



OVER-INDEBTEDNESS IN GERMANY

RESULTS OF RESEARCH 2017

CONSULTANCY DATA SHOW THAT HARDLY ANYONE CAN MAKE USE OF THE REDUCTION OF RESIDUAL DEBT RELIEF.

Starting July 2017 it is now at least on principle possible to get rid of one's debt after five or even three years instead of previously applying six years since July 2017. So far, however, this new opportunity has been seized only rarely. Indeed, in order to benefit from the shortened probation term, the applicant has to cover the total of legal expenses. Moreover, a probation period of three years requires the applicant of residual debt relief to pay off an additional of 35 percent of his debt. Already now and prior to the first publication of of-

ficial figures, it seems to be clear that the insolvency law reform has come to nothing. The *iff* advisory software provides the tool for over-indebted households to make the necessary calculations. However, we found that this was used by not more than 2.5 percent of the participating over-indebted households. The calculations required for this purpose in the *iff* debtor advisory software CAWIN, which provide the basis for this report, were used for a maximum of 2.5 percent of over-indebted households.

OVER-INDEBTED PEOPLE ARE LEFT BEHIND IN SPITE OF THE MINIMUM WAGE - IT DEPENDS ON HOUSEHOLD INCOMES.

The positive trend in the labour market continues, unemployment is falling, employment is rising and incomes are rising. Nevertheless, the number of people with so-called "negative characteristics" rose again from 2015 to 2016 by 130,000 to 6.85 million. Up to 622,000 people are waiting for discharge of residual debt and 617,000 people consulted 2016 debt counselling offices. The introduction of the minimum wage still does not yet confirm a distinct reduction in the number of

"augmenters", i.e., those recipients of unemployment benefit II who are employed but are still dependent on supplementary benefit. This was the declared goal of the launch, but the number of these products has only decreased from 1.24 to 1.19 million last year - only six percent. This shows once again that household incomes are too low, and the minimum wage did not bring about the envisaged effect.

DESPITE DECLINING UNEMPLOYMENT RATES, UNEMPLOYMENT REMAINS THE MOST IMPORTANT REASON FOR OVER-INDEBTEDNESS WITH LIGHT IMPROVEMENT IN SIGHT.

Unemployment and reduced employment together account for 24.3 percent of the stated causes and, although they have lost some of their significance, this by far most important trigger of over-indebtedness is still at a high which also implies that declining unemployment figures reveal themselves in the statistics only gradually. Differently put, the over-indebted seem to find it more difficult to find a job in comparison with the rest of the population. As in the previous year, with 11.1 per cent income poverty ranks second as a trigger of over-indebtedness. After a short stabilization in 2015, income

poverty has again taken up its continuing growing trend in 2016. In the same period, income poverty in Germany has risen significantly less sharply and has recently stagnated. Illness (9.9 percent) has been gaining in importance for years and now holds a middle position, which also applies to divorce and separation. Failed self-employment (8.6 percent) and consumer behaviour (9.6 percent) continued to decline in importance. Together, these "Big Six" account for more than 70 percent of overindebtedness triggers.

THE GAP TO THE POVERTY LINE IS WIDENING.

Price-adjusted the poverty line rises by five per cent to 1,033 euros – on the other hand, the incomes of over-indebted people have remained almost 15 per cent below the level

of over-indebted people in 2008 at around 870 euros for the past four years.

IN ADDITION TO INTEREST, INSURERS, DEBT COLLECTORS AND LAWYERS ARE CHARGING SIGNIFICANT COSTS OF COLLECTION.

Insurers, debt collectors and lawyers charge an average of 10 per cent of the principal claim in addition to interest. In the case of mail order companies, interest and costs add up to an additional one quarter of the principal claim. More than half of over-indebted people have debts of less than 20,000

euros. The typical debtor as represented by the median owes 14,690 euros. Almost one third of the debtors have less than 5 outstanding receipts. After all, 17 percent have more than 20 receivables. With the number of receipts, the complexity of debt counselling is increasing significantly.

