



OVER-INDEBTEDNESS IN GERMANY

RESULTS OF THE STUDY 2022

EVERY DAY LIFE POSES FINANCIAL CHALLENGES HITTING PARTICULARLY VULNERABLE GROUPS

Already since the outbreak of the Covid-19 pandemic, many households have been confronted with demanding energy costs. Lock-in-periods as well as home office activities led households to consume more energy than before,¹ and this development has been exacerbated by currently increasing energy prices. Besides, one must keep in mind that borrowers seeking advice at debt counselling agencies (counselling clients for short) enjoy fewer options to economise on energy since their flats are usually less well insulated and only rarely does their electric equipment meet the latest standard of high efficiency. Moreover, their tight financial situation has due consequences regarding negative Schufa entries, which does not allow these households to move house or at least buy new electric devices.

Energy debts (as well as rent arrears) constitute so-called primary debts posing a threat to borrowers' material existence very quickly. Moreover, primary debts usually come together with further borrowings, since debtors are afraid of being cut off energy. Hence, they try hard to pay their utility bills as long as possible and they rather take loans in order to cover their remaining expenditures. People in

low-paid jobs as well as people receiving social benefits are hit especially hard. Social benefits have never compensated recipients for their factual energy expenses accurately and long due adjustments are still missing.

Against this background we undertook a survey among 70 debt counsellors concerning rising energy costs and their consequences for debt counselling. Participation of debt counselling agencies was particularly high in Lower Saxony (14), Rhineland-Palatinate (10), North-Rhine Westfalia (10) and Baden-Wurtemberg (9). Interestingly, only 51.35 percent confirmed a higher relevance of energy debts whereas 45.95 percent stated that energy costs have always been a topic of outstanding importance. However, many respondents estimate their rising importance for the future. Besides, the survey confirms the empirical findings that above all people in low-paid jobs and recipients of social benefits are exposed to financial distress: Two thirds of inquiries refer to electricity debts, one third to gas debts.

Additionally, respondents of our survey point to an increased willingness of in particular regional but not nationwide suppliers of energy to agree to instalment payments. Also, they

¹ See: <https://www.iamexpat.de/career/employment-news/working-home-increases-electricity-bills-94-euros-last-call>: 04.05.2022



state that frequently changing contact persons would make it difficult to establish a long-term relationship between counselling client and its counsellor.

The recent amendment to the Electricity and Gas Supply Regulation obliges energy companies to make instalment payments possible once a household has come into arrears.

Since, however, energy suppliers frequently demand high monthly instalments which consumers are unable to pay, they might find themselves trapped in a vicious circle of ever rising payment obligations and hence debt. Energy suppliers in their turn take this as an opportunity to deny further instalment schemes at all.

6.16 MILLION PEOPLE (3.08 MILLION HOUSEHOLDS) ARE OVER-INDEBTED – A TEMPORARY DECREASE

According to Creditreform the percentage of over-indebted people decreased by more than one percent in 2021 compared to 2020, which in absolute terms amounts to 700000 cases. In 2021 the percentage rate of over-indebted people was 8.86 percent, or 6.16 million people (3.08 households) in absolute terms. Creditreform started to collect data on household debt already in 2004, but, surprisingly, in neither year has over-indebtedness reached such a low level as in 2021.

In particular so-called soft indicators of a borrower's bad quality like reminders or applications for reminders declined by 15.5 percent. Indeed, financial support by public autho-

rities and restricting regulations caused by the pandemic lowered household expenditures and made debt repayment possible. However, hard indicators of a borrower's bad quality like a judicially decreed confiscation of his wealth or insolvency proceedings declined by only 5.9 percent.

The empirical finding of lower indebtedness should not lead us to jump to conclusions, however. From experience we know that economic crises affect consumers delayed in time. Besides, further rising energy prices continue to expose above all people in low- paid jobs to tight financial situations.



