



## OVER-INDEBTEDNESS IN GERMANY

### RESULTS OF RESEARCH 2020

#### CORRELATION OF INCOME INEQUALITY AND OVER-INDEBTEDNESS

The „Big Six“ main causes of over-indebtedness are proving to be very resilient to macroeconomic developments. The finding that over-indebtedness already starts with smaller amounts, together with the finding of a year-on-year decline in the average net equivalent income of the over-indebted persons seeking advice in our study, indicates that the statistically verifiable increase in income inequality in Germany is reflected in the fact that over-indebtedness is increasingly a phenomenon of small rather than large loan amounts.

Our research indicates a correlation of over-indebtedness with socio-economic factors, among which income inequality is particularly noticeable. However, caution is required because such a result can only be derived based on a comprehensive regression analysis, which is outside of the scope of this study.

Regarding the debt structure of all overindebted individuals seeking advice, it is striking that the average amount of claims from alimony obligations and other private creditors is the highest, followed by bank loans. Among the „Big Six“ reasons for over-indebtedness, unemployment and income poverty stand out. With all due caution, it can be concluded here that the concentration of over-indebted persons seeking advice in our data set on men living alone is related to their employment and income status, which above all makes it impossible for them to meet their alimony obligations and other liabilities to private creditors.

In the context of the demographic changes that can be observed, the proportion of people drawing old-age pensions has been increasing for some time. For this group, too, our analysis points to a possible correlation between over-indebtedness and income poverty.

#### FOCUS ON FINANCIAL EDUCATION IS NECESSARY BUT NOT SUFFICIENT

The focus on financial education is necessary, but not sufficient if there is no access to individually appropriate and affordable financial services. Enabling this is certainly a challenge for financial service providers, but one that could be worthwhile to meet, possibly also for economic reasons.

Financial education is a frequent point of discussion when it comes to preventing over-indebtedness. The conventional view of the link between financial education and poverty and overindebtedness assumes that a low level of knowledge in financial education leads to poverty and overin-



debtedness. More recent approaches, however, argue that poverty limits cognitive abilities.<sup>1</sup>

„Deprivation weakens self-control, causes impulsiveness and reduces cognitive functions. People without money have to deal intensively with their precarious situation and the consequences of their economic expenditure. This leads to a kind of tunnel vision, which is accompanied by a paralysis of thinking.“<sup>2</sup>

This in turn leads to the conclusion that a situation of poverty leads to poor financial decisions and - given limited and overused cognitive capacity and exhausted willpower - also explains the low level of financial literacy of people in precarious income situations.<sup>3</sup> In fact, the main reasons for over-indebtedness identified in the report can be seen as evidence of a comparatively low impact of financial literacy. In other words, financial education alone is not enough to protect people from over-indebtedness.

## Research objective

The *iff* Over-Indebtedness Report is an annual national survey of over-indebted 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 debt counselling, and for affected households and suppliers of financial services, in order to identify consensual solutions to the problem of over-indebtedness and to mitigate its detrimental consequences.

## Research design

The *iff* over-indebtedness report has been published since 2006 and is produced by a cross-disciplinary team. More than 160.376 households provided the data for *iff*'s 2020 over-indebtedness report. Those households received debt counselling between 2009 and 2019. Anonymised data gathered from 68 debt counselling centres located across federal states of Germany ("Bundesländer") were evaluated. The data was process generated, and documented, summarised and prepared for statistical analysis in debt advice centres in the course of the advisory process. This was done using CAWIN, the debt advice software produced by *iff*. Most over-indebted households analysed were not self-employed; less than one in ten cases of over-indebtedness were related to failed self-employment.

## What is debt, and how is over-indebtedness 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. Over-indebtedness can arise from a normal state of indebtedness when a crisis occurs.

Relative over-indebtedness 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 over-indebtedness (or revealed over-indebtedness) refers to situations in which the "hard signs" of over-indebtedness 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.

<sup>1</sup> Mullainathan and Shafir 2013; Aprea 2019.