PUBLIC-SECTOR DEBTS INCREASINGLY SIGNIFICANT.

Though declining for years now, bank debt continues to account for the major share of household debt and has reached just over 20 per cent. By contrast, the proportion of debts owed to public-sector creditors has been growing steadily

since 2004 and has reached 15.2 percent. Telecommunication debts follow a similar pattern, though by counting about 10 per cent, they are markedly less significant.

TYPICAL OVER-INDEBTEDNESS: BETWEEN 25 AND 45 YEARS OLD, WITHOUT A PARTNER AND OFTEN WITH CHILDREN.

At the beginning of the counselling period, slightly less than half of the over-indebted are between 25 and 45 years old. This means that people of this age are represented twice as much in the group of over-indebted persons than in the total population. Although young people up to the age of 25

are slightly more strongly represented in the group of over-indebted persons than in the population as a whole, their share of debtors has declined recently. The typical over-indebted person aged 25 and 45 years is single (60.2 per cent) or single parent (15.2 per cent).

Aim of the study

The *iff* overindebtedness report is an annual nation-wide study on the situation of over-indebted households in Germany who call on the help of debt counselling offices. The aim of the study is to provide involved social groups like politics, administration and debt counselling affected households and suppliers of financial services with reliable data in order to find common solutions for combating the problem of over-indebtedness and to reduce the negative consequences of over-indebtedness.

Design of the study

The *iff* overindebtedness report has been published since 2006 and is produced by a team of sociologists, lawyers and economists. 104,000 households were investigated for the *iff* overindebtedness report 2017, who have taken part in debt counselling between 2006 and the first quarter of 2017. The anonymous data from 39 counselling centres located in the 16 federal states of Germany ("Bundesländer") were evaluated. The data are process generated, i.e. documented, summarized and prepared for statistical analysis during the advisory process in the debtor advisory office by help of *iff*'s debtor advisory software CAWIN. Households analyzed were mainly not self-employed and over-indebted; just in less

than one out of ten cases over-indebtedness coincided with former failed self-employment.

What is debt, how is over-indebtedness defined?

