



Ireland 2004

Money Advice and Budgeting Service

Minutes,
Peer Review Meeting,
Cork
18-19 November 2004





Day 1

Introduction

Ms Bernadette Lacey, the Director General of the Irish Department of Social and Family Affairs, welcomed the peer review participants from Denmark, Germany, Hungary, Luxembourg, Netherlands, Slovenia, and the UK, as well as from the European stakeholder groups, the European Anti-Poverty Network (EAPN) and the Réseau Européen Trans-régional pour l'Inclusion Sociale.

There were good reasons for holding the peer review meeting in Cork, she said, since it is not only the headquarters of the Irish Money Advice and Budgeting Service (MABS), but was also home of the late Brendan Roche, the first Money Adviser, who developed the 'special account' partnership with credit unions which is now a central feature of MABS. Liam Edwards, the current MABS National Coordinator, is also based in Cork and has been involved with the scheme since its inception. "He has been a terrific champion for people in need and pushed the service to where it is today," she added.

MABS represents an Irish approach to the problem of over-indebtedness. Although funded centrally by the Department of Social and Family Affairs (DSFA), it is run on a community development model with 52 independent companies. The directors on each board of management work together to address the needs of the local communities they represent. This gives confidence to the people who use the service that they will receive free, confidential and independent advice.

MABS is especially relevant to the objective set out for the National Action Plans against poverty and social exclusion (NAPs/Incl 2003-2005) of putting policies in place to address life crises that can lead to indebtedness, exclusion from school and homelessness. Whole families are affected by over-indebtedness and poverty, including children. They lead to loss of self-esteem, guilt, anxiety and despair. MABS is a beacon of hope that can restore dignity and self-confidence, thereby relieving stress and having a positive impact on the general health and well being of family members.

Ms Lacey said Ireland has benefited from experience in other EU countries, through participation in the Consumer Debt Net (CDN) network, and three European conferences on consumer debt issues held in conjunction with the European Commission.



The peer review process is an excellent opportunity to exchange experiences, she noted. The papers from peer countries demonstrated that:

- Over-indebtedness is found in all countries, but is a special problem for people on low incomes or socially excluded.
- Measures to tackle the problem must reflect local conditions.

The aim of the peer review process is to assess transferability, and Ms Lacey said it was an honour for MABS to be selected for review. "This kind of meeting establishes contacts and fosters cooperation and networking into the future," she concluded.

Mr Hugues Feltesse from the European Commission DG Employment and Social Affairs: Social Protection and Social Integration, said although no common definition of over-indebtedness exists at EU level, the problem clearly affects human capabilities, as conceived by Amartya Sen¹, and individual resources including physical and mental health, social capital (contacts and participation), human capital (education and experience), employability, etc. The European Council has defined as one of the objectives of the fight against poverty and social exclusion the putting in place of policies to prevent life crises that lead to social exclusion. Tackling over-indebtedness ranks as equally important to preventing exclusion from school and homelessness.

The first aim of the peer review process is mutual learning, affirmed Mr Feltesse. Representatives from the peer countries expect to learn how the Money Advice and Budgeting Service operates. They expect a frank and objective account not only of what works well, but also of what does not work as intended, or not at all. The host country, in turn, can gain from the comments of the peer group members, as has happened in previous peer review meetings.

The second objective is to facilitate the transfer of policies. Enhancing understanding is a crucial element in this process, and this places a special responsibility on host country participants as key actors in defining the most important aspects of their policy. The wide dissemination of results, via a website, newsletter and individual reports, also helps to extend awareness.

The peer review is not a competition, but aims to reveal what enables certain policies to be replicated in different economic and social circumstances. In this way the Open Method of Coordination will reach its objective of improving practice across the EU.

1 Sen A. (1985), *Commodities and capabilities*, Amsterdam, North-Holland. See peer review meeting, Netherlands, June 2004.



This is a vital challenge, underlined Mr Feltesse, since social inclusion policies tend to meet with some scepticism. “We have to prove it is possible to tackle social exclusion not only through economic policies,” he said. The Peer Review Programme should look for success stories, or at least inspiring stories.

The programme is not the Commission’s only instrument. In the coming days it will launch a new call for transnational actions. Peer countries within the Social Protection Committee also review Member States’ NAPs/Incl and how well they implement European policy objectives.

Mr Leonard Burke, Principal Officer in the Irish Department of Social and Family Affairs, noted that the review brought together key actors in transferring and adapting actions. The challenge is to take up successful methods operating in other EU countries.

Presentation of the Money Advice and Budgeting Service

Mr Liam Edwards, the MABS National Coordinator, introduced the scheme with the aid of a PowerPoint presentation (annex 1). In 1992, the Irish Government supported five pilot debt counselling schemes, with funding of €330,000. Today, MABS has grown into a countrywide service with 52 independent companies operating 65 local centres, and a budget of €11.4 million from the DFSA.

It aims to help people with debt problems relating to:

- Rents/mortgages
- Public utilities (water, electricity etc)
- Financial institutions, banks and moneylenders
- Personal debts

Mr Edwards pointed out that moneylenders are widely used in Ireland and in the UK, although not found to anything like the same extent in the rest of the EU. In Ireland, moneylenders are licensed, and provide a service to people on low incomes, offering cash loans, and collecting repayment instalments weekly. Interest could amount to €30 on a €100 loan repaid over 26 weeks.

The Money Advice and Budgeting Service is independent, free and confidential. It aims:

- To enhance knowledge and skills;
- To identify sources of credit, and supply information to everyone in society;



- To work through partnership, for example with the Irish credit union network, where people can save and borrow small amounts (not possible through mainstream financial institutions);
- To involve the target group, although Mr Edwards admitted this is one area where MABS could be more successful. It is easy to attract middle-income people with credit card debts, but more effort is required to seek out very poor families;
- To provide access regardless of location, for example to rural communities;
- To highlight changes in policy and practice, for instance on the part of government or financial institutions, which impact on people with debt problems.

Mr Edwards described some of the specific initiatives MABS has launched.

- Utility companies were found to be recalibrating household meters when people owed them money, in order to recover the debts. MABS secured an agreement to stop this, so that meters are now used only to measure energy supply.
- Paying for TV licences is a problem for people on low incomes. MABS encourages them to save money regularly as part of their normal budgeting.
- Local authority housing rents: tenants may have problems if rents have to be paid in a lump sum. Four to five years ago, the local authorities published a Code of Practice on rent arrears management in which they recognised the help MABS was giving in collecting arrears. They now accept arrears being paid off through small weekly contributions.
- The Community Welfare Service (CWO), funded by the DFSA, is where people in need go as the last resort. MABS is developing a joint Protocol for dealing with clients which is still under discussion.
- The pioneering Pilot Debt Settlement Programme set up with the Irish Bankers' Federation. This was described in detail during the afternoon (see page 12).

MABS is in increasing demand, with 9,000 new customers in 2001, 12,000 in 2002, and 16,000 in 2003. Analysis of clients reveals that 70% are on social welfare, 66% are female, and 31% are lone parents. The service distributes leaflets and booklets, and attracts frequent press coverage. Every month, 1,700 people visit the MABS website: www.mabs.ie.



Customers come to MABS in order to regain control of their finances and get access to affordable credit sources. They are introduced to their local credit unions where they can save and borrow small amounts of money, thereby finding their way out of debt and avoiding similar problems in the future.

The target group comprises

- People on low incomes and welfare;
- People whose capacities make it difficult for them to organise their finances, for example people with literacy and numeracy problems. Mr Edwards said MABS is currently stepping up services for clients with lower capacities, who need more support than those who already have the skills they require to handle their own affairs;
- People with limited access to financial services or credit;
- People borrowing from moneylenders, or purchasing through mail order systems.

Examining the causes of debt, Mr Edwards highlighted four main factors:

- Economic/structural low income or lack of access to affordable credit;
- Incidental/unforeseeable bereavement, loss of employment, maternity etc;
- Social peer pressure, lack of education, social problems, inability to cope with the system;
- Behavioural over-commitment, addictions. These are not the sole causes of indebtedness and in many cases do not occur at all.

Over-indebtedness has both a psychological and physical impact. A considerable amount of research has been carried out in Scandinavia. It causes anxiety, guilt, shame and stigma, and the health effects include blood disorders, eczema, alcoholism, migraines and weight loss. After an interview with MABS, people seem to 'walk taller', as if a burden were lifted from their shoulders.

MABS is made up of 52 companies limited by guarantee. Local authorities, Community Welfare Service and bodies such as credit unions, public utilities and the Society of Saint Vincent de Paul are represented on the management boards.



People with severe debts are liable to seize on any settlement available, but MABS sets out to find sustainable solutions, ensuring that clients keep enough money to live on. It helps to prioritise different debts, so that secondary debts, for example to financial institutions, can be paid off with whatever surplus is available.

MABS clients must divulge all relevant information to the Money Adviser. When they open a credit union special account, they make regular contributions of what they can afford towards existing or future demands, and creditors receive a monthly payment. The Loan Guarantee Fund underwrites small loans for special needs, as an alternative to moneylenders. MABS does not authorise loans to repay debts.

Mr Edwards outlined the MABS budgeting tools. The Household Budgeting Scheme provides for a maximum of 25% to be retained from weekly welfare payments to cover regular bills. In Ireland it is common for people to budget on a weekly rather than on a monthly basis, with even wages paid weekly. Clients may open credit union special accounts, or use the centralised Mabslink scheme in Cork, which collects payments through banks and redistributes to creditors.

MABS and other stakeholders are represented on the National Advisory Committee, set up to advise the government on broad policy matters and chaired by the DSFA. In 2004, three working groups have been examining cross-departmental issues, access to financial services, and community education which are important in the context of debt prevention.

In March 2004, a MABS National Development Company (NDL) was established to support the countrywide development of the service. Five National Development Officers started work in September, including three casework officers operating in different geographical areas, and community education and communication specialists. MABS employs 150 Money Advisers and 78 administrators for a population of 4 million.

MABS is about to launch a new software system. MABSIS will set up a central, automated database to record customer statistics and facilitate the development of performance indicators. It will help to analyse, for example, what triggers indebtedness and where people are with regard to the Irish legal system – which takes a much more ‘confrontational’ approach to debt – when they come to MABS. It will also operate special accounts and establish a central payments system, so that creditors will receive one single payment each month.



An early assessment of MABS in 1993 found that 80% of customers were on welfare. Although the fall in unemployment in Ireland may be one factor in reducing this proportion, Mr Edwards said he was sure the service could be doing more to meet the needs of people with low capacities and disabilities. The new national Community Education Officer (MABS NDL) will aim to establish links with education providers in communities and local authorities.

MABS currently has no statutory base, and to some extent this is a weakness. Assessing the service's future status is one of the challenges ahead.

Evaluations took place in 1993 and 1999/2000, although more research is needed to assess value for money. The later study showed over 90% of stakeholders were pleased with the service MABS provides – a strong incentive for maintaining and developing it.

In a first round of **comments from peer countries and stakeholders**, questions focused on measures to reach target groups among low income, illiterate and young people and ethnic minorities, such as Ireland's Traveller community. Why is the number of MABS clients increasing? Is this due to higher living costs, a greater number of vulnerable people, or more successful promotion of the service?

