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Debt advice in Europe: a search of the good practices to fight over-indebtedness

Qualitative Research in Financial Markets

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Abstract

Purpose – This paper aims to provide an overview of the current state of debt advisory services and good practices in Europe.

Design/methodology/approach – The authors examine how debt advisory services are organised in different European countries and how they can be used to address the phenomenon of over-indebtedness.

Findings – Debt advisory services seem to be varied and fragmented. There are few good practices that stand out, whereas in some countries there are no services available at all.

Originality/value – This study provides an updated and comprehensive review of good practices and suggests some measures for evaluating the effectiveness of debt advisory services.

Keywords Debt advice, Over-indebtedness, Europe, Households, Best practices

Paper type General review

1. Introduction

Debt advice services are defined by the European Regulation as:

> Personalised assistance of a technical, legal or psychological nature provided by independent professional operators in favour of consumers who experience or might experience difficulties in meeting their financial commitments [1].

The main activities typically carried out by a debt advice service for customers [2] include identifying the extent and causes of debt-related problems, improving the efficient use of income (e.g. minimising expenditure), prioritising debts, exercising consumer rights and reaching realistic and sustainable agreements with creditors to pay their debts (Stamp, 2012) [3].

Debt advice (or counselling) is a measure aimed at preventing and/or dealing with over-indebtedness, i.e., a situation in which consumers experience ongoing difficulties in meeting their commitments or defaulting on them, whether these relate to the servicing of secured or unsecured loans or to the payment of rent, utility bills, or other household expenses. This characterisation is not limited to the problem of debt stemming from financial loans but includes all essential customers' expenditures and is linked to income and other expenditures

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related to taxation and social welfare cuts (Vandone, 2009; Vandone and Anderloni, 2016; Vandone *et al.*, 2018; Vandone and Ferretti, 2019).

The importance of debt advice as a "personalised and independent assistance provided by professional operators which are not creditors, credit intermediaries, providers of crowdfunding credit services or credit servicer" has been strongly recommended by the European regulators. In the European Directive issued in October 2023 (EU, 2023) the regulator states:

> *Member States should ensure that debt advisory services provided by independent professional operators are made available, directly or indirectly, to consumers, and that where possible, consumers facing difficulties to repay their debts are referred to debt advisory services before that enforcement proceedings are initiated* (preliminary consideration (81) of Directive 2023/2225 of the European Parliament and of the Council).

The European Commission also evaluates the economic impact of debt advice, suggesting that overall, the measures to strengthen creditworthiness assessments, forbearance measures and debt advisory services would yield €1.4–€5.3 in equivalent benefits per €1 spent on debt advice (EU Commission, 2021). These are achieved through the avoidance of the social costs of over-indebtedness.

Despite the importance of debt advice, there is no agreed standard for debt advisory services. European experiences vary widely in terms of the range of services provided by debt advice agencies, their duration and their impact on households. Furthermore, no recent paper has updated the surveys provided by the European Commission (EU Commission, 2008, 2013, 2018; Eurofound, 2010, 2012) and this does not allow to have an updated view on the state of debt advisory services in Europe.

Identifying the best practices in debt advice is challenging because of different factors: first, the debt advisory service can be extended by formal and informal institutions; second, each country in Europe has a different tradition on debt advice and the approaches vary even within the same country; third, nor the academic literature, nor the industry agree on a single set of features that debt advice should have and how to measure their outcome and output. The literature is fragmented and often provides interesting case studies, but these cannot be easily extended to other countries (Eurofound, 2020) [4].

All these factors complicate the efforts to quantitatively measure the success or effectiveness of debt advisory services at national and supranational level.

This article aims to make a systematic review of the debt advisory services currently available in Europe, highlighting the most successful and longest-running initiatives and discussing the best practices according to the final objective of preventing or reducing over-indebtedness. In detail, in this paper, we review the existing literature on debt advisory services and the phenomenon of over-indebtedness and we present previous evidence on the debt advisory services existing in Europe. We then manually check and verify which debt advice providers (e.g. surveyed by EU Commission, 2008; Eurofound, 2020; Centre for European Policy Studies-Valdani Vicari and Associati (CEPS-VVA), 2022) are still active and whether new services have been activated since then. Finally, we manually check and hand collect information on the various activities performed by each debt advisory service provider and confront this with the best practices suggested over time by the literature and the industry. This exercise allows us to have an updated vision on what is the state of the art of debt advisory services in Europe and if, and to what extent, improvements have been made with respect to the past.

The paper is structured as follows: in Section 2, we provide a literature review on over-indebtedness and debt advice; in Section 3, we present data on over-indebtedness in Europe and the diffusion of debt advisory services; in Section 4, we propose a taxonomy of debt advisory services; in Section 5, we discuss the impact of debt advisory services; and in Section 6, we conclude.

2. Literature review on over-indebtedness and debt advice

According to European regulators and policymakers, debt advice aims to prevent or mitigate over-indebtedness, a condition where households find it impossible to manage past debts and current expenditures, making day-to-day financial management extremely difficult (D'Alessio and Iezzi, 2016).

Empirical literature has investigated the socio-economic characteristics of over-indebted households, revealing that low-income families, younger households, larger families, singles and families with mortgages generally have a higher debt burden (relative to income) than their peers (Russell *et al.*, 2013). Younger generations, often employed in unstable labour markets, tend to accumulate debt related to education, mortgages and consumer credit (Montgomerie, 2013; Oksanen *et al.*, 2015; Zhang and Kim, 2019). Larger families and singles are also more likely to be financially vulnerable (Russell *et al.*, 2013; Patel *et al.*, 2012; Vandone *et al.*, 2012; Klesment and Van Bavel, 2022), as are households experiencing sudden illness, disability or job loss (Duygan and Grant, 2008; Aristei and Gallo, 2016).

Economic and financial characteristics also play an important role. Empirical evidence suggests that credit from financial firms leads to repayment difficulties for almost a fifth of households, particularly among renters (Bridges and Disney, 2004). Del-Rio and Young (2005) highlighted a clear link between the subjective measure of financial stress and other indicators of debt sustainability. In particular, the ratio of consumer credit to income is a primary determinant of financial stress. Over-indebtedness is also influenced by the amount and duration of debt, the types of debt instruments used, the sources of income available to meet obligations and the size and composition of financial and non-financial assets (Leandro and Botelho, 2022).

Low-income households are more likely to be over-indebted (French and McKillop, 2016). A strong correlation between the possession of consumer credit and financial vulnerability is also found by Albacete and Lindner (2013), Vandone *et al.* (2012) and Gutiérrez-Nieto *et al.* (2017). In some cases, the use of microcredit can worsen households' debt capacity and contribute to over-indebtedness (Gehlich-Shillabeer, 2008; Guérin *et al.*, 2014). Although microcredit is an important tool for supporting financially excluded individuals and developing communities in emerging markets, it must take into account the environment in which households operate (Schicks, 2013), and policies should limit multiple lending through microcredit (Debnath, 2020). Raising additional funds in times of liquidity constraints can lead to over-borrowing, which has implications for debt sustainability. Over-indebtedness in this area of credit contradicts the social objectives of microcredit: it can deepen the poverty of target clients, affect their social standing and lead to psychological and health problems (Guérin *et al.*, 2014; Schicks, 2013; Orozco Ramos, 2022).