PER CAPITA INCOMES: ON AVERAGE COUNSELLING CLIENTS ARE AT RISK OF POVERTY

In 2021 the median value of household income amounted to 1076.28 Euro. How an income of this size affects a household's living standard of course depends on the number of members, which statistical measures like the median do not consider. More expressive in this respect is the so-called net equivalent income. This statistical measure calculates the income which allows each family member the same living standard.² In 2021 the average net equivalent household income amounted to 887.85 Euro.

In addition, Figure 1 displays the distribution of net equivalent

incomes of all counselling clients participating in our survey. To account for heterogeneity among counselling clients, households have been grouped according to specific income classes. Almost 60 percent of all counselling clients participating in our survey earn a monthly equivalent income of less than 1000 Euro, almost 27 percent have a net equivalent income of even less than 500 Euro. Notably, the proportion of counselling clients is decreasing with increasing income. Only 14 percent have a net equivalent income of more than 1500 Euro.

Figure 1: Net Equivalent Income of Counselling Clients



Source: CAWIN-Data; Presentation: iff. Number of considered households 2021: N=12487; 2020: N=13353.

According to the definition applied by the Federal Statistical Office (Statistisches Bundesamt) a person is at risk of poverty if the following criteria are met: Net equivalent income falls short of a particular poverty threshold value, the household to which this person belongs, experiences severe material destitution, or if labour participation of this same household is low (Destatis 30.10.2019). As the Federal Statistical Of-

fice points out, households with a net equivalent income below the poverty threshold do not only suffer from poverty but also from social exclusion.³ In 2020⁴ the threshold value amounted to 1173 Euro for a one-person-household and to 2463 Euro for a two-parents-household with two children below 14 years.⁵

² In order to calculate the net equivalent income a particular weight – taken from the so-called OECD-scale - is assigned to each household member. The weights are then added up leading to a factor by which the household's income is divided. According to the OECD scale a weight of 1 is given to the first grown-up member of the household, a weight of 0.5 to each further member equal or older than 14 years. Children younger than 14 years have a weight of 0.3.

³ cf. Destatis 30.10.2019; Eurostat 2018.

⁴ Data are not yet available for 2021.

⁵ cf. Destatis 2021b.