If over-indebtedness is a national issue, why is the problem not covered by legislation in Ireland? How was the Loan Guarantee Fund set up?

Participants also referred to the EU's new Consumer Credit Directive proposal, which seeks to introduce greater harmonisation of rules and legislation across Europe.

The **UK** has an Over-indebtedness Action Plan, but the framework for money advice is very complicated, involving a large number of actors. In autumn 2003 the government published a White Paper on consumer over-indebtedness showing that it affects between 44% (those who do not want to take on any more debts) and 1% (bankruptcy cases) of the population. Indeed, one of the main problems is the lack of an agreed definition for over-indebtedness. Another is that the government's own agencies, such as tax authorities, are among the hardest and most inflexible when it comes to collecting due payments, and this undermines attempts by other departments to assist debtors. How does MABS relate to creditors, including other government departments and the finance industry?



In **Germany**, several different federal departments have responsibilities in the area of over-indebtedness, including the Ministry for Families, Senior Citizens, Women and Youth, and the Ministries of Finance, of Commerce and Labour, and of Justice, which consult each other on policy.

The AG-SBV (German network for Consumer Debt Counselling) coordinates the activities of advice agencies, and liaises with national and federal authorities and the European CDN network.

Under the **Hungarian** debt management scheme, participants receive financial support from local authorities, which goes directly to the utility company or creditor. Ms Zsuzsanna Nemes from the Ministry of Social and Family Affairs said 25% still has to be found by the individual, which is hard for families on really low incomes. From 2005 there will be a new government fund to help young people in particular to secure a higher amount of guaranteed mortgage when buying a house.

Ms Cecile Kellens-Greisch from the **Luxembourg** Ministry of Family and Integration said Luxembourg is very interested in MABS. In 2000, a new law set up a state-funded scheme to help people clear debts once they agreed on a repayment plan. The sum is capped at €10,000, with a maximum seven year repayment period. Although it is too early to make a full assessment, the scheme seems to be working well.

Slovenia has an extra social welfare budget for small loans, aimed at people under pressure – for example to meet heating bills in the winter.

In the **Netherlands**, NIBUD (the national budgeting institute/*Nationaal Instituut voor Budgetvoorlichting*) offers services comparable to MABS, focusing on household finances. Recent research has highlighted growing debt amongst young people aged 16 to 24. Ms Karin Weustink from the Ministry of Social Affairs and Employment drew attention to an apparent generation gap in attitudes to coping with money. In particular, 14 to 18-year-olds who live with their parents and do not have living costs can afford to spend freely on consumer goods. Problems arise when they become independent. They have already learnt bad budgeting habits through relying on parental support to meet debts.

The link with employment is also important, as debt can often be a reason for not taking up work.



“It’s a bit silly to use money from public authorities to help people to repay debts to the private sector, when public authorities have such limited finances,” suggested Mr Arrigo Zanella from the *Réseau Européen Trans-régional pour l’Inclusion Sociale*. He drew attention to the Belgian law whereby private energy providers pay a tax to help cover consumers’ energy debts. This reinforces the social responsibility of the private sector, but on the other hand companies tend to externalise these costs back to consumers. Belgian legislation of 1994, amended in 1997, gives a judge the right to cancel both debt and interest in cases where people are unable to pay, and this helps a lot.

Mr Liam Edwards agreed that **young people** are inexperienced in handling money and therefore especially vulnerable. MABS has published a young person’s guide to money and a teachers’ manual, and the new Community Education Officer will expand this work.

Ireland’s main **ethnic minority** is the Traveller community. Following a research study on access, MABS set up a special outreach service to link people to sources of support in their own community. The recent increase in immigration into Ireland is also creating a growing demand for help among people who have difficulty understanding a foreign system.

The **Loan Guarantee Fund** is funded but not administered by the DSFA. It amounts to less than €300,000 countrywide, and is not used to any large extent. It is time to reassess its uses and benefits. MABS’ capital input has been minimal – just €10,000 per MABS in the first year, invested through a number of credit unions. Loans are guaranteed and credit unions compensated if clients default, but clients themselves are not aware of this.

If **creditors** are informed that they have little hope of recovering their money, there is a good chance that they will take the debtor to court, which is a waste of time and money for both sides. A second option would be to offer the individual money to cover the debt, but Mr Edwards did not feel it was the role of welfare departments to repay creditors such as financial institutions. MABS offers a third alternative, by managing repayments, to everybody’s benefit.

Relations between MABS and the **financial institutions** (high street banks and mortgage lenders), energy supply companies, and moneylenders are good. Relations with telecommunications companies are less so with evidence of disconnection.



Sometimes MABS has to advise people who owe money to the DSFA itself. The Revenue Department is another regular creditor, but it is possible to get a very good response, Mr Edwards noted. MABS also works with the Health, Education, Justice and Finance Departments, but cooperation could be improved.

MABS does not charge creditors for any of its services, or for recovering their money. "That keeps the service very clean," insisted Mr Edwards. Ireland is a small place and it is possible to build up relations on a personal level, for example with senior figures in the banking world. "We get to understand their position and they get to understand ours, and the client benefits. We can be tough and still respect each other. We're the people working on the front line of money advice, and that's where it makes a difference."

Mr Edwards attributed the **increase** in clients to the promotion of MABS via advertising and the media. One debt-related story is sufficient to get MABS into both national and local newspapers. "It's a story that excites the media," he admitted. Standards of living have also increased, with young people taking on loans to buy cars, for example, and facing massive insurance bills.

Finally, regarding legislation, he said this would have to be introduced by the Department of Justice. Law Reform in Ireland in relation to indebtedness falls within the remit of the Department of Justice, Equality and Law Reform and **Ms Lacey** indicated that the Department of Social and Family Affairs would be making further contact with that Department to develop proposals relevant to MABS in this area.

Mr Burke advised that because of different priorities within Government Departments it can be difficult to progress issues.

Mr Edwards said he would prefer to see MABS more centralised: having 52 local managements does create problems of consistency. The recent MABS Modernisation Action Plan provides for a Code of Practice for the entire service, and a national Customer Charter.

In the UK, for example, where a wide range of organisations including local authorities and Citizens' Advice Bureaux offer money advice, creditors get mixed messages.

In the last two years, MABS has cemented closer relations with the One Parent Exchange and Network and the National Adult Literacy Association, which will help to reach more socially excluded clients.



MABS is not an anti-creditor programme, he reminded the peer group. "It's about win-win." Creditors deal with MABS on a voluntary basis because the service is successful from their point of view.

The European Context

The thematic expert **Mr Dieter Korczak** made a presentation (see annex 2) putting MABS in a wider European context, making comparisons with other EU countries and focusing on key topics for analysis.

He highlighted variations in money advice and debt counselling systems in different European countries, and asked participants to consider the best model:

Centralised (Ireland)	Decentralised (Germany)
Clear structure (Ireland)	Complex, diverse system
Established systems (Germany, UK)	Newly developing networks (new Member States)
Amicable/voluntary (Netherlands)	Statutory (nowhere?)
Open access	Limited access – clients have to fulfil certain criteria
Little or no government money/ operated by 'voluntary' sector (UK, Germany, Netherlands) – most services struggle to obtain funding	Total government funding (Ireland, Luxembourg)
Servicing small populations (Ireland = 4 million)	Servicing large populations (Germany = 80 million). Therefore different solutions are appropriate
Neo-liberal approach (Denmark)	Social understanding (Ireland, Germany, Netherlands)

No official or scientific European **definition** of over-indebtedness currently exists. Different countries use their own criteria, and he gave examples of differing definitions from Ireland, UK, France and Germany.

Finding a common definition of over-indebtedness in the EU would enable statistics on over-indebted households to be compared across Europe. At present this is like comparing apples, pears and oranges. The EU should establish a working group to establish an operational definition, he suggested, and put forward three possible formulae:



Subjective over-indebtedness: when a person finds him or herself emotionally and financially unable to pay back his or her debts.

Relative over-indebtedness: when despite reduction of the lifestyle the remaining income after deduction of living costs is insufficient to meet financial commitments as they become due.

Absolute over-indebtedness (insolvency): when the debtor's income and assets can no longer cover the existing commitments.

On the statistics available, "Our rough guess is 20 million over-indebted households, more or less excluded from social participation, and that's a lot. It needs political and social action," said Mr Korczak.

Country	Year	Households	
Ireland	1997	12%	156 ths
Germany	2002	8%	3.1 mio
Netherlands	1998	7.6%	500 ths
UK	2002		1.75 mio
Norway	1996	5.5%	90 ths
Hungary	2004	13%	500 ths
Iceland	1994	3.7%	85 ths
Austria	1995	2.7%	80 ths
Belgium	2000	2.5%	107 ths
France	2000	2%	494 ths
Sweden	1995	1.2%	40 ths
Missing data: Denmark, Greece, Italy, Luxembourg, Portugal, Spain, Estonia, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia, Czech Republic, Cyprus			

Financing for debt counselling varies enormously from country to country, ranging from 100% state funding in Luxembourg and Ireland to voluntary support in the UK. Mr Korczak wondered whether the private sector should be encouraged to make some payment towards the services money advice schemes provide, for example a €10 fee for every debt collected, like a kind of Tobin Tax on repayments. Is it a good idea to use public funds to subsidise private debt collection?

The scope of **legislation** to combat over-indebtedness also varies in different Member States, with nothing at all on the statute books in Ireland, Italy, Greece,



Spain and Portugal. Mr Korczak suggested this may be because in southern countries debt is regarded as a family matter that incurs loss of face if made public, rendering organised debt counselling more difficult.

No systematic evaluation exists, either, of the impact of bankruptcy laws. In countries like France and Germany, people are able to make a 'fresh start' and the law prevents creditors from pursuing them.

Is greater **cooperation** required between money advice and other services – in particular organisations responsible for reintegrating people into work? A high proportion of MABS clients are on welfare and could benefit from help to rejoin the labour market. In Germany, thousands of jobs are lost due to bankruptcy.

Do Money Advisers receive adequate **training**? MABS has developed a very impressive *Good Practice Manual for Money Advisers*. This is one aspect of the Irish model that could well be transferred to other Member States and adapted to national situations. Hungary has a uniform training system leading to a debt counsellor's certificate.

Only Ireland and Germany have systems for the central processing of **data and statistics**. MABS produces a quarterly digest of standardised data, covering gender, age, status, income and creditors. It would be useful for research purposes to collect extra information on, for example, causes of debt.

Across Germany, starting in 2005, 1,100 counselling agencies will take part in a new joint data-collection system. How can such information be used to assist the services' day-to-day work?

What priority should be given to **debt prevention**, which is more cost-effective than rehabilitation? MABS has been criticised for not doing enough in this area. In Germany, the AG-SBV collects information on debt-prevention strategies which is available through its website (www.agsbv.de). An annual Debt Day gives rise to widespread discussion of the problem in the media.

What responsibility should the business world take, and should financial institutions be penalised for irresponsible lending? A proposal along these lines in the original draft Consumer Credit Directive has since been removed, and Mr Korczak suggested MEPs should give serious consideration to reinstating it.



