 7 shows the progression of the proportion of debt held by the five most significant creditor groups over time. The proportion of bank debt continued to dominate, although it has fallen markedly in recent years. In 2017 roughly a quarter of all debts were bank debts. The proportion of debts owed

to public sector agencies has grown steadily since 2004 and has now reached 20 percent. Telecommunications debt followed a similar pattern, while remaining much less significant at around 12 percent.

Figure 7: Development of composition of creditors (percent)



Source: CAWIN-data.

The institute for financial services e. V.

The institute for financial services e. V. (*iff*) is an independent, non-profit association whose registered office is in Hamburg. It has conducted interdisciplinary research and consultancy in the area of sustainable financial services since 1987. It works for national and European government institutions, consumer organisations, debt advice agencies, foundations and providers of financial services. The Institute also prepares calculations and expert opinions for the courts, small and medium-sized enterprises and private entities. *iff* also regularly prepares expert opinions and statements on financial services for federal ministries, the European Commission and the European Parliament. The Institute is a founder member of the *European Coalition for Responsible Credit (ECRC)*.

Further information on this study

The full version of the 2018 *iff* Overindebtedness Report by Dirk Ulbricht and Sally Peteers is available for a nominal fee in print format from the institute for financial services e. V., Grindelallee 100, 20146 Hamburg (ISBN 978-3-946371-99-1). The report is available for download in electronic form at www.iff-ueberschuldungsreport.de and www.deutschland-im-plus.de. Further information on overindebtedness and debt prevention is also available on those web sites.

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The „Deutschland im Plus“ foundation

The non-profit foundation “Deutschland im Plus” (founded in 2007 by TeamBank AG) operates independently and is committed to education and aid projects for the prevention of overindebtedness. The Foundation supports the preparation of the annual report on overindebtedness. It supports debt advice agencies and provides financial education for schools. The mission of the Foundation is to focus public attention on the prevention of overindebtedness and to raise awareness of responsible borrowing.

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