

MEMO

Customer Profiles

Towards a more efficient and effective implementation of debt counselling

In the past decade, the debt problem in the Netherlands has tripled. And for the time being, there is no end to the increase in sight. If a household cannot see a way out of its debt situation, it can have recourse to the local authority. The latter will then try to effect a three-year amicable debt settlement that ends with remission of the remaining amounts. The increase in the debt problem is taking place at a time when local authorities also need to make substantial cutbacks. Local authorities are seeking ways to increase efficiency and effectiveness in the implementation of debt counselling. Working with customer profiles seems to offer opportunities. The development of this is in full swing. In this paper, I outline the transition currently under way. The present document is thus not so much a scientific document as a kind of travelogue of the 'journey' currently being made by debt counselling in the Netherlands. The basis for the change taking place is an outgrowth of the policy choice to cease trying to help every debtor to a debt-free future. This is because practice has shown that there are so often behavioural problems that interfere with succeeding to complete the three year debt settlement that it is worth the effort of taking account of this fact in the policy. In stead of a fresh start for everyone amicable debt settlement organisations are designing a screening to make an educated guess who is capable of reaching a fresh start through an amicable debt settlement en who has to clear up some other things in advance (budgetskills, stop overestimating the own situation an act accordingly, an addiction or mental health problem, a lack of self-esteem, redesign your own norms on money et cetera).

In order to outline the context of the aforementioned transition, I will begin this paper with a brief description of the size of the debt problem in the Netherlands, the way in which local authorities until recently gave substance to amicable debt counselling, and the savings challenge that local authorities are facing.

1 In the past decade, the debt problem has tripled

In 2011, approximately one-third of Dutch households were in arrears with at least one payment (Westhof et al. 2011). In about one in ten households, the arrears are part of an undesirable situation: there is a problematic debt situation (693,000) or one is threatening to develop (248,000) (Van Ommeren et al. 2009). When comparing the scope of the current debt problem with figures from 1999, the increase in the debt problems is immediately apparent. Well over ten years ago, 230,000 households found themselves in a problematic debt situation and 500,000 households were at risk (Janssen et al. 1999). There are some differences in the definitions used, but these are too small to account for the tripling of the indebtedness. The increase in the debt problem is also discernible in the use of debt counselling. In 2010, about 80,000 households had recourse to debt counselling (NVVK (Nederlandse Vereniging voor Volkskredietbanken), 2012). In 1999, the figure was approximately 35,000 (NVVK, 2010). Here too, almost a tripling is discernible. Set against the estimated nearly 700,000 households with problematic indebtedness (Van Ommeren et al. 2009), this also means that creditors and debtors more often than not seek to structure a solution without involving an amicable debt counselling organisation. On average, debtors have been in debt for about 5 years before they have recourse to debt counselling (Jungmann et al. 2011).

We also discern the growth of the debt problem in the debt-collection figures of large creditors. Thus, for example, the number of payment reminders by the Tax Authorities increased from 1.7 million in 2007 to nearly 2.2 in 2010. This is an increase by a quarter. The number of public auctions actually increased by almost 50 per cent.

The nature of the debt problem is also changing

Apart from an increase in the number of households with (problematic) debts, there are also changes in the nature of the debt problem. The size of the debt packages is increasing, new groups find themselves having problems and certain creditors are more or, on the contrary, less often in the picture. This paragraph contains a description of the nature of the debt problem and its main trends.

In the past decade, both the average amount of debt and the number of creditors per package has increased. Amongst the debtors seeking debt counselling, the amount of debt doubled from over €15,000 in 2000 to over €30,000 in 2010 (Jungmann, 2006, NVVK, 2011)¹. The number of creditors increased from 9 in 2000 to 16 in 2010 (Jungmann, 2006, NVVK, 2011). Also the structure of the top five changed. The top two remained the same but following them, the health insurance companies and telecoms providers made their entry and pushed the mail order and energy companies to positions just below them in rank.