Mr Feltesse posed a number of questions for discussion:

- How can cooperation be enhanced with job centres and employment agencies/ housing providers/tax departments etc regarding debt rescheduling for people coming back to work?
- What criteria should be used to define monthly disposable income and the minimum sum that people should retain from benefit payments?
- What can be done about 'financial exclusion' imposed by banking organisations?
- As regards debt prevention, what steps are required to tackle 'multi-credit' (people who are already in debt acquiring further loans)?
- Practical steps to counter specific forms of debt could include insulation grants to diminish heating costs and cooperation with mobile phone providers to prevent debt among young people.

Mr Korczak said 40% of debt-counselling clients in Germany have public debts. This is a significant problem that requires recognition and action by the authorities concerned.

Monthly disposable income should amount to gross income minus rent, taxes, social security payments and a defined sum for living costs, plus a further €100-200 for accidental needs.

Multi-credit – or 'revolving credit' – is a particular problem in countries where people use credit cards to obtain money when they need it, like the UK and Ireland.

Advice centres could employ Do-It-Yourself experts to give people advice on insulating their homes. Since tenants in badly insulated accommodation pay a lot more for energy, this should also be a responsibility for landlords. In Germany, buildings are supposed to adhere to certain standards.

Mr Edwards added that the Dublin MABS has joined up with insulation contractors and local authorities to help people insulate their houses.

Debt and employment / responsibility of creditors

In **Ireland**, said Mr Burke, the social and family support services allow for people to retain benefits for a period after they restart work, to escape from the welfare trap. Self-employed people can get a grant of up to €1,000 per person towards business start-up costs.



In **Denmark**, people on social welfare are not expected to repay debts, but become liable once more as soon as they get a job. This is a serious disincentive, said Mr Niels Rasmussen from the Ministry of Social Affairs. The Danish Government has recently set aside 100 million DK to tackle this problem, and over the next six months will be examining the best way to go about it.

Similar work is taking place in the **Netherlands**, where a pilot study has been looking at ways to enable people to find work first and then pay off their debts over a period of time.

In **Germany** too, helping people to get back into work and stay there is seen as a priority, said Ms Adelheid Braumann from the *Wirtschaftliche Lebensverhältnisse der Familien*. After one year of money advice, up to 41% of clients are in employment, successfully reducing social costs for the government. A new report on poverty and wealth in Germany has been completed recently, following the first in 1999.

The **British** money advice system is unusual in being heavily subsidised by the credit industry, said Ms Lisa Colclough, from Citizens' Advice. But a proposal for a statutory levy on banks has not been followed up. More and more credit organisations are recognising the benefits of such support, and this does not appear to have compromised the quality of service.

The UK is undergoing a period of high economic growth, with many people now 'asset-rich but money-poor'. With 70% home ownership, most people have their equity tied up in property, and there is concern that many families might not be able to afford to keep their homes in the event of an economic downturn.

In the UK, unemployment brings no relief from debt, so there is little problem persuading people to return to work.

In **Belgium**, a number of tools for controlling credit have been agreed:

Credit organisations are obliged to consult a national credit register where loans must be recorded. Creditors' responsibilities are defined, and judges can cancel debts if credit is awarded to people who cannot afford repayments. This has helped to cut the number of such loans in Belgium. Financial institutions cannot pass over unpaid debts but must reveal them in their accounts. All these instruments come under the supervision of the Ministry of Finance, rather than the Ministry of Social Affairs.



Key Aspect 1: Relationship with creditors

Mr Felix O'Regan, Head of PR and Communications, introduced the **Irish Bankers' Federation (IBF)** (see annex 3). The 60 or so member institutions are national and international banks and building societies. The Federation does not represent moneylenders or credit unions.

Within the euro zone, Ireland is sixth out of the 12 countries in terms of private consumer credit as a proportion of GDP. However it is also the second richest country, following Luxembourg, measured by GDP per capita. Ten years ago it would have been near the bottom of the table. A significant growth in credit inevitably goes hand in hand with a high-growth society. The main question is whether this credit is turning into debt.

Lending to households comprises 43.3% of private sector credit in Ireland, making it seventh in the euro zone league of lending to domestic consumers. This means Ireland is not overly indebted, but close to average in comparison to other countries in the euro area. However, growth rates of up to 20% per year are not sustainable in the long term, and if household borrowing continues to rise as it has in the last five years, there will be problems, although nobody can predict exactly when.

Owning property is very important to people in Ireland, and 80% of personal debt relates to house buying. A further 18% covers other items such as education, holidays or cars, and 2% of borrowing is on credit cards. These figures have changed little since the early 1990s.

Within this picture is a minority of people with a problem. "We have to keep it in context and ensure the minority does not get bigger and bigger. That's why we are committed to working with MABS and have encouraged our members to do the same," said Mr O'Regan.

Experience on the ground has been very positive. Initially, IBF members might have asked "Who is MABS?" or protested that their relationship with the client is confidential. Now they recognise the important role of the MABS Money Adviser. The Federation shares some of MABS' concerns about current legal provisions on bankruptcy and the imprisonment of debtors, for example, and made representations to the Minister of Justice in 1997, 2000 and 2002. Mr O'Regan said the response has been very poor and, if anything, the Irish Government has stepped back from reform of the civil debt regime.



“We don’t want debtors to end up in prison, as in the Dickensian era, but there’s no other way of dealing with the problem at present,” he argued. The government appears ready to remove this threat only in the case of non-payment of state fines.

The IBF has worked with MABS to introduce the Pilot Debt Settlement Scheme, with 50 cases underway by the end of 2004. Under the scheme, debtors commit themselves to a long-term repayment regime. The benefits of this scheme include:

- A guaranteed minimum standard of living;
- Freezing of interest;
- Write off of residual debt and a fresh start at the end of the repayment period.

The IBF has also worked on a code of practice for housing arrears. “We want creditors to be repaid without resorting to house repossession,” explained Mr O’Regan. The current rate of repossession is low.

For the future, the IBF is aiming to complete the pilot scheme by the end of 2004, and to work with MABS to assess the outcomes and draw up a blueprint for government action. It will continue to press for law reform.

The pilot scheme has also helped to build relations with MABS offices around the country. Financial institutions in Ireland now see the Money Advisers in a very positive light. The IBF also plans to undertake a review of its industry-wide codes and initiatives.

Mr Brendan Hennessy from the **Society of Saint Vincent de Paul** briefly outlined the role of his organisation in the debt counselling system. The society is 160 years old and has some 8,500 members working at parish level around the country.

Before MABS, society members helped indebted people by negotiating with creditors on a voluntary basis. It was involved in the process of setting up MABS, and is now represented on local management boards. Since the advice service has been professionalised, the society can dedicate its resources to other purposes.

Mr Martin Bolger, a Money Adviser at Bray MABS for nine years and involved in developing the **Pilot Debt Settlement Scheme** for the last three or four, described it to the peer group (see annex 4).



Between 1999 and 2001, MABS and the IBF held talks on setting up a voluntary scheme, which finally came into force in June 2002. In April 2003, MABS around Ireland submitted applications for the programme, which closed to new participants in September 2004. Client settlement plans will be ratified by the end of 2004, and in spring 2005 the project will be evaluated.

Mr Bolger said that he would rather see the government introduce well-informed legislation based on the findings of initiatives like the pilot scheme, than ill-conceived laws that might make the situation worse, even if this meant taking more time. "There is good and bad legislation, and I hope this will be a contribution to good legislation in the future," he declared.

MABS and the IBF (including the Irish Mortgage Savers Association IMSA), share the view that many of the cases of consumer debt currently dealt with in the courts would be better resolved through a voluntary debt settlement arrangement. After intensive negotiations, the two sides agreed that this arrangement would attempt to achieve a compromise between the rights of the creditor to recover as much of the money loaned as possible, and the right of the indebted person and his/her dependents to live and work with dignity during the repayment period, with the prospect of release from residual unsecured debt at the end of this period.

The aim was to find a workable, out-of-court alternative to the Irish legal system of debt enforcement, which would apply the principles of debt settlement found in legislation in other countries and treat all parties in a fair and equitable manner.

The Debt Settlement Scheme is a voluntary arrangement between debtors and creditors, centred on a regular repayment schedule, lasting between three and five years.

- Creditors agree not to take, or continue, legal action;
- Interest and other charges are not applied to the debtor's account;
- Residual debt is written off at the end of the repayment period.

Mr Bolger said the principle of a 'fresh start' for debtors who complete the programme – which originated in the USA and is now found in many other countries, especially Scandinavia – is "hugely important".



The scheme provides for an independent third-party Conciliator to supervise and ratify agreements or intervene where creditors and Money Advisers cannot agree. So far, this has not taken place.

An annual review of each agreement gives flexibility for all parties in the event of changed circumstances.

While on the programme, debtors must agree not to dispose of any assets or make any borrowing without consulting MABS. First homes are secured, but any assets inherited during this period, for example, must be revealed. "People cannot live without credit", noted Mr Bolger, and it would be unrealistic to stop all sources of credit. However, it would be equally unwise for the debtor to go out and obtain a new credit card during the three-to-five-year payment period. The Loan Guarantee Fund has also been used to help clients, as necessary.

Applications contain a statement of means with proof of income, declaration of assets (none of the clients currently on the programme have realisable assets), lists of regular payments and unsecured debts, an allowance for personal and other expenses (to make the scheme attractive enough for people to stay on it), and a calculation of the residual income to be distributed to creditors.

Mr Bolger illustrated a sample case of a family with two children (see annex 4). The allowance for household needs is based on what the family would receive if they were on social welfare. Personal expenses are assessed case by case. With a total monthly income of €3,263.00, the family is able to repay €345.00 each month to unsecured creditors. This could amount to a total repayment over five years of some €20,670, with a write-off of further debts worth €11,830.

Analysis of the first 30 cases in the pilot scheme reveals figures very close to this sample scenario, with average per client write-off of €10,633. Repayment is always based on the realistic capacity of the debtor. The write-off is only secured if the debtor completes the whole programme, but is a very big concession on the part of the creditor and a major incentive for the client. The number of creditors taking part has now risen to over 50.

The Debt Settlement Scheme benefits debtors, creditors, and society in general. It saves on costly legal actions and allows families to make a fresh start in their lives. Full disclosure by debtors means that creditors can see they are being treated fairly, and know that they will recover as much of the debt as



possible over a realistic period. The improved health and welfare of participants brings savings for state social services, court time is free for other matters, and debtors also have an incentive to stay in work, when they might otherwise give up and be better off on welfare.

Peer group members raised **questions** about the possibility of binding in reluctant creditors, and the participation of moneylenders.

Is there a debt ceiling, and might the scheme encourage people to start borrowing again once their debt is written off? Can the annual review increase as well as reduce contributions? Would something similar to the Community Reinvestment Act, whereby companies contribute to their social environment in the USA, be feasible in Ireland?

The group members referred to comparable debt settlement schemes in Luxembourg, the Netherlands and the UK – although the British Individual Voluntary Arrangement (IVA) can put homes at risk.

Ms Wilna van den Bichelaer from the National Platform of Integrated Debt Assistance in the Netherlands said the idea of an independent Conciliator is very attractive.

In the Netherlands, the introduction of legislation brought a drop in the number of voluntary arrangements. If creditors cannot agree, a judge can now impose settlements in individual cases.

Ms Kellens-Greisch said that in Luxembourg a voluntary solution must be sought first, before applying for a judicial ruling.