In addition to socio-demographic and economic variables, the empirical literature also highlights the importance of psychological factors and individual attitudes in borrowing decisions and their impact on the risk of overborrowing (Anderloni *et al.*, 2012; Mutsonziwa and Fanta, 2019; Meier and Sprenger, 2010; Zermatten *et al.*, 2005; Franken *et al.*, 2008). As discussed by Lea (2021), debt decisions have both psychological causes and consequences. Specifically, impulsivity has a significant impact on decision-making, leading individuals to prefer "buy now, pay later" solutions that provide immediate gratification but underestimate future debt burdens (Franken *et al.*, 2008; Wittmann and Paulus, 2008; Potts, 2006; Frigerio *et al.*, 2020) [5].

Debt advice, combined with financial literacy and education, can help households avoid situations of over-indebtedness or financial fragility and increase their awareness of the consequences of their financial decisions (French and McKillop, 2016).

Despite its importance, the spread of debt advisory services across Europe remains highly uneven, reflecting significant differences in the development and availability of these services across Member States [Centre for European Policy Studies-Valdani Vicari and Associati (CEPS-VVA), 2022]. While some countries have developed comprehensive and well-integrated debt advice infrastructures, others are lagging behind, with services that are either non-existent or poorly distributed (Eurofound, 2020). The types of debt advice organisations vary widely across Europe (Collins and Schmeiser, 2013; Park, 2023), as does the range of services offered, which can include different forms of financial counselling, debt management plans and education programmes (Korczak, 2019; ECDN, 2019, 2023). The existing literature also highlights differences between countries in terms of the target groups – that is, the people for whom debt advisory services are intended (Europe Economics, 2018) – and the nature and origin of the funds that support the provision of advice (Eurofound, 2020). These differences stem from different economic structures, social policies and cultural attitudes towards debt and financial management, which are often influenced by national policies and economic conditions (ECDN, 2019).

The differences in target groups and funding mechanisms have significant implications for the effectiveness and accessibility of debt advisory services. Understanding these differences is crucial for policymakers and practitioners aiming to improve debt advisory services and develop more inclusive and sustainable debt advice systems. We contribute to the existing literature by providing an updated and comprehensive taxonomy of debt advisory services in Europe, identifying the different levels of their direct and indirect impact and suggesting methods for measuring the impact of debt advice on household and country well-being.

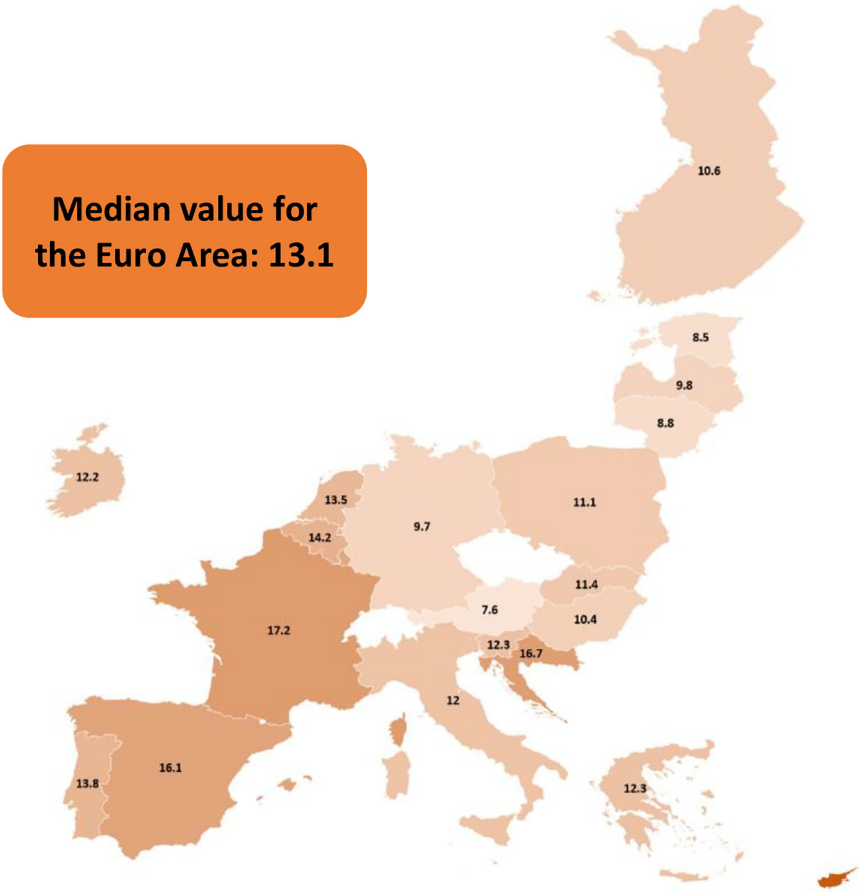
3. The emergence of over-indebtedness in Europe and the birth of debt advisory services

Over-indebtedness has increased significantly in scale and importance in Europe since the 2008 financial crisis, although it has been a concern since the mid-1900s (Betti *et al.*, 2007).

According to the 2020 data for European countries, the median value of the debt-to-income ratio is around 13%, with a minimum of 7.6% (Austria) and a maximum of 25.8% (Cyprus) (Figure 1) [6]. The debt-to-income ratio is computed as the ratio between total monthly debt payments and gross monthly household income [7]. Despite the relatively low median, a high proportion of families remains close to the critical threshold of over-indebtedness (ECB, 2021). In addition, the COVID-19 pandemic has further strained the income and ability of families and households to cope with financial shocks (Brickell *et al.*, 2020). The recent war in Ukraine, together with increases in energy prices and general inflation, has created additional challenges for households. In this environment, over-indebtedness can be particularly severe for financially vulnerable households, leading to social exclusion and negative impacts on physical and mental health. These effects can have macroeconomic consequences, including reduced financial stability, lower aggregate demand, lower employment and reduced economic growth (Sugawara and Zalduendo, 2011; Beduk, 2020).

Despite this increase in the phenomenon of over-indebtedness, debt advisory services are still unevenly spread across Europe. Figure 2 shows a differentiated picture, with penetration rates, geographical coverage and types of service varying from country to country (and in some cases even within the same country), and also depending on the configuration of debt patterns in the different economies, which can make the above-mentioned problem of over-indebtedness or financial skills and knowledge (financial education or financial literacy) more or less pronounced, among other things [8].

As shown in Figure 2 (Eurofound, 2020), Northern European countries are characterised by debt advisory services with a longer history and wider reach. The countries of Southern Europe (especially Italy and Spain) and Eastern Europe (Slovenia, Croatia, Hungary, Slovakia, Romania, Bulgaria and Greece), on the contrary, are characterised by a debt advisory system that is not widespread, occasional, not well established in the territory and with little experience compared to the other countries of the European Union (EU28). In these countries, the most common options for over-indebted people seeking help are law firms and consumer organisations (Eurofound, 2020) [9].



