



# OVERINDEBTEDNESS- REPORT 2016

## OVERINDEBTEDNESS IN GERMANY

### Results of 2016 Research

#### **ECONOMIC RECOVERY LEAVES BEHIND THE LESS WELL-OFF.**

Positive trends in the labour market continue. Unemployment is falling, employment is rising, as are salaries. Yet the number of people affected by "negative indicators" rose slightly from 6.7 million. 656,000 people were awaiting debt cancellation on completion of personal bankruptcy procedures and, in 2015, 647,000 people sought help from non-profit debt advice organisations. Introduction of the minimum wage has not led to a significant fall in the number of the working poor receiving top-up benefits in the form of "Arbeitslosengeld II", and are in need of state benefits despite being in employment. In 2015, their numbers fell by only 60,000 to 1.24 million. This results primarily from the fact that those in receipt of the minimum wage often do not live alone and their income is too low to lift the household out of poverty.

#### **DECLINE IN PERSONAL BANKRUPTCIES IS ONLY SUPERFICIALLY A GOOD SIGN – MANY OF THOSE AFFECTED HAVE ADAPTED TO THEIR SITUATION.**

The number of new personal bankruptcies fell to a historical low of about 85,000, despite the continuing increase in the number of consumers facing difficulties in paying their debts. This is because, since the introduction of the Protected Account, participation in cash-free transactions is now possible and a number of those affected do not see the need permanently to restructure their finances. It appears that they have given up hope of a debt-free future.

#### **DESPITE THE FALL IN THE RATE OF UNEMPLOYMENT, UNEMPLOYMENT REMAINS THE NUMBER ONE REASON FOR OVERINDEBTEDNESS.**

Unemployment and reduced hours of work together accounted for 27.5 per cent of reported causes of overindebtedness, a slight increase. This was despite a fall in unemployment statistics. Overindebted individuals appeared to find it more difficult to find work than did the population as a whole. Despite the favourable economic statistics, in 2015 the income poverty remained stable at the high level of 10.4 per cent, and was the second most frequently cited cause of overindebtedness. Other principal causes of overindebtedness were business failure (9.1 per cent), consumer behaviour (8.9 per cent), sickness (8.6 per cent), and divorce or separation (8.1 per cent). Overall, the main cause of over 70 per cent of cases of overindebtedness was reported to be one of the "Big Six" referred to above.

#### **THE INCOME OF OVERINDEBTED INDIVIDUALS HAS FALLEN SINCE 2009 AND LIES CLEARLY BELOW THE POVERTY THRESHOLD.**

The per capita income of overindebted individuals, adjusted for inflation, has fallen by 9 per cent to 861 euro since 2009. It is accordingly about 13 per cent below the poverty threshold of 987 euro (current value for 2014).

#### **THE LEVEL OF INDEBTEDNESS, ADJUSTED FOR INFLATION, HAS FALLEN OVER THE YEARS TO 14,400 EURO IN 2015.**

Those seeking advice from non-profit debt advice agencies presented with consistently falling levels of indebtedness. The average amount of debt fell to 14,400 in 2015, while in 2009 the figure was about 19,000 euro. In debt recovery claims, between 4 and 25 per cent of this figure is interest on arrears and other costs (up to 7 per cent interest on arrears and up to 12 per cent other charges), but costs incorporated into debt re-structuring are not included in the figures. The preponderance of bank debts has fallen significantly from 40 per cent in 2004 to 28 per cent in 2016. On the other hand, the proportion of debts owed to statutory agency creditors (18 per cent) and telecommunications providers (13 per cent) has increased markedly. About 12 per cent of claims were brought by lawyers and debt collection and telecommunications agencies.

#### **SINGLE PARENTS ARE AFFECTED BY OVERINDEBTEDNESS 2.5 TIMES MORE THAN THE POPULATION AS A WHOLE.**

The average age of overindebted individuals in 2015, as in the previous year, was 41. At the time advice was first sought, 27.6 per cent of overindebted people were between 25 and 35 years old. Compared with the previous year (28.8 per cent) the proportion of this middle group fell slightly, but it still formed the most represented age group. Compared with the population as a whole, many overindebted people lived alone (55.8 per cent). The proportion of single parents again increased significantly to 16.7 per cent compared with the previous year (15.6 per cent) and was about 2.5 times greater than in the population as a whole.