Mr Saso Stikovic from the Slovenian Ministry of Labour, Family and Social Affairs, said there is no legislative framework for debt settlement in Slovenia. But since 2000, some €350 million has been invested in a new savings scheme to help people buy accommodation.

In **Hungary**, the Social Act provides for debt management counselling and cash benefits for housing and utility bills. But a measure to allow for debts to be written off was dropped.

Mr Bolger replied that he could not envisage the Debt Settlement Programme existing on a voluntary basis in the long-term, but in the meantime it is possible to demonstrate that such a scheme is workable. Ireland has a lot to learn from



models in other European countries, and he hoped this would be achieved before legislation is brought forward.

The debtor's principal private residence is sacrosanct, and cannot be put at risk by the programme. There is no debt ceiling: liabilities range from €8,000 up to €180,000. Repayment rates can go up or down after the annual review, but there has to be a "significant" change in circumstances before they are raised, or there would be a risk of removing the incentive to earn money.

Referring to moneylenders, he drew a distinction between licensed moneylenders and loan sharks. Some half a dozen moneylenders are involved in the scheme, although **Mr Edwards** pointed out that they suffer more than financial institutions since they are used to collecting on a weekly basis. A five-year repayment period seems like "light years".

The fact that the Conciliator has not had to intervene demonstrates the excellent relations between MABS and creditors. But one intransigent creditor is currently blocking some 12 cases and the Conciliator is likely to be called in.

Mr O'Regan said this example demonstrates the problems inherent in a voluntary scheme. It takes just one favoured creditor, who may have been the only one receiving regular repayments, to veto an entire settlement.

He pointed out that the Conciliator's rulings are the single binding element in the programme. A legislative framework can bring benefits, but can alternatively lead some people to do the minimum required by law. "We will have to discuss to what extent it has to be mandatory," he concluded. On the one hand there is a strong argument for self-regulation, but on the other it remains to be seen whether creditors can be persuaded to make the scheme work on a voluntary basis.

On community investment, he said a corporate social responsibility programme is already in operation across the banking sector. But he reminded the group that the average debt write-off under the settlement scheme is over €10,000 per client. "That's what I call community reinvestment," he declared.

Mr Edwards pointed out that a voluntary system would only benefit MABS clients, and not the rest of the population. A legal basis would create a better framework across the board.



Finally, **Mr Bolger** explained that people receive counselling while they are awaiting agreement on their personal settlement. If they default after they have signed the contract, MABS carries out a review to see if they are able to continue, explaining the potentially serious consequences if they do not. These can include the resumption of court proceedings, plus the fact that interest – suspended during the programme – is nonetheless accruing and will be added to debtors' accounts if they drop out.

Debt settlement is much more effective than sudden bankruptcy, because over the five-year repayment period people learn to manage their money and become more responsible. This does not mean they may never go back into debt, but it is much less likely.

Afternoon Site Visits

The peer review participants divided into three groups to visit local MABS offices in Cork, Mallow and Dungarvan, and examine three specific aspects of the MABS operation.

Cork MABS: Data collection and Dissemination

Cork MABS' slogan is: *Free, Confidential, Independent*. The visitors learned about the history of the MABS, its relation to the credit unions, the interview procedure with the client, the budget plan, data collection and dissemination and the computer system. The programme concluded with personal testimonials from Pat and Mary, who were MABS clients ten years ago.

- MABS has a fruitful cooperation with the credit union, defined as a financial cooperative for and of members, using pooled funds to make loans to improve members' economic and social conditions. The Credit Union Act had to be changed to provide for special accounts for MABS clients. The close working relationship between credit unions and MABS allows for cooperation on training and education in the wise use of money and the economic, social and cultural well-being of clients.
- The interview procedure aims to establish a *rapport*, and therefore allows time and space for clients to explain their situation and know that they are being heard. The next step is to draw up a plan, outlining measures to empower the client and end his/her dependency.



- The budget plan data supply monthly, quarterly and annual statistics on the financial situation.
- Data collection and dissemination covers information that is appropriate, relevant, selective and confidential. Until now, no data have been collected on the causes of clients' indebtedness.

MABS' activities divide into three main areas: information and direct advice, budget negotiation and advocacy, and special accounts. At present, no distinctions are made between clients and they are not means-tested. The population is changing however, with more employed people and a new category of middle-class indebted people. The Money Advisers' caseload is quite high, leaving them little flexibility to deal with new clients with urgent needs. Some 500 new clients come to Cork MABS each year. Full-time Money Advisers conduct intake interviews with approximately eight new clients per week, and there is a waiting time of some three weeks.

Pat stated that MABS had saved his life ten years ago, when he was seriously in debt due to addiction to alcohol and gambling. He did not want to tell anyone about his problems then, but was unable to solve them alone. He did not know how to tell the truth anymore, not to his wife Mary or to anyone else. Having been pushed to go to the MABS, he felt ready to admit defeat and to tell everything. If he had had to wait for two weeks before someone was able to listen to him, he would almost certainly have committed suicide in the meantime. Pat emphasised the importance of a rapid appointment and early intervention. His wife Mary agreed with him. She described the shame, embarrassment, fear and stress of living in debt. When Pat finally disclosed his problems, it took them a long while to rebuild trust in each other and in the process. But eventually it saved their marriage, their sanity and their health and restored their hope in the future and in life. Pat needed help again a few years ago, but was no longer afraid to ask for it and knew where to get it. They both felt confident that they would be able to manage. The personal and heartfelt story of Pat and Mary touched the participants and made them realise once more that people are what the work of MABS is all about.

North Cork MABS (Mallow): Stages of the Money Advice Process

The Money Advice Coordinator and the Money Adviser explained the procedure adopted by MABS.



The main target group is people on social welfare payments and low-income families. Interaction with the client is established around building a *rapport*, listening, and gathering information.

The adviser helps to identify the cause of debt (redundancy, illness, separation, addiction, etc.), looks at how to maximise income, and draws up a spending plan and budget. Income is maximised in several ways: checking to ensure the client is receiving all due benefits and allowances if he/she is in receipt of social welfare, or getting maintenance if separated, or receiving the correct tax credits if in low paid employment. The client is also shown how to obtain low cost credit.

The spending plan advises the client how to shop carefully and to plan for the payment of regular bills such as rent, electricity and telephone.

The various debts are prioritised and the Money Adviser, after obtaining the client's authority to act on his/her behalf, starts negotiations with the creditors. A MABS budget account is set up through the local credit union. The client deposits money in this account every week and the credit union then forwards this on to the MABS office for distribution to creditors. The client is also encouraged to save with the credit union for special occasions such as back to school, Christmas and holidays.

Dungarvan MABS: the *Money Advice Manual*

Dungarvan MABS serves a large rural area with a relatively small population. It has one Money Adviser. The office is in the building housing Waterford County Council and Dungarvan Town Council, so clients can go in and out without being conspicuous. There is also an outreach service for more isolated villages.

MABS National Development Officer **Mr John Lawless** said MABS' philosophy is to help people help themselves, and they are encouraged to take as much responsibility for clearing their own debts as they can.

The group looked at the ten-year-old computer software programme that currently runs the special accounts scheme. Imminent upgrading to the new software package will create a central server that will generate statistics and make centralised payments to creditors. With all creditors compiled in a single list, payments from different debtors will be collected each month and transferred in a lump sum.



Waiting time for appointments is just a few days. Women make up the majority of clients, as it is often women in the family who have to deal with the day-to-day impact of debts their husbands may have incurred. However, if there are marital problems, MABS refers clients to other services, e.g. for counselling. "There are clear boundaries, and Money Advisers are trained to recognise them," explained Mr Lawless.

The **Money Advice Manual** was launched in November 2003, and is the 'bible' on which Money Advisers base their work. Up to 1996, Money Advisers around the country networked and shared experience of specific problems, but there was little documentation of casework.

In 1997 the first voluntary Code of Practice was published. The following year, Comhairle, the external training agency, started to compile the manual and the first edition appeared in 2000. Two key and very experienced people did most of the work, basing it on wide consultation.

As MABS expands, consistency between different offices is increasingly important. The guiding principles behind the manual are:

- Respect for the client
- Credibility for MABS
- Rights-based advice
- Self help/empowerment
- Locally based response
- Client confidentiality

The manual is used as a training resource for Money Advisers. Money advice is now seen as a 'profession' so there is high demand for vacancies. Candidates come from a variety of backgrounds – both private and public – including banking, credit unions and social services. Money Advisers earn about €35,000-€45,000 pa, with wages based on local authority rates, although they are not public servants.

The information is of a generic nature and could be adapted to other national circumstances, making the manual extremely **transferable**. It is also updated regularly on the basis of experience and training requirements. The long-term aim is to publish it on the MABS website.



Day 2

The day started with brief reports by participants on their impressions of the site visits.

Visit 1: Ms Barbara Ferk (Slovenia) said her group witnessed how MABS can change people's lives. It was very touching to hear clients describe how support had helped them avoid suicide.

Mr Zanella (European stakeholders) referred to a professional team, with a client-oriented approach, making a constructive impact on society. "It's good to see that it is possible to combine professionalism and a human dimension," he added.

Mr Feltesse said the Cork MABS has 1,500 new clients a year, and is following 500 cases at a time. Each adviser carries out eight or nine interviews a week, lasting one to two hours. However the waiting time is currently too long, because when people approach MABS they are desperate. Telephone interviews could help to manage the workload.

Peer Review Manager Thea Meinema said the MABS personnel in the office stated that the service locally urgently needs funding from the DSFA for another Money Adviser.

Visit 2: Mr Rasmussen (Denmark) said MABS in Mallow is situated near the main street and people can go in and out discreetly. Money Advisers also make home visits. Half of clients are on social benefits, but some are shopkeepers and farmers. It has 300 new customers a year – mostly through self-referral but also sent by social services, doctors and financial institutions. After a one-hour introductory interview, the follow-up involves intensive interaction with clients, to formulate practical and individually tailored advice.

Ms Colclough (UK) added that 180 clients are on budget payment schemes, which entail regular payments of household bills and help people to budget on a practical level.

Visit 3: Ms Nemes (Hungary) said she found the Money Advice Manual particularly impressive. "It could be used in any country. This is one element of the Irish model which is very transferable." It meant that Money Advisers should never feel lost or isolated, and had their own professional standards. "It's a very big achievement," she concluded.

Ms Weustink (Netherlands) highlighted two important principles of MABS: respect for the client and encouraging self-help.



Mr Edwards said he was pleased to hear the Manual was so transferable. If valuable work had been carried out in one country, it did not make sense to repeat it in others.

Mr Bolger gave a specific example of a “fire brigade action”, involving a man about to be evicted by the county sheriff. He managed to negotiate, with the building society, a two-month stay of execution in order to investigate the family’s circumstances. “In MABS, you deal with emergencies first,” he explained.

Key Aspect 2: Relationship with debtors: target groups and gender balance

Ms Olive McCarthy from the Cork University Centre for Cooperative Studies, which is involved in research and training for credit unions, drew attention to the fact that 66% of MABS’ 30,000 clients are women, and 31% are lone parents. In Ireland, women run 85% of lone parent households, and are more at risk of poverty and social exclusion.