Note: Median value of indebted families
Source: Authors' elaboration on ECB (2021)

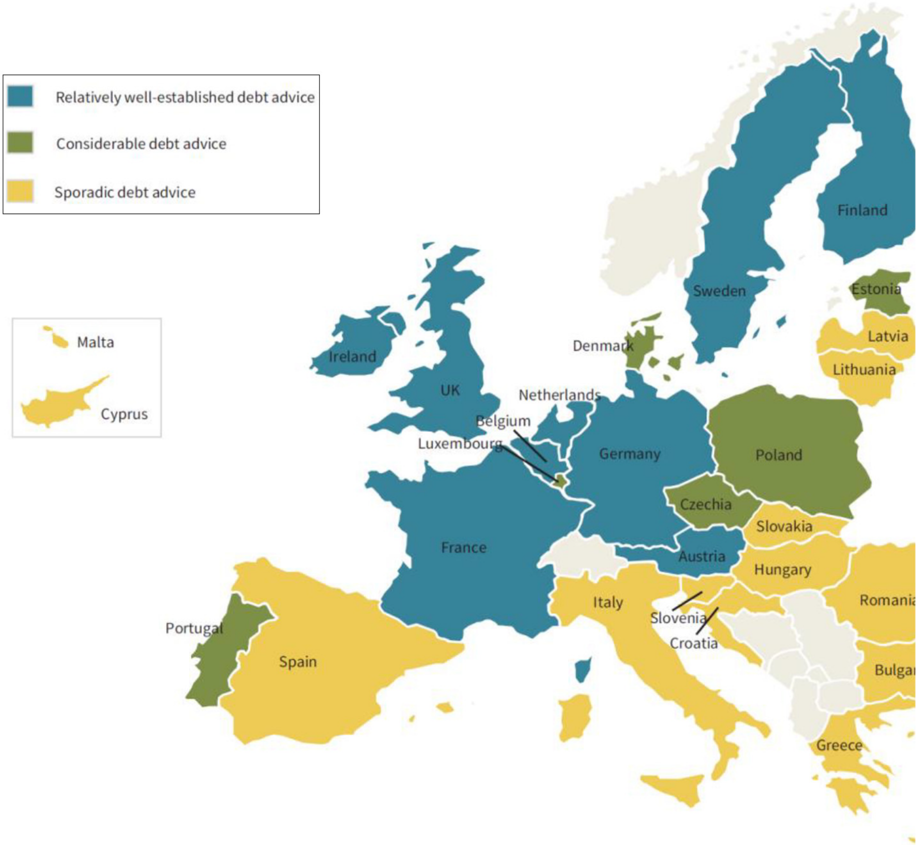
Figure 1. Debt service income ratio in Europe

4. A taxonomy of debt advisory services

Given the heterogeneous nature of debt advisory services in Europe, it seems useful to provide an overview of the characteristics that distinguish debt advisory services based on a number of factors, such as the service providers, the variety of services offered, the target population and the funding methods. In this way, we aim to provide a taxonomy of debt advisory services in the European context, with examples of implementation where appropriate (see Table 1).

4.1 The type of debt advice entity

A first classification of debt advisory services can be made on the basis of the organisation providing the service. For this purpose, it is useful to distinguish between bodies that provide the service free of charge and those that provide it for a fee.



Source: Eurofound (2020)

Figure 2. Map of debt advice systems in Europe

The first category includes generalist consumer associations, local authorities, local or national financial advice organisations, support structures for the unemployed, employers or private bodies, or even for-profit organisations (Pleasence and Balmer, 2007; Collins and Orton, 2010; Collins and Schmeiser, 2013).

The second group (fee-based) may include organisations or companies providing advice to individuals or claims management companies (Park, 2023).

In Europe, solutions are diverse and often involve the coexistence of different types of actors. In Germany, for example, different bodies and associations coexist: professional associations (e.g. Bundesarbeitsgemeinschaft Schuldnerberatung – BAG SB), welfare associations (Arbeitsgemeinschaft Schuldnerberatung der Verbände) and consumer associations (Verbraucherzentrale Bundesverband). Also in Portugal, debt advice is provided by the consumer association (Rede de Apoio ao Consumidor Endividado). In Austria, local providers are allowed to offer free debt advice services if they are publicly certified or recognised (see Table 1). The presence of a fee may discourage debtors from contacting a debt advisory service in the first place,

Table 1. Main debt advice services in selected European countries

Country	Main entity providing debt advice	Distinguishing features	Customers assisted	Website/source
Austria	staatlich anerkannten Schuldenberatungen	They can provide services free of charge, receive public subsidies and are officially recognised, entitled to use a specific debt advice label	60,469 people assisted in 2019; 35.2% of the customers are unemployed (five times more than the population). 33% of customers have an income of less than €1,000	www.schuldenberatung.at/english/debtadvice.php
Belgium	Centre public d'action sociale (CPAS) (or OCMW)	Broad-based social support service. Among its services, it offers credit mediation	n.a	www.belgium.be/fr/famille/aide_sociale/cpas
Denmark	Danish consumer council	Develops various initiatives, including debt advice through the Danish Consumer Council debt counselling, a project that offers advice to consumers with low income, significant debts or low disposable income through various channels (online, telephone, in person, by mail)	There are currently centres in seven Danish cities involving more than 120 volunteers, who have offered support to more than 15,000 individuals on debt-related issues since 2010	https://taenk.dk/om-os/om-forbrugerraadet-taenk/about-us
France	Associations Cresus, e Points Conseil Budget (PCB)	Support to individuals on over-indebtedness or budget management	In 2020, local offices carried out a total of over 7,600 support interviews for 4,700 over-indebted households	www.cresus-iledefrance.org/

(continued)

Table 1. Continued

Country	Main entity providing debt advice	Distinguishing features	Customers assisted	Website/source
Germany	Various organisations, including professional associations (e.g. Bundesarbeitsgemeinschaft Schuldnerberatung – BAG SB), welfare associations (Arbeitsgemeinschaft Schuldnerberatung der Verbände), consumer associations (Verbraucherzentrale Bundesverband)	In person and online counselling, financial education, debt simulation tools and debt counselling service updates	Originating at the end of 1953, debt counselling services have evolved and today have many providers. BAG SB alone offers advice to more than 1,400 households	www.agsbv.de/mitglieder-organe-gremien/ www.bag-sb.de/
Luxembourg	Debt information and counselling service (SICS), Inter-Action and Ligue luxembourgeoise de Prévention et d'Action medico sociale	Information and counselling services on the subject of debts and over-indebtedness, including by telematics means	In 2019 alone, Inter-Action handled 349 new users, of which 281 by telephone. There were 2,415 contacts on the site. The Ligue handles, on average, 2,000 requests per year since its foundation	https://ligue.lu/en/home/translate-to-english-service-dinformation-et-de-conseil-en-matiere-de-surendettement
The Netherlands	Bureau Wet Schuldsanering Natuurlijke Personen	The agency carries out work on debt restructuring of natural persons (a legal scheme for persons with problematic debts) on behalf of the Minister of Justice and Security	n.a	www.bureauwsnp.nl/

(*continued*)

Table 1. Continued

Country	Main entity providing debt advice	Distinguishing features	Customers assisted	Website/source
Norway	Arbeids-og velferdsforvaltningen	Among other services to support welfare, it also offers financial and debt advice free of charge in person or online	n.a	www.nav.no/no/person
Portugal	Consumers' Union (Rede de Apoio ao Consumidor Endividado)	Initiatives aimed at preventing over-indebtedness and offering debt and budget advice, including a support network for over-indebted individuals and families	The latest available data (2014) refer to more than 9,300 requests for support	www.consumidor.gov.pt/consumidor_4/rede-de-apoio-ao-consumidor-endividado.aspx
Great Britain	Money advice Trust (MAT), National debtline, Citizen advice	There are currently around 2,700 debt advice centres across Great Britain providing free, independent advice on debt, tax and arrears issues. Support is provided in person and remotely	National debtline during 2020 provided support to over 103,000 people over the phone and a further 43,750 people through its Webchat service. Citizen advice provided support (not only on debt issues) to over 2.8 million people	www.nationaldebtline.org/ www.citizensadvice.org.uk/

Note: n.a. in the table stands for "not available"
Source: Authors' elaboration on Eurofound (2020) and internet sources reported

or from returning to it after an initial contact, and free services may also encourage households to contact it again (Fumagalli *et al.*, 2021; Park, 2023).

In some cases, debt advice is also provided by specialist agencies (e.g. Germany and the UK) that provide a comprehensive debt and financial planning advice service. In other cases, debt advice is embedded in more general services (e.g. family welfare or employment services) that also provide debt advice (e.g. Belgium and Norway) (Pozo Pérez and de Groen, 2022).