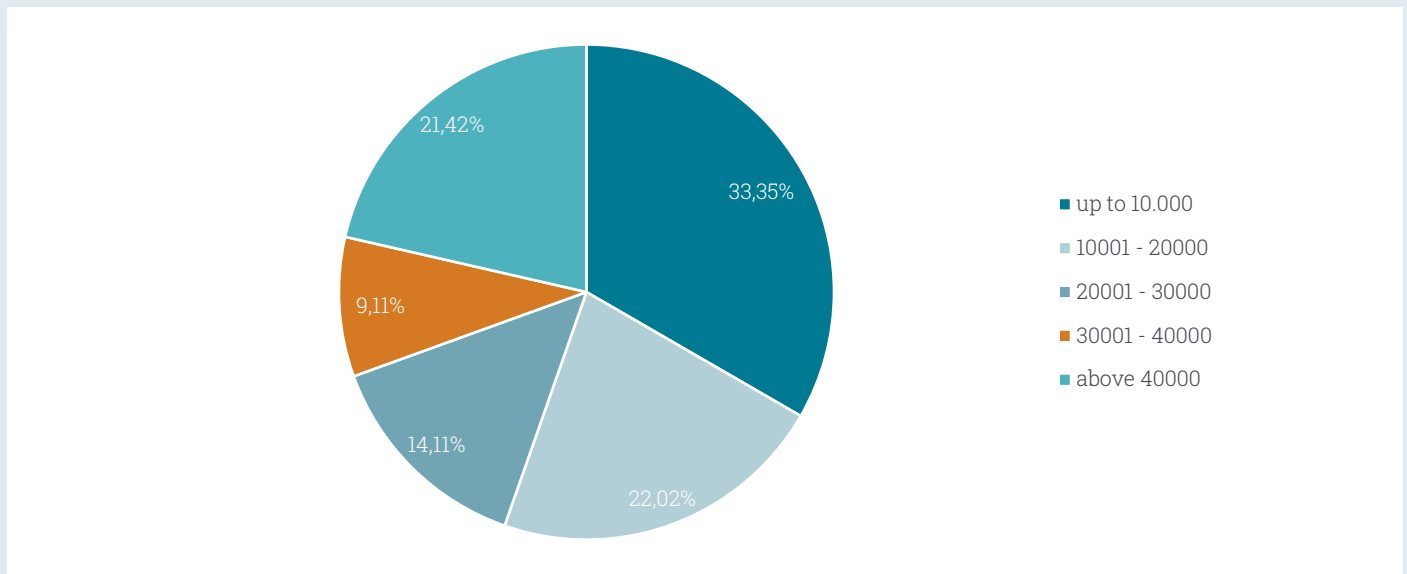


AVERAGE DEBT AMOUNTS TO 15680.04 EURO

Figure 2 shows how borrowings are distributed among counselling clients. The majority of counselling clients (33.35 percent) have borrowings less than 10000 Euro. Amounts between 10000 Euro and 20000 Euro are owed by a further 20.02 percent of counselling clients. Only 21.42 percent have borrowings above 40000 Euro.