Ms Naomi Feely, Research and Information Officer from OPEN, the One Parent Exchange and Network, said the organisation has expanded over 1,000% since it was set up in 1994 and now has 74 local groups (see annex 5). OPEN’s guiding principle is self-help. It carries out training and research and disseminates information. It campaigns on issues of concern to lone parents in Ireland, participating in high-level policy development and representing them in national and European fora. In 2003 it ran a non party-political campaign encouraging lone parents to take part in elections under the slogan ‘Your Vote, Your Voice’. In 2004 it secured funding from the DSFA for a *National Plan for One-Parent Families*, to be published in 2005. And OPEN is currently carrying out research on lone parents and debt, funded by MABS and the Society of Saint Vincent de Paul.

Outlining OPEN’s participation in the MABS peer review, Ms Feely referred to one of the aims of the Peer Review Programme: to “contribute to the dialogue with stakeholders...and, where appropriate, people experiencing poverty and social exclusion.” It is important to hear the views of users, and the Network represents a major at-risk group.

Ms Feely referred to the feminisation of poverty in Ireland, with figures demonstrating that with a poverty line fixed at 60% of median income, 4% more women



are at risk than men, while over 50% of women over 65 are threatened with poverty. "In 1994, lone parent households accounted for one in every 20 households in consistent poverty. Seven years later, in 2001, one-parent families accounted for one in five of those consistently poor." (Loftus, 2004).

Several factors known to contribute to indebtedness relate to lone parent families. These include:

- separation or divorce;
- the expense of setting up an independent household;
- (permanent) low income: income support has not kept pace with childcare costs and average earnings;
- lower education and qualification levels: 23% of lone mothers have no qualifications, compared with 9% of their married counterparts;
- temptation to purchase consumer goods from advertising and media: highlighted as very significant in a number of recent reports. Children are especially vulnerable to peer group pressure to demand expensive designer-label clothing and equipment.

With regard to MABS' target group, Ms Feely suggested the service should be focusing its resources more on people who simply do not have adequate income to respond to eventualities such as sickness or the death of a relative. She gave the example of a woman who had to use up her social welfare payment to meet the cost of travel to visit her dying father. Low-income households must have access to affordable credit to meet such demands. Crisis events such as divorce are financially damaging, but people can recover. This is not the case with permanent low income, which she branded as the major cause of over-indebtedness.

Ms Feely said affordable childcare must be available to enable lone parents to go out to work. At present, earnings are swallowed up by childcare costs, which can amount to €1,000 per month per child. A solution whereby women could work part-time and also keep a proportion of their welfare payments would be ideal.

In conclusion, she called on MABS to refocus on the needs of the original target group, rather than on clients from middle-class backgrounds with credit card or mortgage debts, and for measures to offer access to credit for low income groups to be put on the agenda of the Office for Social Inclusion.



Mr Edwards pointed out that after separation, the partner who stays in the family home – most often the mother – becomes liable for debts relating to energy supply, telephone etc.

Some 20-30% of MABS clients have debts to moneylenders. People continue to use moneylenders, even at high interest, because payments are collected weekly.

Mr Bolger agreed that with rents of €1,000 a month for a single bedroom flat in Dublin, setting up two households after separation puts an enormous strain on former partners. If the mother remains in the family home, she often lacks the income to meet mortgage payments and arrears of €10,000-€20,000 can build up within a couple of years, forcing the family to sell up.

Former high-earners who run into debt may regard this as a temporary state, but their creditors do not. If creditors go for a court judgement, this destroys the individual's standing in society and opportunity for employment.

Mr Paul Quinn from EAPN called for measures to force banks to allow anyone to open a bank account and gain access to credit. They should not be able to pick and choose their customers.

But **Mr Burke** suggested many Irish people are still uncomfortable in banks and prefer to cash social welfare cheques at the Post Office. He highlighted the problem of getting back into employment, quoting €30,000 to 35,000 as the estimated pay required for a single / lone parent to get back into work from welfare. This is a particular problem for young single parents who may have had no work experience.

Mr Chris Burston from the UK Poverty and Social Exclusion team suggested it would be interesting to conduct a peer review on the topic of getting lone parents back into the labour market. The UK has set a target of 70% of lone parents in work by 2008.

Mr Rasmussen also spoke on the difficulties of lone parents getting work. In Denmark, day care is heavily subsidised, and lone parents families pay only about 5% of the cost. One year's parental leave also makes it easier to combine work and family. But this is not a magic solution, as it is very expensive.

Mr Zanella said people have a fundamental right to live in dignity, with access to housing, energy, and services of general interest. In Belgium, it is illegal to cut essential services to people in arrears, and a judge must authorise withdrawal of water supply.



Everybody has the right to a bank account because some services are not accessible otherwise, and many employers pay salaries only by bank transfer.

Ms Braumann said the fight against poverty involves wide family and social policy issues, and cannot be left up to debt counselling agencies. In Germany, extra social welfare payments are available to families to avoid eviction. The legal minimum income which cannot be withheld amounts to €930 per month for a single person and €1,800 for a family with two children.

There is an ongoing debate about access to banking, with financial institutions promising to enter into a voluntary agreement to avoid a legal requirement, and a lack of data on how many people are still excluded.

Childcare costs less in Germany (€200-€300 per month). Lone parents have the right to a kindergarten place for all three-to-six year olds, and there is a move to extend this below three years.

Mr Marius Stark (AG-SBV) warned that the existing Consumer Credit Directive proposal appears to open markets to lenders without adequate safeguards for consumers, and urged cooperation between agencies in Germany, Ireland and other Member States to bring amendments.

Mr Stikovic described the latest measures in Slovenia to reduce the poverty risk for lone parents. These include new benefits targeted at lone parents on low incomes, including a single parent family supplement, higher child benefits and subsidies for school meals, rent, etc. The rent subsidy has been separated from social welfare payments in order to avoid creating a benefit trap.

Mr Eamonn Moran, Assistant Principal of the Irish Office for Social Inclusion, said lone parents' problems cover a multiplicity of issues and require a multi-faceted response. These issues are identified in the NAP/Incl which also indicates what efforts are being made to deal with them. On the issue of social welfare payment rates recent research has shown that to bring Irish rates up to the equivalent of Danish rates would require an 11 % increase in personal taxation rates. A Government could not hope to be elected on such a proposal.

Mr Edwards concluded that MABS should be proactive in seeking out the target group, and the level of service it provides should be commensurate with the abilities of the client. Families on good double incomes have the skills to help themselves. However, MABS should not turn anyone away, and a one-to-



one meeting is the most effective way of counselling. Small business people come because there is nowhere else to go. In the case of self-employed, the workplace may also be the family home and debt can also impact on the family.

Mr Edwards said OPEN and MABS have a lot to learn from one another, and the needs of lone parents should be incorporated into training. However, he was not in favour of different services for different interest groups. At present, Travellers are the only community singled out for a special approach. MABS should be open to everyone with help offered on a case-by-case basis.

Relevance for and transferability to the peer countries

UK

Ms Colclough said she found MABS very impressive: notably having central government funding for a coordinated network that can be built on. The British system is fragmented and locally funded, making it hard to ensure consistency. The budget management service is an area of potential development in the UK, and distributing money to creditors from a single credit union payment is also attractive.

The obstacle to transferability is the absence of a credit union-style network in the UK. British credit unions cannot offer loans until clients become regular savers. The movement is not just for people excluded from credit access, and so it would have to look at expanding its services.

Hungary

Ms Nemes focused on the issue of centralisation versus decentralisation. In Hungary, the 3,200 local authorities operate as "little kingdoms". In 2003, €200 million of central funding was not allocated to social measures as intended, and the government is now looking at incentives to promote cooperation. The Social Act supports debt management services, which can only help with housing loans and public utility arrears. She said the peer review had clearly shown the need to pursue the efforts of the last four years to extend these facilities.

Since 1 January 2003, local authorities have been authorised to run debt-counselling services, but it is not obligatory. Ms Nemes said this should be compulsory, so that everyone in need has access to money advice.



Germany

Ms Braumann said it would not be easy to introduce the Irish system because of Germany's federal structure. However, she hoped to take back a proposal for improved data collection in order to evaluate the impact of debt counselling better, in the way MABS does.

She also wanted to see better public relations so as to convince the public that debt counselling is useful and works well. "I intend to convince the Ministry to organise a campaign in partnership with banks and trade and telecommunications associations," she declared. Finally, Germany could benefit from copying the Money Advice Manual and adapting it to local circumstances.

Netherlands

Ms Weustink liked MABS' "people-oriented style", its ongoing attention to quality standards and its national coverage. The peer review offered new incentives to strengthen these aspects in the decentralised Dutch system.

She agreed that more publicity is needed to demonstrate that debt counselling works. It must be accessible to all, but focused in particular on low-income groups.

The Netherlands could learn a lot from the Irish example, she concluded, and especially from the openness and commitment of the people involved. She hoped that more information would be available in future on the contribution of debt counselling to reintegration.

Ms van den Bichelaer said the Netherlands needs to focus on homeless people who are not able to open bank accounts, on debt prevention among the young, and on the expanding population of older people who may have growing debt problems in the future.

Slovenia

Mr Stikovic said Slovenia has no existing network of debt counselling agencies, and he was enthusiastic about implementing a similar system to MABS, through the network of Centres for Social Work (CSW), located near customers. However, it would require strong political will because of the cost involved, which has risen steeply in Ireland over the years. It also requires cooperation between a range of different bodies, including the Ministry of Social Affairs and the Ministry of Finance, in order to authorise settlement of public debts, as well as municipalities and consumer protection agencies.

The Centres for Social Work would be appropriate since people on low incomes know them already. However, debt counsellors need additional expertise in financial issues, and it would therefore be necessary to introduce a new job profile.



In order to make such a system successful, it would also be important to put a lot of effort into promotion. He suggested the best plan would be to launch a pilot project in an urban area like the capital, Ljubljana.

Luxembourg

Mr Frédéric Berger from CEPS/Instead said there is no real possibility of transferring MABS to Luxembourg, but the country could learn lessons from the Irish example especially with regard to evaluation, since there is no systematic collection of statistical data on clients.

Denmark

Mr Rasmussen was interested in several elements of MABS, including efforts to reach target groups, the partnership model, and funding methods.

The Danish government has recently decided to invest in helping people out of debt and back into work, and over the six months it will be formulating proposals for ways to do this. Debt counselling along MABS lines will be a central aspect and should accompany any scheme for debt relief. Therefore, the MABS example comes at an appropriate time, and he undertook to forward proposals to the Minister responsible.

EAPN

Mr Quinn said the network would put together a report on MABS so as to inform members throughout Europe about opportunities for transferability.

Réseau Européen Trans-régional pour l'Inclusion Sociale

Mr Zanella felt MABS had weaknesses in being too creditor-oriented, and lacking a legal framework to reassure people they will get help. Debtors should never be jailed, he emphasised.

However, there are many positive points, including national coordination and local diversity, strong emphasis on social cohesion, and a model suited to rural societies while also applicable in large cities. The richness of human contact, from an early stage, is really important.

He was interested in the role of credit unions and savings banks. In Spain and Italy the *reseau* is working with large financial institutions like the Banca Monte dei Paschi in Siena, to develop new instruments to put social responsibility back into banking.



Mr Burke confirmed that the Money Advice Manual is regarded as an important resource in Ireland. "We will make it available to everybody," he confirmed. Regarding a legal framework for MABS he said a draft bill had been prepared but was under review. "If you are putting something into legislation, you need to get it right first time," he explained.

