



EACB comments

on preliminary findings of the Civic Consulting Study on over-indebtedness (OI) of European households

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The EACB is the voice of the co-operative banks in Europe. It represents, promotes and defends the common interests of its 28 member institutions and of co-operative banks in general. Co-operative banks form decentralised networks which are subject to banking as well as co-operative legislation. Democracy, transparency and proximity are the three key characteristics of the co-operative banks' business model. With 4.200 locally operating banks and 63.000 outlets co-operative banks are widely represented throughout the enlarged European Union, playing a major role in the financial and economic system. They have a long tradition in serving 160 million customers, mainly consumers, retailers and communities. The co-operative banks in Europe represent 50 million members and 750.000 employees and have a total average market share of about 20%.

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The EACB welcomes the possibility of providing its comments on the summary of the preliminary findings of the Civic Consulting *Study on over-indebtedness (OI) of European households*.

Bearing in mind the limited amount of information contained in the summary, the preliminary nature of the consultant's conclusions, and the extremely short timeframe for providing responses, the EACB is in a position to present only limited observations on causes and consequences of the OI, as well as on possible measures to alleviate its impact on the society.

Under the condition of the availability of the full and final study, the European co-operative banks may be in a position to offer additional remarks.

I. Causes of over-indebtedness

No clear links identified

The EACB welcomes the approach taken by the consultant to analyze a wide range of elements which can potentially lead to over-indebtedness (OI). Indeed, the issue of OI is truly complex and the bit of the study available shows no clear links with any one potential cause which would be universal in all, or even, in the majority of cases. There are certainly no clear links between the debt-to-income ratio and arrears.

Indeed, where the interim study detects some links, it is between the levels of OI and:

- the levels of income (Bulgaria, Romania, Latvia),
- unemployment (Greece, Spain),
- historical factors such as relatively recent introduction of free market economy (Latvia, Hungary, Romania, Bulgaria), or
- cultural attitudes to saving (Belgium, the Netherland, Luxembourg, France and Germany being the top countries in terms of savings per capita) or to debt (Ireland or Italy, in terms of either the approach to debt in general or in terms of timely fulfillment of financial obligations).

Individual's 'balance sheet'

The first two factors listed above are closely linked to the general economic downturn, which in the past 5 years resulted in the decrease of general levels of resources available to households, be it in a form of lower income or erosion of accumulated savings. This is the consequence of unemployment (be it as a result of job loss or difficulties for young people with entering the job market), the change in the remuneration conditions for those with jobs, or significant tax increases. The sovereign debt crisis has led to a certain transformation of the public OI into a private OI, related to decreased state spending on social security services or funding of other needs, now weighing more heavily on individual households (such as childcare, health service, education, public transport costs, etc.). Thus, when the decreased and persistent availability of assets is put up against the increasing cost of living, the risk of OI is the highest. This seems to be further illustrated by the fact that the countries which managed to maintain the lowest cost of living have also the lowest OI (e.g. the Netherlands and Sweden). Finally, events



such as divorce or separation also often lead to the diminution of available resources and increase the risk of financial difficulties.

Subjective elements

Nonetheless, the task of finding correlations between the various factors and OI remains tedious, and this is partly due to the fact that OI is marked with subjectivity, such as for example related to the individual assessment of the expected standard of living or to the person's propensity to impulsiveness or planning ahead.

Responsible lending & borrowing

With the multi-dimensional nature of OI, activities of banks, namely lending and borrowing, are a small element in a much bigger picture. We welcome the general recognition we seem to derive from the initial conclusions of the study that OI is not equal to borrowing over-commitment. We would like to, however, offer a brief commentary as regards credit in general. Co-operative banks are committed to an individualized approach to the credit granting process. In addition to the legal requirements to assess creditworthiness or provide adequate explanations, imposed on all creditors by, for example, the Consumer Credit Directive and in the near future by the Mortgage Credit Directive (CARRP), the co-operative banks use their proximity to their clients (who often are also members) to carefully analyze the financial situation of each individual client. It remains in the best interest of each co-operative bank to ensure that the borrower will be able to repay the loan, and not only because of the costs involved in the foreclosures – which should not be underestimated – but also because of the very nature of funding of co-operative banks, coming primarily from their clients-members.

However, it must be stressed that the credit granting decision is based on the snapshot of the situation at the moment of carrying out the creditworthiness assessment. The accidents of life, such as unemployment, death, illness or divorce, cannot be anticipated neither by the lender - and most of the time - nor by the borrower. Thus, even the most thorough creditworthiness assessment cannot always guarantee that the consumer will not experience difficulties in repaying his or her loan. The close relationship of the clients with their bank puts the co-operative banks at the advantage that they can react appropriately in order to try and help the consumer prevent further aggravation of his financial standing leading to arrears and ultimately default.

Another point worth considering is that it is possibly the number of loans (cumulative borrowing) or the type of loans (short term loans with high interest rates, such as SMS loans or shop fidelity cards), rather than the total amount of loans, that may contribute to difficulties in repaying debt. Thus, the problems with accessing the credit history data, or irresponsible borrowing (i.e. not disclosing to the new lender the existence of other loans with other lenders) should be taken into the equation. Mortgage borrowing is also identified by some stakeholders as important, but this may well be explained by the fact that it is the longest and the biggest financial commitment in a person's life, which will be affected particularly severely in times of extreme economic downturns. Thus, this brings us back to the macro-economic factors, which – by the way – are identified as most



important causes of OI when the objective, statistical data are concerned (as opposed to stakeholders' views).

