Financial Exclusion and Over-indebtedness in Irish Households

Helen Russell
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Social Inclusion Research Report

An Roinn Gnóthaí Pobail, Comhionannais agus Gaeltachta
Department of Community, Equality and Gaeltacht Affairs

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http://www.pobail.ie/en/SocialInclusionDivision/
&
http://www.esri.ie

The Foreword and the Executive Summary are available in the Irish language online at:
http://www.pobail.ie/ie/AnRannanumChuimsiuSoisialta/

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Foreword

The research report Financial Exclusion and Over-indebtedness in Irish Households was commissioned by the Social Inclusion Division in the Department of Community, Equality and Gaeltacht Affairs and was carried out by the Economic and Social Research Institute (ESRI). It uses data from the Survey on Income and Living Conditions, a nationally representative survey of over 5,000 households undertaken by the Central Statistics Office in 2008. The study has benefited from the input of many stakeholders, including a Technical Advisory Group made up of statisticians, academics, social partners and government departments and agencies.

The Social Inclusion Division has a remit to monitor poverty trends under the National Action Plan for Social Inclusion 2007- 2016. This is a timely study on two emerging social issues. The findings are relevant to Government policy initiatives, including the Financial Inclusion Steering Committee and the Expert Group on Mortgage Arrears and Personal Debt, both under the auspices of the Department of Finance.

Financial exclusion is a relatively new social policy concept in Ireland. It reflects the increasing importance of financial services in everyday life for receiving wages and welfare benefits, paying utility bills, availing of short-term credit and having 24 hour access to cash. Financial services are becoming more important as technology advances and more cost-savings are required in our financial system. Yet, a significant minority of the population, one in five, does not have access to the basic building block of financial services, a bank current account. The segmentation of the population between the banked and the unbanked leaves a minority of people with unmet needs.

Access to financial services can empower people on limited incomes to get more control over their resources and to avail of services such as affordable credit, small savings facilities and insurance for home contents. Financial inclusion is about giving people the tools and expertise to participate in mainstream society.

Household over-indebtedness is a more familiar social policy issue as evidenced by the setting up of the Money Advice and Budgeting Service in the early 1990s. In recent years there has been an increased reliance on debt as a means to participate in the consumer society. With the economic recession, this exposure has resulted in households coming under financial pressures to meet their credit repayments and bills as incomes have fallen.

This report provides a timely reminder of the continued importance of tackling poverty and social exclusion as national policy issues. The current period of great economic difficulty and uncertainty has presented a different set of social challenges than those faced when the National Action Plan for Social Inclusion (NAPinclusion) was drawn up in 2007. By delivering the National Action Plan with the support of government departments and the social partners, a significant impact on the reduction of poverty and social exclusion can be made. The challenge is to promote sustainable economic growth along with imaginative social policies, so as to enable citizens and communities to overcome the current difficulties. This will require an enhanced policy commitment to promoting social inclusion and to breaking the generational cycle of deprivation and poverty.

The report is jointly published by the Department and the ESRI. It is available in a low-cost online format and there is also an easy-to-digest research briefing in English and Irish. All those associated with the publication of this report are to be commended.

Department of Community, Equality and Gaeltacht Affairs
March 2011

Réamhrá

Is é an Rannán um Chuimsiú Sóisialta sa Roinn Gnóthaí Pobail, Comhionannais agus Gaeltachta a chuir tús leis an tuarascáil taighde *Eisiamh Airgeadais agus Rófhéichiúnas i dTeaghlaigh na hÉireann* agus ba é an Institiúid Taighde Eacnamaíochta agus Sóisialta a rinne an obair ar an tuarascáil sin. Baintear úsáid sa tuarascáil as faisnéis ón Suirbhé ar Ioncam agus ar Dhálaí Maireachtála, suirbhé ionadaíoch náisiúnta ar os cionn 5,000 teaghlach a rinne an Phríomh-Oifig Staidrimh in 2008. Chuir an t-ionchur a bhí ag an iliomad páirtithe leasmhara go mór leis an staidéar seo. Ina measc sin bhí grúpa comhairleach teicniúil ar a raibh staitisteoirí, lucht acadúil, comhpháirtithe sóisialta, ranna rialtais agus gníomhaireachtaí rialtais.

Tá sainchúram ar an Rannán um Chuimsiú Sóisialta monatóireacht a dhéanamh ar threochtaí bochtaineachta faoin b*Plean Gníomhaíochta Náisiúnta um Chuimsiú Sóisialta 2007-2016.* Staidéar tráthúil é seo ar dhá mhórcheist shóisialta atá ag teacht chun cinn agus tá na torthaí ábhartha do thionscnaimh beartais an rialtais, lena n-áirítear an Coiste Stiúrtha um Chuimsiú Airgeadais agus an Sainghrúpa ar Riaráistí Morgáiste agus Fiacha Pearsanta, atá faoi choimirce na Roinne Airgeadais.

Is coincheap beartais shóisialta sách nua é an t-eisiamh airgeadais in Éirinn. Léiríonn sé an méadú atá ag teacht ar an tábhacht a bhaineann le seirbhísí airgeadais sa saol laethúil ó thaobh pá agus sochair leasa shóisialta a fháil, billí fóntais a íoc, leas a bhaint as creidmheas gearrthéarma agus fáil a bheith ar airgead tirim 24 uaire in aghaidh an lae. Tá an tábhacht a bhaineann le seirbhísí airgeadais ag dul i méid de réir mar atá an teicneolaíocht ag dul chun cinn agus tá níos mó coigiltí costais ag teastáil in ár gcóras airgeadais. Mar sin féin, níl teacht ag mionlach suntasach den daonra, duine as gach cúigear, ar an ngné is bunúsaí de sheirbhísí airgeadais, cuntas reatha bainc. Fágann deighilt an daonra ó thaobh na ndaoine siúd a bhaineann úsáid as banc agus iad siúd nach mbaineann, go bhfuil mionlach daoine ann nach bhfuiltear ag freastal ar a gcuid riachtanas.

Cuireann rochtain ar sheirbhísí airgeadais ar chumas daoine atá ar ioncam teoranta níos mó smachta a bheith acu ar a gcuid acmhainní agus leas a bhaint as seirbhísí ar nós creidmheas ar phraghas réasúnta, áis choigiltis bheag agus árachas ar an méid atá sa teach acu. Baineann cuimsiú airgeadais le deiseanna agus saineolas a thabhairt do dhaoine le páirt a ghlacadh sa tsochaí phríomhshrutha.

Is beartas sóisialta níos comónta é an rófhéichiúnas teaghlaigh mar is léir ó bhunú na Seirbhíse Buiséadta agus Comhairle Airgid ag tús na 1990dí. Le blianta beaga anuas tá níos mó daoine ag brath ar fhiachas mar bhealach le páirt a ghlacadh i sochaí an tomhaltóra. Leis an gcúlú eacnamaíochta, tá mar thoradh ar an neamhchosaint seo go bhfuil teaghlaigh ag teacht faoi bhrú airgid a gcuid billí agus aisíocaíochtaí creidmheasa a ghlanadh ó tharla ioncaim a bheith laghdaithe.

Is meabhrúchán tráthúil an tuarascáil seo faoin tábhacht leanúnach a bhaineann le dul i ngleic le bochtaineacht agus eisiamh sóisialta mar mhórcheisteanna beartais náisiúnta. Tá dúshláin shóisialta an-difriúil tagtha chun cinn mar thoradh ar an tréimhse seo d'éiginnteacht agus de dheacracht mhór gheilleagrach le hais na ndúshlán sin a bhí romhainn nuair a dréachtadh an *Plean Gníomhaíochta Náisiúnta um Chuimsiú Sóisialta* in 2007. Is féidir dul chun cinn suntasach a dhéanamh ar laghdú bochtaineachta agus eisiaimh shóisialta tríd an bPlean Gníomhaíochta Náisiúnta a chur i bhfeidhm le tacaíocht ó na ranna rialtais agus ó na comhpháirtithe sóisialta. Baineann an dúshlán le fás inbhuanaithe geilleagrach agus beartais shamhlaíocha shóisialta a chur chun cinn chun cur ar chumas na saoránach agus na bpobal na deacrachtaí reatha a shárú. Chuige sin, teastóidh tiomantas beartais níos fearr i dtaca le cuimsiú sóisialta a chur chun cinn agus deireadh a chur leis an ndíothacht agus leis an mbochtaineacht a leanann ó ghlúin go glúin.

Tá an tuarascáil á foilsiú ag an Roinn agus an Institiúid Taighde Eacnamaíochta agus Sóisialta i gcomhpháirt. Tá sé ar fáil i leagan amach ísealchostais ar líne agus tá bileog thaighde le fáil freisin atá éasca le tuiscint i mBéarla agus i nGaeilge. Tá moladh tuillte ag gach duine a raibh baint acu le comhfhoilsiú na tuarascála seo.

An Roinn Gnóthaí Pobail, Comhionannais agus Gaeltachta
Márta 2011

Executive Summary

Financial exclusion and over-indebtedness are of major importance in Ireland and in Europe. The growing interest amongst the relevant stake-holders in Ireland is reflected in the formation of the number of high level policy groups. These include the Expert Group on Mortgage Arrears which published its final report in November 2010, the Steering Group on Financial Exclusion established in September 2010, and the National Steering Group on Financial Education established in 2006. There have also been several important publications by national agencies such as the Law Reform Commission reports on personal debt management and debt enforcement (LRC 2009, 2010a,b) and the Free Legal Aid Centres report on debtors' experiences in the Irish legal system (FLAC, 2009). Additionally, the Government's *National Payment Strategy*[1] is promoting a shift away from cash to electronic payments of benefits. This policy is closely linked to the issue of banking access among recipients of social transfers.

The growing interest in over-indebtedness is in part a response to the upsurge in personal debt and the concern that the combination of rising unemployment, falling household income and the collapse of the housing bubble, could lead to an increasing number of Irish households being unable to repay their debts. The growth of household debt during the boom years is reflected in Central Bank figures which show that credit card debt per capita increased sevenfold between 1996 and 2008, while mortgage lending increased tenfold between 1995 and 2008 (see Chapter 4, Tables 4.1 and 4.2). This rise in credit stopped abruptly in 2009. Central Bank figures on mortgage arrears are only available since September 2009; they show that in the twelve months up to September 2010, the number of households in arrears increased by 54%. This growth needs to be seen in the context of households in mortgage arrears representing 2.8% of Irish households at that time. Evidence from the Household Budget Survey suggests that access to credit increased over the boom period with the proportion of households with credit cards rising from just over a quarter in the mid-1990s to just over a half in the mid 2000s, and access to other financial services such as a bank current account also increased (see Chapter 2, Table 2.2).

This study draws on the Survey of Income and Living Conditions (SILC) special module on over-indebtedness and financial exclusion, which was carried out by the Central Statistics Office in 2008. The module provides much needed empirical evidence on these issues in Ireland, and because this is a harmonised survey, comparison across EU countries is possible. The micro-data relating to 2008 upon which the present analysis is based, were released in 2010. Therefore, this is the most recent data available for examining financial exclusion and over-indebtedness.[2] The survey contains information on 5,208 households in Ireland and is representative of the national population. While the survey was taken at the beginning of the financial crisis it is very likely that the level of over-indebtedness has increased since then. Nevertheless, the study can provide insight into the nature of indebtedness experienced by Irish households and highlight the underlying risk factors and triggers for over-indebtedness.

Financial Exclusion

According to the European Commission (2008), financial exclusion is:

> **'A process whereby people encounter difficulties accessing and/or using financial services and products in the mainstream market that are appropriate to their needs and enable them to lead a normal social life in the society in which they belong.'**

The concept of financial exclusion covers demand side factors (such as exclusion due to cost, geographical or physical access, eligibility requirements, and technological exclusion) and supply side factors, also referred to as self-exclusion. The literature identifies a number of factors which lead to

[1] See Chapter 2 for further details.
[2] The 2009 survey contains a limited set of questions on arrears and indebtedness. Initial figures have been published by the CSO (Nov. 2010) and these are reported in Chapter 5. The micro-data were not available at the time of publication.

individuals refusing to use financial services including: coming from a cash-only generation, fear of losing control over ones finances, low financial capability and poor financial literacy.

While there was a significant expansion in credit and in financial services during the boom period, the analysis below shows that at the end of the boom in 2008, many Irish households did not possess mainstream financial services. Moreover, a number of commentators have argued that the increase in the number and complexity of financial products and providers may have increased confusion and therefore make it more difficult for some people to engage with financial services (Kempson et al 2000; European Commission 2008).

This study examines financial exclusion for each of the four mainstream financial products that have been identified in the literature as being central to financial exclusion. These are:

1. Banking exclusion (bank current account)
2. Credit exclusion
3. Savings exclusion
4. Insurance exclusion.

It is important to note that the SILC special module measures access to services but does not address the broader issues of how these services are used. While respondents may have access to a service, it may not be appropriate to their needs or they may be using it ineffectively. This should be borne in mind by the reader when interpreting the findings of this study.

For each of these four services, the relationship between access and specific socio-demographic characteristics of the household are explored. Banking exclusion i.e. no bank current account, is considered the most critical aspect of financial exclusion because of its impact on access to other financial services and more broadly, its consequences for social exclusion. The survey showed that 20% of Irish households in 2008 did not have a bank current account[3]. The groups most likely to be in this category were:

- Households headed by an older person aged 65-74 years (26%) and over 75 years (36%)
- Households headed by an unemployed person (34%)
- Households headed by a person unable to work due to illness/disability (52%)
- Households headed by a person without educational qualifications (40%)
- Lone parent households (34%)
- Local authority tenants (50%)
- Households located in the bottom quintile of the income distribution (38%).

An examination of the relationship between banking exclusion and poverty showed that a high proportion of households 'at risk of poverty' did not have a bank current account (36%). This figure rose to 60% for those living in 'consistently poor' households. [4] Just over a half of those without a bank current account expressed a preference for dealing with cash (54%). While this response can be classified as "self-exclusion", it is strongly influenced by socio-economic position. Specifically, the preference for dealing in cash was particularly common among those in the older age group, those with no educational qualifications and those in the bottom income quintile. Statistical analysis, using logistic regression techniques, highlighted the importance of low income, and low education level as strong contributing factors to banking exclusion generally. Employment status and housing tenure were found to be weaker influences. It should be noted that this is an imperfect measure of banking exclusion as defined by the EU (European Commission 2008), as it does not capture those experiencing difficulties using the service.

[3] The SILC questionnaire specifies that the standard services offered by a bank current account include a cheque book, electronic transfers and a debit (Laser) card. Building society, Credit Union and post office accounts are not included as they do not provide this full range of services in Ireland.

[4] 'At risk of poverty' means households that have incomes less than 60% of median household income. Consistently poor households fall below this poverty line and lack two items on the basic deprivation scale. These definitions are used in the National Action Plan for Social Inclusion.

An examination of credit exclusion in 2008 showed that 71% of households did not have credit/loans, 65% did not have overdraft facilities (some because they did not have a bank current account in the first place) and 49% did not have a credit card/store card. Combining these three types of credit, we found that 31% of households did not have any of these forms of credit. This group of respondents were asked why this was the case. Almost two thirds (63%) responded that they did not need to borrow, 22% said they did not have credit because they would be unable to repay the debt, 7% believed that they would not be given a loan, and 7% said they did not need commercial credit because they borrowed from family/friends. We define households as being credit excluded if they lack all three forms of credit (credit/loans; overdraft facilities and credit/store cards) for reasons other than 'not needing to borrow'. Using this definition, 10% of Irish households were classified as being credit excluded in 2008. Those with the highest level of credit exclusion were:

- Households headed by an ill/disabled person (31%)
- Households headed by an unemployed person (21%)
- Lone parent households (27%)
- Tenants/subtenants to local authorities (38%)
- Low income households (21%).

The logistic regressions showed that credit exclusion is even more strongly associated with low income and low educational qualifications than banking exclusion was. Principal economic status and lone parenthood status did not play such an important role in credit exclusion. Age was not a significant predictor of credit exclusion when other factors such as income position, and employment status, were taken into account.

Savings exclusion was measured by the answer to a subjective question about the household's financial capacity to save regularly. It showed that 51% of households were unable to save. Overall there was little variation across the various groups of households analysed. There were no differences across gender and age groups for example. Nevertheless higher risks of savings exclusion did exist among some groups, such as:

- The ill/disabled (77%)
- The unemployed (88%)
- Those with low educational qualifications (65%)
- Lone parent households (73%).

Again, income level was the strongest predictor of savings exclusion and unsurprisingly a strong link was found between inability to save and poverty status.

Only a narrow measure of insurance exclusion can be derived from the survey, namely, whether or not the household has insurance for the structure and/or the contents of the dwelling. With this crude measure, 27% of households were found not to have insurance cover. Among the groups without such cover were:

- Households headed by a young person (89%)
- Households headed by an unemployed person (55%)
- Households headed by a person who is ill/disabled (53%)
- Lone parent households (68%)
- Local authority tenants (89%) and tenants in the private rented sector (91%)
- Households located in the bottom quintile of the income distribution (47%)
- Households 'at risk of poverty' (46%)
- Consistently poor households (75%).

Overall, on each of the domains of financial exclusion analysed, we found a clear pattern of higher exclusion among the more vulnerable groups in society. Further, low income levels were consistently found to be one of the strongest contributing factors.

Comparisons with other European countries, looking at individuals, rather than households, do not put Ireland into a favourable position with regard to access to a bank current account. Statistics drawn from the EU SILC 2008 showed that 17% of Irish respondents did not have a bank current account compared to an average of 6% in the EU15 and an average of 12% for EU27.[5] The Scandinavian countries had the highest levels of banking inclusion, with all households having bank current accounts. The highest levels of banking exclusion were observed in Bulgaria and Romania, where 83% and 75% respectively of individuals did not have bank current accounts.

Variation across countries in access to credit/loans was much narrower. On this measure the proportion of individuals without access was lower in Ireland (67%) than the EU15 and NMS12 average (which both stood at 72%).