<sup>2</sup> Aprea 2019, S. 47.

<sup>3</sup> see Aprea 2019, 47f.

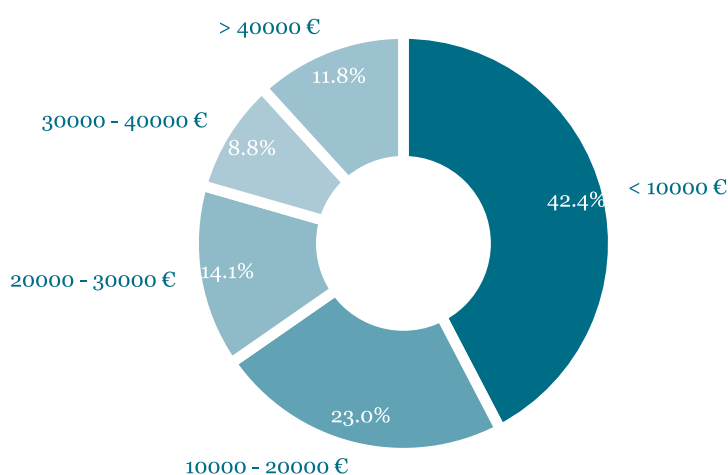


## AMOUNT OF DEBT

The distribution of the amount of debt shows that 42.4 percent of the counseling clients have debts of less than 10,000 euros. Almost half of them are therefore indebted or overindebted due to comparatively small amounts. A further

23 percent of the advised persons have debts of between 10,000 and 20,000 euros. Only 11.8 percent have debts of more than 40,000 euros.

Figure 1: Distribution of debt



Source: CAWIN data; presentation: iff, N=1.625.485 demands.

The typical debt level – calculated as a median – has fallen again, from EUR 14,255.17 in 2018 to EUR 13,776.90 in 2019. This means that the 10-year trend of falling debt levels of overindebted people seeking advice is continuing.<sup>4</sup>

This allows the interpretation that over-indebtedness is associated with ever smaller loan amounts, which could be a reflection of rising income inequality.

## INDIVIDUAL CLAIMS: CLAIMS OF DEPENDANTS AND OTHER PRIVATE CREDITORS HIGHEST, PUBLIC LAW CLAIMS MOST FREQUENT

The average level of claims by alimony creditors and other private creditors amounts to EUR 1,450 which is much higher than the average levels of other creditors. This is followed by banks with an average level of claims of EUR 1,041 and telecommunications debts of EUR 565. The average claim