Top 5	2000	2011
1	Banks and finance companies	Banks and finance companies
2	Tax Authorities	Tax Authorities
3	Mail order companies	Health Insurance companies
4	Housing associations	Telecoms providers
5	Energy companies	Housing associations

Table 1: overview of the top five most common creditors amongst debtors who have recourse to debt counselling (Sources Jungmann 2006 and Jungmann et al. 2011)

A debt is rarely on its own. A major analysis of the situation (Jungmann et al 2001) amongst more than 75,000 households showed that arrears of rent, energy and financial products (BKR - registered) often go together [BKR=Bureau Krediet Registratie, the Dutch central credit registration office]. By linking data from housing

¹These are nominal amounts. The actual difference is thus smaller.

associations, energy companies and the BKR, it became clear that arrears with one of these parties have predictive value for the probability of arrears with another party. Thus, for example, it showed that half of those with rent arrears had also been reported to the BKR for arrears of payments. Significant correlations were also found with the other combinations (energy and rent, energy and BKR reports, etc.).²

New groups encounter financial problems

Traditionally, it has been particularly the lower income groups who end up in a problematic debt situation. They often had a lower educational level and a substantial part of the group was dependent on benefits (Jungmann, 2006). If you enter the office of the amicable debt counselling service today, you will see a very different picture. Debt problems are getting younger, are ageing, are going home, are enterprising and earn money. Or, in other words, the following trends are discernible:

- **Are getting younger.** The debt problem amongst young people is formidable. The average debt for which young people in a Regional Educational Centre ask for assistance now amounts to well over €9,000. One in six students in secondary vocational education is currently borrowing money. On average, they owe €1,265 (Nibud 2011). In 2010, 12% of applicants for debt counselling were younger than 24 years of age (NVVK 2011). In 2007, this was only 7% (NVVK 2008).
- **Are ageing.** Amongst the elderly as well, the debt problem is increasing. Continuing to live independently for longer, less personal support based on the AWBZ (Exceptional Medical Expenses Act) and increasing individualisation mean that more elderly people find themselves in financial trouble. A large reduction in income amongst the group with 'broken' pensions also plays a role in this. In 2010, 5% of applicants for debt counselling were over 65 (NVVK 2011). In 2008 this was less than 1%.
- **Are going home.** Until about three years ago, it was rare for any applicants for an amicable debt settlement to be a home owner. Debt problems were very often 'solved' by the sale of a house, thus freeing up the equity. Nowadays, debtors ask for help because, after buying a new house, they are unable to sell their former residence and have insufficient income for the double burden. Alternatively, after the sale of a house, they are still left with a residual debt with regards to the mortgage (NVVK, 2012).
- **Are enterprising.** More and more Dutch people are self-employed. With income that is not guaranteed and dependent on the industry in which one works, there is a group that has it difficult financially. This is discernible in the percentage of self-employed people seeking help, and has been on the increase for years (NVVK, 2012).
- **Earn money.** Until about three years ago, applicants for debt counselling almost all had below average incomes. Indeed, the majority had an income level around the eligibility level for social security benefits. Specifically, owing to the problems around house ownership and interest debt on mortgages, now even those with higher incomes are increasingly having recourse to debt counselling. Until a few years ago, a low percentage of the applicants had an income above the average (±€30,000 gross). By now, that is certainly a quarter of them (NVVK 2011). Until 2010, the majority of applicants for debt counselling were on benefits, and in 2011, for the first time, more households with income from work than income from benefits had recourse to debt counselling.

2 Local authorities are faced with the task of economising

As a result of the crisis, local authorities are faced with the task of making substantial cut backs. Roughly speaking, Dutch local authorities receive their funds from three sources: general funds that they receive from the national government, specific grants from the government and local taxes. Locked in with the general funds is an amount for debt counselling. The key that is used, however, does not provide clarification as to the specific amount that local authorities receive for debt counselling. Local authorities are expected to make an assessment themselves of how much money to spend on the various tasks that they have. In doing so, it is