Debt advice can also be linked to microcredit (Okello Candiya Bongomin *et al.*, 2024). In this case, it involves providing advice to individuals or small businesses who are struggling to repay small loans. Like traditional debt advice, it includes financial counselling, budgeting assistance, negotiating favourable terms with lenders, debt consolidation, financial education, exploring refinancing options and legal assistance when needed. The aim is to empower borrowers to manage their debt effectively and improve their financial literacy. In the UK, for example, StepChange Debt Charity [10] provides free financial advice to people in debt difficulties, including small loans. Similarly, in Germany, organisations such as the Verbraucherzentrale [11] provide financial advice to consumers, including those using microcredit.

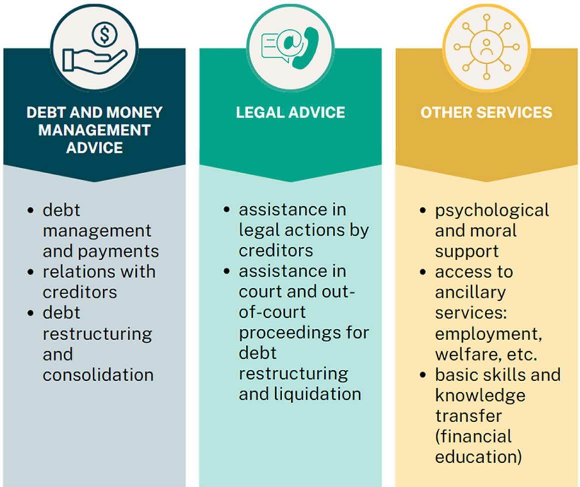
Beyond the service provider, it is important to consider the figure of the advisor. Recent reports [Eurofound, 2020; Centre for European Policy Studies-Valdani Vicari and Associati (CEPS-VVA), 2022] stress the importance of the counsellor's preparation in financial matters and the counsellor's ability to interact with clients, who are usually characterised by conditions of economic and social vulnerability and require an interaction based on listening and support, including emotional support, rather than on judgement. Recently, the importance of ethical principles in debt counselling has been emphasised, such as relevance to the client, free service to the customer, independence, confidentiality and privacy, accessibility, credibility and professionalism [Centre for European Policy Studies-Valdani Vicari and Associati (CEPS-VVA), 2022].

4.2 The type of debt advisory service

The services offered in the field of debt advice can be diverse, also depending on the type of definition of "debt advice" to which we refer: we have already had the opportunity to assess a possible difference between "pure" debt advisory services and more holistic services, such as debt and money advice services. Nevertheless, as already mentioned, we will refer to the services offered by debt advice providers in a broad sense, thus including all the ancillary services offered by structures that call themselves "debt" or "money" advice or counselling [12].

Typically, counselling can cover simple services such as budget formulation and planning, budget management, legal advice on financial and procedural issues or services more related to the emotional and psychological sphere of debt, with psychosocial counselling and preventive educational counselling (Eurofound, 2020; Korczak, 2019) (Figure 3).

The main area of activity of debt advisory services is debt and money management advice in general. Activities include support in prioritising payments, managing relationships with creditors, but also debt restructuring through specific instruments (depending on the regulations in each country). Debt consolidation is another instrument used to help debtors repay their debts. An example of this is Luxembourg, where the Ministry in charge of households promotes debt consolidation operations over a period of seven years at subsidised rates. The same is done in Italy, in a slightly different way, with access to the Anti-usury



Source: Authors' elaboration

Figure 3. Main services offered within debt advice

Fund for indebted people or the activation of loans through Adiconsum (consumer association) at a subsidised rate (Eurofound, 2020).

The second most common type of service offered by debt centres is legal advice. Indeed, it is an important part of the debt advice that many customers ask debt advice or helpline centres to provide, and can include help in dealing with creditors in the event of legal action by creditors, as well as checking the creditor's claims against the debtor (Eurofound, 2020). Legal aid also helps clients to access debt settlement procedures, for example, by helping them to fill in documents. In Poland, in particular, debt advisory services have played this important role since 2015, when the bankruptcy law was amended. This service is particularly important in debt advice systems in Germany: debt advisory services are recognised as authorised bodies to assist debtors in both judicial and extrajudicial debt settlement and restructuring procedures (ECDN, 2019, 2023).

A third area of activity for debt counsellors includes other services that do not relate to the purely financial or legal aspects of debt, but are considered equally important. In addition to the services mentioned above, debt centres also provide psychological or moral support, as well as organisational and management skills to help people better manage their family budget. Indeed, in some jurisdictions and social contexts, the "stigma" attached to the status of debtor (and in particular insolvent) persists, which can lead to extreme stress and isolation for individuals and families in this situation (Dubois, 2012; ECDN, 2020; Vandone and Ferretti, 2019).

Some debt advisors also act as "hubs" for the provision of other welfare-related services, such as employment and job placement centres, or validation of eligibility for income or family support eligibility checks [13].

In this context, it is worth noting that an important role of the advisor is also to provide basic financial information and skills (financial education). Support can be useful to enable individuals to make basic decisions about debt (or money management, in the context of wider money advice services) independently. This is the case, for example, of the Debtor's

Ombudsman in Iceland or, more directly, of SKEF in Poland, whose main objective is to improve financial education and which also offers debt advice among its various services.

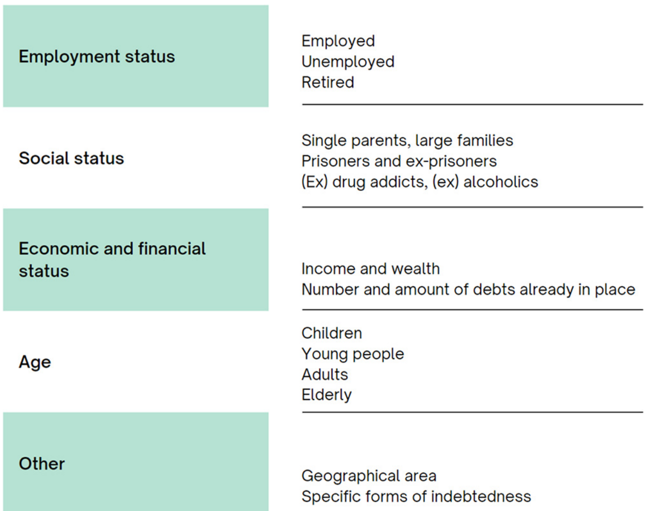
Some providers also offer tools to simulate the debt situation and the ability to take on new debt through online tools. These can be more or less sophisticated: for example, editable budgets in Excel are available to better understand which items impact on the household budget and which areas of expenditure can be cut to improve the household budget (e.g. for the debt advice service available in Norway).

4.3 The target groups

In terms of the target group, and therefore the people for whom debt advice is intended, these are identified within the category of "vulnerable" people, i.e. those who are most likely to become over-indebted (Figure 4). These are identified according to "trigger" conditions or events that can lead to difficulties in repaying debts, such as job loss, separation or lone parent status, belonging to a marginalised social group, illness or disability [Centre for European Policy Studies-Valdani Vicari and Associati (CEPS-VVA), 2022].

For example, when the first debt advisory services were set up in Germany, the target clientele consisted of vulnerable and marginalised people, such as prisoners, ex-prisoners and the homeless, who were offered debt advice as part of the general welfare services.