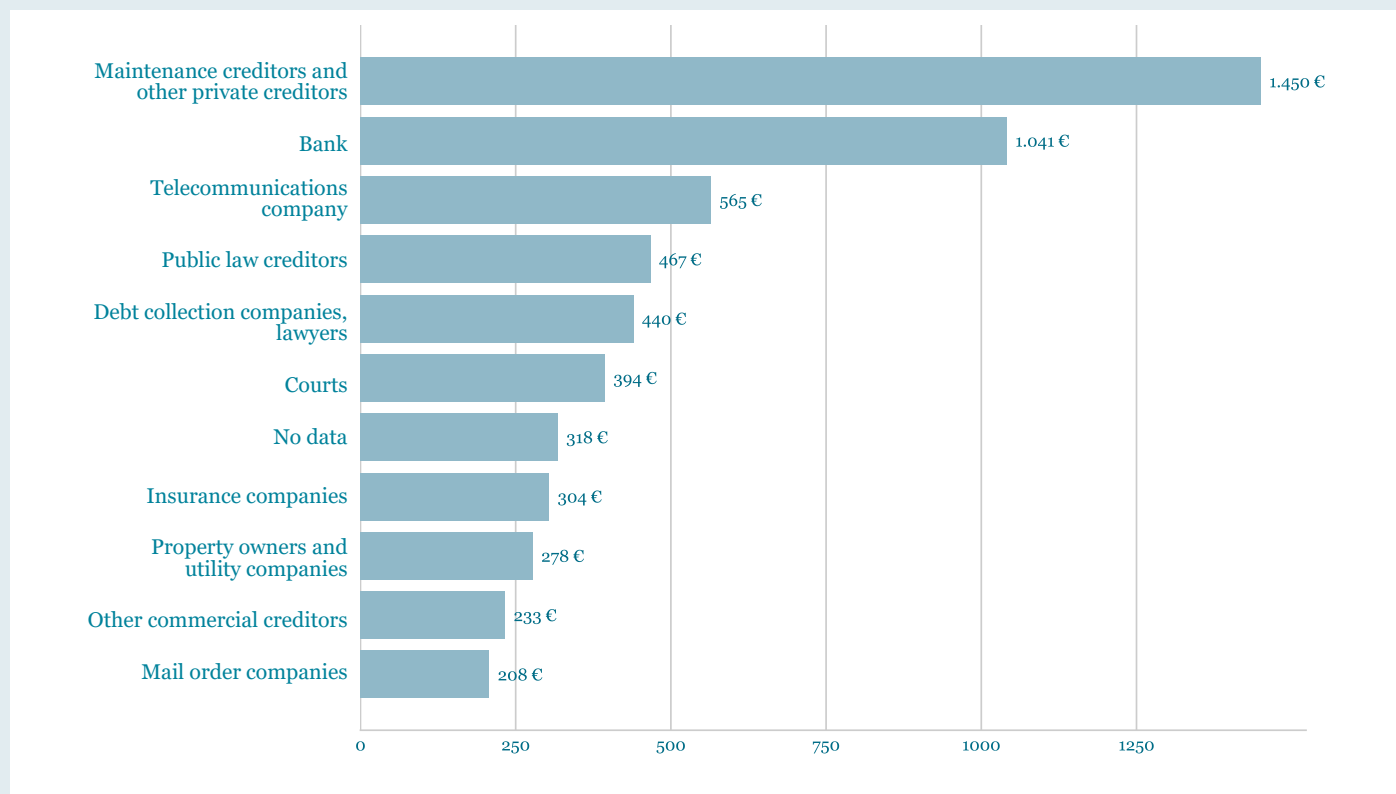
level of public-law creditors is 467 euros and that of debt collection companies or lawyers 440 euros. The figure describes the typical amount,<sup>5</sup> i.e. the average value of over-indebtedness, and the frequency of claims of the above-mentioned creditor types in 2019.

<sup>4</sup> Due to the unequal distribution of the liabilities, the medians instead of the averages are shown here.

<sup>5</sup> The median, rather than the average, was calculated to prevent deviation at both ends which could distort the result. By way of comparison, the average amount of receivables from banks was EUR 7,897.