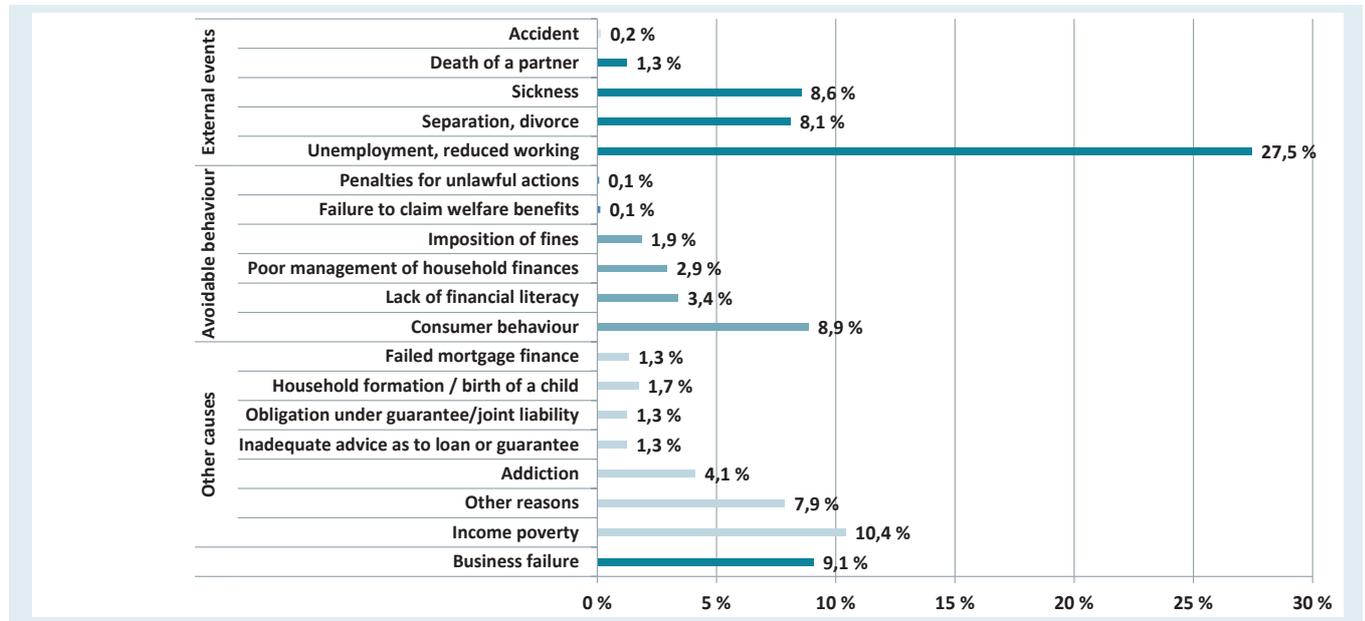


## INCOME POVERTY AS THE MAIN CAUSE OF OVERINDEBTEDNESS HAS STABILISED AT A HIGH LEVEL

Illustration 1 shows how frequently particular causes of overindebtedness were cited by those seeking debt advice in 2015 as the main triggers of their overindebtedness. External causes of overindebtedness such as unemployment, divorce or sickness, which can collectively be put under the heading “events”, formed, as in the previous year, the largest group of causes of overindebtedness. In a total of 45.7 cases, overindebtedness was caused by factors over which the consumers concerned had no or

little control. Triggers falling into the category of “avoidable behaviour”, including irrational consumer behaviour, inadequate financial education (3.4 per cent), poor management of household finances (2.9 per cent) and being subject to fines (1.9 per cent) were, as in the previous year, of secondary importance and characterised only 17.3 per cent of cases.