"Social cohesion is the essence of what the service is about in Ireland." People are encouraged to use MABS because it is not a state-run, 'big brother' system.

Homelessness, and debt among young people are both big issues. Reintegration into employment is also crucial, as the Irish government regards this as the best way out of poverty.

Mr Edwards stressed the partnership approach. No one was coerced to work with MABS, but organisations that walked away slowly came back. Cooperation with the credit union movement is now virtually 100%.

Most older people in Ireland always pay their bills, but for younger ones, MABS has published a young person's guide to money and a teacher's manual, which could also be transferable to other countries. "Sharing of resources is important. People should not be jealous about something they have developed on behalf of people with special needs," he concluded.

National Action Plans

Mr Zanella stressed the importance of including measures to counter over-indebtedness in all NAPs/Incl.

Mr Edwards commented that when he looked eagerly for initiatives to tackle debt in the first round of NAPs/Incl, he found some countries made no mention at all. The ministries that drew up the plans seemed to be unaware that debt is a factor in social exclusion.

Mr Burston said the UK's 2003 NAP/Incl had a lot on debt. However the British credit industry is very powerful and tries to drive competitiveness legislation as far as it can. For example, the British government has been taken to the European Courts over state aid to credit unions.

Credit unions and savings banks

Mr Korczak wondered whether other countries have similar organisations to credit unions under different names. In **Germany**, there is a savings bank net-



work, but EU policy is currently destroying it, which he believed is not a useful approach to handling indebtedness.

In **Denmark**, most of the former savings banks have turned commercial. But in some cities, new savings banks are emerging dedicated to ecological or social principles. This is a growing trend.

In new Member States like Hungary and Slovenia, banks are overwhelmingly commercial, with a few examples of associations that permit easier access to credit.

Mr Zanella gave several examples of European banks that are now contributing to social objectives, especially in Italy, where laws on banking foundations oblige them to dedicate 15% of profits to social causes.

In the **Netherlands**, municipal credit banks carry out debt rescheduling and give budget advice, but there is a lack of integration between social and financial actions.

France has savings banks and cooperative banks, but they operate much like their commercial counterparts.

Conclusions and general assessment

Mr Burke felt the peer review had demonstrated that Ireland's Money Advice and Budgeting Service is good, but could be better. Over-indebtedness must now be addressed at EU level. Reintegration into employment is an important issue, and with the Ministry about to draw up a strategy statement this question arises at an appropriate time.

Mr Edwards said the meeting demonstrated to him the need to return to MABS' core target group. Better-off people with the resources to deal with their problems should be dealt with in a different way. "We should be targeting people who are socially excluded," he concluded.

Ireland benefits especially from the countrywide credit union movement, which has grown over the last 50 years to involve some 60% of the population.

Defining over-indebtedness

A definition proposed to the meeting, but not discussed, was:



“A persistent gap between income and expenditure which prevents access to other forms of credit which are available at reasonable cost.”

Mr Korczak concluded by summarising some of the main questions raised:

- What would happen if no money advice services existed? Society would have many more problems. Even countries not present at the peer review could learn how much can be achieved from a relatively modest investment that can actually save lives.
- Comparable figures are urgently needed, not only to reveal where indebted people are, but also to help understand the scope of the problem throughout Europe. This means constructing databases enabling each country to submit statistics to the EU.
- Over-indebtedness must be included in the NAPs/Incl.
- Debt counselling services exist in some countries but not others. Total transferability tends to depend on whether established programmes are already in existence, but there are several elements of MABS that could be adopted even here. These include the Money Advice Manual, and common professional standards for Money Advisers.
- Cooperation with credit unions or savings banks is important. Would it be possible to set up a socially oriented, transnational credit initiative?
- Accessibility: everyone who needs help should receive it. Small businesses cannot be excluded, because often they are family enterprises.
- Promoting debt prevention means bringing the powerful credit industry on board. The German credit industry alone spends some €450 million on advertising. It could, for example, donate 0.1% of turnover to debt counselling.
- Would it be possible to develop links between Member States, through transnational or bilateral coordination, to develop a standard system of debt counselling?

Mr Moran reminded the peer review that in June 2005 Member States must submit implementation reports on their NAPs/Incl and that the old EU-15 must also report on any new strategies for the period 2005-2006. All Member States will be required in 2006 to submit new NAPs/Incl covering the period 2006-2009. These could be opportunities for placing a higher emphasis on over-indebtedness.

Mr Feltesse outlined the key findings of the meeting:



1. The first requirement is a good definition of over-indebtedness, to enable Member States to reach their targets and the EU to compile common data.
2. Debt management services must be universal. The right to such support links up with notions of human dignity common to the EU Charter of Fundamental Rights and the new Constitution.
3. The bottom-up approach, which is a characteristic of the EU's Open Method of Coordination, is epitomised by initiatives such as the Money Advice Manual. Services must be tailored to the daily reality of people's lives.
4. MABS grew from voluntary initiatives, but developed into a vital national resource, and as such needs to be integrated into the overall network of state services.
5. Targeting: services need the capacity to be able to reach specific groups of clients while at the same time offering a personal service to each individual. This tailored approach builds customer confidence.
6. The need for expert training and a specific job profile, combining social and financial skills, and breaking down the barriers between these two separate worlds.
7. Funding: a financial contribution to the setting up and running of debt management services could come from the credit industry, since this is a cost-effective system of recovering debts.
8. Debt management needs to be integrated into key services for promoting social inclusion.

Institutional and legal framework

Mr. Feltesse suggested that each Member State must find its own legislative framework for promoting money advice services at national level, plus common standards to apply at local level. One of the strengths of MABS is its strong links with local communities.

Debt settlement schemes must be implemented gradually. But it is unrealistic to expect people to live all their lives under the shadow of debt. Support is required to enable them to reintegrate into work and society. How should personal bankruptcy procedures be adjusted?

Over-indebtedness is clearly linked to persistent poverty. In this regard, the EU can only help Member States to take account of the different experiences in other countries.

The **partnership** model is key, requiring cooperation between professional and voluntary organisations and other bodies such as housing and health services.



Mainstreaming is another vital consideration. The EU Social Inclusion Strategy stresses the need to address the problems of the homeless, young people and ethnic minorities. "We have to take account of the problem of over-indebtedness among all these groups," noted Mr Feltesse, "not in order to separate them from others, but to develop a better capacity to tackle their special needs."

In this regard, decision-makers at both European and national level could look at ways of "debt-proofing" policies on, for example, housing, utilities, financial services and employment, so as to take account of the impact of debt within these areas.

Further priorities concern reintegration and making work pay; access to financial services; and EU-wide rules to ensure families are not cut off from essential utilities if they cannot meet bills.

Future events:

Mr Feltesse said the issue of over-indebtedness will feature in assessment of NAPs/Incl 2003-2005 and the preparation process for new plans from 2006. The European Commission was about to issue a new call for proposals for transnational projects, and it would be interesting to support initiatives developing cooperation or 'twinning' between Member States and/or organisations on this topic.

Member States should also take account of the findings of the Peer Review Programme, and Mr Feltesse announced two more meetings, in Berlin in December 2004, and Italy in 2005.

He also promised to take back the group's views on the draft Consumer Credit Directive to the Commission.

Mr Burke said the Irish government could draw much from the experience of the peer review, and was very pleased to share MABS' resources. He expressed interest in the idea of setting up a working group at EU level to work on a definition of over-indebtedness.

Mr Burke concluded that over-indebtedness has no boundaries in society, and for Ireland in particular could be an even greater problem in the future if growth rates fall.

He highlighted the main principles for immediate action:



- Transfer of good practice
- Focusing on over-indebtedness as an important social exclusion issue
- Placing the client at the centre of the process and recognise partnership as vital
- Taking a practical approach to policy
- Prioritising integration into employment – making work pay
- A bottom-up approach, which worked for MABS
- Skills training for Money Advisers
- Access to credit and banking services
- Mainstreaming over-indebtedness and including it in NAPs/Incl

“Financial inclusion is part of social inclusion,” he concluded.

Annexes:

- Annex 1 Presentation Liam Edwards
- Annex 2 Presentation Dieter Korczak
- Annex 3 Presentation Felix O ´Regan
- Annex 4 Presentation Martin Bolger
- Annex 5 Presentation Naomi Feely



Money Advice and Budgeting Service

Liam Edwards

National Co-Ordinator



Money Advice and Budgeting Service

- 1992 5 pilots 330,000 euro
- 2003 65 centres 11.4 million euro

- Country wide service
- MABS Unit in DSFA
- National Co-ordinator





Aim

- To help people with debt problems
- Rent / mortgage
- Public utilities
- Financial institutions
- Moneylenders
- Personal debts
- All of the above





Objectives Service

- Independent, free, confidential MABS
- Knowledge and skills
- Identify sources of credit
- Partnership
- Involvement of target group
- Access regardless of location
- Highlight changes in policy and practice





Policy Initiatives

- Use of budget meters
- TV licences
- Local authority rents
- MABS/CWO protocol
- MABS/IBF Debt Settlement Pilot





Customers

- 2001 9,000 New customers
- 2002 12,000
- 2003 16,000
- 70% Social Welfare
- 66% Female
- 31% Lone Parents
- 1,700 per mth www.mabs.ie





Objectives Customer

- Regain control of their finances
- Gain access to affordable credit
- Introduced to credit union
- Save and borrow small amounts
- Prevents further debt problems





Target Group

- Low income
- Welfare
- Low capacity
- Limited access to financial services
- Limited access to credit
- Borrowing from moneylenders
- Mail order



CAUSES OF DEBT

- Economic/Structural Low income, no access to low cost credit

- Incidental /
Unforeseeable Bereavement, loss of employment,
 marital breakdown, accident, maternity

- Social Peer pressure, Lack of education, lack
 of access to information Inability to deal with,
 social problems, complexity of the system

- Behavioural over- commitment, budgeting, addictions.



Effects of Over-indebtedness

- Psychological anxiety, bitterness,
blame, conflict, denial,
guilt,
hopelessness,
shame, stress, stigma

- Physical blood disorders, pills,
illness, eczema,
increased drinking,
migraines, weight loss





Management of MABS

- Companies limited by guarantee
- Statutory and Voluntary bodies
- Social Welfare Services
- Credit Union
- Society of Saint Vincent de Paul
- Community Welfare Service
- Local Authorities
- Public Utilities



Value of MABS

- Person under pressure will settle at any cost
- Unrealistic agreements
- Crash diet - unsustainable
- First opportunity to look at all debts
- Prepare a budget plan
- Realistic, reasonable, sustainable
- Priorities



Links with Credit Unions

- Introduced to credit union by adviser
- Applies for membership
- Signs authority - information to adviser
- Pays regularly in respect of debts
- Creditors paid monthly
- Shares account - future credit
- Loan guarantee fund - crisis loans





Mabs

Budgeting tools

- Household Budgeting Scheme
- Credit union special account
- Billpay
- Mabslink





National Advisory Committee

- Chair DSFA
- Stakeholders represented
- Advise the Minister on Social Policy and future direction of the service
- Interdepartmental issues
- Community Education
- Access to Financial Services





MABS NDL

- National Development Company
- Stakeholders on Board of Directors
- To support the Development of MABS
- National Development Officers 1 Sept 2004
- 3 Casework Technical Support
- 1 Community Education
- 1 Social/Policy/ Communication





Staff of MABS

- 150 Money Advisers
- 78 Administrators
- 5 National Development Officers





MABSIS

- ❑ Software application development
- ❑ Database
- ❑ Special Accounts
- ❑ Central payments system
- ❑ Statistics





Challenges

- Target Group
- Quality Service
- Community Education
- Statutory basis
- Analyse statistical information
- Performance indicators



Peer Review in the Field of Social Inclusion Policies

Ireland 2004

Dieter Korczak

Thematic Expert

The Money Advice and Budgeting Service in an European Context

Main Issues & Questions

Meeting in Cork, November 18th - 19th, 2004

Dimensions of Differences in the Organization of Money Advice and Debt Counselling in Europe

Centralized versus De-Centralized

Clear structured versus complex, diverse system

Developed, established versus building a network

Amicable versus statutory advice process

Open or limited access for people with debt problems

No governmental versus total governmental funding

Countries with small population versus high population

Liberal versus social understanding of the problem

Definition of Overindebtedness

No common European Official or Scientific Definition

Examples:

Imbalance between income and expenditure which occurs when expenditure exceeds income and the shortfall cannot be made up (Ireland)

The borrower is likely to face growing (and multiple) debts which s/he finds increasingly difficult to discharge, leading ultimately to bankruptcy (U.K.)