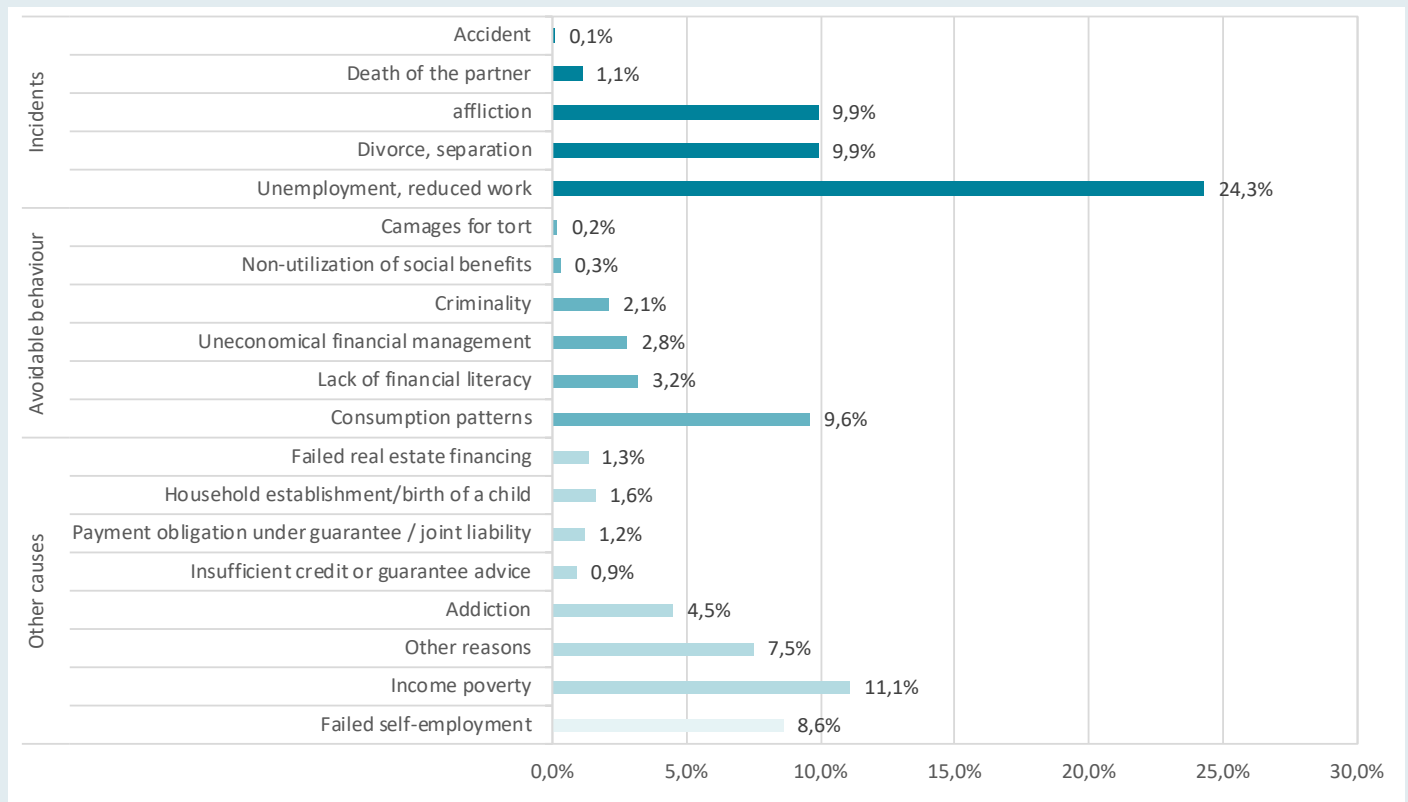
In the over-indebtedness report debt and payment obligation refer to the same thing. Payment obligations are normal and even desirable in the modern society with a high division of labour because otherwise investment into the future would not be possible. Payment obligations not only arise in the case of monetary loans but also in the case of other long-term obligations such as rental agreements or telecommunication contracts. The problem is that debt can grow into over-indebtedness provoking a crisis. Relatively over-indebted are persons who are not in a position to pay off their debts within a manageable period of time using existing assets and free income without putting the acquirement of basic services at risk. Absolute over-indebtedness (or revealed over-indebtedness) occurs when so-called hard signs of over-indebtedness are added such as late payment, premature termination of the loan by the creditor, account termination and compulsory measures such as the arrest warrant for the enforcement of asset disclosure.

IN MOST CASES OVER-INDEBTED PEOPLE ARE NOT „TO BLAME“ FOR THEIR SITUATION – THE MOST IMPORTANT TRIGGERS ARE LIFE CRISES

Figure 1 shows, how often in 2016 debt counselling agencies noted down certain factors as the main trigger for over-indebtedness. These factors can be divided into specific events, avoidable behaviour and other triggers. Events are factors lying outside the influence of consumers. These include unemployment, divorce or illness. With a total of 45.3 per cent of cases, they represent the largest group of over-in-

debtedness triggers. Triggers, which are summarized under „avoidable behaviour“ and which include irrational consumer behavior as well as a lack of financial literacy (3.2 per cent), noneconomical budget management (2.8 per cent) and delinquency (2.1 per cent), are of secondary importance, like in the previous year amounting to 18.1 per cent of cases.

Figure 1: Main reasons of overindebtedness 2016



Source: CAWIN-data.