A first appropriate classification used to identify the target group is employment status. Employed, unemployed and retired households are subject to different risks of over-indebtedness (Ntsalaze and Ikhide, 2016; Antenucci and Caldarelli, 2022), for example, retired households cannot easily respond to shocks (Bédard and Michaud, 2021). The type of support required by these individuals is therefore different, and debt advisors should consider how their employment status may affect their ability to repay loans or debts, but also how over-indebtedness may affect their whole private and professional life and act accordingly. The same holds true for social status. In general, the most vulnerable groups are represented



Source: Authors' elaboration

Figure 4. Non-exhaustive list of target definition criteria (not mutually exclusive)

by single parents or large families, but also by prisoners (or ex-prisoners) and households that are (or have been) subject to drug or alcohol abuse, and any specific debt advisory services could be targeted at these individuals and could also include some psychological support (Gabbay *et al.*, 2017).

When approaching clients, debt advisors also need to understand the overall financial and economic status of the household. Debt advisory services could be tailored according to these characteristics, but also in relation to the overall level of existing debt.

Another way of segmenting clients is by age. Indeed, there are debt advisory services that target specific segments of the population: those for children and young people may aim to increase financial literacy and provide information; those for older people may address specific needs such as succession planning or managing social or health care expenditure.

The recipients of debt advice may also be identified on a geographical basis, for example, if they are targeted at people living in particularly socio-economically disadvantaged geographical areas.

Examples of target groups are people with financial problems (young people, adults or the elderly); the self-employed or entrepreneurs; people with a history of drug or alcohol addiction, the homeless or ex-prisoners; people without access to credit (protesters, people who have relapsed into usury, etc.); and young people and children.

In some cases, such as in Ireland, services are designed for a specific target group (e.g. the unemployed or those in financial difficulty) but are available to all citizens. In other cases, certain population groups are excluded [14].

The target group may also be related to the nature of the debt, with some debt advisers focusing on issues related to mortgages or consumer credit.

The target group identified by the debt advice service also influences the way in which the counsellor approaches the client, the means of communication and the preparation required by the counsellor (both technical and interpersonal).

An analysis of some of the websites of European debt advice organisations shows that in some cases it is possible to find information (in varying degrees of detail depending on the organisation) on the number of people who have sought advice from them and, in a more limited number of cases, information on the type of people seeking advice, such as demographic and personal characteristics (gender, age, employment status, etc.) or the type of debt [15].

With reference to the European experience, the "typical" customer is generally a person with a low income or whose livelihood depends on others (social benefits, parents, others) (Europe Economics, 2018; ECDN, 2019), who does not own property and belongs to marginalised groups (professionally or socially).

As a detailed example, the "typical" user of debt advisory services in the Netherlands is between 26 and 45 years old, usually receives the minimum wage or other forms of benefit, is single (71% of users – often divorced) and does not own a home. In addition, more than half (64%) belong to a group with special needs, with a history of mental disorders or disabilities or semi-illiteracy and a high number of previous debts [16] (ECDN, 2019; SchuldenLab Observatory, 2020).

The area of "quick credit" raised concerns. The phenomenon of "quick credit" or "instant loans" has grown considerably, especially among younger people (Autio *et al.*, 2009; Rowlingson *et al.*, 2016; Adirinekso *et al.*, 2020). In Iceland, the debt counselling service has therefore focused on this segment of the population to prevent debt from jeopardising young people's futures. The typical user, in this specific case, is 22 years old, lives with parents, works and has an average number of loans of 34, with an average value of around €18,000 (ECDN, 2019).

The most recent data on the average user have also been influenced by the economic difficulties triggered by COVID-19, which may have acted as a catalyst for debt problems or as an exacerbating factor. In the Netherlands, according to the SchuldenLab Observatory (2020), the effects of the crisis due to COVID-19 hit already "fragile" households the hardest, as well as many self-employed people, especially in the sectors most affected by the crisis and the lockdown rules, and many unemployed or newly unemployed young people or people over 55, who will face more challenges in finding a new job.

4.4 The source of finance

Debt advisory services can also be distinguished according to the nature and origin of the funds that support the provision of advice. In some cases, the funds are public, provided directly or indirectly by governments or local authorities (e.g. local or regional authorities) through a share of taxes and fees paid by citizens (Eurofound, 2020). This is the case, for example, directly in Finland, the Netherlands, Poland and Sweden, and indirectly (through the support of non-governmental organisations) in Denmark, France, Germany and the UK. In other cases, the resources are provided by the body organising the service (e.g. a private company or a law firm). Alternatively, they are provided by creditors. The latter is a peculiar case found in some countries (e.g. Czech Republic and Ireland) where some banks and consumer associations cooperate to provide debt advice to bank customers or the general public. Depending on the nature of the funds, the services may or may not be available to households free of charge. In general, services of a public nature (or financed by public funds) are free of charge and those provided by consumer associations always have low costs (or fees). Support provided by private bodies (or financed by the private sector), on the contrary, usually involves a charge to the borrower, which may also be non-trivial [17].

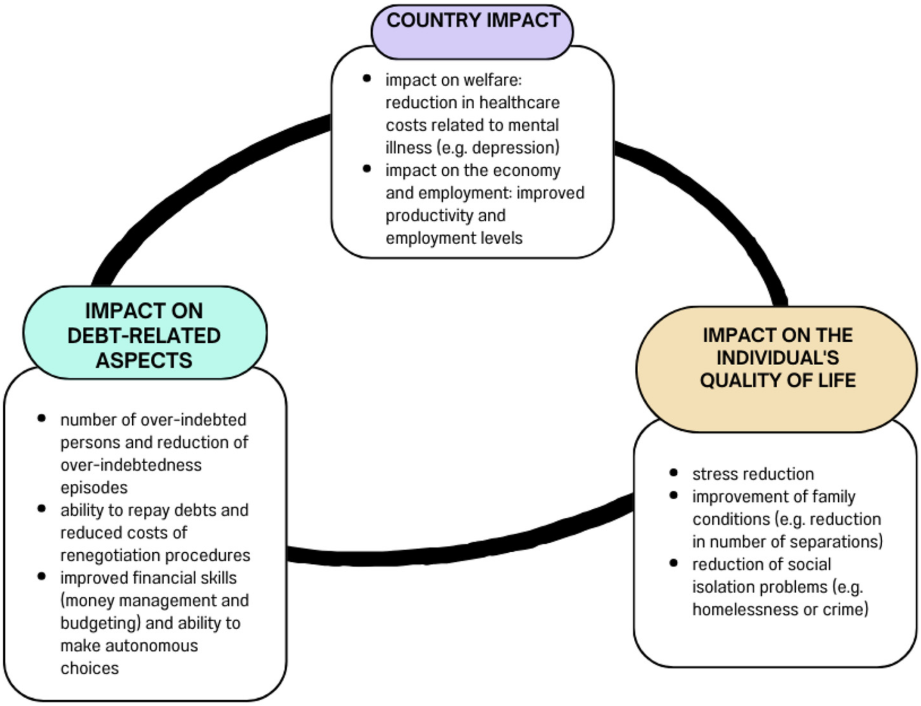
To provide more detail on debt advisory services and to give concrete examples of what distinguishes national experiences, we have collected some experiences from European countries in Table 1.

5. The impact of debt advisory services

In line with policy objectives, an effective debt advisory service not only has positive effects in terms of reducing the intensity of over-indebtedness problems of individuals and households, but also provides the tools to improve debt or, more generally, financial decision-making. Figure 5 summarises the direct and indirect effects of an effective debt advisory service. These impacts can also be interpreted as the expected outcome of implementing and running debt advisory services and can be the basis for measuring their effectiveness in achieving policies' objectives.