**Figure 2: Typical amount and frequency of claims and percentage share by type of creditor**

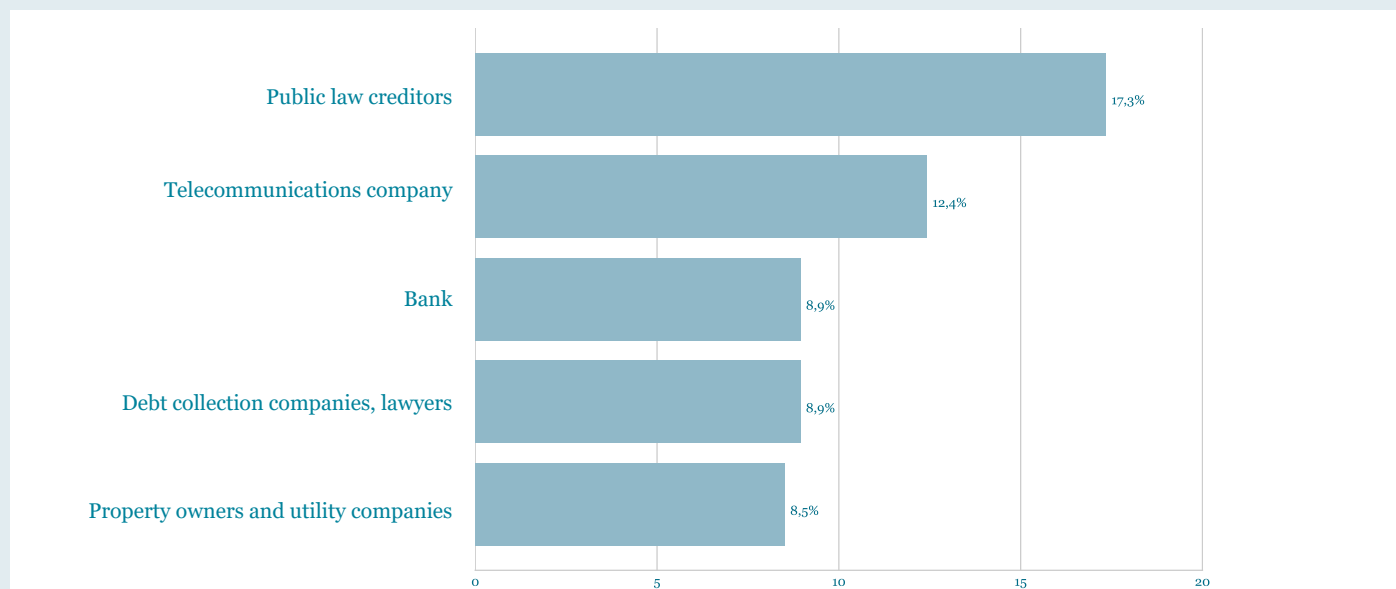


Source: CAWIN data; presentation: iff, N=130.410.

The most common claims are those of public-law creditors with 17.3 percent. 12.4 percent of the receivables are from telecommunications companies. 8.9 percent are from banks.

Other significant creditor groups in terms of frequency are debt collection companies and lawyers with 8.9 percent and property owners and utility companies with 8.5 percent.

**Figure 4: The five most common types of claims**



Source: CAWIN data; presentation: iff, N=130.410.



This means that claims of public-law creditors appear most frequently among the over-indebted persons seeking advice, albeit at a comparatively low level. Banks, on the other hand, are less frequently represented among the creditors, but with a significantly higher amount of claims. In other words, the leading position of public-law creditors in terms of share of total claims cannot be explained by the fact that an over-indebted person seeking advice owes a

large amount on average. On the other hand, the number of people who owe debts to public-law creditors is high. The situation is different for bank loans: Here, a higher loan amount in individual cases is offset by a lower number of over-indebted persons. Particularly noteworthy in connection with unemployment and income poverty as the most important reasons for over-indebtedness is the high average level of alimony and other debts to private creditors.

## INTEREST AND COSTS: WIDE SPREAD ACROSS INDIVIDUAL CREDITORS

Whether or not debts can be repaid depends not only on the amount of the loan, but also on the interest and other costs involved. Here, too, income inequality shows its consequences. It is understandable that with a lower monthly income and a lack of sufficient assets, the loan amount borrowed is also comparatively small. In other words, disposable income and the amount of the loan are positively correlated, if only for reasons of risk. However, our analysis

also shows that interest and costs are negatively correlated with the loan amount - the smaller the loan, the higher the percentage interest rate plus costs. Scientific research shows that this is not comprehensible from a risk perspective.<sup>6</sup> The orders of magnitude we have determined tend to point in the opposite direction, in that they provoke a high risk of over-indebtedness.

## TRIGGERS OF OVER-INDEBTEDNESS 2019

The figure illustrates the external events that are the main causes of over-indebtedness. At 42%, they account for the largest share. In 9.4% of cases, the main cause is the failed attempt at self-employment. Here, the extent to which external causes, e.g. problems with pension provision, contribute to creating a financially difficult situation are always discussed.<sup>7</sup>

Compared to unemployment, „avoidable behaviour“ is of rather low importance with 18.4%. These include consumer behaviour (9.9 percent), lack of general financial education

(3.6 percent), uneconomical housekeeping (2.4 percent) and delinquency (1.6 percent). However, consumer behaviour and uneconomic housekeeping are likely to correlate significantly with basic financial literacy. Against this background, educational opportunities that counteract these factors are a positive development. The role of debt counselling can also be examined more closely here, particularly with regard to its relevance to the topic of basic financial education.<sup>8</sup>

Among the other causes, income poverty is of particular relevance at 12.4 percent.