The final European comparison concerns access to credit cards/store cards. There was much wider dispersion in access to credit cards/store cards across countries. In Ireland, 44% of individuals did not have access to credit cards which was below the EU15 average of 49%. The disparity between the old and new member states is particularly wide on this measure. The relatively high level of inclusion for Ireland on this financial service reflects the fast growth in these products during the recent economic boom (see Chapter 4).

Over-indebtedness

Over-indebtedness has been defined in the following way:

> **'People are over-indebted if their net resources (income and realisable assets) render them persistently unable to meet essential living expenses and debt repayments as they fall due.' (Stamp, 2009).**

Over–indebtedness should be distinguished from indebtedness, which refers to the use of credit, and which is a central and increasingly widely used element of modern financial systems. The Law Reform Commission's (2009: 10) *Consultation Paper* has offered the following definition*:*

> **'Indebtedness can be said to refer to a commitment to repay moneys which a debtor has borrowed and used. In this regard, indebtedness can be seen as a necessary and healthy consequence of the provision of credit which is beneficial to society as a whole and to individuals. The majority of credit agreements are repaid without difficulty and result in benefits for all parties to the agreement (2009: 10)'.**

While indebtedness in itself is not problematic, the unprecedented growth in personal debt in Ireland in recent years is a cause for concern, since it is now coupled with severe economic recession, high levels of job loss and significant cuts in household income. The data again come from the special SILC module which was carried out in 2008, the year that marked the onset of recession. It therefore provides a very useful insight into conditions at the early stages of the recession, and a base for future monitoring.
Over-indebtedness has been defined and measured in a wide variety of ways across the EU and elsewhere, and this lack of consensus has made comparison between countries difficult. However, there has been a recent effort to develop a harmonised measure that could be applied across the EU (Davydoff et al, 2008). The special module of the EU-SILC, which was fielded across the EU, is another important step in improving cross European measurement of this concept.

Persistent arrears is one of the key dimensions of the EU measure of over-indebtedness. As Table 1 below shows, during 2008 the most common forms of arrears were on utility bills (7.5%), followed by arrears on rent or mortgage payments (4.8%). Less than 3% of Irish households were in arrears on

5 The European-wide statistics are reported as a percentage of individuals whereas the figures for Ireland in this report, other than those discussed in the European comparisons, refer to percentages of households. This accounts for differences in the figures.

personal loans/hire purchase agreements, or in arrears on other bills. Just under 8% of households had persistent arrears (i.e., had missed more than one payment in the preceding 12 months) on at least one of these items. Additionally, 4.9% of households were currently overdrawn on a bank account due to financial difficulties and 9% of households had outstanding balances on their credit card that they had been unable to pay in the previous 3 months.

Table 1: Proportion of Households with Arrears or Other Outstanding Debts, 2008

	% households
Arrears in Utility Payments	7.5
Arrears in Rent or Mortgage Payments	4.8
Arrears in Personal loans/Hire purchase	2.4
Arrears in Other Bills	2.5
Persistent arrears on any one of the above	7.6
Overdrawn due to financial difficulty	4.9
Unable to pay credit card balance	9.0

Note: See chapter 5 below for details on how these are measured

In comparative terms, Ireland in 2008 had one of the highest levels of mortgage or rent arrears across the EU27 - second only to France. The level of utility arrears and arrears in hire purchase/loans in Ireland was also higher than the average for the EU15 countries. Taking all three forms of arrears together (i.e. the proportion of respondents with arrears on any of the three items), Ireland had a rate of 11% compared to 9% in the EU15.

Credit card debt and overdraft debt were found to differ qualitatively from arrears. While arrears were found to increase as household income declined this was not the case for outstanding credit card balances or overdraft debt. Clearly, accumulating such debt is predicated on having access to these credit services in the first place. The analysis of financial exclusion showed that lower income groups and other disadvantaged groups were less likely to have credit cards or overdraft facilities.

Following the recommendations from the EU report "*Towards a Common Operational European Definition of Over-Indebtedness*" (Davydoff et al, 2008), we adopt a composite measure of over-indebtedness. The measure is based on persistent arrears, a heavy payment burden and an inability to access money to pay for unexpected expenses. On this basis, we estimated that 5.4% of Irish households were over-indebted in 2008.

The analysis shows that there is a strong connection between low income and over-indebtedness and its sub-elements: arrears, illiquidity and heavy payment burden. Households that are over-indebted are more likely to be income poor (less than 60% of median income) and in consistent poverty. Over-indebted households also have a higher rate of basic deprivation (which includes a lack of basic consumption items such as clothes, food and heating as well as social participation), secondary deprivation (which includes a lack of household durables, car, ability to take a week's holidays away from home), environmental deprivation (which includes pollution, crime) and health deprivation (which includes limited activities due to health problems). These results suggest that income inadequacy rather than a high level of personal consumption is a key factor in over-indebtedness in Ireland.

The risk groups identified, such as lone parent households, the unemployed and the ill/disabled, also highlight the role of a persistent lack of resources in over-indebtedness. The results also show the importance of income shocks as a trigger to over-indebtedness. More than 40% of over-indebted households had experienced a major drop in income over the previous 12 months, with unemployment and pay cuts being commonly cited factors. Households without access to savings or other ways of raising resources (illiquidity) were pushed into over-indebtedness by such shocks.

The year of the survey, 2008, marked the onset of the economic recession in Ireland. The rise in arrears was already noticeable in 2008. Figures published recently by the CSO for 2009, show that the situation continued to worsen for Irish households (with the proportion of households experiencing arrears on utility bills rising from 7.5% to 9.6%. The proportion of all households experiencing rent/mortgage arrears increased from 4.8% to 5.0% (see Chapter 5, Table 5.3).

Policy Implications

As poverty and lack of resources play a key role in over-indebtedness, and are also strongly correlated with financial exclusion, solutions to these problems include the broader anti-poverty measures (such as social welfare supports, employment support, and direct service provision) as well as more focused strategies that aim to deal with more specific causes or consequences of over-indebtedness and financial exclusion.

Policies to Support Financial Inclusion

In the light of the statistical evidence arising from the analysis of the EU-SILC 2008 and based on previous research (Corr, 2006; EC 2008), a number of policy measures have been identified that would support processes of financial inclusion. The first step forward would be to give more attention to financial exclusion in the overall strategy to tackle poverty and social exclusion. The most recent program (NAPinclusion 2007-2016) deals with financial exclusion in a limited manner, with an emphasis on financial education rather than on access to services.

Access to a bank current account is a key element in the process of financial inclusion. Legislative measures and action from the financial sector to support the creation of low cost or free basic banking services,[6] enabling all households to access a minimum level of financial services would have a significant impact on social inclusion and is consistent with government and banking policies of moving toward a cashless society. Without further action to include currently excluded groups (through provision of appropriate services, education and technological inclusion), policies to minimise the use of cash will further disadvantage the financially excluded. As part of the recapitalisation of the Irish banks in 2008, the banks were asked by the Department of Finance to provide basic or introductory bank accounts as well as promoting them to "socio-economic groups where the holding of bank accounts is less prevalent and to those who find that a current account does not suit their basic banking needs" (Department of Finance, 21/12/2008). There is little evidence of progress on this commitment to date, indeed the increases in bank charges for domestic customers would seem to be a move in the opposite direction.

Financial education policies, which have been found to lead to more effective use of financial services in other countries (OECD 2005, 2008; EC 2008; EC 2009), are relatively undeveloped in Ireland. The Money Advice and Budgeting Services (MABS) provide their client group with support to improve financial literacy and capability but there are few financial education initiatives at the wider community level (see Report of the National Steering Group on Financial Education, 2009 for an overview of current provision and recommendations for future development).

Policies to Reduce Over-indebtedness

The evidence presented here suggests that lack of resources is the main factor behind over-indebtedness. Consequently, policies to tackle poverty are likely to be most effective in addressing over-indebtedness. Strategies that focus on over-borrowing, protecting consumers through regulation or increasing the financial capabilities of the population, are likely to play a smaller role in preventing over-indebtedness. Nevertheless, these strategies have been identified as important in a Europe-wide investigation of over-indebtedness (Davydoff et al, 2008). The collapse in the banking sector in Ireland has focused attention on poor lending practices and weak regulation, and current efforts to restore this sector should place consumer protection as a primary objective alongside issues of financial stability. Financial education could have a more indirect effect on over-indebtedness by increasing financial

[6] Including access to electronic services, such as payment/debit cards, electronic transfers etc.

inclusion. The analysis found that households without access to bank accounts were more likely to be over-indebted.

The main policy intervention in this area is the Money Advice and Budgeting Service, which provides supports and services to over-indebted households. This includes negotiating with creditors on behalf of clients and setting up special budget accounts (to pay creditors) and savings accounts in partnership with Credit Unions. The EU Working Group on Over-indebtedness identified debt advice as one of the essential building blocks in tackling over-indebtedness (Davydoff et al, 2008).

Policy measures to tackle the problem of mortgage arrears have been considered by the Expert Group on Mortgage Arrears. Their recommendations include: a mortgage interest deferral scheme, stopping penalty interest or arrears charges for borrowers who are part of the Mortgage Arrears Resolution Process, and the introduction of new bankruptcy laws and mechanisms to allow repossessed borrowers to stay in their homes for a time.

Since the majority of over-indebted households identified in this report are not home-owners but are located in local authority housing or the private rented sector, supports for tenants are likely to be very pertinent. Possible support could include greater involvement of the State in negotiating rent reductions for households in receipt of Rent Supplement. The high risk of over-indebtedness among local authority tenants suggests that there is a need to reassess means and to review differential rents for those household who are persistently unable to meet housing costs and meet other basic needs and commitments (such as utilities).

It would be useful to examine the reach and effectiveness of each of these interventions in order to establish the extent to which the relevant groups are included and to investigate the (short and longer term) outcomes for those who receive the service or support as well as the economy-wide implications of such interventions. Work at the EU level to define and measure over-indebtedness lays the ground for improved policy analysis. Davydoff et al (2008) suggest that the development of the harmonised definitions of over-indebtedness "will enable the empirical analysis of policy measures and their effectiveness".

The EU-SILC special module provides an important resource for further research. Comparative European research using EU-SILC which examines over-indebtedness in different policy settings would make an important contribution to this debate. Given the deteriorating economic situation in Ireland between 2008 and 2010, it would also be important to continue to collect data and conduct research on this topic. Our report highlights a number of additions and improvements in data collection which would facilitate a more accurate and comprehensive measurement of financial exclusion and over-indebtedness (see Chapter 7). While the EU-SILC special module is not yet scheduled to be repeated (up to 2014), key questions could be included in the Irish SILC questionnaire in the meantime. Given the rise in arrears levels and the growing policy concern with over-indebtedness and financial exclusion, it is increasingly important to have a firm evidence base for future policy developments.

CHAPTER 1

Introduction

1.1 Introduction

Financial exclusion and over-indebtedness are by no means new phenomena. However, the rapid rise in personal debt and consumer credit from the mid-1990s to 2008, followed by the precipitous economic crash, has made these issues increasingly pertinent. Rapidly increasing house prices, low interest rates and an expanding credit market resulted in a dramatic increase in the use of credit in Ireland and elsewhere. The level of mortgage lending per capita increased tenfold over the period 1995 to 2008, the level of credit card debt per capita rose almost sevenfold and the ratio of household debt to disposable income rose almost threefold between 1995 and 2008 (Oireachtas Library and Research Service 2010).

The banking and financial services sector has undergone major changes over recent decades. Technological developments (for example, electronic transfers, payment cards, ATM, internet) have influenced this change and have contributed to the move from a mainly cash-based economy toward a cashless economy. Participation in these transactions and in the economy requires access to specific financial services and products. Exclusion from these services, resulting either from lack of access or non-usage (including self-exclusion), constitutes a form of financial exclusion, a multi-faceted issue with a number of different dimensions.

Financial exclusion can contribute to the marginalisation of households, as they cannot fully participate in practices that have become standard within society. For example, lack of access to a bank current account can make it more difficult to start employment, as many employers will only pay into a bank account (Burden 1999; Corr 2006). Lack of access to electronic forms of payment can make it more difficult to access goods and services or to pay bills and can also mean paying higher prices (Strelitz and Kober 2007; Corr 2006). These forms of exclusion, therefore, affect the level of interaction that the household can have with the rest of the society.

The definitions, causes and consequences of financial exclusion are discussed in Chapter 2 of this report, while the extent of financial exclusion in Ireland and the factors that predict such exclusion are explored in Chapter 3, using data from the EU-SILC special module, carried out in 2008.

A distinct but related issue is that of over-indebtedness. While increased levels of personal debt form part of the extension of financial services outlined above, such as the increase in the use of credit cards and growth in mortgage lending, there is growing concern that the economic crisis will mean that a growing number of households will struggle to pay back such credit and to meet other household needs. It is only when households are unable to meet repayments and other financial commitments (such as rent payments, utility payments and expenditure) that they are considered to be over indebted. The Combat Poverty Agency, for example, defined over-indebtedness in the following manner:

> **'People are over indebted if their net resources (income and realisable assets) render them persistently unable to meet essential living expenses and debt repayments as they fall due.' (Stamp 2009).**

While there is agreement on the distinction between indebtedness and over-indebtedness, there is disagreement about how over-indebtedness should be operationalised or measured. It is important to recognise that some households may have been excluded from the easy access to credit during the 1990s and 2000s but, nevertheless, become over indebted because they are unable to pay rent or utility bills. The way in which this concept has been measured in previous research is outlined in Chapter 5. In Chapter 6 we explore this issue in Ireland, using new evidence from the EU-SILC 2008.

While the concepts of financial exclusion and over-indebtedness are distinct and analysed separately, there are a number of connections between these two issues. Firstly, the social groups at risk of over-indebtedness and financial exclusion overlap in many ways (Gloukoviezoff 2006; Kempson 2002; Kempson and Whyley 1999a; McKay and Collard 2006). There is also a link between both processes and poverty and social exclusion.

Secondly, financial exclusion and over-indebtedness may be causally related. This relationship may run either way. On the one hand over-indebted households, because of their poor credit record, may face difficulties in accessing a full range of financial services from regulated financial service providers. On the other hand, lack of access to conventional financial products and services, such as credit from mainstream services, can push consumers into accessing credit from moneylenders (Byrne *et al.* 2005; Corr 2006) with higher interest rates, therefore putting such households at greater risk of over-indebtedness.

In a national context, as well as at a European level, the issues of financial exclusion and over-indebtedness have received increasing attention over recent years from academics, the financial sector and from policymakers. On the issue of financial exclusion, at a national level, we note the recent work by Corr (2006), the creation of the Steering Group on Financial Education (2006) and the reference to financial exclusion in the most recent government programme to tackle poverty and social exclusion (the National Action Plan for Social Inclusion 2007–2016, p71). More recently, a national Steering Committee on Financial Inclusion was established in September 2010. The aim of the group is to carry out a review of the options available to achieve financial inclusion in Ireland. It is made up of key stakeholders from government departments, consumer organisations and the financial services industry.

The creation of the Expert Group on Mortgage Arrears and Personal Debt in February 2010 underlined the policy concern with the issue of over-indebtedness as part of the current economic and financial crisis.

At European level, the European Commission has published reports on both issues (EC 2008; Davydoff *et al.* 2008) and carried out a public consultation on access to a basic payment account (2010). The inclusion of a special module on financial exclusion and over-indebtedness in the EU-SILC 2008 also signals the interest of the European Union in these issues. This report is based on the statistical analysis of the Irish EU-SILC 2008.

Section 1 looks at the issue of financial exclusion in Ireland, while in Section 2 the focus of the analysis is on over-indebtedness. Chapter 2 presents an overview of financial exclusion in Ireland using national and international literature. It deals with the definitions and measurement issues around the concept of financial exclusion. It also describes the banking and financial sector in Ireland. In Chapter 3, drawing statistical results from the EU-SILC 2008, we explore the extent of financial exclusion across four domains: access to banking, credit, savings and insurance. For each of these domains we explore the relationship between the characteristics of households and their level of exclusion. The chapter then compares the Irish situation to other European countries.

Section 2 of the report examines the issue of over-indebtedness. In Chapter 4, we present an overview of over-indebtedness, based on national and international literature, focusing on issues of definition and measurement. The chapter also looks at the factors leading to over-indebtedness and describes the evolution of credit and mortgage arrears from the late 1990s to the current period (as far as the data allow) and the population most at risk.

In Chapter 5, the extent of arrears and over-indebtedness, as well as the distribution and triggers to over-indebtedness in Ireland, are examined, based on the analysis of EU-SILC 2008. In Chapter 6, we place the over-indebtedness situation in Ireland into a European context by presenting comparative descriptive statistics.

Section 3 concludes the report by summarising the results on both issues and ends by highlighting the policy implications of the study for addressing financial exclusion and over-indebtedness. The conclusion also outlines the range of issues for future measurement and analysis of these topics.

SECTION 1

Financial Exclusion in Ireland

CHAPTER 2

An Overview of Financial Exclusion and Financial Services

2.1 Introduction

The period of economic growth that Ireland experienced during the 'Celtic Tiger' years and the rising overall level of wealth contributed to an increasing use of financial services (mortgages, loans, debit and credit cards, etc.) by Irish households. This rise was also stimulated by a transformation of the financial services industry, not only in terms of technological progress but also in terms of the proliferation of financial products and services aimed at private customers.

However, in spite of these developments, it appears that many people in Ireland do not have access to or are unable to access what are increasingly regarded as necessary products and services. Statistics from the Household Budget Survey 2004–2005 showed that 23% of households did not have a bank current account, 47% did not have a credit card and 69% did not have ATM cards. Nowadays, because of the widespread diffusion of these financial products, the high level of interaction between many financial services, as well as the way in which society operates, it is widely acknowledged that lack of access to and difficulties in the use of these services limits full interaction and participation in society. Therefore, financial exclusion is considered as being part of a more general process of social exclusion (Kempson and Whyley 1999a; Loisy 2000).