We identify three levels of interrelated impact: the impact on the country as a whole, the impact on debt-related aspects and the impact on the quality of life of individuals.

Debt advisory services can significantly reduce the health costs associated with mental health problems such as depression, which often result from financial stress (Patel *et al.*, 2012). By providing individuals with the tools and support they need to manage their debt effectively, these programmes can alleviate psychological distress and reduce the negative health outcomes associated with financial strain (Disney *et al.*, 2008; Ochsmann *et al.*, 2009). This, in turn, can lead to reduced health-care expenditure, benefiting both individuals and the entire society. Debt advice also has a positive impact on the economy and employment levels. By helping individuals regain control of their finances, these programmes can improve their overall financial stability and reduce the absenteeism and low productivity associated with financial stress, leading to improved overall productivity levels. In addition, by preventing financial crises that can lead to job loss or unemployment (Kempson, 2002),



Source: Authors' elaboration

Figure 5. Direct and indirect impacts of debt advice

debt advice programmes can help to maintain or even increase employment levels in a country.

Looking at the impact of debt-related issues, a number of aspects can be positively influenced by good debt advisory services. Efforts to reduce over-indebtedness can lead to a reduction in the number of people with unsustainable levels of debt, thereby reducing financial strain and associated stressors; by improving people's ability to repay debts, over-indebtedness interventions can promote financial stability for borrowers and reduce the need for costly renegotiation processes. Over-indebtedness initiatives can also often include educational components aimed at improving financial literacy, such as money management and budgeting skills. This can empower individuals to make more informed financial decisions and better manage their financial circumstances independently.

The impact of tackling over-indebtedness on an individual's quality of life is profound and multifaceted. Over-indebtedness often leads to significant stress and anxiety due to financial uncertainty and the burden of debt. By providing support and resources to manage and reduce debt, interventions can reduce this stress, leading to improved mental well-being and overall quality of life for individuals. The financial burden of over-indebtedness can strain relationships within families, leading to conflict and even separation (Kempson *et al.*, 2004; Disney *et al.*, 2008). Addressing debt issues can therefore help to stabilise family finances, reduce the likelihood of separation and promote healthier family dynamics. This can create a more supportive and nurturing environment for individuals and their loved ones, improving their overall quality of life. Over-indebtedness can exacerbate problems of social isolation, as individuals may withdraw from social activities or become homeless or involved in crime due to financial difficulties, or even increase the rate among the population during hard times (Reeves *et al.*, 2015). By addressing debt problems and providing support, interventions can help individuals avoid these negative outcomes and promote greater social inclusion and community engagement. This can lead to a more stable and supportive social environment, contributing to a better overall quality of life for individuals and their communities.

The impact of debt advisory services may be difficult to measure quantitatively or objectively, but it is an exercise that needs to be undertaken, or at least taken into account, especially if the provision of these services is to be strengthened in line with the EU Directive.

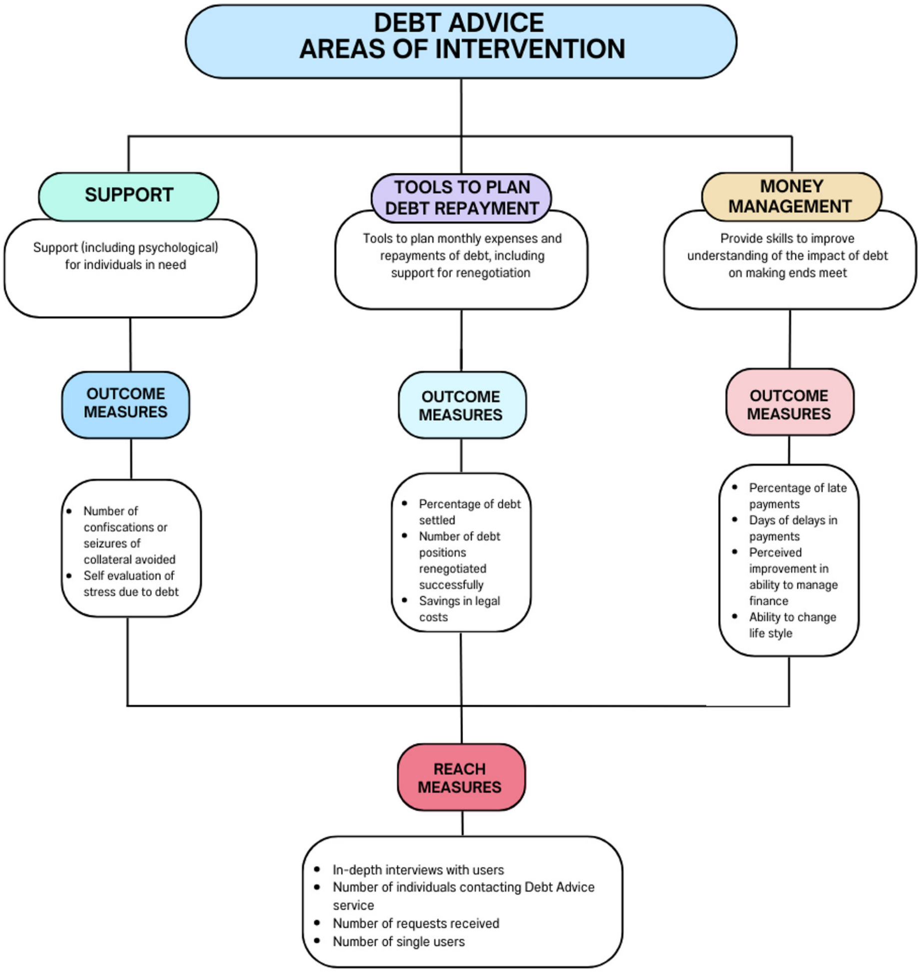
Recent attempts to quantify the impact of debt advice in the UK show that every £1 invested in debt advisory services can save £2.60 for the country (Tinelli *et al.*, 2019) [18], with a sort of "multiplier effect". Further analysis by the UK Money Advice Service estimates the total impact of debt advice (in terms of welfare benefits) in the UK at £300m–£570m per year [Money advice Service (MAS), 2021] [19]. Some of these benefits would be due to improved worker productivity. However, this very interesting exercise in estimating the impact of debt advice seems difficult to replicate in countries where debt advisory services are fragmented (some are not even surveyed) and/or data is not systematically collected.

Measuring the impact of debt advice is more challenging because the effects identified through the analysis of debt levels could be the result of the business cycle, changes in individual preferences, credit supply and demand conditions (although these can be controlled for in an appropriate econometric model), or even the financial education initiatives of a nation, local authority or supranational body, which, unlike the former, are particularly difficult to measure objectively and are prone to endogeneity problems that would necessitate simplifications and the search for instrumental variables to approximate the object of study.

However, there are now a number of indicators relating to the service itself, including qualitative indicators that describe the situation of people who use the debt advisory service in a "before and after" logic.

It is therefore possible to identify areas of intervention that characterise debt advice [Stamp, 2012; Money advice Service (MAS), 2021] and consequently to define useful measures for assessing their degree of effectiveness and success. The areas of intervention and outcome measures are summarised in Figure 6.

- Support (including psychological) for individuals in crisis management. Debt advice has a positive impact in that it enables indebted people to avoid the most serious consequences of late payment (e.g. seizure of assets) and to deal with the debt situation from an emotional point of view, providing moral and psychological support and thus reducing stress. In this sense, the number of confiscations or seizures of collateral avoided provides a measure of success, together with subjective indicators of debt-related stress perceptions (e.g. through questionnaires).
- Paying off of past debts. One of the goals of those who use debt advice is to repay their debts in full, including through guided interaction with creditors. This goal can be achieved through rescheduling tools that enable individuals to meet their monthly instalments with less difficulty and to reach the balance of their debts. In this context, the debt advisory service enables the debtor to find an out-of-court solution,



Source: Authors' elaboration

Figure 6. Areas of intervention, outcome and reach measures of debt advisory services

thus saving on legal fees. The success of the service can therefore be measured by estimating the percentage of debts settled and the number of debts successfully renegotiated by individuals, as well as the savings in legal costs due to the out-of-court solution.