Illustration 1: Main causes of overindebtedness in 2015

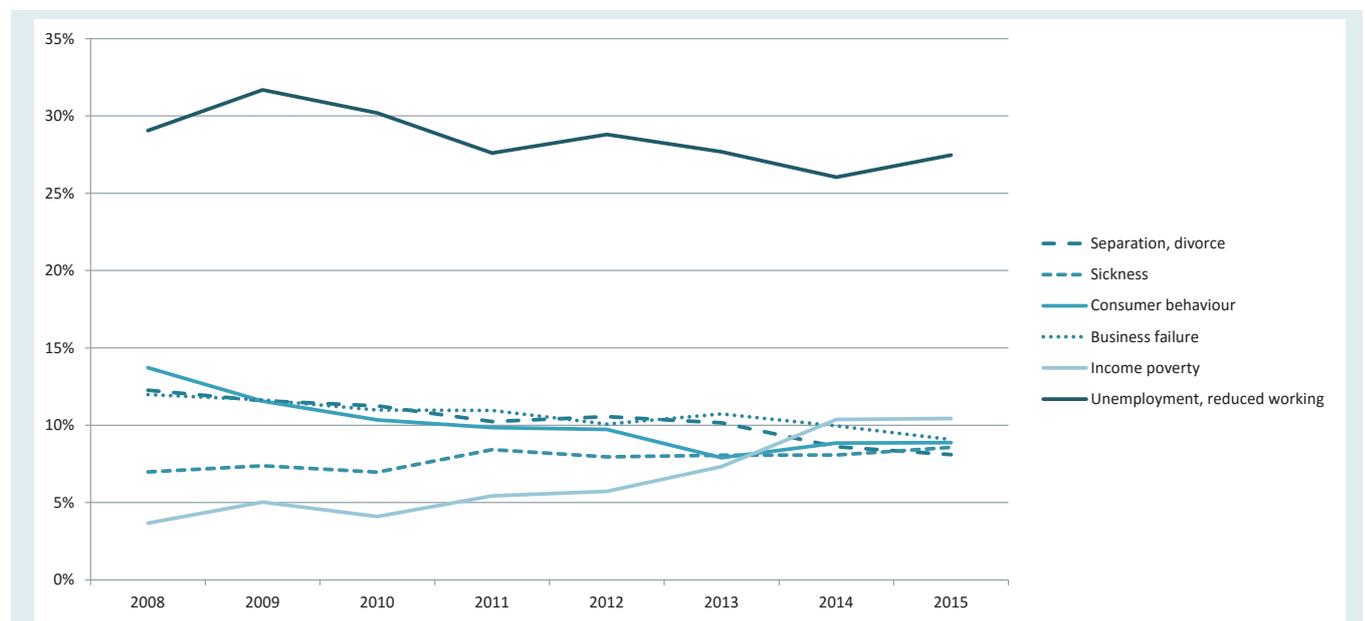


Six causes of overindebtedness, the “Big Six”, regularly present as major contributors: unemployment (27.5 per cent), income poverty (10.4 per cent), business failure (9.1 per cent), irrational consumer behaviour (8.9 per cent), sickness (8.6 per cent) and divorce or separation (8.1 per cent). In 2015, these combined to cause over 70 per cent of cases of overindebtedness. Their development over time is shown in illustration 2. Against the trend which has persisted since 2009 (see illustration 2), the proportion of overindebtedness caused by unemployment rose last year from 26.0 per cent to 27.5 per cent. As in last year’s report, income poverty took second place, with 10.4 per cent of those seeking advice citing it

as the main cause of their overindebtedness. This cause, which had almost tripled since 2008, had stabilised at a high level.

The proportion of overindebted people citing irrational consumer behaviour as the main cause rose slightly. A significant increase occurred in the proportion of people who identified sickness as the principal cause. 8.6 per cent of those seeking advice cited this reason, as against 7.7 per cent in the previous year. This was consistent with a trend which had persisted since 2008.