Since 2008, Ireland has moved from a buoyant economy to a severe recession. Financial crises can have many profound economic and social consequences, one of which is to contribute to and/or exacerbate the process of financial exclusion (Leyshon and Thrift 1995). Given the current economic environment of recession, rising unemployment and financial crisis, one can thus appreciate the importance of examining the extent of financial exclusion in Ireland today. In the first part of this chapter, we will present an overview of the banking and financial sector in Ireland, before defining financial exclusion. Section 2.4 presents briefly, the particular groups who have been found to be more exposed to financial exclusion, Section 2.5 looks at the main domains of financial exclusion and Section 2.6 outlines the main policy developments in Ireland.

2.2 Ireland's Banking and Financial Sector

It is particularly relevant to present a brief overview of the banking and financial sector in Ireland. The specific characteristics of an economic sector, as well as the services and products available, could potentially constitute barriers to the consumer in terms of access and utilisation.

The number of retail bank branches in Ireland has been quite stable for the last 15 years. In 1997, the estimated number was 923 bank branches, reaching a high of 950 in 2007 and falling to 939 in 2008.[7] Since then, however, we have seen closures of new suppliers such as Halifax and Postbank. The closure of these two suppliers is likely to have affected access to financial services for people on low incomes. The current banking crisis is also likely to lead to further restructuring in the Irish retail banking sector.

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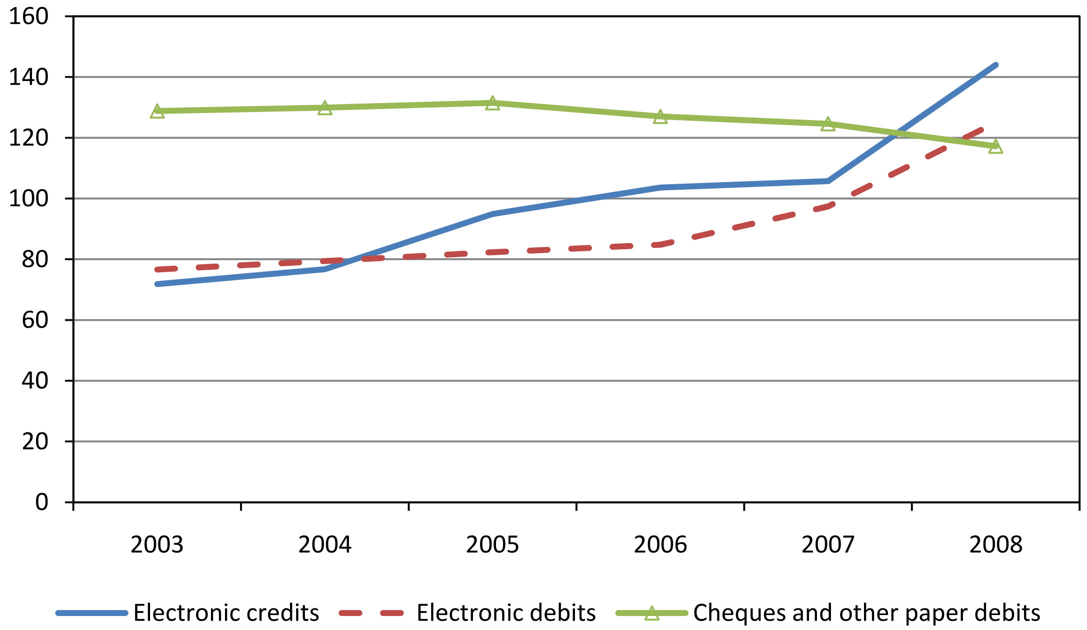
[7]Includes AIB, Bank of Ireland, Halifax/Bank of Scotland (Ireland), National Irish Bank, Permanent TSB and Ulster Bank Group. Ulster Bank Group acquired First Active in 2004. It excludes Postbank.

Over the last decade the Irish banking sector has seen considerable change in the supply of services to its customers. One of these changes has been the proliferation of ATM facilities. The number of ATM facilities increased from 1,412 in 2002 to 3,404 in 2008. This represents an increase of 141%. The number of debit cards increased three fold between 2003 and 2008 as it went from one million to 2.9 million. Over the same period the number of credit cards went from 1.8 million to 2.4 million.

These trends in services signal a major change in the financial service industry over the recent period: the development of electronic transactions. These have radically changed the form of payments utilised and the way money circulates in the economy. The trend towards cashless economies is not only the consequence of a general movement, instigated by financial and commercial institutions, but is also part of government policy under the National Payments Strategy, which aims to reduce the use of cash and cheques. See: http://www.ipso.ie/section/NationalPaymentsImplementationProgramme).

This trend is illustrated in Figure 2.1, which presents statistics on the utilisation of various financial transactions for the period 2003 to 2008. As we can see, the volume of electronic debits increased by 63% between 2003 and 2008. For the same period, it has been reduced by 9% for cheques and other debits. The volume of electronic credit has exceeded the volume of cheque/paper debits since 2007. These developments have significant implications for access to services and for customer behaviours.

Figure 2.1: Volume of transactions (in millions) by type of transaction, 2003 to 2008



Source: Irish Payment Services Organisation

We now move on to a description of the services offered to Irish consumers by financial service providers in Ireland. The recent publication by Corr (2006) has described quite extensively the Irish situation of the banking, credit and savings market. Corr (2006) also provides an overview of the services each of these sectors offer, as well as the type of barriers consumers, particularly low-income households, might face in terms of access, price and conditions. In Table 2.1, we summarise the retail financial services providers that are available in Ireland and the types of services they offer, based on the most recent information available.

Table 2.1: Retail Financial Service Providers in Ireland in 2010

Banks	Provide the full range of retail financial services, including: • Current accounts • Savings and investment products • Loans • Pensions • Mortgages • Insurance • Credit cards
Building Societies	The following retail financial services are available from the three main providers: • All three provide savings and investment products. • Two provide pension products. • Two provide mortgages. • Two provide insurance products. • One provides credit cards. • One provides debit cards. • Building societies do not provide current accounts, though the main provider, EBS, offers a demand savings account where wages/social welfare payments can be paid electronically.
Credit Unions	The main financial services provided by the 414 credit unions are: • Savings accounts • Loans • Credit Unions do not offer current accounts, though some offer basic transaction services. • A small number accept wages by electronic fund transfer. • Approximately fifty percent offer direct debit/standing order facilities. • Some offer an ATM service. • 5% of Irish League of Credit Unions (ILCU) affiliated credit unions provide debit cards.
An Post	An Post – General Financial Services • Savings accounts • Bill Pay • Money transfers • Prize bonds • Insurance (life, home and motor) • Household Budget - allows people who are in receipt of certain social welfare payments to pay regular amounts towards household bills by direct deduction from their payments (ESB, local authority payments, Bord Gais, Eircom). • It can also be noted that 48.6% of social welfare payments are made by Postal Draft and available at designated post offices.

Sub-prime market	There are a number of providers operating in the sub-prime credit market. • Mortgage providers (for example, Start Mortgages, NuaHomeloans, GE Money, Springboard Mortgages) • Agency mail order catalogues provide customers with catalogues, from which to purchase items payable on a weekly basis at a fixed rate of interest. • Other sub-prime credit providers include cheque cashers, pay-day loans and buy-back stores, though there is limited information on the extent to which they operate in Ireland (Corr 2006).
Sub sub-prime market	Moneylenders in Ireland represent a sizeable section of the market. Approximately 47 licensed traders serve approximately 300,000 customers. According to the Financial Regulator (2007), this represents approximately 10% of the Irish population over the age of 20. • Although some organisations offer loans up to €3,000, the average loan ranges from €300 to €450 (Corr 2006). • Loan terms vary from 20 to 50 weeks. • Payments are collected on a weekly basis, usually at the borrower's home. • Moneylenders can legally charge interest rates ranging from 23 to 200 per cent APR. While there are approximately 47 licensed traders, a number operate hire purchase style agreements and are not involved in cash loans. • Few pawnshops exist in Ireland. The service offered by those who operate appears to be increasingly limited to jewellery. Cash converters provide a "buy-back" service, which is essentially a pawn service. There were four outlets in Ireland in 2010.

Sources: The credit provider's template is taken from Corr, C. (2007).
Financial Regulator: http://www.financialregulator.ie/Pages/home.aspx National Consumer Agency: http://www.itsyourmoney.ie/
Central Bank: http://www.centralbank.ie/ The Irish Times: http://www.centralbank.ie/
An Post: http://www.anpost.ie/AnPost/MainContent/Personal+Customers/Money+Matters/
EBS: http://www.ebs.ie/ Irish Nationwide Building Society: http://www.irishnationwide.ie/
The information on sub-prime mortgage lenders currently in operation comes from IrishMortgageBrokers.iewww.mortgagebrokers.ie/blog/index.php/2008/07/29/irish-mortgage-lenders-who-provides-mortgages-in-ireland/
Byrne, N., .McCarthy, O., Ward, M. (2007); Corr, C. (2006).

Despite this proliferation in the number of financial products and services, it is still argued that products for lower income groups, such as affordable basic bank accounts, are non-existent in Ireland and that there is a real need for such services (Brown and Thomas 2005; Corr 2006). A survey, carried out by Millward Brown in 2005 found that 29% of adults had a personal loan. The majority of loans were from the credit union sector (54%), while Bank of Ireland and AIB had an almost equal share of loan customers at 20% and 15% respectively.

The economic boom (including rising employment and earnings), the over-heated housing market, low interest rates and tax relief for residential property investments all played a part in the vast changes in the mortgage market and the large increase in the number of residential loans. Figures from the Department of the Environment, Heritage and Local Government show that the number of residential loans approved went from 49,288 in 1995 to a peak of 120,037 in 2000 (this represents an increase of over 143%), before falling back to 55,879 in 2008. Figures for 2005 suggest that 82% of adults had a savings account and that the credit union is the leading supplier of saving services (40%), just followed by Bank of Ireland and AIB (O'Loughlin 2006). However, these figures did not include post office savings.

The growing importance of technological developments (including electronic transfers, debit/credit cards, ATM facilities, telephone/internet banking, etc.) in the banking and financial sectors that took place in the recent period, as well as the multitude of products, can affect people's attitude towards money and financial services (GfK NOP, 2010). They also require a greater knowledge among consumers in order to understand and adapt to the additional complexity, which might create a further barrier to accessing financial products and services among certain groups.

2.3 How has financial exclusion been defined?

Originally, financial exclusion was perceived in terms of physical and geographical barriers preventing access to services and banking outlets (Pratt *et al.* 1996a, 1996b; Leyshon and Thrift 1993, 1994, 1995, 1996a, 1996b). Since then, the discussion has moved from physical barriers to a broader concept and, in recent years, there has been a growing consensus in the literature that financial exclusion is a multi-dimensional concept (Kempson and Whyley 1999a, 1999b). There has also been a move away from viewing financial exclusion as a polarised phenomenon, whereby you were either 'in or out' (Kempson and Whyley 1999a) to a more graduated concept (Atkinson *et al.* 2006; Dixon 2006).

The interest in financial exclusion over the last decade has seen many contributions from academics and policymakers and a move towards establishing a clear definition of the concept. Based on these contributions, the recent European Commission report on financial exclusion (EC 2008) has proposed the following definition of financial exclusion:

> **'Financial exclusion refers to a process whereby people encounter difficulties accessing and/or using financial services and products in the mainstream market that are appropriate to their needs and enable them to lead a normal social life in the society in which they belong.'**

As we can see, this definition identifies four important elements in the concept of financial exclusion. The first element relates to difficulty in accessing financial services, which can arise for a range of reasons (see following section). The second element of the concept covers difficulty in the use of available services. People might have access to the service but have difficulties in using it. Therefore, they end up not using it. This could be due to technological barriers such as internet banking, for example, but also to difficulties with respect to banking rules (Gueneau 2000) or difficulty in weighing up the best options in the face of multiple bank charges and products (Gloukoviezoff 2004).

A third element is that the service is appropriate, i.e. that it provides the service that the customer requires and is suitable for the customer's needs. The final element of the definition is that financial exclusion contributes to the process of overall social exclusion. As we will examine later on in this report, operationalising this concept presents real challenges in terms of measurement, as very often we measure access but not use.

Originally, discussion and analysis of financial exclusion focused on physical and geographical barriers. Then the literature on the subject began to identify the factors that contribute to access and use difficulties. We can distinguish three major sets of contributing factors. These are: supply side factors (policies applied by financial services that exclude or deter people from their services); demand side factors (reasons why customers give up or refuse to use financial services); and societal factors. In the following section, we present these three factors, as described in detail in the European Commission report on financial exclusion (EC 2008).

Supply side factors

On the supply side, previous research has highlighted a complex set of overlapping barriers to access to and use of mainstream financial services (Kempson and Whyley 1999a, 1999b; Kempson *et al.* 2000; Collard *et al.* 2001, 2003; HM Treasury, 2004; Clark and Forter, 2005; Atkinson *et al.*. 2006; Collard 2006, Mitton 2008). Whilst these are interlinked, they can be conceptualised as follows:

Geographical Exclusion

Geographical Exclusion concerns geographical access to services and banking outlets in particular (Leyshon and Thrift 1993, 1994, 1995). The original debate was framed by the restructuring of financial services in the US and UK in the late 1980s and early 1990s, when it was observed that the removal of services particularly affected rural and poor communities (Leyshon and Thrift 1995). Physical exclusion can also apply to those with restricted mobility, either due to old age or disability, or lack of access to private transport, or public transport services (Kelly and Parker 2005). In Ireland, so far, the spatial distribution of financial services has not been analysed.

Technological Exclusion

Technological advances (internet, telephone banking) have altered the way consumers traditionally bank. Technological exclusion, therefore, refers to those customers who, from fear or lack of familiarity, are not in a position to conduct their banking through such forms of technology. It should be noted that some of those groups affected by restricted mobility (and, therefore, geographical exclusion) may also be vulnerable to technological exclusion and, therefore, cannot access this potential solution to lack of physical access. In particular, the elderly and low-income households are less likely to avail of internet or telephone banking (Corr 2006).

Access exclusion

Access exclusion refers to those situations where some groups may be restricted in accessing financial services through the processes of risk assessment. Literacy requirements can also inhibit access for those with low literacy and/or English language competency skills.

Condition exclusion

This applies where the conditions attached to financial products, such as the rate of interest or minimum deposit required, make them inappropriate to some groups. Identification requirements, as a result of anti-money laundering legislation, can also be viewed as an obstacle for marginalised groups.

Price exclusion

This occurs where the prices of financial products prohibit access. This would include bank charges, interest rates and the cost of insurance premiums.

Marketing and information exclusion

In terms of marketing, some people, especially less profitable groups, are effectively excluded by target marketing and so they are not aware of financial services available. A lack of financial information, advice and education can also lead to ‘under use’ of financial services. Poor information or advice can also lead to inappropriate services for consumers.

Demand side factors

Demand side factors, often referred to as self-exclusion, can vary from disengagement to socio-cultural or psychological barriers that deter people from accessing and using transaction banking services. This can be as a result of a number of influences, as in the case of, for example, elderly people who come from a ‘cash only’ generation (EC 2008) or are limited in their extent of engagement due to technological advances. Migrants and people on low incomes more generally may regard banking as only appropriate for those who are better off and/or fear losing control of their money.

Additionally, some commentators believe that demand aspects are also influenced by low levels of financial capability or financial literacy, arguing that in order to be financially included one needs the capacity to make informed and appropriate choices, which reflect individual circumstances (Mitton 2008; Regan and Paxton 2003). In this sense, product availability is insufficient on its own. One must also be financially literate and capable and, thus, have suitable advice to make the appropriate financial decisions.

One cannot ignore the possibility that the decision for not having/using some financial products might be motivated by genuine personal preference. However, personal preference can also be influenced (simultaneously or not) by other factors and constraints, and the primary motivation for not having/using a product becomes difficult to identify. These issues are discussed in the next chapter when we begin to measure financial exclusion, using the EU-SILC data.

Societal factors

A range of societal factors have been identified as having an impact on people's access to and use of financial services. Kempson *et al.* (2000) argue that demographic changes, such as an increase in divorce levels or young people leaving home at an older age, may affect levels of financial exclusion. The EC (2008) also highlights the fact that social assistance programmes can play an important role – both in terms of the level of payments and the method by which they are made, which can influence the extent to which people engage with financial services.

Other commentators argue that liberalisation of financial services markets has led to an increase in the number and complexity of financial products and providers (Atkinson *et al.* 2006; Kempson *et al.* 2000). The EC (2008) notes that, while a more liberalised financial service market may have increased access to financial services, it may also increase confusion and, therefore, make it more difficult for some people to engage with financial services.

2.4 Groups vulnerable to financial exclusion

There is a wide body of research about the determinants of financial exclusion, which concur in identifying the most economically and socially disadvantaged groups of the population who are the most vulnerable to financial exclusion. Being on a low income was the most common contributing factor across a wide range of European countries (Anderloni 2003; Bayot 2005; Corr 2006; Devlin 2005; IFF 2000). Other characteristics found to increase the risk of financial exclusion are: being a young person or an older person (Goodwin *et al.* 2000); having a lower level of education; being single or a lone parent; being a member of a minority group (Kempson and Whyley 1999a; Russell *et al.* 2008); or being welfare dependent (Kempson and Whyley 1999a).

On the latter point, recent Irish statistics (April 2010) from the Department of Social and Family Affairs show that 76% of payments of the Supplementary Welfare Allowance scheme were made by postal draft, 20% by cheque and 4% only by electronic transfer (see Appendix Table A1). In the case of Child Benefit payments, which is a universal payment and, therefore, covers families with children across all income groups, a total of 62% of payments were made by electronic transfer.

2.5 Measurement of financial exclusion

There is general consensus among the research community, the financial institutions and policymakers that the main financial services that should be considered when we are making reference to financial exclusion are the following:

- Banking exclusion;
- Credit exclusion;
- Savings exclusion;
- Insurance exclusion.