- Money management and the ability to "make ends meet". Debt advisors' help in understanding how income and expenditure affect the availability of money is a powerful tool that can enable people to acquire the knowledge and skills to manage their resources better. Debt advisors can also teach people how to deal with planned and unplanned expenditure [20] and how to prioritise payments. As noted earlier in this paper, an important value of the debt advisory service lies in this aspect of transferring knowledge and skills and improving the qualities of customers [21]. Again, objective and subjective measures can be used to assess the success of the service. In the first case, one can measure the number of days that payments are late or the percentage of payments that are not paid by the due date. In the case of more subjective measures related to individuals' perception, questionnaires can be valid tools to measure the perceived usefulness of the service to users. For example, assessing the percentage of individuals who feel that, thanks to debt advisory services, they are better able to manage their expenditure in relation to their income, to reduce non-essential expenses [22] and to make lifestyle changes where necessary (Whelan *et al.*, 2003).

To measure the effectiveness of debt advice in the medium to long term, the various aspects listed above can be evaluated over time by means of a regular survey of people who use debt advisory services, e.g. through questionnaires and interviews. This has already been done in the UK, where the impact of debt advisory services has been evaluated through in-depth interviews with a group of people who had received debt advice in 2007 over the following three years. The evidence shows that three years after accessing debt advisory services, the majority of users found them useful, mainly because of the knowledge they gained about financial management and the ability to act independently (Collins and Orton, 2010). This type of impact evaluation allows an in-depth examination of the situation and impact for a well-identified group of people and can be a good proxy for the outcomes of a particular advice service, but it may be difficult to extend to different contexts or countries due to the diverse nature of debt advisory services and the difficulty of initially tracking all the people surveyed over time [23].

Another way of assessing the impact of debt advice is to look at the number of users (Figure 6). This measurement, which is simpler than the previous ones, requires only a census of the users and contacts provided by each debt advisory service, and may also allow the collection of some demographic data that can help to better understand the profile of indebted people and the main problems they face.

However, even this attempt at measurement is not without problems: there may be differences in the way the service is used (e.g. online, anonymous, for information only) and difficulties in collecting information at an aggregate level (region or country), especially if the service is fragmented and information is not provided homogeneously by providers. For example, data show that the main debt advisory service in Denmark helped more than 15,000 people in the period 2010–2018. However, as there are other comparable services in the country, it is difficult to know how many users were actually involved.

Furthermore, when counting users, some providers count the number of people who have contacted the debt advisory service (e.g. SEK, Polish Debt Advice Service), whereas others count the number of contacts (even by the same people). Poradna in the Czech Republic records the number of total direct contacts, whether by phone or in person, whereas Luxembourg's SICS and the Austrian debt advisory service only record the number of first contacts (by any means). Again, the Irish MABS only reports the number of new users (Eurofound, 2020).

There are, therefore, several ways to measure the impact of debt counselling, or rather to approximate its success and its direct and indirect effects. Measurement can help to better understand the scale of activities and the number of actors involved. Measures and methods are not mutually exclusive: it is useful to monitor the number of users accessing the service through the different channels (face-to-face, online, telephone, etc.) to measure the scale of the service and to better understand the profile of the "typical" user, but it seems equally important to carry out more in-depth surveys of users to understand how the service has improved their ability to meet deadlines, increased their awareness of financial choices and reduced the likelihood of falling into further debt. This would also help to analyse the medium to long-term outcomes of debt advice, identify critical issues and areas for improvement and design appropriate policy responses.

6. Conclusions

This paper has provided an overview of debt advice and debt advisory services in Europe, highlighting the most important and successful experiences and making some suggestions on how to measure the impact of debt advice on the well-being of households and countries.

Debt advice is certainly a useful service in preventing or limiting the phenomenon of over-indebtedness [Eurofound, 2020; Centre for European Policy Studies-Valdani Vicari and Associati (CEPS-VVA), 2022], given its relevant practical implications:

- it provides tools and support to improve financial literacy and decision-making, empowering individuals to make informed choices and manage their finances independently (French and McKillop, 2016);
- it helps households to manage their debts more effectively, thereby reducing financial burden and stress and/or supporting those who are already in a situation of over-indebtedness (Vandone *et al.*, 2018; Vandone and Ferretti, 2019);
- it ensures that individuals are aware of their rights and obligations under relevant legal and regulatory frameworks (Stamp, 2012);
- it reduces stress-related illnesses and improves mental well-being, leading to a better overall quality of life, as well as stabilising family finances, reducing conflicts and promoting healthier family dynamics (Disney *et al.*, 2008; Ochsmann *et al.*, 2009); and
- it can have a positive impact on the economy by improving productivity levels, reducing absenteeism, maintaining or increasing employment levels and promoting social inclusion and community engagement, thereby reducing social isolation and its associated negative outcomes [EU Commission, 2021; Money advice Service (MAS), 2021].

However, despite the fact that the benefits of debt advice far outweigh the costs and extend from the individual to society as a whole, the development of debt advisory services in Europe is very uneven, with some countries having a relevant and experienced debt advice structure and others having no formal support in this area [Eurofound, 2020; Centre for European Policy Studies-Valdani Vicari and Associati (CEPS-VVA), 2022]. Indeed, one of the findings of our study is that debt advisory services are not yet available in many countries.

As recommended by the European Commission (EU, 2023), it is therefore of the utmost importance that every country has in place a high quality and effective debt advice system that is able to identify financially vulnerable households at an early stage and reach out to those in need of debt advice. The service should be free of charge to debtors and should not impose any financial burden on the debtors seeking help, to ensure that individuals struggling with debt can access the help they need without worrying about additional costs. Instead, the service should be publicly financed, as part of a wider effort to promote financial education and consumer protection. Indeed, by helping debtors to manage their finances and repaying their debts, debt advice can potentially lead to higher income and, consequently, higher tax revenues for the government.

In addition, the services should also be financed by creditors themselves who would benefit from the wider availability of debt advice: effective debt advice can improve the financial situation of debtors, and this would benefit creditors by increasing the likelihood of loan repayment.

Our study has several implications for academics and policymakers.

First, over-indebtedness is a complex and multifaceted phenomenon with significant negative consequences for households and the entire society. Debt advisory services have proven to be the most effective tool for preventing and managing financial distress. It is therefore of the utmost importance to promote international discussions to identify ways to improve debt advisory services and to encourage their adoption in countries where such services are either non-existent or not widely available.

Second, it is crucial that debt advisory services are well designed to ensure their effectiveness. Key areas of debt counselling activities should include debt and money management advice, i.e. budgeting, prioritising payments, managing relationships with creditors, legal assistance for clients facing legal action by creditors and financial education, such as basic financial information and tools to empower individuals to make informed decisions about debt and money management independently. It should also include psychological support for people experiencing stress and isolation as a result of their financial situation and should be integrated with other welfare-related services, such as income support eligibility or employment centres.