Illustration 2: “Big Six” causes of overindebtedness 2008 to 2015



## PROPORTION OF SINGLE PERSON HOUSEHOLDS RISING, SINGLE PARENTS REMAINING THE MOST VULNERABLE HOUSEHOLDS

Of overindebted people, those living alone again constituted the largest group (55.8 per cent), followed by couples living together (27.8 per cent). There were also considerable differences within these groups, according to gender (the proportion of men living alone was strongly over-repre-

mented), and according to whether children were living in the household (the proportion of overindebted couples without children was significantly lower than in the population as a whole).

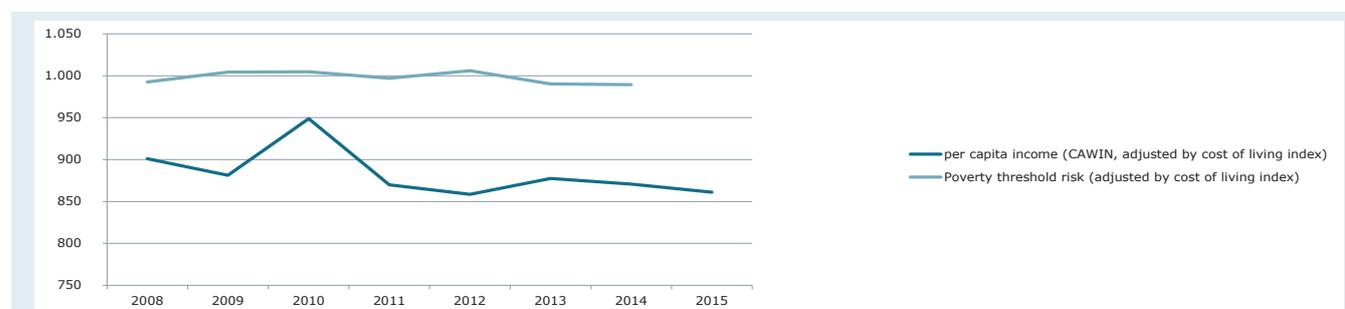
Table 1: Household forms 2014 to 2015

Household form	Population		Overindebted		Rate affected	
	2014	2015	2014	2015	2014	2015
Living alone	40,8 %	41,4 %	56,3 %	55,8 %	1,38	1,35
Men	19,2 %	19,7 %	35,6 %	35,0 %	1,86	1,78
Women	21,6 %	21,7 %	20,6 %	20,8 %	0,95	0,95
Couples	50,7 %	50,1 %	28,5 %	27,8 %	0,56	0,56
Couples with no children	29,0 %	28,9 %	10,0 %	9,3 %	0,35	0,32
Couples with children	21,7 %	21,3 %	18,4 %	18,5 %	0,85	0,87
Couples with minor children	16,6 %	16,3 %	16,2 %	16,4 %	0,98	1,01
1 child	6,9 %	6,8 %	6,7 %	6,9 %	0,96	1,01
2 children	6,9 %	6,8 %	5,4 %	5,3 %	0,79	0,77
3 or more children	2,7 %	2,7 %	4,1 %	4,3 %	1,49	1,61
Adult children only	5,1 %	5,0 %	2,3 %	2,1 %	0,44	0,41
Single parents	6,6 %	6,6 %	15,6 %	16,7 %	2,36	2,53
Fathers	1,0 %	1,0 %	2,6 %	2,6 %	2,65	2,64
Mothers	5,6 %	5,6 %	13,0 %	14,1 %	2,31	2,51
Single parents with minor children	4,2 %	4,2 %	13,6 %	14,5 %	3,21	3,46
1 child	2,4 %	2,4 %	8,4 %	8,2 %	3,44	3,39
2 children	1,3 %	1,3 %	3,5 %	4,3 %	2,63	3,36
3 or more children	0,5 %	0,5 %	1,7 %	2,0 %	3,66	4,12
Adult children only	2,4 %	2,4 %	2,0 %	2,1 %	0,83	0,90

The proportion of single parents increased significantly in comparison with the previous year (16.7 per cent, against 15.6 per cent). This group is the most markedly over-represented group in relation to the population as a whole. Couples, and especially couples without children, are relatively well cushioned from overindebtedness.