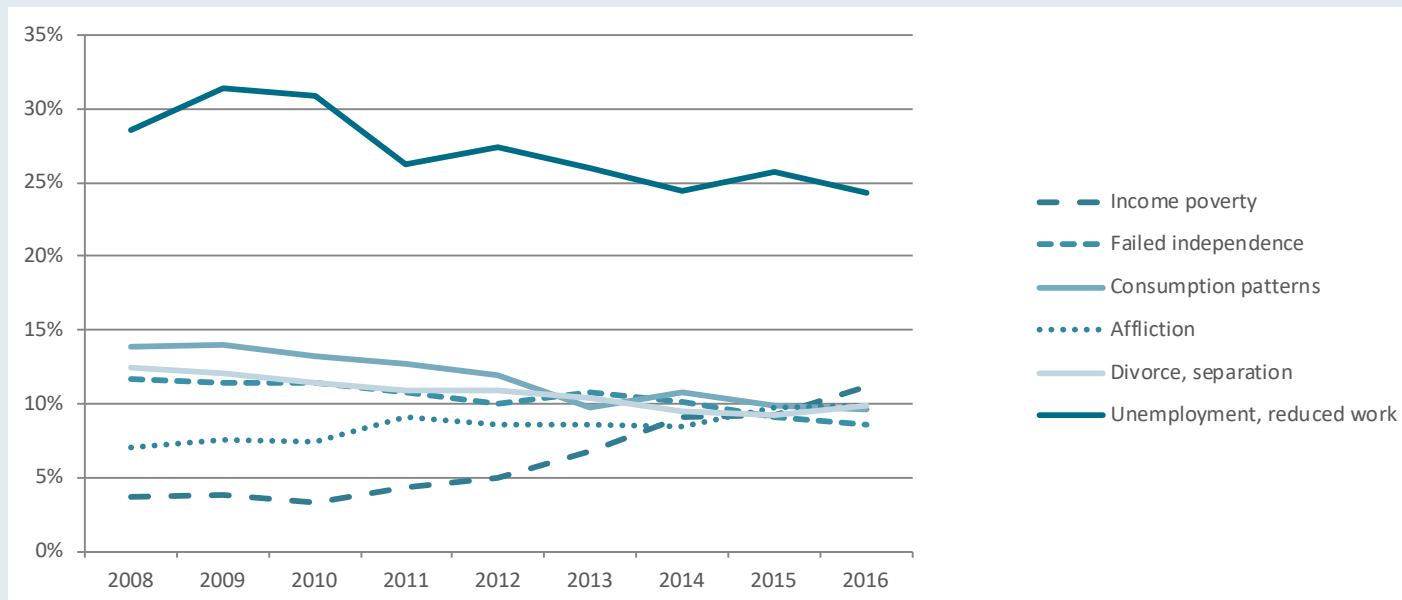
Six triggers, the so-called „Big Six“, regularly stand out because of their importance. In 2016, they accounted for more than 73.4 percent of all over-indebtedness triggers. Their development from 2008 to 2016 is shown in Figure 2.

The most important reason for over-indebtedness was again unemployment or reduced employment. While employment figures continue to develop positively (see Figure 3), in 2016 unemployment as a major trigger of over-indebtedness remains at a high level of 24.3 and, following an increase in the previous year, is back at roughly the same level as in 2014, while the unemployment rate has continued to fall.

At 11.1 percent, income poverty ranks second. The rapid rise in this trigger continued in 2016, after it appeared to have stabilised in 2015. During the same period, income poverty in Germany has risen significantly less sharply, stagnating from 2015 to 2016 at a level of 15.7.

The importance of illness as the most important trigger for over-indebtedness continues to rise, albeit only by 0.1 percentage points from 2015 to 2016 to just under 10 percent (9.9 percent) thus reaching the same percentage rate as divorce and separation (9.9 percent). Compared with the previous year (9.2%) the significance of divorce and separation has increased thus breaking a downward trend to be observed between 2004 and 2015. The proportion of over-indebted people who have indicated irrational consumer behaviour as the main trigger is 9.6 percent in 2016. After an interim high of 10.8 percent in 2014, this figure has thus returned to the level of 2013 (9.7 percent). Only 8.6 percent of over-indebted people say that failed self-employment is the cause of failure. Due to the limited possibilities for indebted self-employed persons to receive debt counselling, the importance is probably underestimated.

Figure 2: „Big Six“ reasons for over-indebtedness



Source: CAWIN-data.