² The fact that there is a correlation between the different arrears cannot yet be taken to mean that the available data assumes a predictive value. In order to check whether it can, three models were set up: one to predict rent debts, one to predict energy debts, and one to predict CKI (consumer credit) debts. The correlation sought (predictive value) was found. CKI is the name of the BKR database where arrears are recorded. (US equivalent is the Consumer Credit Index; there is no such agency in the UK. The nearest equivalent would be Experian).

important to note that as from 1 July 2012, debt counselling is a statutory duty for local authorities. Until that date, local authorities could choose whether or not they would offer this facility to their residents. The legislation that is coming into force is called the Municipal Debt Counselling Act. The Act gives local authorities a great deal of discretion in choosing how they will set up the debt counselling facility. The Act actually only prescribes that the local authority is obliged to offer debt counselling. The most important parts in the law are:

- The local authority must also cover debt prevention
- It must include follow-up after an amicable debt settlement
- The waiting lists may not be longer than four weeks
- Any intangible problems (addiction, psychosocial problems etc.) associated with the debt should be part of the approach.

Thus, local authorities do not know exactly how much money they are getting from the government for debt counselling. In the period from 2009-2011, they did receive an additional 130 million in special-purpose grants from the government for debt counselling. These resources were intended to absorb the increase as a result of the crisis of 2008. For the average local authority, this meant that they had approximately 10 to 15 per cent additional resources to spend in the years 2009-2011. As from 2012, these additional funds ceased. On top of that, the government has also imposed a structural reduction of €20 million on the general funds of local authorities, together with the explicit label that this reduction applies to debt counselling.

There are large differences amongst local authorities in the ways in which they deal with this reduction. There are local authorities that offset this by implementing cuts in other areas. But for most local authorities the situation is that from 2012, they have approximately 10 to 20 per cent fewer resources to spend on debt counselling. This reduction is therefore taking place at a time when the number of applications is still increasing. So the question is how to manage.

3 The aim to have everyone free of debt is often unattainable

Without doing an injustice to the exceptions, the situation is that in recent years most debt amicable debt settlement agencies attempted to effect a three-year amicable debt settlement for every debtor. A future free of debt was the central policy goal. In practice, however, this is far from achievable in all cases. Sometimes this is because not all creditors are willing to participate in an amicable debt settlement, but more often it is because the debtor is unable to sustain a the heavy three-year arrangement. For a debtor, an amicable debt settlement means that he or she has to make ends meet for a whole three years living on an income at or just below the social security benefit level and may not incur any new debts. This only works if you are highly motivated and have good budgeting skills (Van Geuns et al. 2011).

Anyone who analyses the underlying problems of the debtors who are asking for help encounters all sorts of obstacles that stand in the way of sustaining an amicable debt settlement. Scientific validation is on its way this summer still, but group discussions that we have organised in recent months with debt counsellors lead to the following list of common obstacles preventing debtors from successfully sustaining an amicable debt settlement: structural overconfidence, lack of self-confidence, with the result that people do not behave as they ought to, limited intellectual capacity, a general lack of social skills (as a result of which even effecting a simple payment arrangement already leads to argument), a lack of budgeting skills, poor or no command of the Dutch language.

Despite the fact that debt counsellors encounter the obstacles listed above on a daily basis in their consulting rooms, the policy in recent years was nonetheless almost always for everyone to try to effect an amicable debt settlement. If the debt counsellor noted that an individual had actually structurally overestimated his own situation, then the case was referred to social services and eventually that individual might be offered budget

control. With budget control, a person's income is paid into debt counselling, after which the debt counselling organisation manages the money. The debtor then receives a living allowance. However, referrals to social services, for example, or the use of budget control, do not prove adequate in practice.