The median value of debt amounted to 15680.04 Euro in 2021 manifesting a small increase.

Figure 2: Distribution of Debt 2021



Source: CAWIN-Data; Presentation: iff. N=123442 Claims, 9974 households.

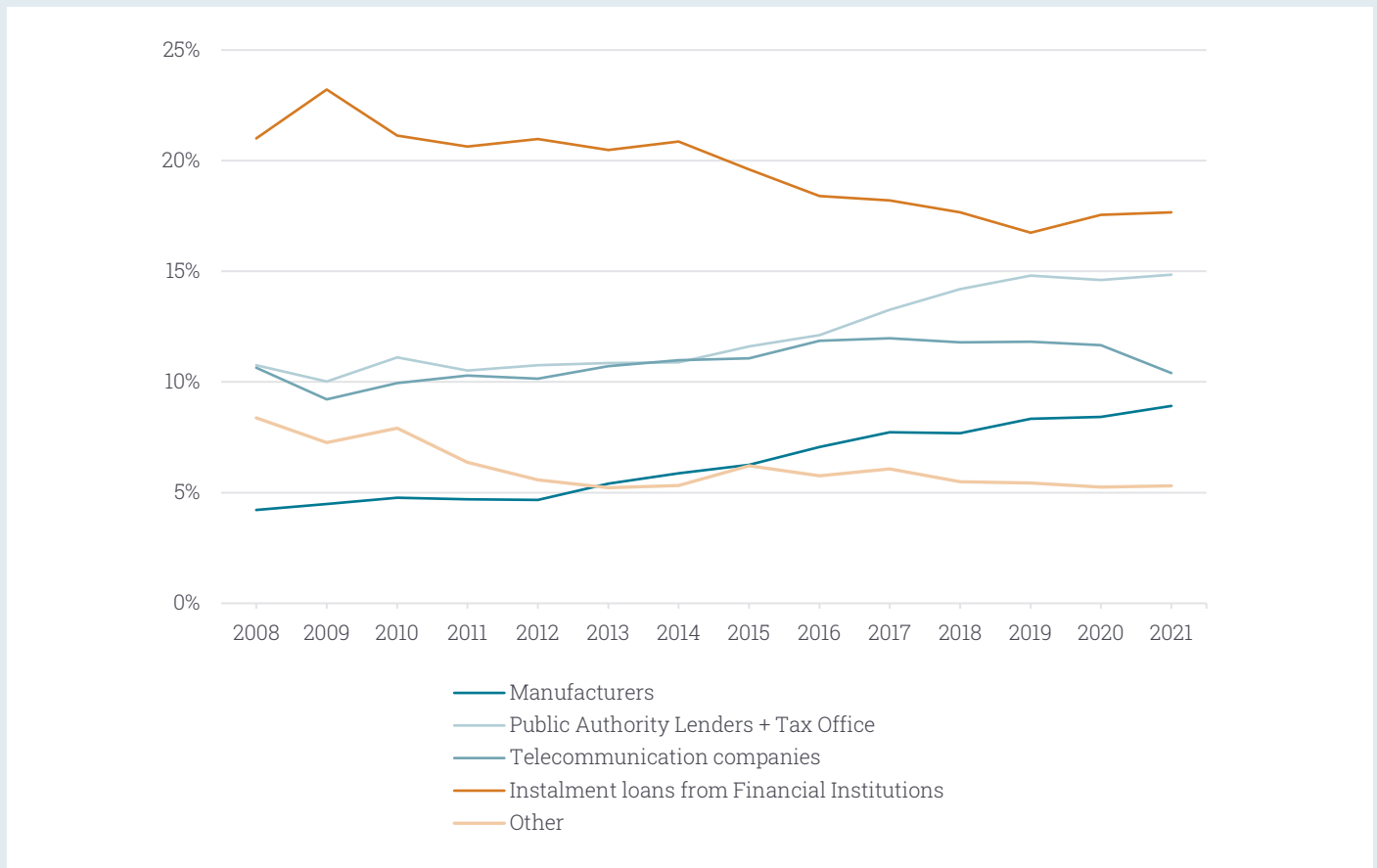
CATEGORIZATION ACCORDING TO LENDER: INSTALMENT LOANS AND BORROWINGS FROM PUBLIC AUTHORITIES ARE DOMINATING