Overindebtedness is given when the monthly discharge of debts exceeds 30% of the available household net income (France)

Overindebtedness is the failure to meet payment obligations, leading to the economic and psychosocial destabilisation of debtors (Germany)

Consensus Definition:

“Subjective overindebtedness is given when a person finds him- or herself emotionally and financially unable to pay back his or her debts“

“Relative overindebtedness is given when despite reduction of the lifestyle the remaining income after deduction of the living costs is insufficient to meet financial commitments as they become due“

“Absolute overindebtedness (insolvency) is given when the debtor`s income and assets can no longer cover the existing commitments“

Estimation of the Number of Overindebted Households

Country	Year	Households	
Ireland	1997	12%	156 thsd
Germany	2002	8%	3.1 mio
The Netherlands	1998	7.6%	500 thsd
United Kingdom	2002	7%	1.75 mio
Norway	1996	5.5%	90 thsd
Hungary	2004	5%	500 thsd
Finland	1994	3.7%	85 thsd
Austria	1995	2.7%	80 thsd
Belgium	2000	2.5%	107 thsd
France	2000	2%	494 thsd
Sweden	1995	1.2%	40 thsd
Missing data: Denmark, Greece, Italy, Luxembourg, Portugal, Spain, Estland, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia, Czech Republic, Cyprus			

Question: How can we measure the number of overindebted households?

Centralized vs. De-centralized Structure

Centralized: Ireland, Luxembourg

De-centralized: U.K., Germany, The Netherlands, Austria, Hungary

Questions:

- *How does the regional MABS deal with individual cases?
Is tailored work possible here?*
- *Can anybody become a client or is there an income threshold?*
- *How does MABS handle debt counselling of people with very low incomes, especially people who are in reality unable to repay their debts?*

Financing of the Services

Ireland:	100% government (11 mio. Euro)
Luxembourg:	100% government
Hungary:	90% government
Finland:	82% government (6.9 mio Euro)
Austria:	73% local government
U.K.:	voluntary sector
The Netherlands:	local municipalities
Germany:	states, municipalities, welfare organizations

Questions:

- What alternatives could be considered in addition to the public financing of debtor collection?*
- Should debtor and bankruptcy consultation which is financed by public funds be offered for free?*

Legislation

Debt settlement/ combat overindebtedness legislation in:

Scandinavia, Benelux countries, U.K., Germany, Austria, France

But not in Ireland, Italy, Greece, Spain, Portugal

Questions:

- *Which effects have the bankruptcy laws?*
- *Does the amicable debt solving process loses importance?*
- *Is there any legislative background for the Irish debt management?*
- *What initiatives has MABS instigated to gain influence on legislation and practice in the field?*

Cooperation

Ireland: with credit unions, health officers, creditors, St. Vincent de Paul, local authorities and others

The Netherlands: municipal banks, LPISHV, Divosa, MO Group, VNG

Germany: no systematic approach, if ever only local agreements with Sparkassen or Raiffeisenbanks

Questions:

- How far should cooperation go?*
- Forms of cooperation between MABS and organisations dealing with the reintegration of unemployed people?*
- Is there an uniform agreement or has each MABS-branch to find its own way to involve providers and/or banks?*

Financial Support

Ireland: Loan Guarantee Scheme

Luxembourg: Overindebtedness stabilization fund

Germany: Single foundations

Training and Development Service

Ireland: Training and Community Education Service, Comhairle editing the 'Good Practice Manual for Money Advisers'

The Netherlands: NIBUD

Germany: Different, competing training and post-education centres

Hungary: Different centres but common curriculum

Questions:

- Should there be a common agreed job description for debt counsellors?*
- Has MABS developed special information material targeted at socially marginalized people?*

Data Processing and Statistics

- Ireland: Quarterly report by a common statistics format
- Germany: Collection of agency and client statistics in process
(by the Federal Office for Statistics)

Questions:

- *What standard data should be collected in debtor consultation centres?*
- *To what extent does this insight into the various target groups lead to a specific approach?*

Prevention of Debt

MABS: MABS National Development Limited

Germany: Collection of prevention strategies by the AG-SBV;
annual action day for debt prevention

Questions:

- *What priority should be given to the prevention of debt?*
- *How could the business world be tied into the prevention of debt?*
- *Are there special approaches for the prevention of the borrowing behaviour of the young?*
- *Saving should be more encouraged and rewarded. Does MABS pay attention to this?*



IRISH BANKERS
FEDERATION

**Creditor/Debtor Relationship:
IBF Working with MABS**

**Felix O'Regan
Peer Review Group, Cork
18 November 2004**



IRISH BANKERS
FEDERATION

Irish Bankers Federation (IBF)

- **Representative body for financial services in Ireland**
- **Purpose is to foster the development of stable, dynamic and innovative financial services industry that contributes to country's economic and social well being**
- **Some 60 member institutions, incl.**
 - High street banks
 - Mortgage lenders
 - International banks (IFSC)



IRISH BANKERS
FEDERATION

Issue of Consumer Credit/Debt (1)

Table 1: Private Sector Credit (PSC)/GDP Ranking for the Euro Area^a

Country	PSC/GDP (%)	Rank
Netherlands	154.8	1
Portugal	146.2	2
Spain	119.2	3
Germany	117.3	4
Luxembourg	114.8	5
Ireland (excl. IFSC)	105.7	6
Austria	104.7	7
France	90.8	8
Italy	85.3	9
Belgium	76.7	10
Greece	71.9	11
Finland	63.9	12

^a On the basis of December 2002 PSC and 2003 GDP estimates from Eurostat.

Source: CBFSAI, ECB, IFS and Eurostat



IRISH BANKERS
FEDERATION

Issue of Consumer Credit/Debt (2)

Table 2: Euro Area GDP per Capita, 2002 (€000s)

Country	GDP/Capita	Rank
Luxembourg	50.2	1
Ireland	33.1	2
Netherlands	27.5	3
Austria	27.1	4
Finland	26.9	5
Germany	25.6	6
Belgium	25.2	7
France	24.8	8
Italy	21.7	9
Spain	17.2	10
Greece	12.9	11
Portugal	12.5	12

Source: Eurostat and ECB Monthly Bulletin



IRISH BANKERS
FEDERATION

Issue of Consumer Credit/Debt (3)

**Table 3: Lending to Households as % of Private Sector Credit (PSC) –
Euro Area^a**

Country	% of PSC	Rank
Finland	57.4	1
Germany	57.1	2
Netherlands	48.1	3
Spain	46.1	4
Belgium	44.7	5
Portugal	43.6	6
Ireland	43.3	7
France	41.4	8
Luxembourg	37.7	9
Greece	36.2	10
Austria	28.4	11
Italy	27.9	12

^a In the data used in this Table, households are defined in accordance with ESA 95. This definition is broader than the CBFSAI personal category and includes loans to self-employed and partnerships and to non-profit institutions serving households.

Source: Internal CBFSAI data for December 2003.



IRISH BANKERS
FEDERATION

The Issue of Consumer Credit/Debt (4)

- **Central Bank analysis concludes:**
 - Ireland is not untypical for its PSC/GDP ratio or the proportion of credit going to the household sector
 - In becoming one of EU's highest income countries, surprising if our PSC/GDP had not risen also
 - Rapid growth in household debt common in most developed countries over past two decades – most for housing
 - Keep going at this rate – could be trouble

Source: John Kelly, Dept Head of Statistics, Central Bank, Spring 2004



IRISH BANKERS
FEDERATION

The Issue of Consumer Credit/Debt (5)

- **Other Central Bank analysis shows:**
 - Total personal debt here breaks down as between
 - 80% housing related
 - 18% non-housing related
 - 2% credit card
 - These shares unchanged since early 1990's

Source: Dr Alan Kearns, Economist, Central Bank, Jan 2004



IRISH BANKERS
FEDERATION

The Challenge of Law Reform

- **Debt a reality for a minority of consumers**
 - Needs to be effectively addressed
- **IBF works with MABS**
 - encourages member institutions to do so
- **IBF supports overhaul of debt enforcement system**
- **IBF pressing for:**
 - A workable alternative to imprisonment for non-payment of civil debt and fines
 - An attachment of earnings system to facilitate non-payment of debt/fines



IRISH BANKERS
FEDERATION

Record of IBF Representations

- **1997: IBF submission to Minister for Justice**
 - Less complex bankruptcy procedure
 - Quasi judicial system for dealing with debt
 - Attachment of earnings
- **2000: IBF letter to Minister for Justice**
 - In support of report by West and North West MABS
- **2002: IBF letter to Minister for Justice**
 - Re. report on debtor imprisonment by Nexus Research