Banking exclusion

The term banking exclusion refers to lack of access to or use of a bank account and the associated financial transactions (for the range of reasons outlined above). Nowadays, many financial transactions between different economic actors (be this personal, corporate, or state) are carried out between bank accounts via electronic transfers, either with or without paper support (see Figure 2.1). Focusing on personal access and use, bank exclusion involves exclusion from financial transactions such as the ability to receive electronic payments (such as wages or social welfare payments); to pay for purchases or bills electronically (e.g. through payment/debit cards or through direct debits/standing orders); to write cheques; and to lodge and withdraw cash, when required. In Ireland this full range of services is only available to current account holders in retail banks.

Lack of access to these services can have serious implications. Those without a bank account can face greater difficulty in starting employment, as many employers will only pay into a bank account (Burden 1999; Corr 2006). The absence of such facilities can also make paying bills more time consuming and onerous (Corr 2006). Additionally, many utility suppliers charge more for cash payments (for example, through metered services), which can result in poor people paying more in an increasingly cashless economy (Strelitz and Kober 2007). As discussed in more detail below, lack of access to a bank current account can also restrict access to other financial services and products, such as credit, mortgages and some investment/saving schemes.

It is also possible to perceive a gradation in access to and use of banking services, rather than a simple dichotomy of exclusion or inclusion. For instance, some individuals may lack any bank account and deal wholly in cash, while others may have a bank account, but not have access to, or experience difficulty using, some form of payments (electronic payment cards, cheque books, etc.).

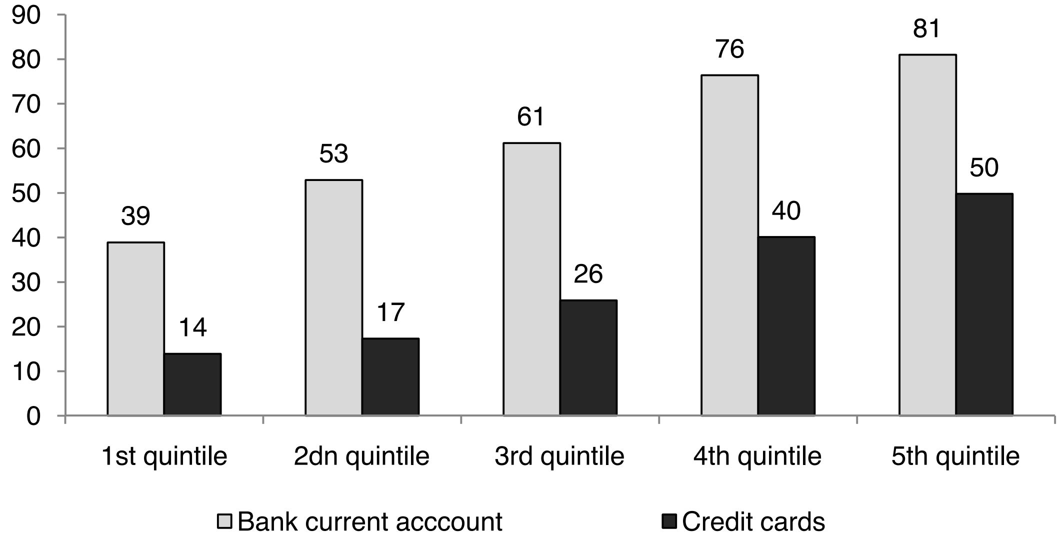
Unfortunately, the collection of information about access to financial services for households and, by extension, about financial exclusion in Ireland from survey data is relatively recent and limited in scope. The Household Budget Survey (HBS), which is carried out every four years, contains very detailed information about households' expenditure and methods of spending. Information is collected on household access to a bank current account, as well on the usage of credit cards. In 1994-1995, just over half of all households in Ireland had a bank current account (Table 2.1). By 1999-2000, bank current account access had increased by 14 percentage points to 67%. The increase continued but at a somewhat slower pace, between 1999-2000 and 2004-2005, when there was a further increase of 10 percentage points in the proportion of households with bank current accounts. By 2005, the HBS recorded that 77% of households had a bank account, which is very close to the Irish SILC figure of 80% in 2008. In all years, the proportion of rural households with bank current accounts was somewhat higher than the proportion of urban households.

Figure 2.2 illustrates that there is a clear linear relationship between the household income position and possession of bank current account. Households in the top quintile of the income distribution have twice the level of access (81%) than households at the bottom of the income distribution (39%).

Table 2.2: Percentage of Households having a bank current account, credit cards, HBS 1994-1995, 1999-2000, 2004-2005

	1994-1995			1999-2000			2004-2005		
	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural	Total
Bank current account	51.1	55.3	52.6	66.2	69.2	67.3	75.6	79.8	77.2
Credit cards	31.0	17.7	26.1	47.9	32.2	42.2	57.6	45.1	52.8

Figure 2.2 : Percentage of Households with Bank Current Accounts, Credit Card(s), HBS 2004-2005



Because of the importance of having a bank account for managing household finances and participating fully in economic and social life, exclusion from banking services is regarded as the key indicator of financial exclusion (Corr 2010; Sinclair *et al.* 2009). Access to banking services is also a gateway to some other financial services (credit, savings, mortgages, investments) and banking exclusion is more likely to be associated with greater social exclusion than the other components (Kempson and Whyley 1998; Kempson and Whyley 1999a).

Credit exclusion

Credit exclusion refers to exclusion from affordable and appropriate credit facilities, such as an overdraft facility, credit card or loan. Exclusion from credit facilities can arise from different, and sometimes overlapping, barriers. For example, an individual may not be able to access credit, following the risk assessment process. Or the conditions attached to financial products, such as the rate of interest or terms of the loan, may make them inappropriate to some groups (Kempson and Whyley 1999a, 1999b; Kempson *et al.* 2000; Collard *et al.* 2001, 2003; HM Treasury 2004; Clark and Forter 2005; Atkinson *et al.* 2006; Collard 2006, Mitton 2008).

The consequences of exclusion from affordable and appropriate credit facilities are manifold. This form of exclusion can leave individuals with no option but to look outside the formal 'market-regulated' financial system to satisfy their financial services needs. Often, this can mean high interest credit from moneylenders or loan sharks and, thus, can result in individuals experiencing heavy burdens of debt. This also has a knock-on effect on a person's mental well-being, as the consequences of over-indebtedness can include stress, depression and a sense of insecurity (Balmer, 2006; Corr 2006; Pleasence *et al.* 2007).

As noted in the first section of this chapter, the use of credit cards has increased dramatically over the recent period. The HBS figures show that household access to credit cards has also widened considerably (CSO 2007). The proportion of households with a credit card doubled over the ten-year period examined from 26% in 1994-1995 to 53% in 2004-2005. There is a much stronger urban/ rural divide in the possession of credit cards than in the use of bank accounts.

As with access to a bank current account, possession of a credit card(s) varies strongly with household income position. The level of access to credit cards for households at the top of the income distribution (50%) is almost three and a half times greater than for households located in the bottom quintile of the income distribution (14%). While the use of credit cards has increased rapidly for both urban and rural households, urban households were still more likely to have a credit card in the latest figures (58%) than rural households (45%). Over time, the gap between urban and rural households has narrowed somewhat.

Savings and Insurance Exclusion

The issue of savings exclusion, according to the EC report on financial exclusion (EC 2008) is of a different nature to bank or credit exclusion. Indeed, the issue here is often not about the lack of access to savings products, but about the conditions attached to the products, the difficulty using them and the lack of knowledge about them. Difficulties may arise around the minimum amounts required, the notice period for withdrawals, or the belief that a minimum deposit is always required (Kempson 1998; Personal Investment Authority, 1997; Vass 1997; Rowlingson *et al.,* 1999*).*

Other studies have focused on households' ability to save regularly, as an indicator of financial inclusion (Gordon *et al.* 2000; Sinclair *et al.* 2009). Layte *et al.* (2000) reported that, in 1997, 82% of Irish people felt that the ability to save regularly was a necessity, and that 34% did not save regularly, because they could not afford to do so (down from 55% in 1987). The figure had increased back to 55% in 2004, according to the EU-SILC 2004 (Corr 2006). This was a particular problem for those living in income poverty (83%) and consistent poverty (90%) (EU-SILC 2004, cited in Corr 2006 p179).

While access to saving and insurance facilities are seen as somewhat less central to measures of financial exclusion than banking exclusion, the consequences of not having these services are nonetheless severe – leaving households with no security or flexibility for unexpected events and no assets for the future, which can also lead to poverty in old age (Kempson *et al.* 2000; Corr 2006; Mitton 2008).

As might be expected, income represents a major influence on whether households access savings and/or insurance policies. Corr (2006, p179) reported that inability to save was a particular problem for those living in income poverty (83%) and consistent poverty (90%). In the UK, Kempson *et al.* (2000) found that, due to lack of disposable income, it is rare for low-income households to have insurance policies. Corr (2006) cites other barriers, including lack of knowledge of what is available in the market or conditions attached to policies, such as the notice period to draw down savings, or the cost of insurance premiums.

As detailed in the next chapter, because of data limitations, for the purpose of this study, financial exclusion shall refer to exclusion from financial products, including bank current accounts (not savings accounts from credit unions or An Post), credit, savings and insurance. In the main, we measure *access* to these products, as there is limited information on 'use difficulties' or on the appropriateness of services. However, in the case of saving, the indicator used is 'inability to save'. The study recognises that there is a complex set of overlapping processes that influence access to mainstream financial services, as outlined above, though it is only possible to explore some of these processes with the EU-SILC data (This issue is discussed in the next chapter).

2.6 Policy Developments

Policies to tackle financial exclusion can be divided into two main groups – those that are the domain of the legislator, and those that are the domain of the stakeholders, i.e. financial institutions and consumers. We examine the developments under these two headings.

Legislation

Government policy for tackling poverty and social exclusion has been set out in a series of national programmes or plans. The current National Action Plan for Social Inclusion 2007–2016 incorporated financial inclusion for the first time, but only in a limited way. While the document notes that the Financial Regulator is 'considering the policy implications within its remit of the 2006 study, *Financial Exclusion in Ireland: an exploratory study and policy review'* (Corr 2006), the emphasis in the NAPS 2007–2016 is limited to improving consumers' financial literacy and competency (via the role of Financial Regulator) and to the role that MABS can play on advising consumers.

The Financial Regulator has established a series of legislative codes of conduct and regulatory requirements (for example, the Consumer Credit Act 1995, the Consumer Protection Code and minimum competency requirements) to regulate the activities of banks, financial institutions and insurers and to reinforce consumer protection. While some European countries (for example, Belgium, France, Sweden) have introduced legislation on the right to a bank account, no such legislation exists in Ireland.

Stakeholders

1. Financial and banking institutions

In Ireland, the Irish Banking Federation (IBF) has established a number of codes of practice around consumer protection (see Chapter 4, and Corr 2006). However, there is no code on the promotion of basic banking services. In 2006, the Government set up the National Steering Group on Financial Education, which includes the IBF and other participants. The aim of the group is to support action to increase financial capabilities (See report: *Improving Financial Capability - A Multi-Stakeholder Approach* 2009). More recently, a Steering Group on Financial Exclusion has been established.

As part of the recapitalisation of the Irish banks in 2008, the banks were asked by the Department of Finance to provide basic or introductory bank accounts, as well as promoting them to 'socio-economic groups where the holding of bank accounts is less prevalent and to those who find that a current account does not suit their basic banking needs' (Department of Finance, 21/12/2008). There is no evidence to show that the banks have delivered on this commitment to date.

Credit unions were set up in the 1950s with the aim of providing financial services to disadvantaged communities. Among the services they provide are budget accounts to members in financial difficulties. More recently, they have been involved in initiatives with the Money Advice and Budgeting Service MABS (see below) to provide savings accounts and other services to households excluded from mainstream financial services.

2. Consumers

On the consumer front, policy measures to tackle financial exclusion focus on programmes to improve financial literacy and the capability of vulnerable households. In Europe, the European Commission has highlighted the importance of increasing the ability of citizens to understand and engage with financial products and services ((COM (2007)) 808). The Commission established guidelines for financial educators and has engaged in some practical initiatives.

In Ireland, there have been some initiatives to improve financial literacy and capability. The most important development in this area was the establishment of MABS in the 1990s (see Chapter 4 for further discussion). MABS is dedicated to assisting households who are in debt. Part of that support involves improving the financial capability of clients. MABS have also recently become involved in a wider programme of financial education in the community, but this is limited to Transition Year students. The work of the National Steering Group on Financial Education also falls within this category.

2.7 Conclusion

The growing importance of financial transactions in modern societies, which Servet (2004) has called the 'financialisation of social relations' means that exclusion from these processes constitutes a form of financial exclusion. While financial exclusion was perceived originally only in terms of physical and geographical barriers, there is now a growing consensus that it is a more complex, multi-dimensional phenomenon, which forms part of a process of social exclusion. The expanding body of research on financial exclusion has identified three major contributing factors: supply side factors (for example, geographical exclusion, condition exclusion, price exclusion); demand side factors (such as self-exclusion and lack of financial literacy), and societal factors (for example, demographic changes).

International research has shown that there is a strong relationship between financial exclusion and level of income and that particular groups, such as younger and older people, unemployed people, lone parents and members of minority groups, are more vulnerable to financial exclusion. One of the major challenges to understanding the extent of financial exclusion is the difficulty in measuring access, use and appropriateness of various financial services. Very often, financial exclusion has been examined in terms of mainstream financial services, such as banking, credit, savings and insurance. The Irish EU-SILC 2008 special module on financial exclusion and over-indebtedness provides us with the opportunity to explore the extent of financial exclusion in Ireland in a manner that has not been possible before. This analysis is presented in the following chapter.

CHAPTER 3

The Extent of Financial Exclusion in Ireland

3.1 Introduction

In this chapter, the statistical analysis of financial exclusion in Ireland draws from the Irish EU-SILC 2008 survey, which includes a special module on over-indebtedness and financial exclusion. A detailed description of the EU-SILC survey is documented in the methodology section in the Appendix.

Before proceeding to the analysis of the Irish EU-SILC, it is important to highlight some of the limits of the survey. We saw, in the previous section, that the definition of financial exclusion includes the notion of access to financial services and difficulty in using those services, as well as the inappropriateness of the financial products available to the public. Unfortunately, in the Irish EU-SILC survey and in the social exclusion module, the design of the questionnaire is such that it collects only information on the first dimension, while no information is collected on the last two dimensions. As a consequence, this narrows the measurement of financial exclusion as described below; possibly underestimates the extent of exclusion; and affects the identification of the groups most likely to experience such exclusion.

The Irish EU-SILC 2008 provides information about the four 'mainstream' financial services outlined in the previous section. These are: access to a bank current account; credits and loans; savings capacity and use of insurance services. The extent and quality of information on these four financial services is quite variable, as we will see in the following sections.

In this chapter, we use the term 'exclusion' when we refer to non-access to specific financial services or products. As used in the literature, and in the current chapter, the term exclusion also includes self-exclusion (i.e. own preference or non- take-up).

3.2 Banking Exclusion

We construct a measure of banking exclusion based on the answer to the following question, which was asked of the person answering the household questionnaire:

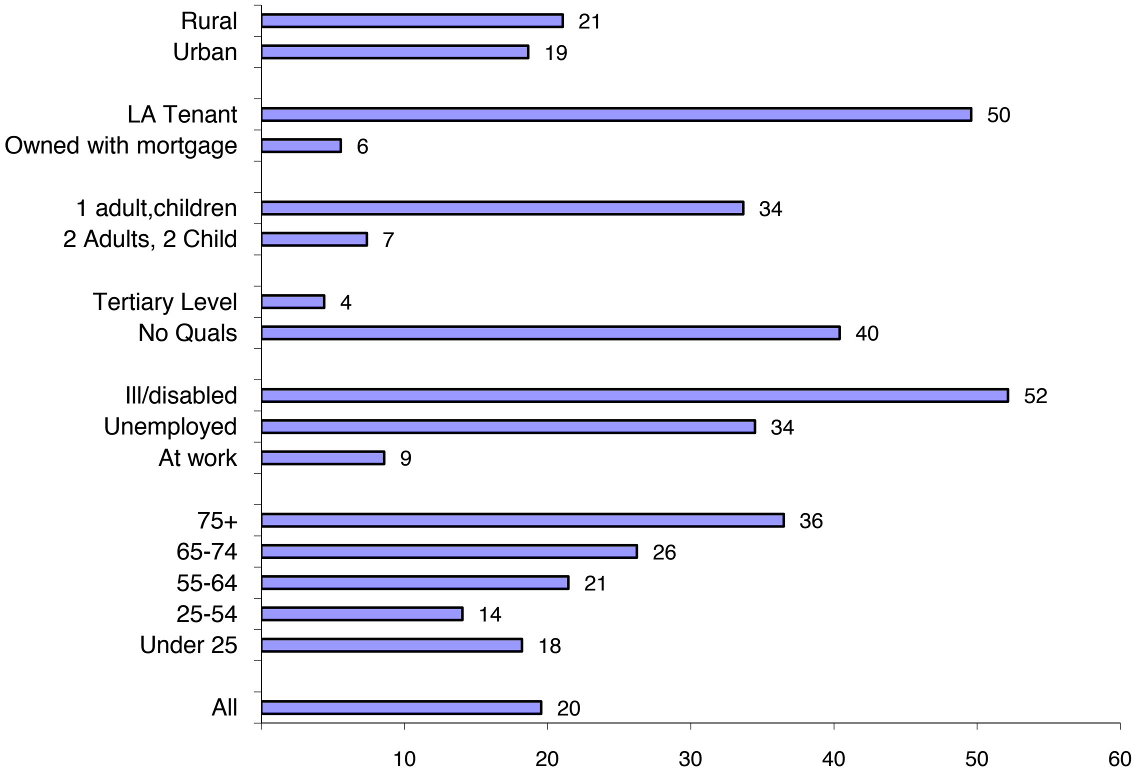
> **'Do you or does anyone else in your household have a bank current account which is used for day-to-day management of money?"**

(Current Account Standard services offered by a current account include a cheque book and a debit (Laser) card).[8]

In Figure 3.1, we present the relationship between not having a bank current account and a selected set of characteristics, either from the Household Reference Person (HRP) or of the household.[9] In 2008, 20% of households declared that they did not have a bank current account.