Overindebted people who turn to advice agencies present increasingly as poorer. From 2010 to 2015, the average monthly income of this group, adjusted in line with the cost of living index, fell from 949 to 861 euro, about 13 per cent below the poverty threshold (2014: 989 euro in 2015 prices).

Illustration 3: Per capita income and poverty threshold over time (adjusted for cost of living) 2008 to 2015



## AVERAGE DEBT LEVEL FALLS FURTHER

Illustration 4 shows the trend in debt levels from 2004 to 2015 (in 2015 prices). Debt levels of people seeking debt advice fell consistently. The

average fell from about 19,000 euro in 2009 to about 14,400 euro in 2015. Between 2014 and 2015 alone it reduced by about 2,000 euro.

Illustration 4: Debt levels (in euro, median, adjusted to cost of living) 2004 to 2015

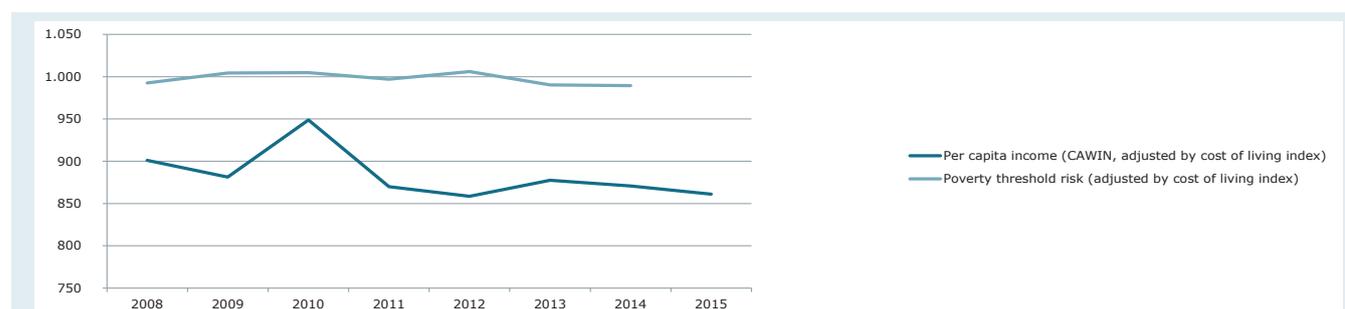
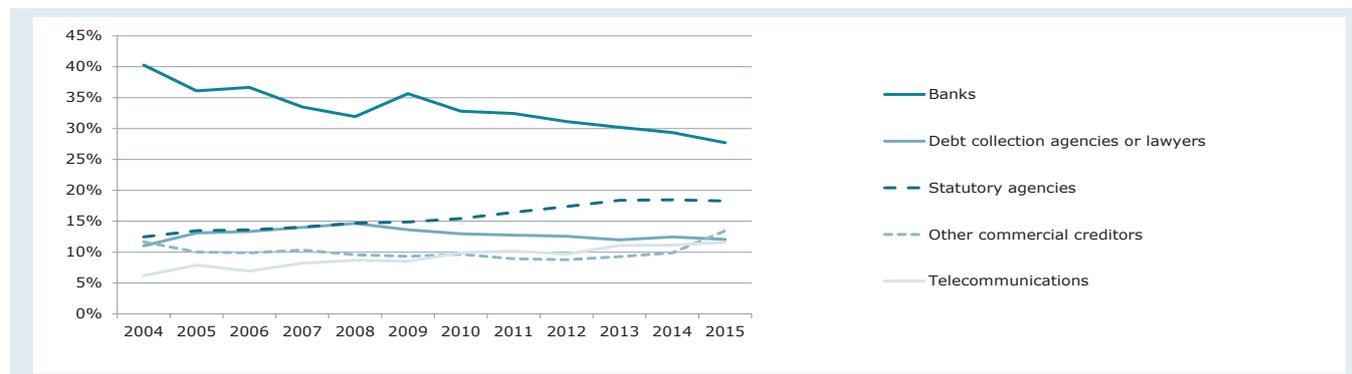


Illustration 5 shows the progression of the proportion of debt accounted for by the five most significant creditor groups over time. The proportion of bank debt fell markedly from 40 per cent in 2004 to 28 per cent in 2016. Conversely, the proportion of debt owed to statutory agencies and

telecommunications providers increased. Finally, the proportion of other commercial creditors rose significantly between 2014 and 2015 from 10 to about 13 per cent.