In 2010, the use of debt counselling led to an amicable debt settlement for almost forty per cent of the debtors (NVVK 2011). Over two-thirds of this group is able to complete the individual voluntary arrangement (NVVK 2011a). Assuming that in some cases there will be a relapse, the sustainable result of debt counselling in terms of a debt-free future is thus about one-quarter. The drop-out rate from the group who do not even begin an amicable debt settlement (>50%) or who drop out after the start of the amicable debt settlement ($\pm 30\%$) is largely attributable to the fact that the obstacles for which the debt counselling people indeed make referrals are not so easy to solve. Local authorities have begun to realise in recent years that the ambition of helping every debtor who applies to get out of debt is unattainable and has several downsides:

- The local authority launches expensive routes in order to set up an amicable debt settlement that is never effected or is terminated prematurely;
- The local authority holds out a future perspective for debtors (debt-free) that will never be achieved. Dropping out leads to disappointment amongst debtors and can contribute to mistrust of assistance in general;
- Creditors are sceptical about requests for cooperation with amicable debt settlement. After all, very often absolutely no individual voluntary arrangement ends up being made. In such situations, they prefer to implement their own debt recovery procedures.

4 Working with customer profiles provides a handle for more effective and more efficient implementation

The need to economise is leading local authorities in the Netherlands to explore or implement a variety of options. More and more local authorities are opting for one or more of the following adaptations to make the ends meet on debt settlement:

- Following an earlier application, people may be excluded from assistance for three, five or sometimes even ten years or specific groups are barred from debt counselling (fraudsters, households with incomes above a certain limit, etc.);
- Involving volunteers in the implementation of debt counselling or requiring more independent action on the part of the debtor (for example, that they themselves make a current list of the amounts that must still be paid to the various creditors);
- Limiting or eliminating supportive (but expensive) products such as budget control or limiting the use of debt prevention;
- Charging a contribution for specific products (budget control) or for entire processes (e.g. for high incomes).

Alongside these ways of economising, local authorities are also choosing in their masses to look much more emphatically at the motivation and skills of the debtor during the intake phase, as well as at any obstacles that a person has to successfully sustain an amicable debt settlement. By the latter is meant the aforementioned list of, inter alia, structural overconfidence, intellectual limitations, poor command of the Dutch language, etc. Alongside a number of substantive requirements, under the Municipal Debt Counselling Act, local authorities must henceforth also prepare a debt counselling policy. In February 2012, we requested 150 local authorities to let us have their policies. At least eighty per cent of the local authorities indicate in their new policies that they no longer aim to help get everyone out of debt. Instead, their formulated policy goal is to help debtors get their finances in balance (incurring no new debts). Debtors, who are capable of successfully sustaining an amicable debt settlement, continue to get help to set one up. The others get other kinds of support in which stabilizing the debtsituation is one of the goals. In most municipalities the other kinds of support are limited in time. If the barriers to sustain an amicable debt settlement at the end of the given period still exist, the debtor has to solve its problems on its own. However, it no longer goes without saying that the local authority will try to do this for everyone.

Local authorities describe the new way of working as ‘working with customer profiles’. In the intake phase, they explicitly map to what extent an individual is motivated to solve the debts and whether an individual has sufficient skills. If there are shortfalls in either of these two cases, an inventory is made of whether that deficit can be eliminated or compensated for in the foreseeable future (at most four to six months). If that is not the case, then the local authority will no longer try to effect an amicable debt settlement. It does offer other help, however. For example, support to teach people what a bailiff may and may not do, or help with effecting arrangements for payments to creditors, thus preventing the home contents being auctioned.

5 Customer profiles demand a new way of working

Abandoning the goal of helping everyone to get out of debt with an individual voluntary arrangement has major implications for active debt counsellors. They are suddenly being expected to be able to make a reasoned judgement of whether an individual is capable of successfully sustaining an amicable debt settlement; there is a risk that arbitrariness may arise. One debt counsellor might estimate that customer X can sustain an amicable debt settlement without problems, while another might think that he or she is totally incapable of it. If the debtor happens to end up in the consulting room of the first debt counsellor, then a process towards an amicable debt settlement would be commenced, but if the debtor ends up in the other consulting room, then he or she would merely be referred, for example, to social services.