[8] Building societies are not included in this definition of a bank current account, as they do not provide all of these services.
[9] Full results for a wider set of characteristics are available in Table A1 in the Appendix section.

Figure 3.1: Percentage of Households Without a Bank Current Account by Socio-economic Characteristics, EU-SILC 2008



As can be seen from Figure 3, there is a U-shaped relationship with age, whereby the percentage of households without a bank account is highest among the youngest and oldest age groups[10]. However, it is the oldest age group that is most distinctive. Twenty-six per cent of households headed by an individual aged 65-74 and 36% of those aged 75 or more do not have such financial facilities. A breakdown of the composition of households by age (see Appendix, Table A.3 shows that households headed by an individual aged over 65 years account for a significant proportion of the 'unbanked' (36% compared to 20% of those holding bank current accounts).

Banking exclusion among older people is clearly related to lower education. A much higher proportion of older people have no or few formal educational qualifications. This is strongly linked to take-up of bank current accounts. Looking within educational categories, we find that older people with third-level or Leaving Certificate qualifications do not differ significantly from those in other age groups with the same qualifications (see Appendix Table A.4). Among who have lower educational qualifications (none, or Intermediate Certificate level), the oldest age group (over 75s) has the highest percentage of bank exclusion, while all the other age groups from 25 to 74 have lower and similar percentages.

There is also a wide disparity in access to banking, depending on the education level of the head of household: 40% of those with only a primary level of education did not have such facilities, compared to only 1% of those with third-level education.

The relationship between this form of financial exclusion and labour market activity is very strong. It is not surprising to see that most people at work have a bank current account, as most salaries are paid by direct electronic transfers or by cheques (even if cheques can be cashed). By contrast, 34% of those who are unemployed do not have a bank current account, while the figure increases to 52% for those who are ill/disabled.

Households that are highly dependent on social transfers are also less likely to have a bank current account. The rate is 40% for households where social transfers represent over 75% of total disposable

[10] In the following graphs we will use the upper age limit at 55, and not 65, as conventionally used as levels of access drop off substantially after age 55.

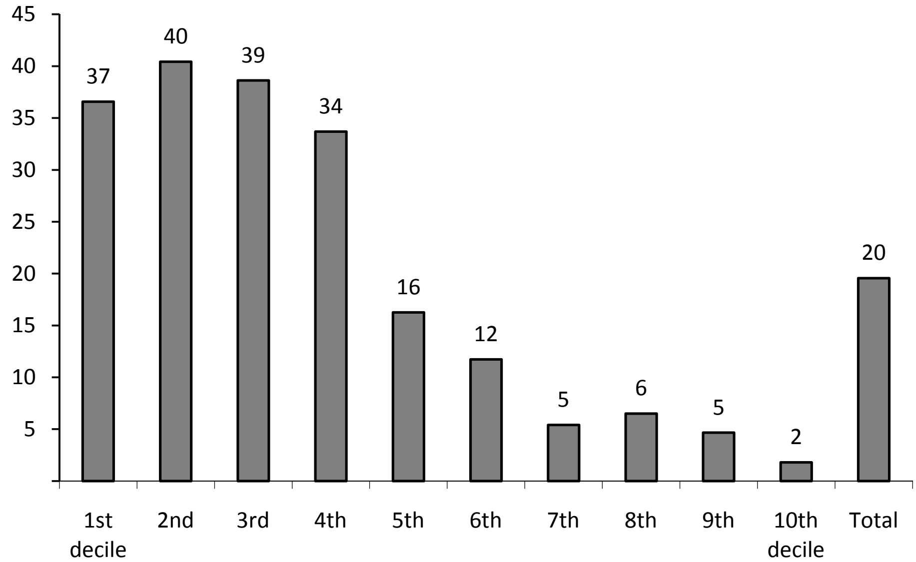
household income, while it is only 7% for those where social transfers represent less than 25% of total disposable household income.

In terms of household structure, 34% of lone-parent households do not have a bank current account, while the same is true of only 7% of two-adult households with two children. Housing tenure is also important. Fifty per cent of local authority tenants do not have a bank current account, compared to 6% for home owners with a mortgage. Finally, it seems that location (urban or rural) does not particularly influence the likelihood of having a bank account.

Banking Exclusion, Household Income and Poverty

There is a linear relationship between banking exclusion and the level of household income, as measured by the household's income decile position (Figure 3.2). The percentage of households without a bank current account increases as one moves from the top of the income distribution to the bottom. Households that are at the bottom of the income distribution are twice (40%) as likely not to have a bank current account in comparison with the national average (20%). The disparity is ten times greater when compared to the top decile. We also observe a significant fall in the proportion of households not having a bank current account, as one goes from the fourth to the fifth deciles (from one-third to one-sixth of households respectively). The greater proportion of highly educated heads of households from the middle of the income distribution explains this significant fall. In the fifth decile, 15% of households have tertiary education level, while the percentage is less than 10% in the previous deciles[11].

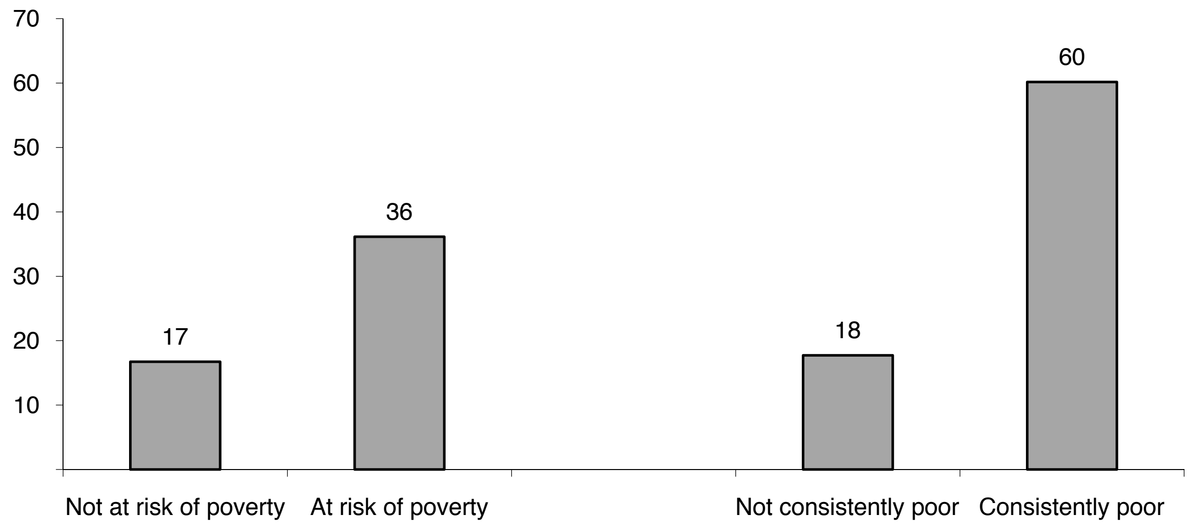
Figure 3.2: Percentage of Households Without a Bank Current Account by Income Deciles, EU-SILC 2008



We now focus our attention on households located towards the bottom of the income distribution and, more particularly, on households that are 'at risk of poverty' and that are consistently poor (Figure 3.3).[12] Households that are 'at risk of poverty' are more than twice as likely (36%) to be without a bank current account than non- poor households (17%). The contrast is even greater with the consistent poverty measure. Consistently poor households are more than three times (60%) more likely to be without a bank current account than non-consistently poor households.

[11] There is no control for reliance on social transfers in the statistical model developed later on in the section as there is a collinearity problem with income.
[12] See description about these two poverty measures in Appendix A.1.

Figure 3.3: Percentage of Households without a Bank Current Account by 'at risk of poverty' and consistent poverty, EU-SILC 2008



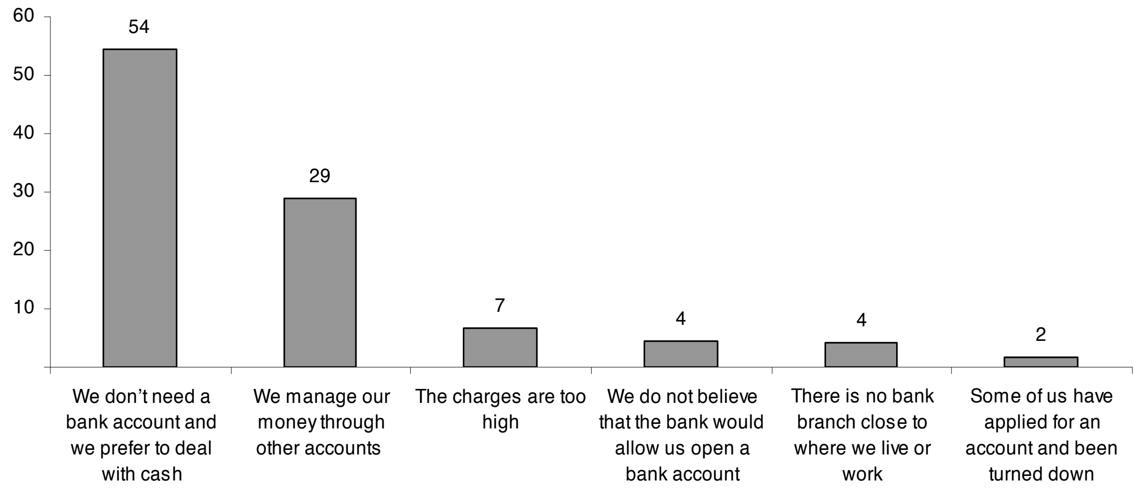
Reasons for not having a bank account

We saw in the previous section that 20% of households do not have a bank current account. Furthermore, we saw in the review of literature that there are many obstacles to access to financial services, reflecting different degrees of exclusion. It is informative, from a policy perspective, to be able to examine these reasons. In this section, we explore a range of reasons why households do not have access to a bank current account. In the EU-SILC survey, when the interviewees were asked if they had a bank current account, those who answered negatively were asked to select the reason for this situation from a set of options. The interviewees were allowed to choose several reasons.

The list includes demand-side factors: i.e. we don't need a bank account and we prefer to deal with cash; we don't believe that the bank would allow us to open an account, or we manage money through other intermediaries and supply barriers: (price exclusion, geographical exclusion, risk assessment).

The response category 'we don't need a bank account and we prefer to deal with cash' is somewhat problematic, as it amalgamates two different reasons into one answer. The first reason is that the households do not need a bank account, which is a demand issue. The second reason is that the household prefers to deal with cash. This preference might be motivated by the difficulty in using the services, or a lack of understanding of the products, or the inappropriateness of the services currently available to the customers. Therefore, this second reason includes a demand issue (on different grounds) as well as supply-side issues. Unfortunately, it is not possible to distinguish and analyse these rather different issues.

Figure 3.4: Reasons households do not have a Bank Current Account, EU-SILC 2008



Note: % of responses rather than % of households. Multiple responses allowed .

The majority (54%) of households that do not have a bank current account say that this is because they prefer to deal with cash. This could be the result of a genuine preference, but could also be a consequence of having a low level of resources, a lack of financial education, or a lack of confidence in dealing with modern financial operations. Such preferences may also arise, because of negative experiences dealing with financial institutions in the past, or a lack of ease in dealing with new products and services (especially among old people).

The second most common reason (29%) for not having a bank current account was that households were managing their money through the use of other commercial and financial organisations, such as post offices and credit unions, rather than conventional banking organisations. These financial services tend to be more accessible to lower income consumers (due, for example, to lower charges. Credit unions have also been involved in policies to promote access to lower income groups)[13] or consumers may prefer these providers for other reasons, such as location.

Nevertheless, as outlined in Table 2.2, these organisations do not offer all the services that come with a bank current account and, therefore, this group of respondents are 'excluded' from some key elements of the banking system.

Additionally, 7% of households say they do not have a bank current account, because the charges are too high. Four per cent of households cite the lack of proximity to financial establishments as the reason for non take-up and another 4% say that they would be denied access to a bank account if they applied. Finally, the lowest percentage is found for people who have attempted to open a bank account but have been refused by the bank.

Older people are significantly more likely to give the reason that they 'do not need a bank account, as they prefer to deal in cash' (see Appendix, Table A.5). Fifty-seven per cent of the 'unbanked' aged 25 to 54 years give this reason compared to 69% of those aged 65 to 75 years and three-quarters of the over-75s. The proportion giving this response also varied significantly with age, with two-thirds of the unbanked without qualifications giving this answer, compared to 38% of the much smaller group of 'unbanked' with third-level qualifications. Graduates without bank current accounts were much more likely to say they did not use them because they managed their money through other accounts.

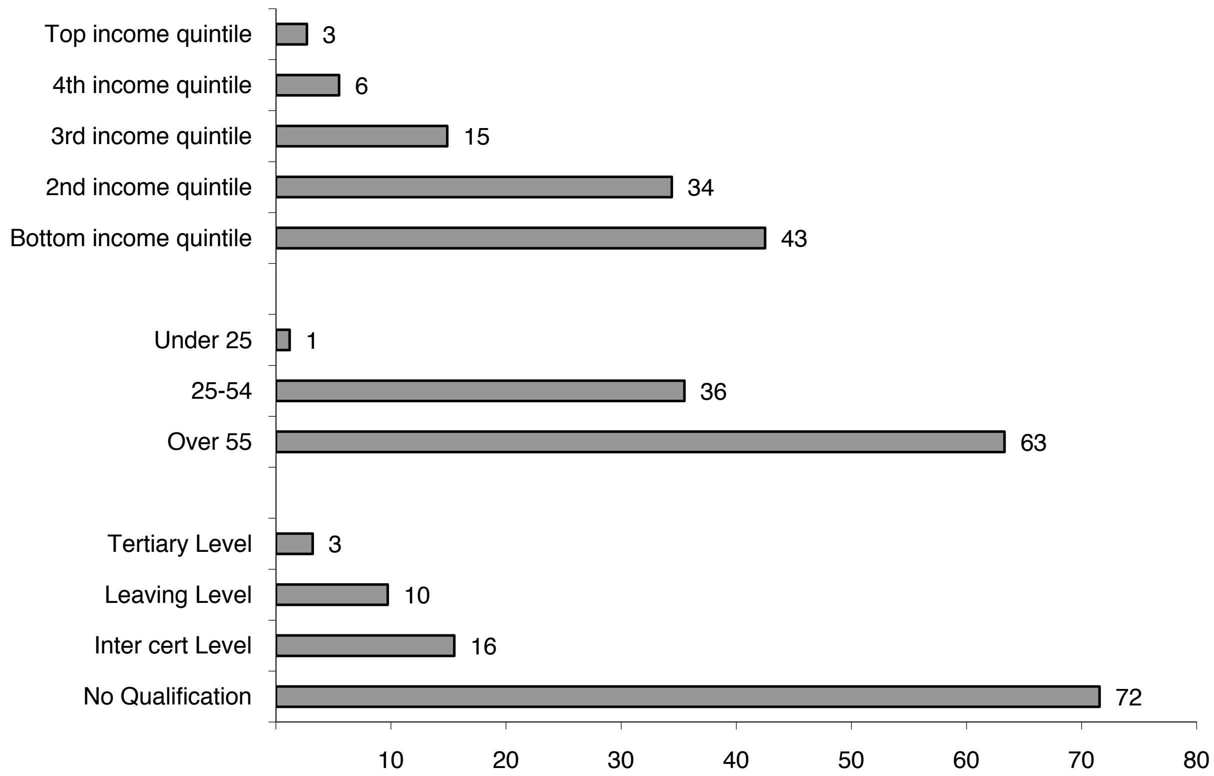
Given the difficulty of distinguishing genuine choice from preferences that are strongly constrained, the strong socio-economic gradients in these responses and the growing necessity of access to a bank current account, in order to be fully included in an economic environment that relies increasingly on

[13] See partnership between MABS and Credit Unions in setting up Special Account Scheme to support low-income households having financial difficulties.

electronic forms of payments (Sinclair *et al.* 2009; Capgemini *et al.* 2008), we define all households who do not have a bank current account as 'banking excluded' regardless of the reasons they have given for this lack of access. We also refer to this group as 'unbanked' – another term that has been applied in the literature.

A further breakdown of responses by socio-economic characteristics may shed some further light on these reasons. Figure 3.5 presents the composition of households choosing not to have a bank current account by a limited set of socio-economic variables of the HRP such as age, education and level of household income (see Appendix Table A.5 for risk rather than composition). As we can see, this is a group that is mainly composed of older people, as 63% are aged 55 and over. This also represents a group of households who are largely disadvantaged in terms of education level and level of household income. Three-quarters of the households are headed by a HRP with no qualifications (72%) and are located in the two bottom income quintiles of the income distribution (77%). Results presented in the Appendix (see Table A5) also show very clearly that socio-economic characteristics seem to influence what appears to be a 'personal choice' in the decision of not having a bank current account. The apparent choice not to have a bank current account is strongly structured by socio-economic characteristics.

Figure 3.5: Composition of households without a bank current account and preferring to deal with cash by some socio-economic variables, EU-SILC 2008



Multivariate Analysis of Banking Exclusion

So far, we have only presented descriptive results of the relationships between different socio-demographic variables and banking exclusion. This does not take into account the fact that the observed relationships could be influenced by other characteristics. In order to evaluate the impact of other socio-demographic characteristics, we use regression analysis technique to formalise the statistical relationship that might exist between these characteristics and banking exclusion.

Table 3.1 presents the results of a logistic regression, where the dependent variable is banking exclusion (i.e. no bank current account) and the independent variables are a set of socio-demographic characteristics of the HRP or the household. We present results for three regressions, where each model adds additional independent variables to the regression. This procedure allows us to examine changes in the effects of some characteristics, as new characteristics are added.

In the first model, we present only results for some basic demographic characteristics such as citizenship, gender, age and marital status. In the second model, we add information about the principal economic status, the social class and the highest education level attained by the HRP.