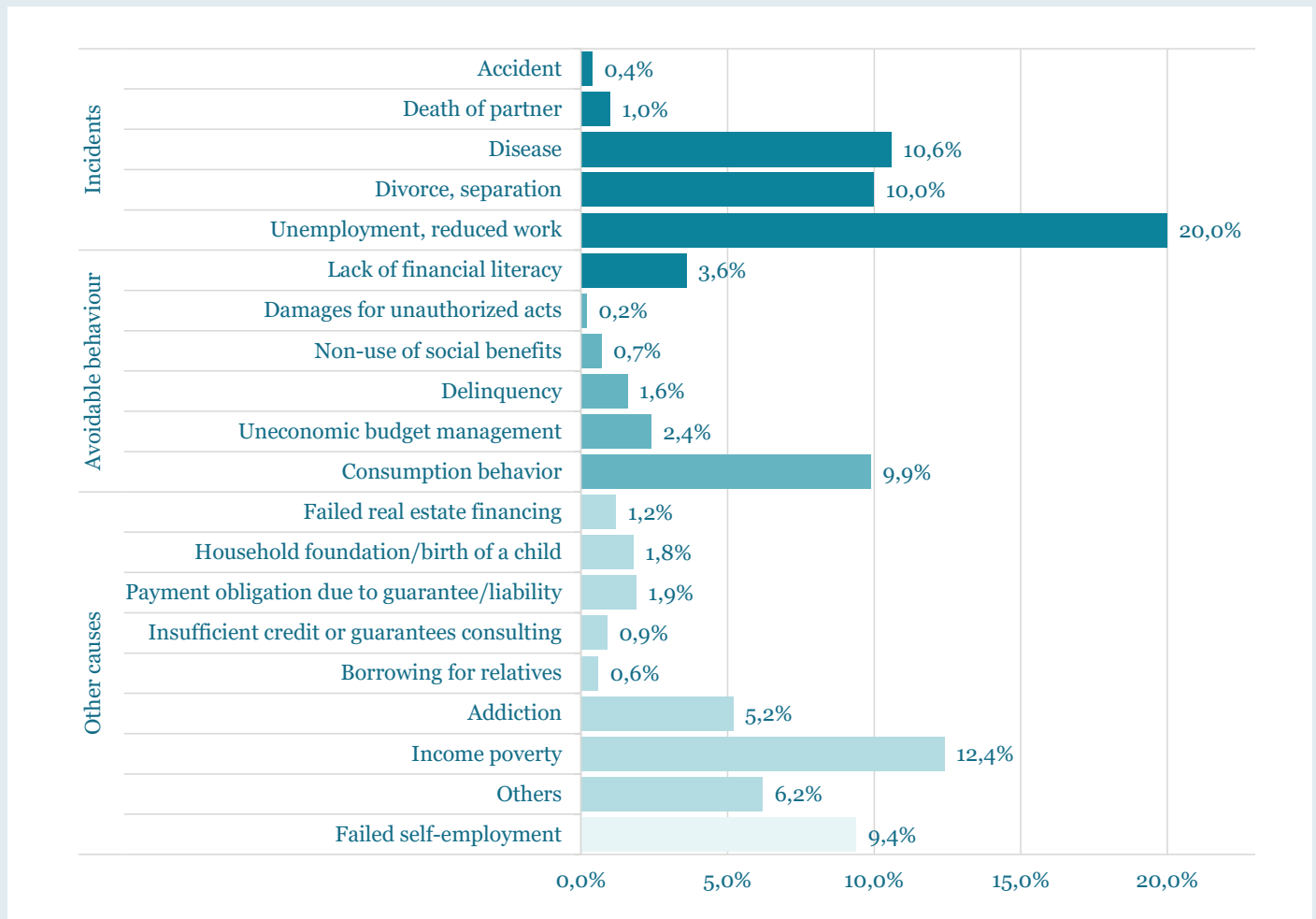
<sup>6</sup> Cf. Reifner et al. 2003.