**Illustration 5: Development of creditor composition (percentage)**



## What is indebtedness and how is over-indebtedness defined?

**Indebtedness:** in the context of this report, **indebtedness** is defined as **financial commitments due**. These kinds of commitments in modern society are not only normal but desirable, as they enable investment for the future which would otherwise not be possible. Indebtedness does not only arise from lending money. It may also result from long-term continuing obligations and financial commitments such as rent or telecommunications contracts. Over-indebtedness 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 the foreseeable future and are unable to make payments from existing assets or income without putting at risk their basic living standards. **Absolute overindebtedness** (or **exposed overindebtedness**) refers to situations in which the "hard signs" of overindebtedness are apparent. This may include arrears, credit default notices, loan cancellations, bank account closure and enforcement such as the initiation of insolvency procedures.

► **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.

[www.iff-ueberschuldungsreport.de](http://www.iff-ueberschuldungsreport.de)

## Research design

The *iff* Overindebtedness Report has been published since 2006 and is produced by a team of sociologists and lawyers. The 2016 edition is based on data from 61,723 households who first sought debt advice between 2005 and the first quarter of 2016. The anonymised data is gathered from 21 debt advice organisations located in all 16 German federal states. The data are process-generated. This means that they were compiled during

the advisory process in the money advice centre. Debt advisors documented, summarised and prepared the data for statistical evaluation during client consultation using *iff's* CAWIN specialist money advice software. The great majority of households analysed were not self-employed; about one in ten involved a household formerly reliant on self-employment, where self-employment failed.

## The institute for financial services (*iff*)

The institut für finanzdienstleistungen e.V. (*iff*) is an independent registered non-profit association based in Hamburg since 1987 and providing interdisciplinary research and advice in relation to sustainable financial services. Since that time it has worked for national and European public institutions, consumer organisations, debt advice agencies, foundations and financial services providers. In addition, the Institute undertakes calculation checks and provides expert opinions for the courts, small- and

medium-sized enterprises and private individuals. *iff* regularly carries out research and provides opinions in the area of financial services commissioned by German Federal Ministries, by the European Commission and the European Parliament. The Institute is a founding member of the European *Coalition for Responsible Credit (ECRC)* and member of the European Consumer Debt Net (ECDN).

## Deutschland im Plus Foundation

The charitable foundation Deutschland im Plus (launched in 2007 by TeamBank AG) operates independently and is committed to education and support in the prevention of over-indebtedness. The Foundation supports the annual publication of the over-indebtedness report and both

promotes debt advice services and provides financial education in schools. The mission of the Foundation is to focus public attention on the prevention of over-indebtedness and to raise awareness of responsible borrowing.

## Further information on this research

The full 2016 *iff* Overindebtedness Report (*iff-Überschuldungsreport 2016*) by Dirk Ulbricht, Daniel Stähr, Laura Hebebrand, Kerim Sebastian Al-Umaray, Matthias Butenob and Cathrin Ulikowski may be obtained as a hard copy in German from *iff* at a nominal charge and is available from the institut für finanzdienstleistungen e.V., Rödingsmarkt 31/33, 20459 Hamburg (ISBN 978-3-946371-03-8).

The report in electronic form is available for download from [www.iff-ueberschuldungsreport.de](http://www.iff-ueberschuldungsreport.de) or at [www.deutschland-im-plus](http://www.deutschland-im-plus) where further information on the subject of over-indebtedness and its prevention is also available. Contact for further queries:

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