Finally, in the third model we add information about the household's income position, housing tenure and location. In Table 3.1, the results are presented in terms of odds ratios, where we compare the likelihood of being banking excluded for households with each characteristic, compared to the reference category.

In Model 1, we observe that the largest odds ratios of being bank excluded occur for households where the HRP is aged 55 and over and for lone-parent households. In both cases, the odds are 2.5. Households where the HRP is single or widow/separated/divorced are twice as likely to be bank excluded as those who are married.

When we add more control variables in Model 2, such as the principal economic status of the HRP and the highest education level achieved by the HRP, we note that the higher risk among older householders is no longer significant. A simple test, alternating the order of entry in the model of the two variables – principal economic status and education – reveals that the age variable is no longer significant, due to the impact of the education variable. It shows the primacy of education over age in the likelihood of not having a bank account. By contrast, the odds ratio for lone parents remains high (2.9), even when education and employment status are held constant.

In Model 2, the largest effect is observed when the HRP has no qualification. In this instance, the household is 6.5 times more likely to be bank excluded, compared to households where the HRP has a third-level education. Moving on to the principal economic status, we observe that households where the HRP is ill/disabled are five times less likely to have a bank current account than households where the HRP is at work. Households where the HRP is unemployed are three times less likely to have such an account. The effects for home duties and retired HRPs are somewhat lower with odds of 2.5 and 3.3 respectively. Social class plays a weaker role. We only note a significant effect[14] in the case of 'lower grade' HRPs.

[14] It should be noted, that education is strongly correlated with social class.

Table 3.1: Logistic Regression of Banking Exclusion

	Odds Ratios (1)	Odds Ratios (2)	Odds Ratios (3)
HRP Irish National	Ref	Ref	Ref
HRP Non-Irish National	1.030	1.318	0.896
HRP male	Ref	Ref	Ref
HRP female	1.030	1.052	1.004
HRP aged 25 to 54	Ref	Ref	Ref
HRP aged less than 25	0.901	0.406	0.428
HRP aged 55+	2.492***	1.058	1.325*
HRP married	Ref	Ref	Ref
HRP single	1.982***	1.502***	1.258
HRP widowed/divorced/separated	2.080***	1.367**	1.184
HRP not lone parent household	Ref	Ref	Ref
HRP Lone parent household	2.495***	2.890***	1.719**
HRP at work		Ref	Ref
HRP unemployed		2.931***	1.676*
HRP on home duties		2.504***	1.768***
HRP retired		2.339***	1.648***
HRP ill/disabled		5.167***	2.847***
HRP middle class		Ref	Ref
HRP self-employed		0.848	0.721
HRP working class		2.147***	1.721***
HRP higher educ level		Ref	Ref
HRP no qualifications		6.541***	4.065***
HRP inter/Junior Cert level		2.567***	1.799**
HRP Leaving Cert level		1.694*	1.477
Top income quintile			Ref
Bottom income quintile			3.938***
Second income quintile			4.182***
Third income quintile			1.938**
Fourth income quintile			1.087
Private owner			Ref
Private tenant			1.858**
Local authority owner			2.137**
Local authority tenant			2.139***
Urban location			Ref
Rural location			0.911
Observations	5206	4810	4752
Nagelkerke R Square	0.084	0.294	0.339
Reduction on log likelihood	254.5	854.8	991.6

*** p<0.01, ** p<0.05, * p<0.1

Finally, in the third model, we add information about the household position in the distribution of income, as well as housing tenure and location. Households in the bottom 40% of the income distribution are four times more likely to be banking excluded than those in the top quintile.

Adding the household's income position to the model also significantly reduces the size of the odds ratios observed in Model 2. The effect of 'no qualifications' falls from 6.5 (Model 2) to just above 4. The odds ratio for ill/disabled HRP falls quite dramatically to 2.8. The odds are also reduced for the other principal economic status characteristics, suggesting some of the employment status effect is due to lower income. While broad geographical location (urban/rural) does not have an impact on banking exclusion, we note that local authority tenants and local authority owners are about twice as likely to be 'unbanked' as private owners.

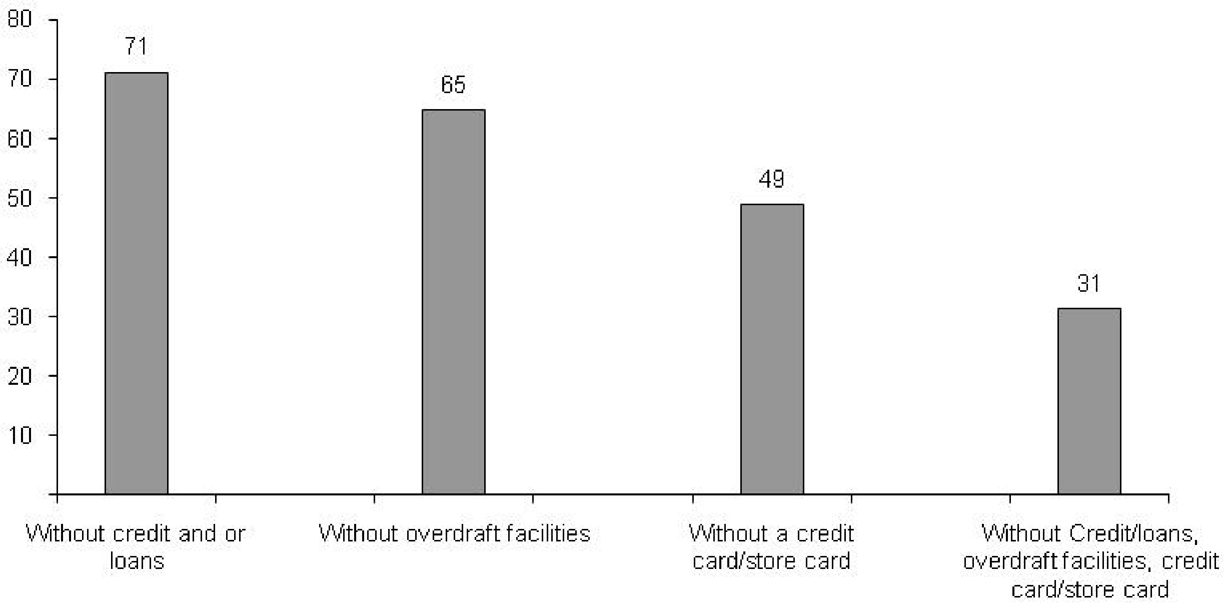
3.3 Credit Exclusion

The forms of credit exclusion that can be examined in the EU-SILC can be classified into two groups as follows:

- Exclusion from unsecured credits, which are categorised and collected in the survey under hire purchase credits and loans[15];
- Exclusion from revolving credits, which are derived from access to credit cards or store cards and, for those having a bank current account, the access to overdraft facilities.

Before looking at the extent of credit exclusion, as measured by these two types of exclusion and described, in detail, in the next section, we present the overall percentage of households not having credits/loans, overdraft facilities and credit cards/store cards (Figure 3.6).

Figure 3.6: Percentage of households Without Credit/loans, Overdraft Facilities, Credit Cards/Store Cards, EU-SILC 2008.



[15] The questions in EU-SILC about credits and loans did not include credits and loans obtained from the sub-prime lending market.

Access to Credit and Loans

While there is some debate about the inclusion, or not, of mortgages into a measure of credit exclusion, our focus here is only on hire purchase credits and loans. In the EU-SILC, the information was collected from the following question which was asked of the person answering the household questionnaire:

> **'Does your household currently have credit and/or loans (other than a mortgage for the main dwelling (if applicable) from commercial agents (for example, banks, credit unions)?'**[16]

A further note in the questionnaire outlined that: 'These are term loans, with planned and scheduled repayments, for example, €200 a month over five years and not overdraft facilities or amounts owing on credit or store credit.'

Unfortunately, the question only tells us whether the household currently has such credit or loans. It does not tell us about the household's capacity to obtain these services if desired. Therefore, it does not properly capture the issue of access or exclusion. Furthermore, the reference to 'commercial agents, for example banks and credit unions' is likely to mean that loans from sub-prime lenders are under-recorded. Therefore, the responses on credit/loans should be interpreted with these limitations in mind.

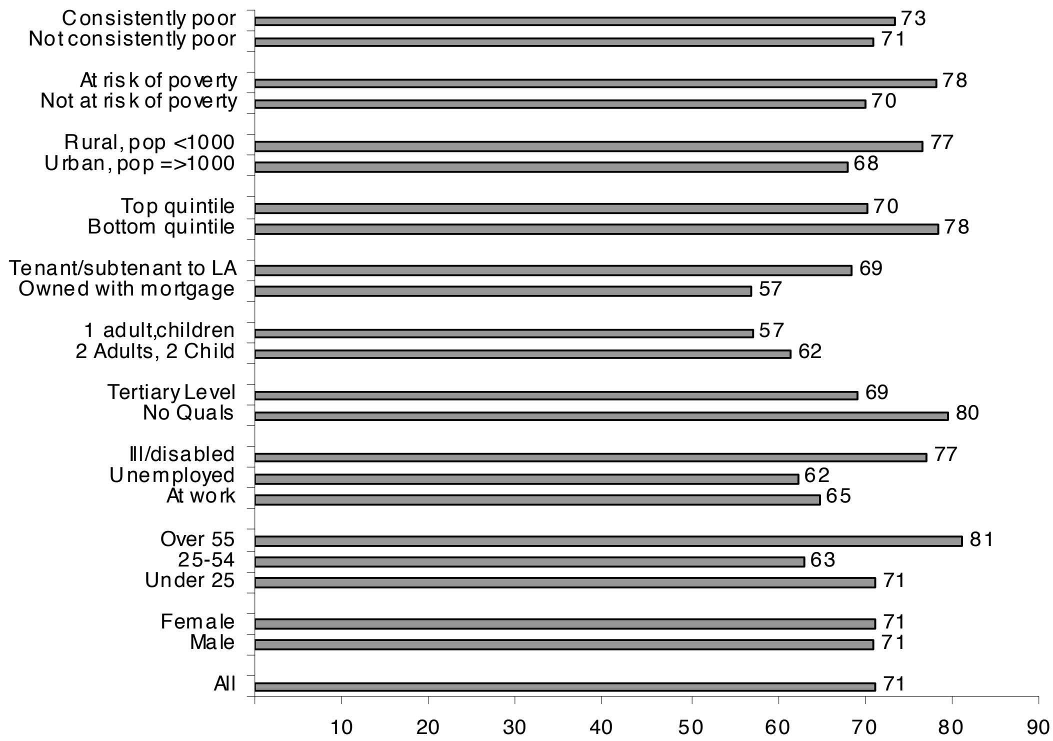
We see, in Figure 3.6, that almost three-quarters of households (71%) do not have credit or loans of this sort and there is less variation by socio-economic characteristics than was found for the access to bank accounts.

There is a U-shaped relationship between loans and age (see Figure 3.7). Those aged over 55 are least likely to have such credit. However, there is only a weak relationship with income: 78% of the bottom quintile do not have such structured loans, compared to 70% of the top income quintile[17]. Sixty-two per cent of households where the HRP is at work do not have credit/loans. This does not differ substantially from the figure for the unemployed, but the percentage rises to 77% for respondents who are Ill/disabled.

The proportion of households with current loans increases in a linear fashion with the education level of the household reference person. Marital situations and household structures influence the level of resources generated within the households. Household needs also affect the use of credit and loan services. Lone parents are more likely to have current loans than households with two adults and two children[18]. The fact that a higher proportion of lone-parent households have credit/loans cannot necessarily be interpreted as a higher level of access to these financial services (see earlier comments about 'access' and 'having'). This result could also be interpreted as a higher level of dependence on external sources of funds, due to tight personal finances.

[16] The question concerns credits and loans from regular lenders only (dixit CSO).
[17] Statistical test of Chi-square shows that the distribution of credit exclusion by income deciles is significant.
[18] As presented in Table A.6, lone-parent households have the second lowest level of exclusion after the two adults with three children household category (50%).

Figure 3.7: Percentage of Households without Credit or Loans (excluding Mortgages) by Socio-economic Characteristics, EU-SILC 2008



Previous results in relation to tenure are observed here, too, with a much higher proportion (69%) of local authority tenants reporting not having credit or loans in comparison with owner occupiers with a mortgage (57%). An examination of the relationship with the household income position shows that a higher proportion of households in the lowest income position do not have credit and/or loans (78%) compared to those at the top of the income distribution at 70%.

When we examine location, we can see that those living in a rural area are much less likely to have current loans compared to their urban counterparts. Finally, the same pattern of very little differentiation across socio-economic characteristics is repeated for poverty outcomes. While there is a modest difference using the ‘at risk of poverty’ measure (78% versus 70%) there is no difference with the consistent poverty measure (73% versus 70%).

The overall result and the lack of strong differentiation by many of the socio-demographic characteristics might raise some concern about the credit/loan variable in EU-SILC. Indeed, the results presented in Figure 3.7 differ quite significantly from CSO results drawn from the analysis of the micro-data of the HBS 2004–2005. Results from the HBS show that 55% of households do not have any loans (excluding mortgage and bank overdraft) from banks and/or credit unions.

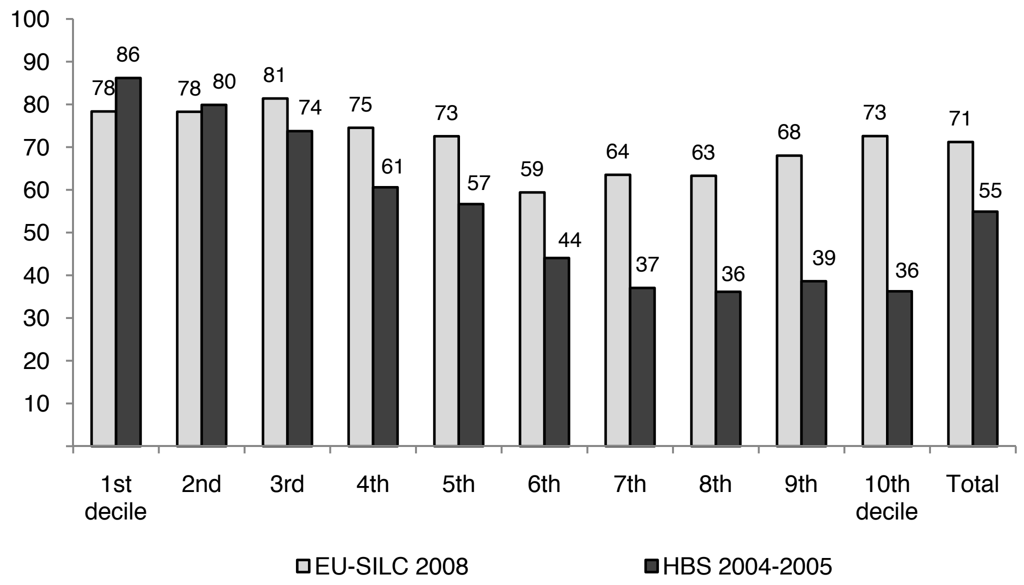
This raises two issues: a) the difference in the overall level of households not having loans and credits between the two surveys and b) the different relationship with socio-economic variables, such as household income.

One explanation on the first issue for such a difference, for such a short period of time, could be the strong decline in the value of loans to households. To illustrate this, statistics from the Central Bank show that between June 2007 and December 2008 the annual rate of change of loans (in value) to households fell dramatically, from 17% to 2.5%, and reached negative percentages from March 2009 onwards (Central Bank 2010). This means that, over the period considered, households continued to repay loans to a greater extent than they drew down new loans.

The overall result of a high level of non-possession of credit/loans in the Irish EU-SILC seems to be a feature shared with many European countries in EU-SILC. The proportion of households without loans in Ireland (68% in the Eurostat EU-SILC) is lower than the proportion for the EU27 (72%) and the EU15 (72%).

Looking at the second issue and, in order to give some comparison with the results from the Irish EU-SILC, we present, in Figure 3.8, the percentage of households not having any loans by household income position. We observe, in Figure 3.8, a clear linear relationship between the level of household income and the ownership of any loans. In the top decile (10th decile) we see that 36% of households do not have such credit/loans. This is almost 2.5 times less than for households in the bottom (1st) decile (86%). From the bottom deciles up to the fifth decile the majority of households do not have credit or loans. These results differ quite substantially from the one observed with the EU-SILC, as can been seen in Figure 3.8, where no such linear relationship exists. However, it should be noted that the relationship between the proportion of households with loans and the income level varies across countries. The relationship is stronger in more liberalised credit markets, where lower income groups have greater access to credit (Betti *et al.* 2007 p147, using HBS data).

Figure 3.8: Percentage of Households without Credit or Loans (excluding Mortgages and bank overdraft) by Household Income Deciles, EU-SILC 2008 and HBS 2004-2005



Many factors can contribute to the differences between surveys. Factors can range from different questionnaire design (one simple direct question, as opposed to a series of follow-up questions) to the difficulties for the interviewees in understanding the questions correctly. It seems that part of the explanation for the different results between the HBS survey and the Irish EU-SILC is the strong decline of loans, contracted by Irish households during the period considered, as well as technical differences in the design of the two surveys. In the current circumstances, one can only be aware of the discrepancies between the two surveys, and be cautious in the interpretation of the overall results.