II. Consequences of over-indebtedness

The EACB strongly disagrees with the notion raised by few participants in the Commission seminar that one of the consequences of OI is financial exclusion.

With reference to access to a basic bank account, the co-operative banks do not use factors such as low income or personal bankruptcy as reasons to refuse to open a bank account. Financial inclusion is historically embedded in the very *raison d'être* of the co-operative banks, created to ensure access to funding for those who could not avail of it from the 'mainstream' financial institutions. Nowadays, the co-operative banks often remain the only bank account providers present in many geographically remote areas, and provide access for their local communities. Possible refusals to open a bank account can be based on the inability to identify the person asking for a bank account, which is necessary to satisfy the 'know your customer' requirements of the anti-money laundering and terrorist financing prevention legislation.

Concerning access to credit, two sides of the same coin must be considered. On the one hand, lenders must lend responsibly and not lead their customers to over-commitment. On the other hand, access to credit is necessary to enable the economic growth and prevent people from turning to illegal credit markets. It should be noted that during the crisis credit played a role of a shock-absorber for some families faced with a sudden reduction of their standard of living. Again, the EACB would like to stress that as long as the levels of income of a given person are not sufficient, neither restricted nor excessive access to lending is going to be a panacea. It is the regulators' responsibility to recognize that these two sides of the same coin exist and cannot be looked upon in isolation. Finally, it is the consumer's responsibility to take good account of his or her financial capabilities to repay.

Actions for alleviating the impact of households' over-indebtedness

The study findings being as diverse as they are, there is definitely no one generalized policy that could resolve the different problems of OI, and there is no room for 'one-size-fits-all' solutions. As the study clearly demonstrates, OI is a truly multi-dimensional problem requiring a number of actions, which can be grouped in three categories:

- 1) Related to economic growth, job creation and appropriate social policies
- 2) Related to empowerment of individuals
- 3) Related to the right balancing of the rights of debtors and creditors

The first group is clearly a very broad one and cannot be addressed in this paper.

The second group would include financial education, 3rd party guarantees and debt counseling.

The EACB has been insisting on the importance of broadly understood **financial education** for a long time and we very much welcomed the fact that it has been finally recognized by many civil society stakeholders as one of the key tools to fight OI.



The benefits of the various forms of **3rd party guarantees** should not be underestimated. As explained, it is possible for neither the lender nor the borrower to envisage certain accidents of life. Thus, guarantees such as payment protection insurance or life insurance have a real potential for diminishing the detrimental effects of such events on individual's overall financial standing. We recognize the recent negative media off sound of some of such products caused by some instances of mis-selling, however, here again, the role of financial education comes in view, both in the context of ensuring people's understanding of the benefits of such guarantees, as well as of their nature and functioning.

Debt counseling, which - given the complex sources and nature of the difficulties of the over-indebted persons, and the wide reaching effects of the over-indebtedness for the whole economy - should be provided by publically funded independent entities.

The third group is related to the balancing of the rights of debtors and creditors, the latter having to be understood in a broad manner, including not only lenders, but also utility companies, telecommunication providers, etc.

To limit the problem of OI, the EACB welcomes the fact that the draft Mortgage Credit Directive (CARRP) proposes to introduce the same level of non-discriminatory access to for all creditors to databases used in the Member State as currently stated in the CCD.

In addition, it must be ensured that the data protection rules do not restrict this access. We would like to recall that one of the Recommendations of the 2009 Report of the Expert Group on Credit Histories was that national Data Protection Authorities should work towards more convergence or harmonization in the interpretation of data protection rules and in their practices in order to facilitate the process of credit data exchange. In this context, the EACB is concerned about the current developments concerning the proposal for the General Data Protection Regulation (GDPR), which bares the risk of significantly *reducing* access to credit history data. Namely, Article 6 of the GDPR proposal deals with the grounds for lawful processing of data. In Paragraph 1 point f it is stated that "*processing is necessary for the purposes of the legitimate interests pursued by a controller, except where such interests are overridden by the interests or fundamental rights and freedoms of the data subject which require protection of personal data (...)*". The EACB strongly recommends an amendment bringing this text in line with the current 1995 Data Protection Directive by adding the phrase "*interests pursued by a controller or by the third party or parties to whom the data are disclosed*".

As far as the credit sector is concerned, the CCD and the upcoming CARRP will provide comprehensive regulation of responsible lending. In this context, the EACB very much welcomed the conclusions of the European Parliament in its Resolution from November 2012 that the focus should be not on proposing new legislation but on ensuring that the CCD is properly transposed and implemented.

Admittedly, some of the solutions could be more or less tightly coordinated at EU level, such as e.g. coordination of actions on financial education or preventing undue inconsistencies in the EU legislation. Also, the EACB would encourage the Commission to



carry out consumer behavioral studies to analyze the problems more generally, although it has to be said that what is subjective cannot be fully expressed in objective terms, such as statistics or policies. However, most of the possible steps to prevent or fight OI would be workable and efficient only at national level. This is due to the demonstrated differences in the evolution of OI in various Member States.

Final comments

The EACB recognizes the huge difficulty of the task of assessing the OI in the whole of the EU. Thus it is not our intention to dwell on the methodology, particularly not having seen the full study. However, one thing that is of concern is the representativeness of the views of 120 households in the EU community of over 503 million people.

Finally, the EACB notes with regret that currently it is not the Commission's intention to invite stakeholders' comments on the finalized report. We would strongly hope that should any follow-up actions be considered, we would be given a fair chance of providing a full commentary before any proposals are formulated.

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