Local authorities would like to eliminate arbitrariness in the implementation and are therefore currently intensely busy working out what support debtors faced with certain obstacles should receive so that reasonably similar situations are given a reasonably similar offer. One of the problems with this is that, so far, we lack clear answers to the question: what interventions work for what type of debtor and why? In the Netherlands, a debtor who lacks budgeting skills can get support in a variety of ways: individually by the debt counsellor, in a group with other debtors, by a volunteer. But what type of support fits best with what type of situation? (Or in other words, what works?) We don’t know, and as a result one debt counsellor very often engages volunteers, while another tries to give guidance to individuals directly, and a third primarily refers people for group support. Additionally, it is also becoming more and more clear that it is not only a question of what intervention will be offered to an individual but also the way in which an individual is approached. Should the debt counsellor opt for a position in which he explains to the debtor what the latter ought to do? Or does the debt counsellor opt for a position in which he asks the debtor what he wishes to do about the debt situation (and in that open conversation primarily tries to motivate the debtor, for example by using motivational interviewing techniques)?

Expressed in an illustration, local authorities are working on effecting a movement from A (professional intuition used in a clear workproces that consist out of the same steps in every dossier) to B (knowledge made objective in a workproces in which the debt counsellor has to set the main goal) In moving from ‘A’ to ‘B’, the field of debt counselling is following other fields that already felt the need some time ago to move from process to results-orientated work and where evidence-based practice is the norm, e.g. the Dutch probation system.

6 A screening instrument must support debt counsellors

The transition that is under way represents a professionalization of the implementation of debt counselling. To support debt counsellors in getting an objective picture as soon as possible with each application, we are currently working on the development of a screening instrument at the University of Applied Sciences Utrecht.

The screening instrument will determine the degree of financial autonomy of the debtor and his or her family. It is determined whether a debtor (including his or her environment) is able to independently (possibly with support from the environment) achieve a sustainable, financially stable situation, or whether support for this is needed and useful, or whether that support (for the time being) is pointless. Ability of the debtor to do things independently refers not only to the motivation and financial capability of the debtor, but also to the motivation and skills to arrange support that will compensate for any skills that are lacking. In other words, the debtor need not (have the capacity to) regulate his own finances if only he can ensure that that they are regulated.

The screening instrument is a questionnaire consisting of a number of questions still to be determined, supplemented by a test consisting of at least three sections aimed at identifying the skills that a client has. The debtor is presumed to have completed the questionnaire in digital form prior to the first interview with the debt counsellor. The answers to the questions determine the client's 'score' in a number of concepts that together give a picture of the financial autonomy of the individual. These concepts are derived from relevant scientific literature (social psychology and behavioural economics) and have been extensively discussed with experienced debt counsellors to ascertain their relevance for debtors and the determination of debt problems. The term 'concept' refers to more complex characteristics of clients that cannot be mapped by means of a single question. By way of illustration: a person's gender can be 'measured' by means of a single question. That isn't the case with someone's behaviour or attitude. It is for that reason that we do not use the term 'concept' for the first characteristic (gender), but for both the other two terms (attitude and behaviour) we do.

Concepts that seemed to be of interest were defined in advance. In the development phase of the instrument, we looked at the extent to which these concepts can actually be determined at the level of the individual debtors, or whether the questions that we use for that purpose provide a coherent picture of these concepts and whether the questions, and along with them the concepts, can be mapped in such a way that existing individual differences are also made visible. We indicate that by the term "distinguishing" power of the concepts. If everyone attains more or less the same score on a variable such as attitude, then we know that that cannot be right: so in that case the translation of the concept in question has not been correct and we are not measuring the right things. In the testing phase, we look very closely at the extent to which the questions that are meant to measure a single concept are cohesive, and at the extent to which the concepts identified in this way also provide a sufficiently distinguishing image amongst clients.

The concepts concerning which it can be determined – based on the first intermediate results of the test measurements – that they are recognisable and distinguishing, are (in order of decreasing reliability):

- Skills
- Behaviour
- Intention
- Attitude
- Social norms

Only the pre-established concept of self-knowledge/self-direction delivered poor reliability. Whether that will also be so following the larger scale test currently under way, is impossible to predict in advance. Should that be the case, it means that this subject must be explicitly addressed in the conversation following the administration of the screening instrument.

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