Access to Credit Cards/Store Cards

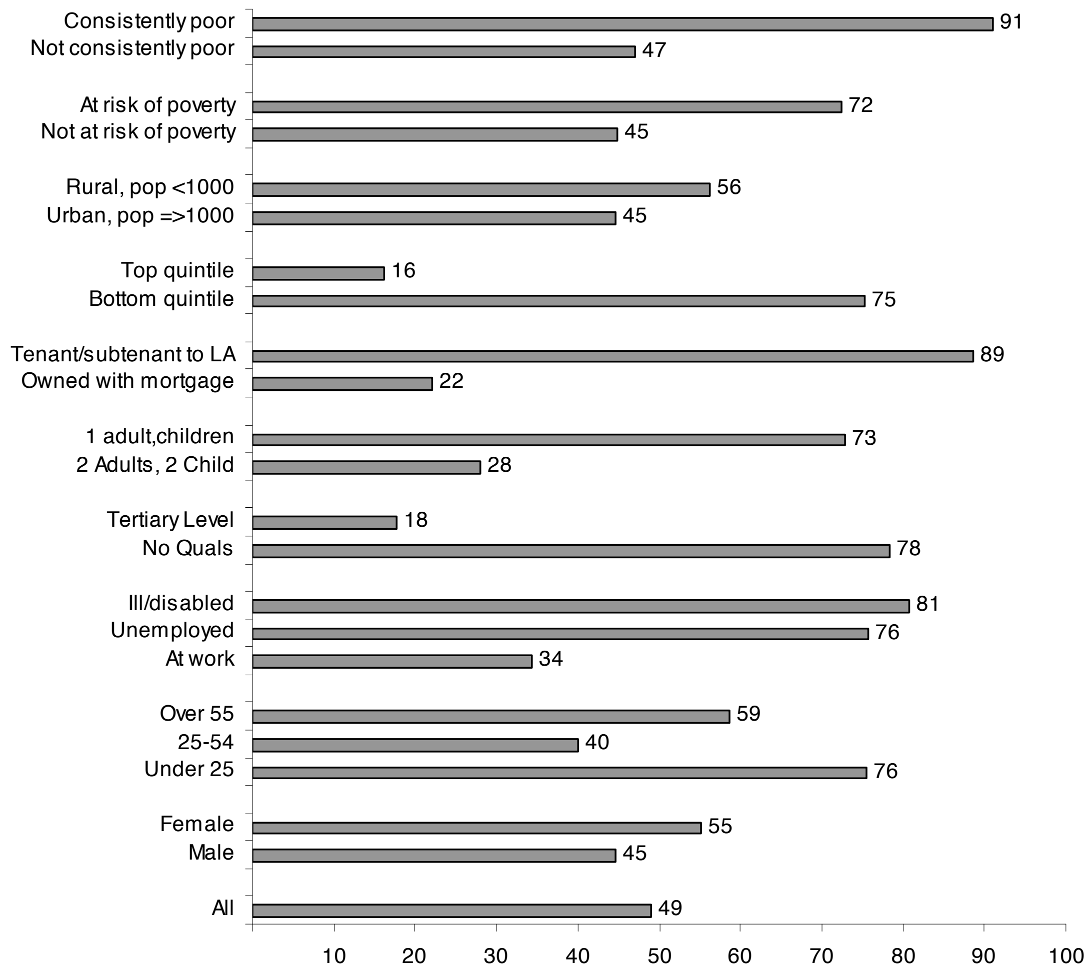
The second form of credit examined in the Irish EU-SILC survey is access to credit cards or store cards. Information on access to such facilities was collected from the following question, which was asked of the person answering the household questionnaire:

> **'Do you, or does anyone else in your household, have a credit card or store card, which allows for credit facilities?'**

Figure 3.9 illustrates that almost half (49%) of Irish households did not have credit cards/store cards in 2008. Access to credit card services follows a very similar pattern to access to a bank current account (see Appendix, Table A.7 for detailed results). The following characteristics are strongly associated with lack of access:

- Being young (76%), or older (59%);
- Being unemployed (76%), ill/disabled (81%);
- Having a low level of education (78%);
- Being a lone parent (73%);
- Being a local authority tenant (89%);
- Being in the bottom quintile of the income distribution (75%);
- Being 'at risk of poverty' (72%) and, more particularly, being consistently poor (91%).

Figure 3.9: Percentage of Households without a Credit Card/Store Card by Socio-economic Characteristics, EU-SILC 2008



Access to Overdraft facilities

The final item associated with revolving credit is access to overdraft facilities. The information, which is only gathered from households that have a bank current account, is collected from the following question:

> **'Do you or does anyone else in the household have overdraft facilities on any of the household bank accounts?'**

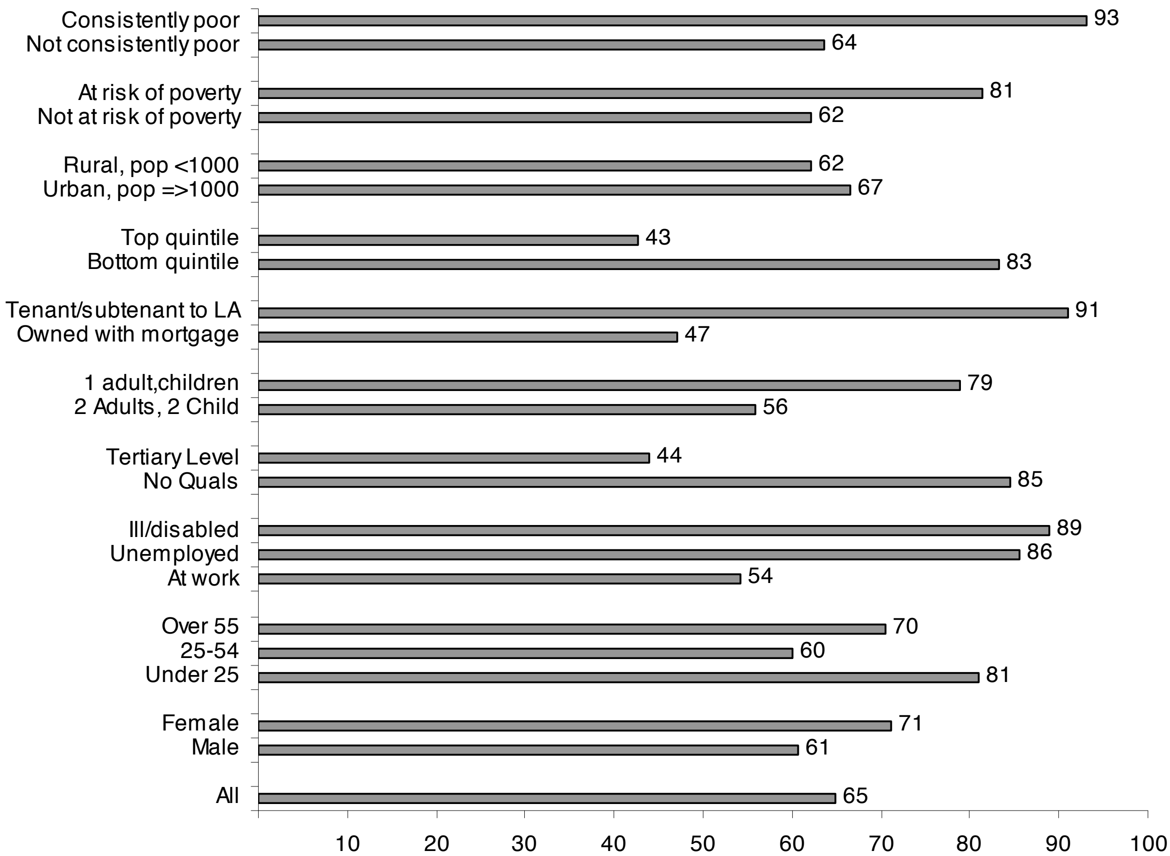
Including those households who do not have a bank current account, on the basis that these are excluded at the first point of access, we find that over three out of five (65%) households do not have overdraft facilities. Understandably, the pattern of variation of non-access to this facility is, in many respects, very similar to the one observed for banking exclusion but the contrast between the most and least privileged groups is not as pronounced for overdraft facilities. The characteristics most strongly associated with not having overdraft facilities are:

- A household headed by a young person (81%);
- A household where the HRP is unemployed (86%) or ill/disabled (89%);
- A household where the HRP has a low education level (85%);
- A one-adult household with children (79%);

- A tenant/sub-tenant to local authorities (91%);
- Being in the bottom quintile of the income distribution (83%);
- Being at risk of poverty (81%) and consistently poor (93%).

See Figure 3.10. Full results are available in Appendix Table A.8.

Figure 3.10: Percentage of Households without Overdraft Facilities by Socio-economic Characteristics, EU-SILC 2008



The analysis so far has examined the possession of three forms of financial products/services (credits/loans; credit cards/store cards; overdraft facilities) without any consideration of individual preferences for having these products and services.

There is a further question in EU-SILC that addresses why households do not have such facilities. This question is only asked of households which do not have any of the three types of credit facilities explored (loans/hire purchase; credit cards; overdraft) and which do not have a mortgage. While this question does not capture the household's ability to access such services if desired, it does at least provide some further information about non-possession:

> **'You said earlier that none of the members of your household has any commercial loans in the form of overdrafts, credit or store cards, mortgage, commercial loans or credit linked to purchases. Which of these reasons explains why? If there is more than one reason please indicate'.**

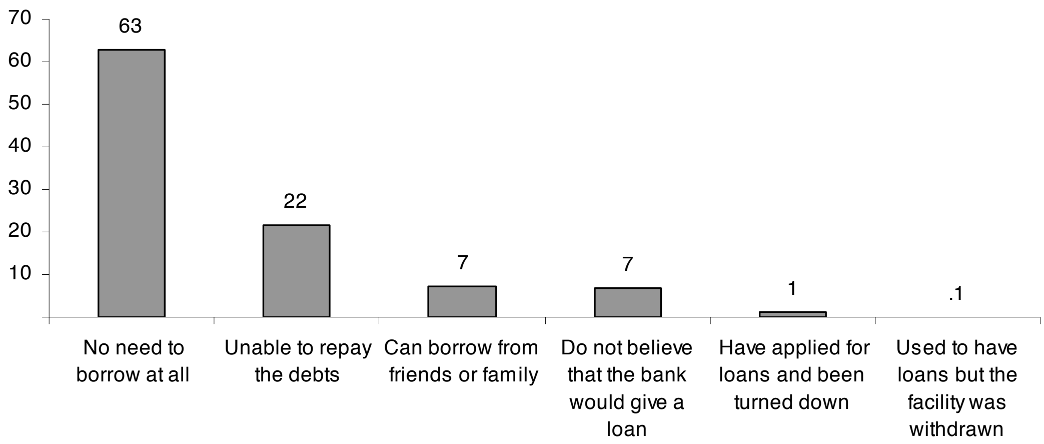
Interviewees were allowed to choose multiple reasons. Figure 3.11 reports the distribution of the reasons the households do not use any of these financial services. The main reason cited by 63% of these households is that they do not need to borrow from commercial agents (banks, credit unions)[19].

[19] Sub-prime lenders are not included in this CSO definition of commercial agents.

Twenty-two per cent of households think that they would not have the financial resources to repay the debts contracted. Seven per cent of respondents say they can borrow from family or friends instead and the same proportion answer that they believe that the bank would not give them a loan. Finally, only 1% of households report that they do not have access to loans and credit because they were turned down by financial institutions. Only 0.1% had access to such facilities in the past but the facility had been withdrawn.

As noted above, those who do not have credit facilities may not be excluded if they have sufficient resources to meet their household's needs without using credit and if they prefer not to use credit. This group are most likely to be located in the respondent category 'we don't need to borrow'. A brief examination of those who answer that they don't need to borrow at all shows that 82% of this group are located in the bottom two income quintiles. While this is very difficult to establish, using the current data, it could be the result of the adaptation of their preferences and needs to their low level of resources.

Figure 3.11: Reasons why Households do not have Commercial Loans, Credit or Store Cards, EU-SILC 2008



Cumulative Lack of Access to Credit

While the pattern of access to each form of credit outlined above is of interest, it is also informative to consider how these are combined. It is arguable that households that lack all three forms of credit experience a higher degree of credit exclusion. Table 3.2 reiterates the level of exclusion for each of the credit services, that is, the proportion of households with no credits/loans (71%); no credit cards/store cards (49%); and no overdraft facilities (65%).

It also presents the cumulative deficiency on these three credit services. Almost 10% of households have access to all three financial services; 27% lack one of the services; 32% lack two of the services and 31% lack all three services. This suggests a relatively strong inter-dependence between these forms of exclusion.

Table 3.2 Cumulative Lack of Access to Various Forms of Credits, EU-SILC 2008

	% of households	N
No credit/loans with scheduled repayments	71.2	3159
No credit cards/store cards	49.0	2173
No overdraft facilities	64.9	2875
No credit/loans and no credit cards/store cards	37.5	1662
No credit/loans and no overdraft facilities	48.3%	2140
No overdraft facilities and no credit cards/store cards	40.4%	2170
Lack 0 out of 3	9.7	427
Lack 1 out of 3	27.1	1205
Lack 2 out of 3	31.8	1410
Lack all 3	31.4	1395
Lack all 3 and don't need to borrow	18.0	799
Lack all 3 and for other reasons	10.0	443
Lack all 3 and reasons are missing	3.4[20]	152
	100.0	4442

Combining these results with the information on the reason for lack of credit, we see that 18% of households do not have any form of credit and do not need to borrow (given as the only reason). As it is very difficult, with the current data, to tease apart the particular preferences and constraints that lead to this position, we cannot fully consider that these households are excluded from access to credit.

We also find that 3% of households lack all three credit services, but we are missing information on the reasons for non access. The missing information is due to the particular design of the questionnaire, where mortgage holders were not asked the reasons for non-access to credit services. By definition, they are currently included in the lending market.

A total of 10% of households do not have access to any of the credit facilities explored and give another reason for this non-access, for example, that they could not repay the debt or don't believe they would get credit (this includes households that give these explanations in combination with 'no need'). We define this group as 'credit excluded' and examine their characteristics in the following statistics and models. It should be noted that this measure is imperfect and it may exclude people who do not have access to credit but say they don't need to borrow. Moreover, some of those with access to credit may have an inappropriate service or experience use difficulties. This cannot be measured in EU-SILC.

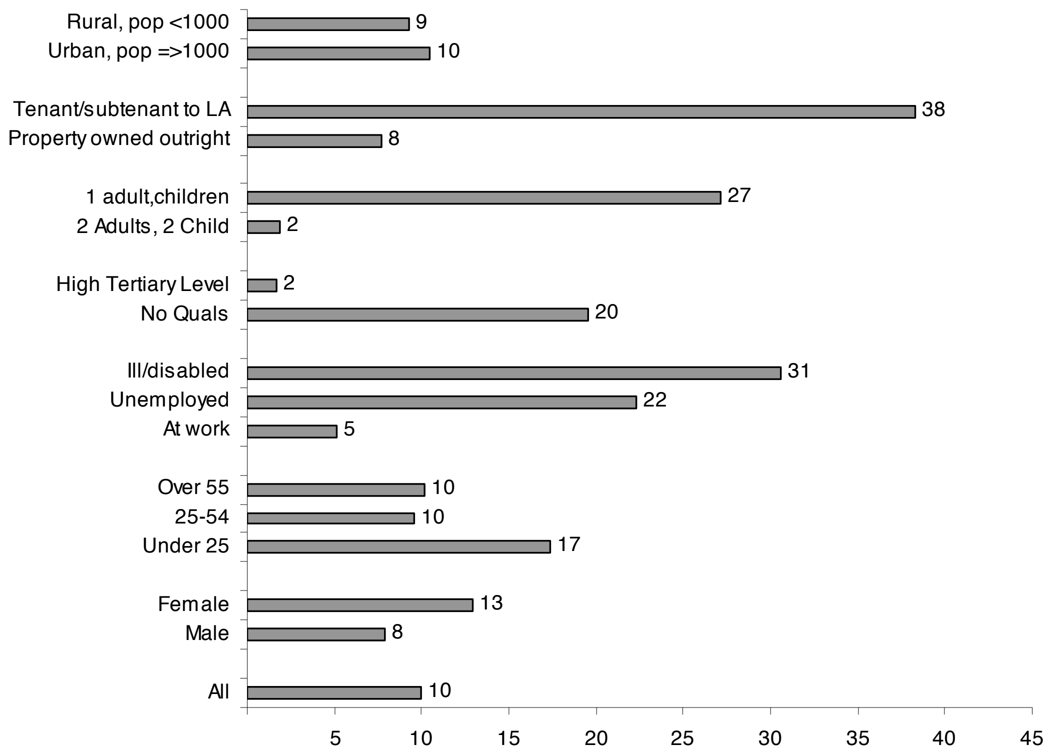
In Figure 3.12 (full details in Appendix, Table A.9), we present the risk of being credit excluded by key socio-economic characteristics. We note first that, unlike the previous forms of financial exclusion, the overall levels of credit exclusion (10%), as well as the levels across the various socio-economic profiles, are much lower. Overall, for many of these characteristics we find a similar pattern to the one observed for banking exclusion. The groups most likely to be excluded are:

- Households headed by a female (13%);
- Households headed by a person aged less than 25 years (17%);

[20] Note, the majority of the missing cases are households who did not have any of the 3 credit facilities but who had a mortgage (and so were not asked why they had no credit).weighted N

- Households where the HRP is ill/disabled (31%) or unemployed (22%);
- Households where the HRP has a low level of education (20%);
- Lone-parent households (27%);
- Tenants/subtenants to local authorities (38%).