SHARE OF SINGLE HOUSEHOLDS HIGH, SINGLE PARENTS AS THE MOST VULNERABLE HOUSEHOLD TYPE

Among over-indebted households, singles represented the strongest group (60.2 percent), followed by couple households (23.9 percent) and single parents (15.2 percent, Figure 3).

Figure 3: Impact indices¹ 2015 and 2016



Source: CAWIN-data.

Single parents have an increased risk of over-indebtedness, with this risk increasing with the number of children. The best protection against over-indebtedness is provided by childless couples or couples who only have children of age.

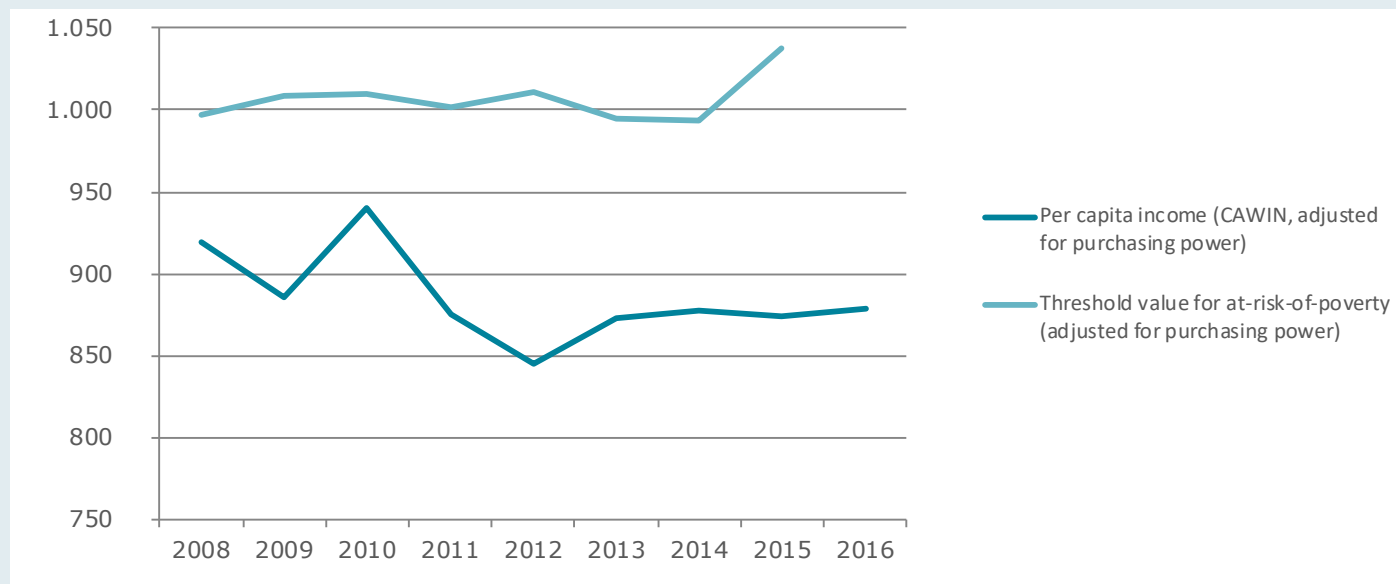
¹ If the impact is less than one, then the risk is low, the more the value exceeds one, the higher the risk. Affection refers to the proportion of over-indebted people (dividend) and the population (divisor) in 2016.

OVER-INDEBTED ARE AMONG THE POOREST OF THE POOR

The income of social debt counseling clients is low. In 2016, their monthly net household income averaged EUR 1,161. The more important per capita income, which indicates the needs-weighted income, rose from 844 euros to 869 euros between 2008 and 2015, while the Federal Statistical Office's poverty threshold rose from 916 to 1,033 in the same period. In fact, for the first time in years, a significant in-

crease in the poverty threshold can be observed, namely by 50 euros or five percent per month. By contrast, however, the price-adjusted per capita income of over-indebtedness has remained almost unchanged in the fourth year and is well below the price-adjusted level of 2008, when per capita income was still 919 euros instead of 879 euros.