IRISH BANKERS
FEDERATION

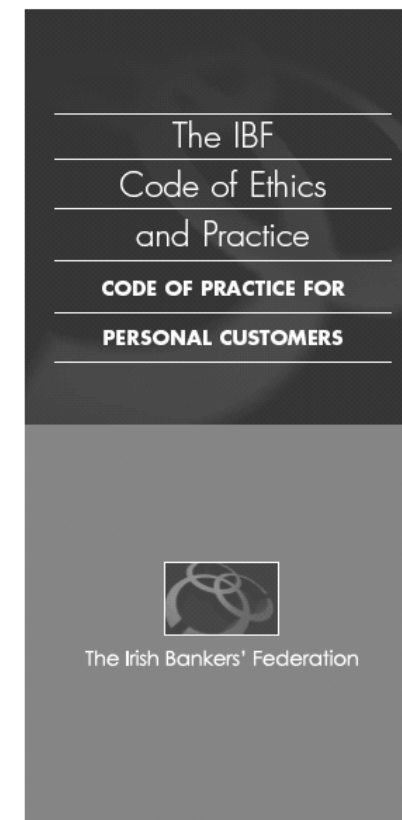
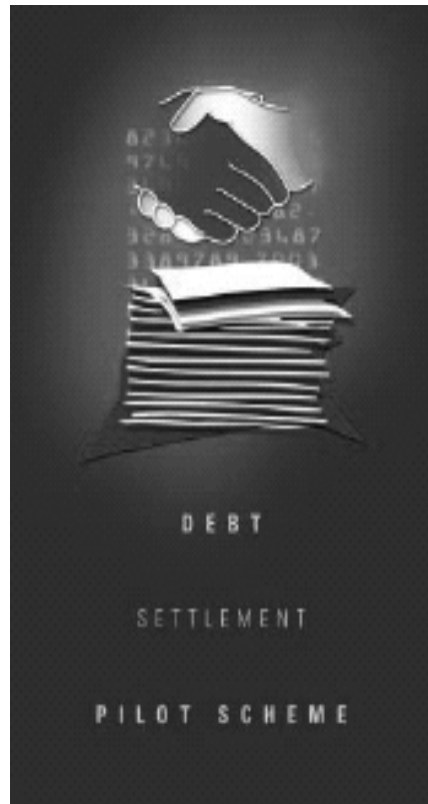
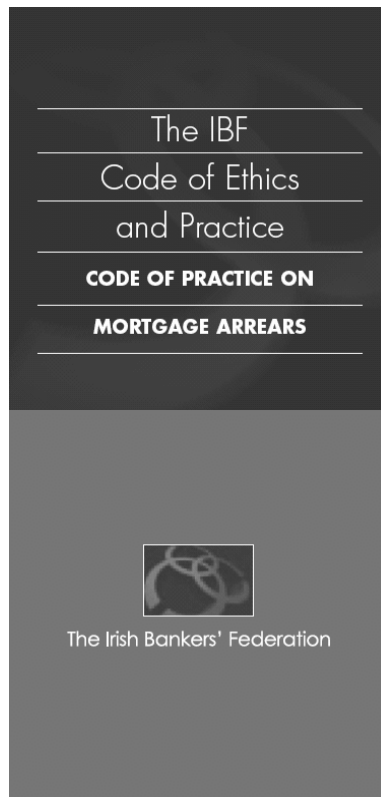
Record of IBF Actions

- **Very limited response from Government**
- **Civil debt and fines → fines only**
- **Representations to continue**
- **Support for FLAC's "An End Based on Means?"**
- **Establishment with MABS of the Debt Settlement Pilot Scheme**
 - Creditors working with MABS Money Advisers
 - Features incl. finite repayment programme, income retention, freezing/reduction of interest, write-off of residual debt, fresh start
 - 50 plus cases by end 2004
- **IBF Code of Practice on Mortgage Arrears**



IRISH BANKERS
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Record of IBF Actions





IRISH BANKERS
FEDERATION

Future IBF Actions

- **Successfully conclude operation of the Debt Settlement Pilot Scheme – end-2004**
- **Assess outcomes with MABS:**
 - **identify lessons/pointers for creditors and debtors**
 - **formulate ‘blueprint’ for future, incl. role of State**
- **Continue to press for law reform**
- **Build on the working relationship with MABS**
- **Review our industry-wide Codes and initiatives**



IRISH BANKERS
FEDERATION

**Creditor/Debtor Relationship:
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Peer Review Group, Cork
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Lone-parents and Debt

Naomi Feely

Research and Information Officer

OPEN – Representing Lone Parent
Groups in Ireland



Outline of presentation

- Overview of OPEN
- Context of OPEN's participation in MABS peer review process
- Lone parents, poverty and debt in Ireland
- Current debate around indebtedness



Overview of OPEN 1

- National network of lone parent groups
- Established in 1994 by 8 lone parent groups
- Main activities –
 - i. Provision of information and research on issues related to lone parenthood
 - ii. Training for member groups
 - iii. Campaigning on issues of concern for lone parents
 - iv. Participation in the social partnership forum



Overview of OPEN 2

- Recent research:
 - “Living on the Book” – A policy analysis of the One-Parent Family Payment (OFP)
 - “One Size Fits All?” – Irish Governments’ failed approach to one-parent families 1994-2004
- Current research:
 - Funding for the National Development Plan for Lone Parents
 - Lone parents and debt – research funded by MABS and the SVP



Context of OPEN's participation in MABS peer review

- Aim of peer review
 - *“assess the effectiveness of key policies or institutions”*
 - *“contribute to the dialogue with stakeholders....and where appropriate, people experiencing poverty and social exclusion”*
- OPEN represents a key MABS user group and is an active member of the Community and Voluntary sector

Table 1: At risk of income poverty for all households

Poverty line	Percentage at risk
50% of median income	12.9%
60% of median income	21.9%
70% of median income	29.3%



Table 2: At risk of poverty: by gender

Gender	60% median income line
All women	19.4%
All men	23.2%
Women over 65 years	36.1%
Men over 65 years	50.2%



Lone parents and dependence on social welfare

- *“In 1994, lone parent households accounted for 1 in every 20 households in consistent poverty, seven years later, in 2001 one-parent families accounted for 1 in 5 of those consistently poor”* (Loftus, 2004: 43).
- 80, 926 recipients of OFP in March 2004
- In 2001, 39.7% of those in receipt of OFP were below the 60% on median income poverty line
- Out of the 70% of MABS clients who were in receipt of SW, 31% were lone parents



Situations leading to indebtedness relevant to lone parent families

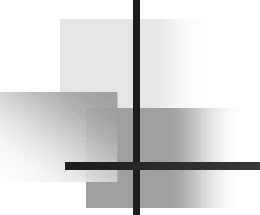
1. Separation or divorce
2. Starting an independent households
3. (Permanent) low income
4. Lower education and qualification levels
5. Temptation by the advertising, media and consumer industry

These issues highlighted by recent research undertaken by OPEN and research by the Vincentian Partnership for Social Justice





Current debate around indebtedness

- MABS targets families with debt and money lending problems, especially those on SW and low incomes
- Current media focus versus those in debt due to a lack of adequate income

- 
-
- *“Last year my father died, that was an unexpected thing, lucky I had my money the day he died, it was a Thursday. Because if I didn’t I don’t know how I would have got to [his home]. But I was broke then for the week because it costs you a fortune to go. If he’d died on a Wednesday I wouldn’t have been able to go, I would have to wait ‘til the next day”*

Conclusion

- Given the current debate around poverty and indebtedness it is imperative that MABS:
 -  Focuses on the needs of the original target group and continue to provide this group with the services they need
 -  Puts the need for access to credit for low-income groups on the agenda of the Office for Social Inclusion

MABS / IRISH BANKERS' FEDERATION



PILOT DEBT SETTLEMENT SCHEME

BACKGROUND AND HISTORY

- 1999 – 2001 MABS – IBF members engage in talks on a voluntary Debt Settlement Scheme.
- End 2001 Agreement reached on a Pilot Scheme to operate in four MABS areas in the East Region.
- MABS organise information meetings on the Scheme with Local Authorities, Utilities, Credit Unions, Money lending Companies. IBF informs own members, IMSA, Finance Houses about Scheme.
- June 2002 Scheme became operational.

- September 2004 Scheme closed to new applications. Ongoing cases to be ratified by end of December 2004.
- March 2005 Interim Report to be presented by the Conciliator.
- April 2005 Review body will discuss Evaluation of the Scheme.

Shared views of MABS (Supported by FLAC) and IBF Members (incorporating the IMSA)

Both MABS and IBF agree that many cases of multiple consumer credit debt that currently go to court would be better dealt with in an out of court voluntary Debt Settlement arrangement.

Such an arrangement would attempt to achieve a compromise between the rights of the creditor to recover as much as is possible of the money loaned and the right of the indebted person and his/her dependents to live and work with dignity during the repayment period, with the prospect of release from residual unsecured debt at the end of this period.

Aims of our Talks

To find a workable out of court alternative to the Irish Legal system of debt enforcement.

This alternative would deal with consumer credit debts that would ordinarily end up in court.

It would incorporate the principles of Debt Settlement as found in Legislation in other countries.

It would be adapted to the Irish situation.

It would be practical and realistic

It would treat all parties in a fair and equitable manner.

Main features of the Debt Settlement Scheme

- It is a voluntary arrangement between Debtor and Creditors, lasting between 3 to 5 years.
- Applications to the scheme contain a statement of Means, incorporating the following:
 - ❖ Proof of Net weekly or monthly income.
 - ❖ Declaration of assets, if any.
 - ❖ list of priority payments, Mortgage, Rent, Court orders, Etc.
 - ❖ Allowances for Household Expenses, Travel / Work-related expenses, Clothing and Child care costs, Exceptional needs expenses, personal / social life expenses.
 - ❖ list of unsecured Credit Debts.
 - ❖ Calculation of Residual weekly / monthly income available for

- Creditors will agree not to take, or continue, legal action.
- Where applicable, interest and other charges will not be applied to debtors Accounts.
- In most cases a write-off of residual debt will be given at the end of the repayment period.
- A “Fresh Start” will be given to debtors who complete the programme, as creditors agree to notify relevant credit reference agencies that the debts have been settled to their satisfaction.
- An independent third party, known as the **Conciliator**, will oversee and ratify each agreement, and if required, the conciliator may also intervene in cases where MABS and one or more creditors fail to reach agreement.
- An Annual review of each agreement will be carried out. A review can be initiated earlier where a change of circumstances warrants such action.

Sample Case: Couple with 2 Children

Figure 1 Add Together

• Monthly Net income Of Debtor	2,000.00
• Monthly Net income Spouse/Partner	1,000.00
• Other income (Child Benefit)	<u>263.00</u>
• Total Monthly Net Income	3,263.00

Figure 2 Add Together

• Mortgage/Rent	800.00
• Other Secured Loans	200.00
• Instalment Order	50.00
• Appropriate Social Welfare Rate	1118.00
• Work, travel & School Expenses	600.00
• Personal/ Social Life	<u>150.00</u>
• Total Monthly Expenses	2,918.00

Net Monthly Income €3,263

Minus Monthly expenses €2,918

€ 345

€345.00 to be distributed on a pro-rata basis to unsecured creditors

Distribution of Residual Income over 60 Months

	Amount owed	Total repayment	Write off
Creditor 1	15,000	9,540	5,460
Creditor 2	10,000	6,360	3,640
Creditor 3	5,000	3,180	1,520
Creditor 4	<u>2,500</u>	<u>1,590</u>	<u>910</u>
	32,500	20,670	11,830

Brief Analysis of the First 30 Cases in the Scheme

- Total unsecured Credit Debts € 984,000
- Average Client Indebtedness € 32,800
- Total potential write-off € 319,000
- Average per Client write-off € 10,633
- Number of Creditors Participating 42

Benefits of the Debt Settlement Scheme

Benefits to the debtor

1. Creditors agree not to take or continue Legal action.
2. Interest and other charges will be stopped.
3. A finite repayment term, in general between 3 to 5 years.
4. A write off of residual debt at the end of the repayment term.
5. A "Fresh Start" as creditors will notify relevant Credit reference agencies that the debt has been settled to their satisfaction.

Benefits to the Creditors

1. Saving of time and resources by not pursuing debtors through the Legal system.
2. Full disclosure means creditors can see they are being treated fairly and equitably.
3. Creditors receive regular repayment.
4. Creditors will recover as much as is possible of the Debt within a realistic period.

Benefits to Society

1. Improved Health of participants
2. Participants have incentive to remain in productive employment
3. Freeing up of Court time