Figure 3 presents the development over time of the five most relevant types of debt. The time path of instalment loans is most striking: Whereas its proportion was 24 percent in 2009, it decreased in the following years ending up at 17.42

percent in 2021. By contrast, the proportion of borrowings from public authorities increased from 10.7 percent in 2008 to almost 15 percent of the total value of debt held by the counselling clients participating in our survey.



Figure 3: Time Path of the Composition of Claims (percentage rates)



Source: CAWIN-Data; Presentation: iff. For the sake of clarity, the presentation considers only the five most relevant types of claims. 2008-2021: N=1057932.

REASONS OF OVER-INDEBTEDNESS: EXOGENOUS EVENTS ACCOUNT FOR ABOUT 46 PERCENT

Like in the years before, in 2021, too, over-indebtedness was mainly caused by exogenous events (45 percent). This result holds true notwithstanding existing differences between counselling agencies regarding the significance of remaining factors.

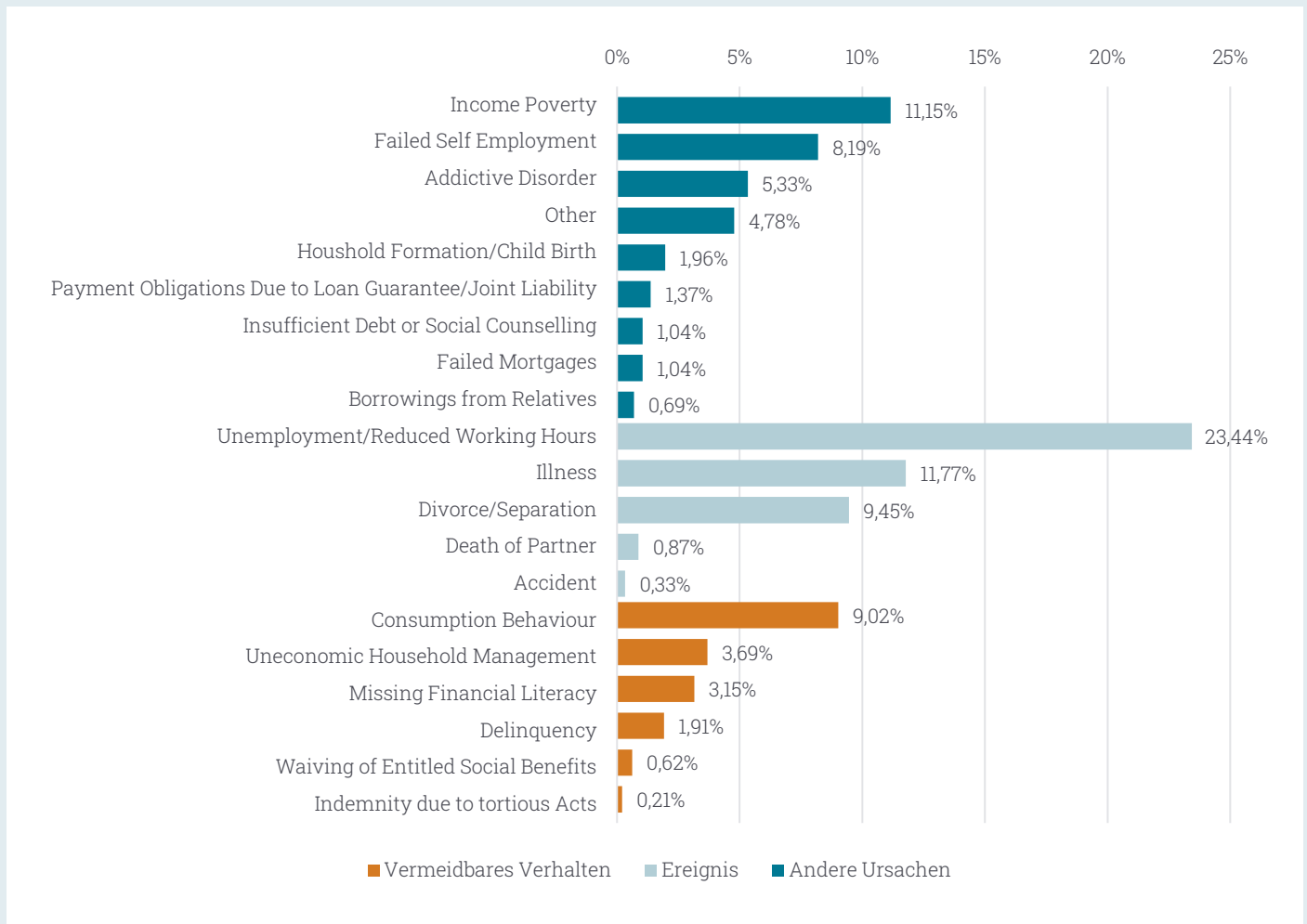
Exogenous events are difficult to avoid, examples of which are unemployment, divorce or illness. Given that it had been impossible for affected people to accumulate a sufficiently

high financial buffer stock, it quickly becomes difficult for them to make ends meet.

With a rate of 23.44 percent it's again unemployment/reduced working hours that counts most for triggering over-indebtedness. Less important (11.77 percent) are illness, income poverty (11.15 percent), divorce/separation (9.45 percent), consumption behaviour (9.02 percent) and failure of self-employment (8.19 percent).



Figure 4: Main Reasons for Over-Indebtedness 2021



Source: CAWIN-Data; Presentation: iff. N=6340.

The presentation shows that exogenous factors count for more than 50 percent of all events provoking over-indebtedness. Taking into account that failures of self-employment,

addictive disorder or income poverty are seldom the consequence of own fault alone, the percentage of exogenous reasons for over-indebtedness might even be higher.



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„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 2022 iff Over-indebtedness Report by Dr. Sally Peters and Dr. Hanne Roggemann is available in print format from the institute for responsible finance e. V., Grindelallee 100, 20146 Hamburg. The report is available for download in electronic form at www.iff-ueberschuldungsreport.de and www.deutschland-im-plus.de. Further information on over-indebtedness and debt prevention is also available on those web sites.

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