Figure 4: Per capita income and poverty threshold over time (price-adjusted)



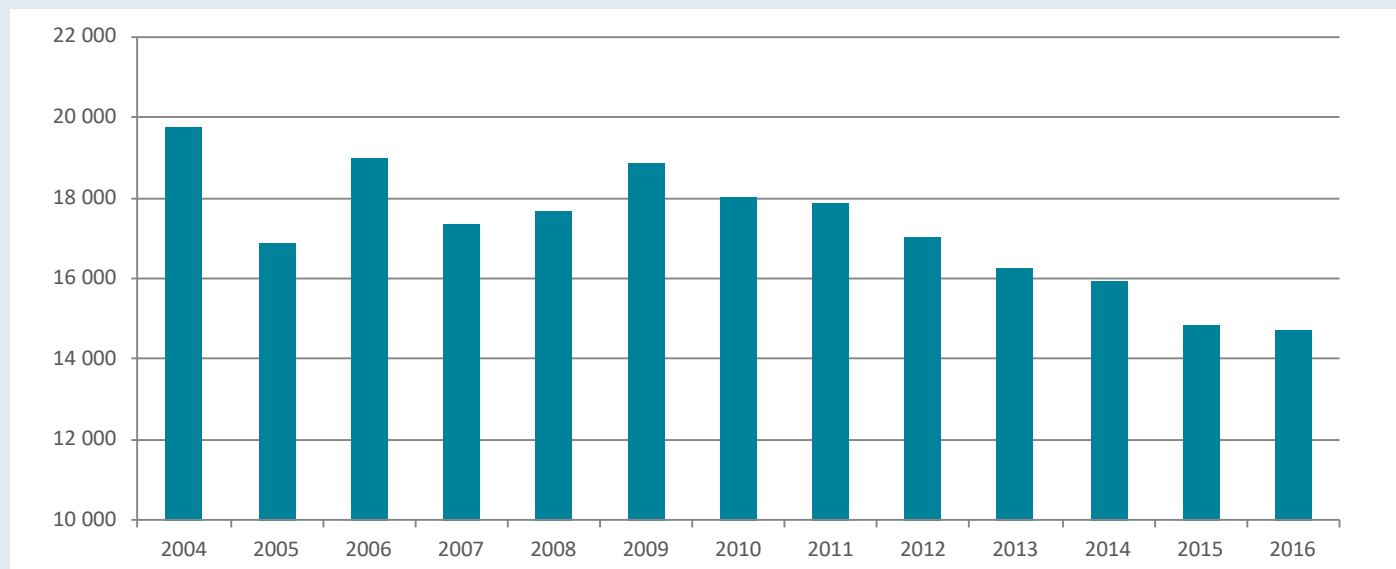
Source: CAWIN-data.

AVERAGE DEBT CONTINUES TO FALL

The level of debts among those seeking advice is steadily decreasing (Figure 5). Since 2004, it has fallen in today's euro amounts from around 19,000 euros in the year of the financial crisis in 2009 to around 14,690 euros last year. However,

debt reduction has recently been significantly lower from 2015 to 2016 than in previous years, with the result that there may have been a bottom-up effect.