<sup>7</sup> See Ommeln 2019; Bonin et al. 2020.

<sup>8</sup> See Tröster et al. 2020.



**Figure 5: Reasons für over-indebtedness 2019**



Source: CAWIN data; presentation: iff, Number of evaluable date for new consulting entrants: 7.745.

## HOUSEHOLDS

Over-indebted people are by no means a homogeneous group. They differ in terms of age, income, educational level and family situation. The majority of those seeking advice are between 25 and 35 years old. The proportion of those seeking advice under 20 and over 65 is relatively low. It is

surprising that in 6.23 percent of the cases no information was given because the date of birth is required for various areas in the documentation process (e.g. power of attorney, P-account certificate).

**Table 1: Share and impact index by age group 2019**

Group	Share	Impact index
under 18	1,07%	0,06
18 to under 25	10,51%	1,38
25 to under 45	48,26%	1,93
45 to under 65	29,52%	0,99
over 65	10,64%	0,49

Source: CAWIN data, federal statistical office (Destatis) 2018, presentation: iff. 2019: N= 17.099.



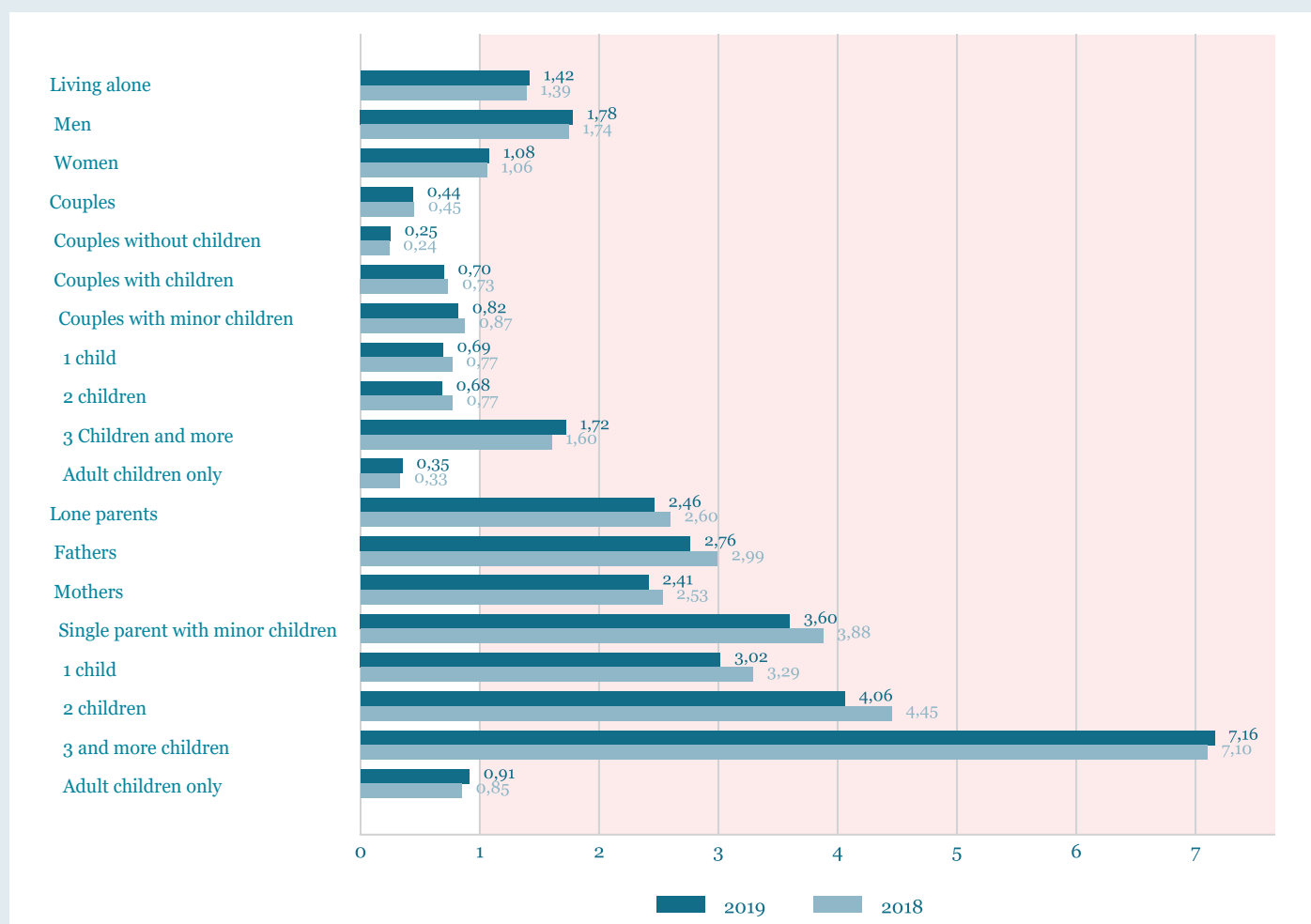
In the context of the social changes, the impact of living alone and single parenting has been increasing for some time. As our analysis shows, people in this type of household are particularly over-indebted. They have a lower income than couple households and they are particularly vulnerable to the effects of income fluctuations and unemployment. Based on the data set collected, it is mainly single men who are over-indebted and seek assistance from debt counselling centres.