Third, measuring the impact of debt advisory services is essential to assess their effectiveness and success. Quantifying this impact provides valuable insights into how well these services are working, which can guide improvements and optimisations. In addition, solid evidence of their positive outcomes can help secure increased investment from both public and private organisations. To achieve this, a comprehensive approach is needed: more data needs to be collected, and additional academic studies are needed. This paves the way for new research on the topic. This research should not only quantify the impact of debt advice but also identify best practices, helping to refine and improve the services provided. By rigorously evaluating the success of debt advisory services, stakeholders can ensure that resources are allocated efficiently and that the services really benefit those in need.

Notes

1. Directive 2023/2225 of the European Parliament and of the Council of 18 October 2023 on credit agreements for consumers and repealing Directive 2008/48/EC. Available at the Webpage: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32023L2225
2. The use of the term "customer" to refer to the person receiving the debt advice service is in line with the ethical indications of the Centre for European Policy Studies-Valdani Vicari & Associati (CEPS-VVA) Study commissioned by the European Commission. The use of the term "customer" instead of "user" or "debtor", in fact, connotes the service as a professional service performed by individuals with specific skills and knowledge, capable of effectively assisting those who contact the debt advice provider (CEPS-VVA 2022).
3. In this paper, we will use the term "Debt advice" as a synonym for debt counselling or money advice, although there may be some differences. Indeed, typically, debt advice is provided on a "one-off" basis according to customers' requests and does not necessarily lead to the establishment of a long term relationship with the service provider (although it is possible for a customer to contact the same service several times). This differentiates the debt advice (or debt advisory) services from the debt counselling service from a terminological point of view. The latter implies a more long-term relationship between counsellor and customer, which is more suitable for solving more complex problems or problems related to particular conditions of the

debtor (or debt). In some cases, debt advisory services are included in the broader "Money advice" services, which also include advice on aspects such as credit utilisation, financial planning and eligibility for income or family support services (and other welfare instruments). However, the term "Money advice" is sometimes used as a synonym for debt advice (EU Commission, 2008) to convey a less negative connotation than "debt advice", especially in those countries where debt is still considered a stigma. (CEPS-VVA 2022). However, In the European framework, as will be discussed in paragraph 3, it is not always easy to differentiate between the three types of services, as the boundaries are often very blurred.

4. For instance, we searched for the keywords ["debt advi*" OR "debt counsel*" OR "money advi*"] in the Scopus database, which indexes published manuscripts in academic journals and volumes. As of June 2024, the database included 128 results. Even when including papers that mention debt advisory services in other fields of study (e.g. psychology or medicine), most of the papers focus on the UK or single countries, with very few providing cross-country comparisons. Among these, for example, Collins and Orton (2010) compared UK and US legislation and practices for debt counselling in mortgage defaults. Reifner and Herwig (2003), in a paper from 2003, compared Europe and the USA to explore whether and how regulation (besides debt advisory services) can contribute to improved financial education.

5. Numerous studies have empirically tested the relationship between impulsivity and the propensity to borrow/risk of over-indebtedness, but in general impulsivity tends to be overlooked in policy interventions aimed at preventing and tackling over-indebtedness [including Meier and Sprenger (2010), Limerick and Peltier (2014), Pirog and Roberts (2007), Omar *et al.* (2014), Ottaviani and Vandone (2011, 2018), Gathergood (2012) and Abrantes-Braga and Veludo-de-Oliveira (2020)]. A review by Achtziger (2022) examined the psychological impact of debt and financial hardship.

6. These values do not cover the period of the COVID-19 pandemic, as they refer to the most recent survey available, i.e., from 2017.

7. The empirical literature has identified several measures to approximate household financial difficulties (Ampudia *et al.*, 2014; Albacete and Lindner, 2013; Hlaváč *et al.*, 2012; Brunetti *et al.*, 2016; D'Alessio and Iezzi, 2016; Vandone *et al.*, 2020; Ferreira *et al.*, 2021). One of the most commonly used measures is debt burden, calculated as the ratio of debt service to income, typically measured on a monthly basis (Ampudia *et al.*, 2014; Xiao and Yao, 2020; Kowalski *et al.*, 2023). The higher this ratio, the more income is devoted to debt payments, making it a key indicator of financial fragility.

8. Financial literacy and education are key to the financial and socio-economic well-being of households (Lusardi *et al.*, 2010; Lusardi *et al.*, 2017; Stolper and Walter, 2017; OECD 2020). They are essential for preventing and limiting behaviours that lead to over-indebtedness, but also for improving financial decision-making skills (Zehra and Singh, 2023). Improving the financial capability of the population in Europe is a policy concern, particularly among the younger population. Debt counsellors can use financial education tools, such as explaining basic financial terms or illustrating tools for evaluating financial decisions.

9. In Europe, debt advice emerged in Germany in 1950 (with a service later redefined in the 1970s) and in the UK in the late 1960s. These early structures offered financial education and advice tools to the general public and, although less articulated than some of the modern debt advice services, they already had the same underlying logic and policy motivations. They were intended as a tool to help address the problems of over-indebtedness among the population, particularly the more vulnerable or less financially literate sections of the population, by providing individuals with the basic skills and tools to understand both their own financial situation and the implications of their debt (and, in some cases, savings and investment) choices.

10. www.stepchange.org/

11. www.vzbv.de/en

12. In addition to this specification, debt advisory services may vary from one country to another, due to the different evolutionary history of the services, whether they are rooted in the territory or whether there is a nationally coordinated service, the type of institution providing the service (private or public), etc.
13. In some cases, it is the welfare service that, among other services, provides assistance on debt-related issues. An example is Switzerland, where debt advisory services were provided by both Caritas and welfare offices even before the country developed a dedicated and specialised debt advice (ECDN, 2019).
14. For example, in Germany, the self-employed are excluded from many of the free debt advisory services (CEPS-VVA 2022).
15. The information is also very useful to create news related to debt advisory services, which in some cases also produce newsletters or information material for the population and, in this way, increase awareness among civil society of the existence of debt advisory services.
16. Data from the Dutch Debt Reduction Organisation (ECDN, 2019) updated to 2018 show an average number of debts of 14 and an average debt amount of €43,300.
17. For example, some private consultants (law firms) providing debt advice charge a fee of €500 for the first consultation and €500–€1,000 for follow-up cases (Eurofound, 2020).
18. The same study reports that a reduction in cases of depression or anxiety would have an additional social impact of avoided costs of up to £24m–£52m per year, with savings in mental health care costs of between £50m and £93m per year (Tinelli *et al.*, 2019).
19. The study hypotheses that stress caused by debt may affect workers' productivity (e.g. individuals not showing up for work or losing their jobs). If individuals turn to debt advisory services, they can improve their situation by accessing debt management and debt resolution tools, thereby reducing the stress related to their debt situation. This, in turn, relieves the person's stress, leading to a lower incidence of employment-related problems. This effect is quantified at £67m–£137m per year (MAS, 2021).
20. In particular, for financially vulnerable households, an event involving an unexpected expense could compromise the ability to maintain the budget and the need to take on debt. An effective debt advisory service should equip individuals with the skills to make the best decisions in these situations, perhaps even offering information on employment opportunities for individuals (e.g. by channelling or linking placement services within the debt advice structure).
21. The Irish Money Advice service, among others, has enabled individuals to increase their "financial capability" (Stamp, 2012) and is a successful example among European debt advisory services.
22. With regard to the essentiality of expenses, some expenses that could theoretically be considered non-essential (e.g. entertainment and hobbies) could still be included in the budget because they are considered necessary to maintain the psycho-social well-being of the family. For this reason, the need for the counsellor to verify the needs of the customers on a personalised basis is crucial for the budget to be established on the basis of the individual's preferences.
23. It should be noted that in some cases the debt advisory service is provided independently, to overcome resistance from debtors who experience debt as a failure and a social burden.

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