Figure 5: Debt amount (in euro, median, price-adjusted) 2004 to 2016

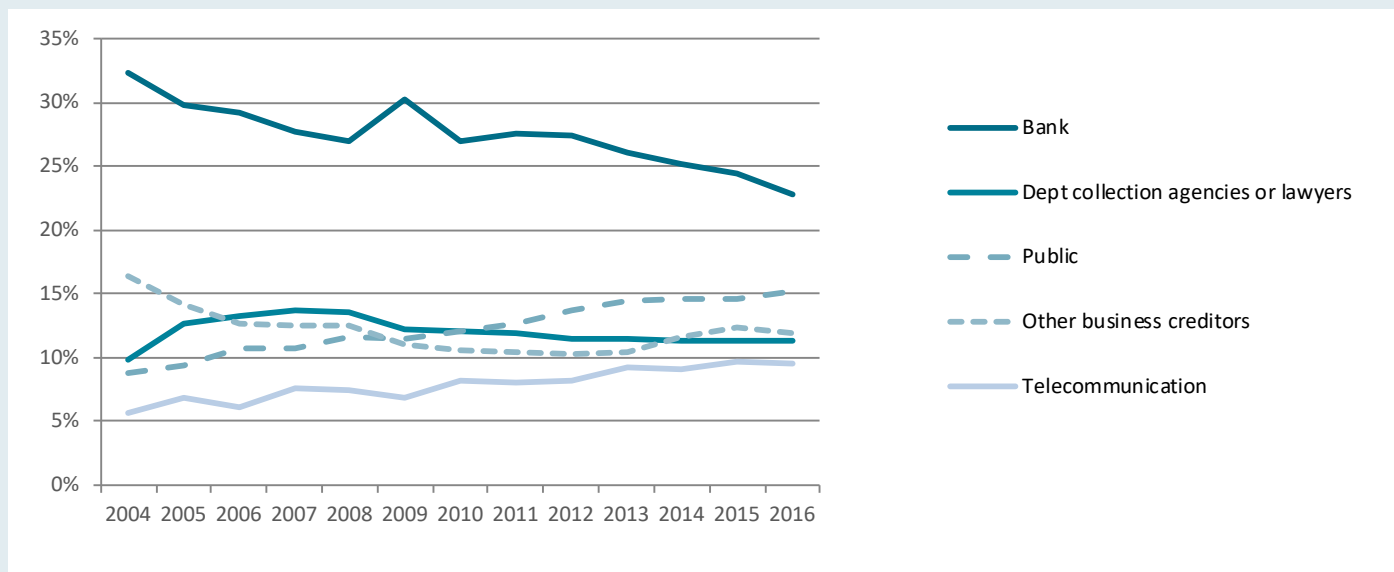


Source: CAWIN-data.

Figure 6 represents the development of the shares of the five most important groups of creditors of debt over time. Since 2004, the significance of bank debt has declined significantly from around 32 percent in 2004 to 23 percent in 2016, and the trend is unbroken. The proportion of debts owed to pub-

lic-sector creditors has been increasing steadily since 2004 and has recently reached 15.2 percent. Telecommunication debts follow a similar pattern, although they are significantly less significant at around 10 percent.

Figure 6: Development of composition of creditors (in 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 with registered office in Hamburg, which has been conducting interdisciplinary research and consulting in the field of sustainable financial services since 1987. It works for national and European government institutions, consumer organizations, debt counseling agencies, foundations and financial services providers. It also prepares calculations and expert opinions for courts, small and medium-sized enterprises and private actors. The 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 co-founder of the *European Coalition for Responsible Credit (ECRC)*.

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 over-indebtedness. The Foundation supports the preparation of the annual report on over-indebtedness. It promotes debtor advisory offices and provides financial education in schools. The foundation has made it its task to put the prevention of over-indebtedness into the focus of public attention and to sensitize them for a responsible handling of money. The contact person at Stiftung Deutschland im Plus is Ute Scharnagl
Tel: 0911 / 5390-1030
E-Mail: info@deutschland-im-plus.de

Further information on this study

The complete iff overindebtedness report 2017 by Dirk Ulbricht, Jan Patrick Schneekloth and Kerim Al-Umaray can be ordered as a print version from the institute for financial services e. V., Grindelallee 100, 20146 Hamburg (ISBN 978-3-00-058362-9), for a nominal fee. The report is available for download in electronic form at www.iff-ueberschuldungsreport.de and www.deutschland-im-plus.de. There you will find further information on over-indebtedness and debt prevention.

Contact person for further questions:

Dr. Dirk Ulbricht
Tel.: 0049 (0) 40 309691-0
E-Mail: dirk.ulbricht@iff-hamburg.de