The following figure shows the impact index by household type. The area where the index has a value greater than 1 is

highlighted in red. The share of these household types among the over-indebted individuals seeking counselling is greater than their share of the total population.

The group of single parents is clearly over-represented among the over-indebted in comparison to the total population; the larger the number of minor children living in the household, the more this becomes the case. Single parents with three or more children reach an index of 7.16.

**Figure 6: Impact indices 2018 and 2019**



Source: CAWIN-Data; presentation: iff, Number of evaluable data for new consulting entrants: 17.022.

Children are of particular importance in the context of social and economic development. However, they burden families - whether as a partnership or single parent - with expenses, the amount of which cannot be arbitrarily adjusted to loss of

income. Our analysis shows that couples and single parents with children are more frequently affected by over-indebtedness, which is probably also related to a correspondingly precarious income situation.



### **The institute for responsible finance (iff) e. V.**

The institute for responsible finance e. V. (iff) is an internationally active, independent, non-profit association. Our main focus is on financial services and consumer protection. We conduct legal, economic and social science research on behalf of the EU Commission, federal ministries and consumer associations. Our work is application-oriented and pursues the goal of socially responsible and sustainable financial services.

What sets us apart is our specific research and consulting approach: We analyse empirically identifiable problems and consumer interests in order to draw attention to structural problems and product defects and to support providers in designing products and services. We thus see ourselves as mediators between consumers and product suppliers.

**Mehr Informationen unter: [www.iff-hamburg.de](http://www.iff-hamburg.de)**

### **„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 over-indebtedness. The foundation supports the preparation of the annual report on over-indebtedness. 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 over-indebtedness and to raise awareness of responsible borrowing.

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### **Further information on this research**

The full version of the 2020 *iff* Over-indebtedness Report by Prof. Dr. Ingrid Gröbl and Dr. Sally Peters is available for a nominal fee in print format from the institute for responsible finance e. V., Grindelallee 100, 20146 Hamburg (ISBN 978-3-00-058362-9). The report is available for download in electronic form at [www.iff-ueberschuldungsreport.de](http://www.iff-ueberschuldungsreport.de) and [www.deutschland-im-plus.de](http://www.deutschland-im-plus.de). Further information on over-indebtedness and debt prevention is also available on those web sites.

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**Die Stiftung für private  
Überschuldungsprävention**

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