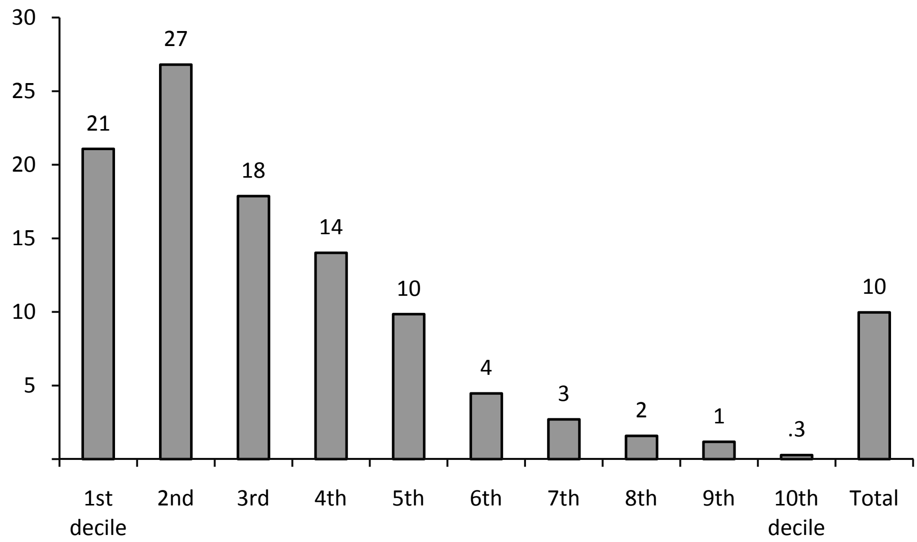
Figure 3.12: Percentage of Households Credit Excluded by Socio-economic Characteristics, EU-SILC 2008



Credit Exclusion, Household Income Position and Poverty

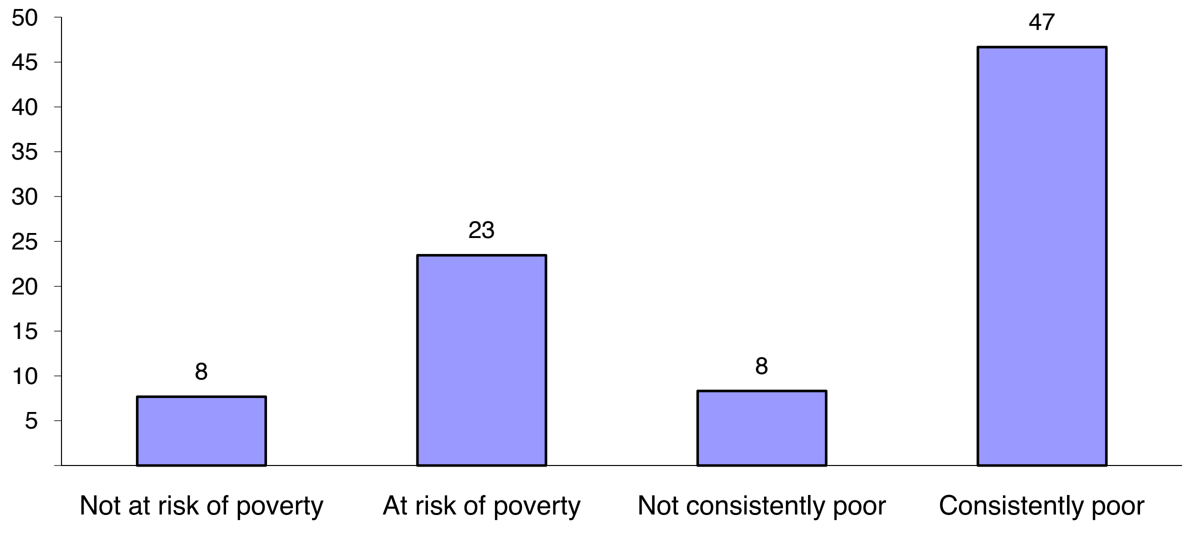
Clearly, as can be seen in Figure 3.13, there is a strong linear relationship between the household income position and the risk of credit exclusion. Households with the lowest level of income experience the highest level of exclusion, particularly in the bottom two deciles, at 21% and 27% respectively. It then falls, gradually, and it is only from the fith decile onwards that the percentage of households experiencing credit exclusion falls to 10%. Such exclusion is almost non-existent in the top two deciles.

Figure 3.13: Percentage of Households Credit Excluded by Income Decile, EU-SILC 2008



Credit exclusion is significantly linked to poverty status (Figure 3.14). Eight per cent of those not 'at risk of poverty' do not have access to credit. This rises to 23% for those 'at risk of poverty' and to 47% for those in consistent poverty. Clearly, a more severe level of credit exclusion is observed for those experiencing poverty. This level of exclusion worsens when poverty gets more profound, as measured using the consistent poverty measure.

Figure 3.14: Percentage of Households Credit Excluded by 'At Risk of Poverty' and Consistent Poverty, EU-SILC 2008



Multivariate Analysis of Credit Exclusion

In order to examine the relative influence of different factors on credit exclusion, a series of logistic models are estimated (Table 3.3). For each of these regressions, the dependent variable is credit exclusion. As before, the independent variables are added in sets, so that we can examine the change in effects as other factors are controlled.

Table 3.3: Logistic Regression of Credit Exclusion

	Odds Ratios (1)	Odds Ratios (2)	Odds Ratios (3)
HRP Irish National	Ref	Ref	Ref
HRP Non-Irish National	1.806**	3.121***	1.634**
HRP male	Ref	Ref	Ref
HRP female	1.091	1.515**	1.544**
HRP aged 25 to 54	Ref	Ref	Ref
HRP aged less than 25	1.135	0.894	0.865
HRP aged 55+	1.391*	0.730	1.166
HRP married	Ref	Ref	Ref
HRP single	2.484***	2.209***	1.610***
HRP widowed/divorced/separated	2.066***	1.583***	1.327***
HRP not lone parent household	Ref	Ref	Ref
HRP Lone parent household	2.868***	2.658***	1.323
HRP at work		Ref	Ref
HRP unemployed		3.623***	1.583***
HRP on home duties		1.734***	0.942
HRP retired		1.303	0.724
HRP ill/disabled		4.233***	1.952**
HRP middle class		Ref	Ref
HRP self-employed		1.145	0.900
HRP working class		1.768**	1.311
HRP higher educ level		Ref	Ref
HRP no qualifications		12.017***	6.912***
HRP inter/Junior Cert level		5.374***	3.558***
HRP Leaving Cert level		2.934**	2.617**
Top income quintile			Ref
Bottom income quintile			8.497**
Second income quintile			7.072**
Third income quintile			3.742***
Fourth income quintile			1.512
Private owner			Ref
Private tenant			3.103***
Local authority owner			n.a
Local authority tenant			3.769***
Urban location			Ref
Rural location			0.909
Observations	5208	4812	4754
Nagelkerke R Square	0.068	0.250	0.347
Reduction on log likelihood	147.0	501.5	707.6

*** p<0.01, ** p<0.05, * p<0.1

Model 1 controls only for basic demographic variables. It shows that the highest risk of credit exclusion is observed for lone-parent households, which are almost three times more likely to be credit excluded than other households. There is a much weaker relationship between credit exclusion and age than was noted for banking exclusion. Interestingly, unlike banking exclusion, where there was no effect, households headed by a non-national are 1.8 times more likely to be credit excluded than households headed by an Irish national. Marital status is also significant. The odds of being credit excluded are of 2.5 when the HRP is single and 2.1 when widowed/ divorced/separated, compared to married head of households.

In Model 2 we add information about the principal economic status, social class and education level of the HRP. In Model 2, the highest odds ratio is observed for the education variable. Households where the HRP has no qualifications are 12 times more likely to be credit excluded than households where the HRP has third-level education. Those with lower secondary level qualifications are 5.4 times more likely to be credit excluded than graduates. The principal economic status of the HRP also produces high odds ratios, with the highest risks of credit exclusion recorded for the ill/disabled and the unemployed. When education and employment status are held constant, the risk of credit exclusion among immigrants increases.

Finally, in Model 3 we can see that the position in the income distribution range produces the largest odds ratio. Households in the bottom income quintile are 8.5 times more likely to be excluded from credit than those located in the top income quintile. This suggests that credit exclusion is even more strongly linked to income than banking exclusion.

Even after controlling for income, the education level of the HRP still produces high odds ratios. It is now 6.9 for those with no qualifications. Households that are private tenants or local authority tenants are respectively 3 to 4 times more likely to be credit excluded compared to owner occupiers. We also observe in Model 3 that the odds ratios in relation to the principal economic status of the HRP are much lower than in Model 2. The odds are halved for ill/disabled HRPs and unemployed HRPs. The odds ratios are also slightly reduced in relation to marital status. They are no longer significant for lone parent households.

3.4 Savings Exclusion

Savings are an important feature of a household's financial situation as, very often, savings are organised to provide for future acquisitions (property) or expensive consumer durables (car) or future pension income.

Two sources of information could be used to collect data about savings patterns and capacities in EU-SILC 2008. The first consists of collecting, from all individuals aged 16 and over, information about specific individual savings products. The second method involves a more direct approach, which consists of asking all individuals aged 16 and over about their financial capacity to save.

Looking initially at the first measure, the interviewer asked all persons aged 16 and over in the household if they held any of the following forms of savings:

- A Special Savings Incentive Account (SSIA, that would have matured at the time of the interview);
- Interests in non-SSIA deposit/saving accounts, received in the last 12 months;
- Other interest from money invested (Unit Trusts, Profit Bonds);
- Life assurance contributions (deducted from wages).

As the Irish EU-SILC is not designed to collect information about individual assets and specific financial products, such as savings, it seems that EU-SILC might underestimate the level of individual savings. Indeed, taking account of the four potential forms of savings listed above, only 19% of adults had at least one of them. It is very difficult in Ireland to get information about savings behaviour by referring to the proportion of individuals or households who are saving regularly. A recent monthly savings index, developed by Nationwide UK (Ireland) and the ESRI, based on a survey since April 2010, suggests that between 40% and 44% of individuals aged 15 and over save regularly. While the measure of savings used in EU-SILC and the ESRI/Nationwide Savings survey[21] are different, and apply to different years (2008 and 2010 respectively), we think that such a sharp increase from 19% to 40% is unlikely, suggesting that the EU-SILC figures are too low.

The second measure of savings behaviour is derived directly from the following question (yes/no answer) asked of all individuals aged 16 and over:[22]

> **'Can you save some of your income regularly?'**
> **(Income includes social welfare income or inter-household transfer of money, in addition to employment income).**

While the previous measures of exclusion (banking, insurance) described possession of specific financial services, they had limited information about preferences or capacities. This final measure of access to financial services includes this latter dimension, as it relates to the capacity of households to save. However, a more exhaustive definition of savings exclusion should include not only the notion of financial capacity. It should also take account of the difficulties in accessing saving products, as well as information about the appropriateness of saving products. One can have the financial capacity to save, without having access to appropriate financial products. The first dimension of financial capacity is measured in the Irish EU-SILC. But there is no information about the second dimension of access to, or adequacy of, financial products.

Overall, as can be seen in Figure 3.13, half of all households in Ireland are not able to save regularly. Looking at individual results, 51% of persons cannot save regularly, a result quite close to the 2010 figures from the Nationwide UK (Ireland)/ ESRI savings index. This suggests that about 60% of individuals do not save regularly.

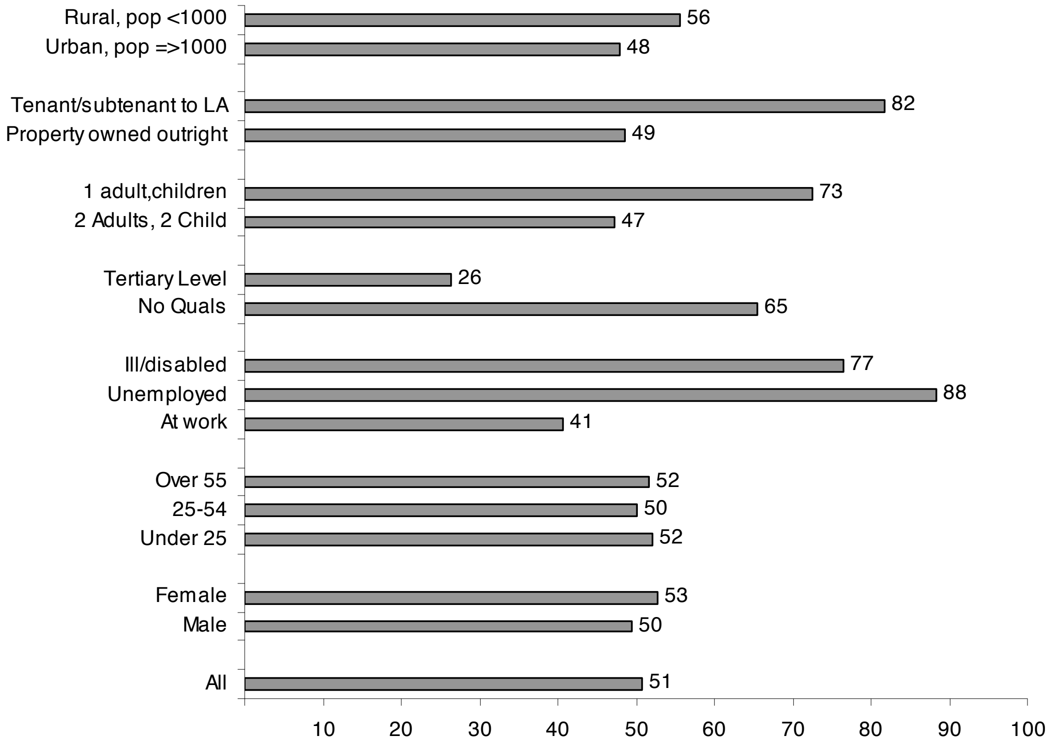
This quite large proportion is almost evenly distributed across the population in terms of age (see Appendix Table A.10 for more details), as illustrated in Figure 3.15. By contrast, the results for principal economic status show that employed individuals are better able to save than those not in employment: 41% of those at work do not have savings capacity, compared to 77% of those who are ill/disabled and 88% of the unemployed.

There is also a strong linear relationship (see Appendix Table A.10) between the education level of the household reference person and savings capacity. Only 26% of households where the HRP has a high level of education are not able to save, while it is a high 65% for those with primary education.

Household structure, such as the number of adults and children, also seems to influence the saving capacity of households. The majority (73%) of lone parents do not have the capacity to save, compared to 47% of two adult plus two children households. While there is not very much variation between the saving capacity of single adult households (50%) and two adults and two children households (47%), the household's saving capacity is strongly reduced as the number of adults and children increases (see Appendix Table A.10).

21 (see http://www.nationwideuk.ie/savingsindex/default.asp)
22 In the current context, savings consists in setting aside money for future use, without taking account of the economic behaviour of the person in relation to the savings. During the interview, the direct question about savings behaviour might introduce some subjectivity in the interpretation.

Figure 3.15: Percentage of Households not able to Save, EU-SILC 2008

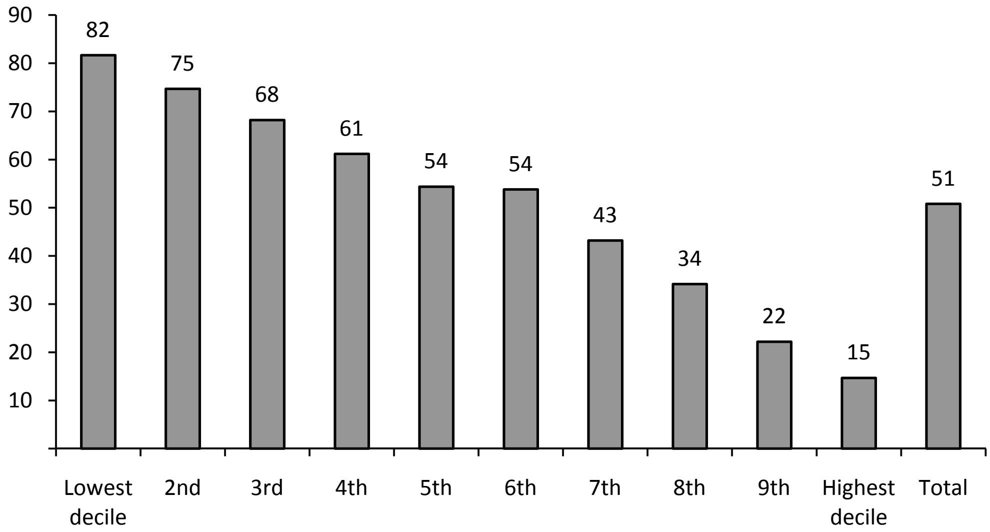


Households living in local authority accommodation report twice the level of inability to save compared to owner occupiers with mortgages, at 82% and 41% respectively. Finally, those living in rural areas also experience more difficulties in saving: 56% versus 48% for those living in urban areas.

Savings Exclusion, Household Income Position and Poverty

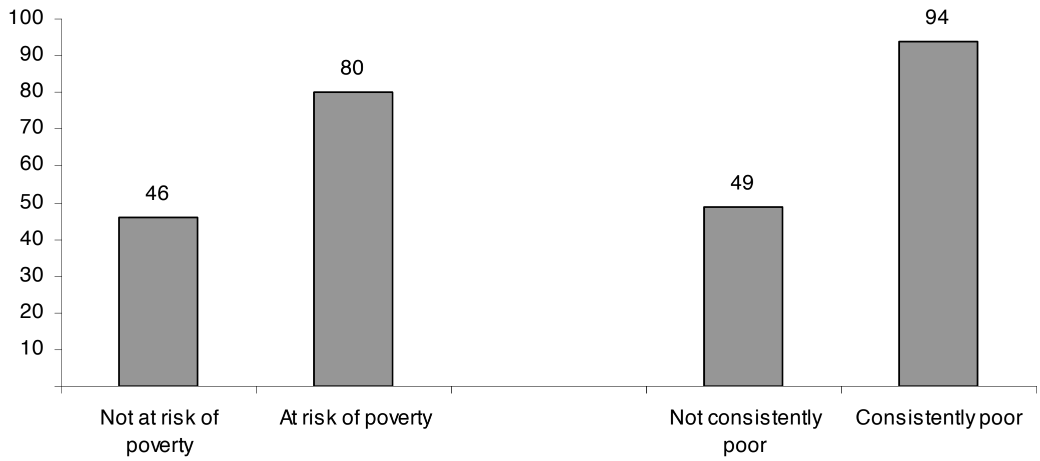
In Figure 3.16, we present a detailed analysis of inability to save by household income deciles. More strikingly than for access to credit, there is a very strong linear relationship between household income decile and savings exclusion. Indeed, four out of five households located in the bottom decile are unable to save. This is 5.5 times more than in the top decile. The level of non-access then gradually falls, but still remains quite high for most of the income distribution. In the sixth decile, over 50% of households are still unable to save. In contrast with the bottom decile, only one household in five in the ninth decile is unable to save.

Figure 3.16: Percentage of Households Excluded from Savings by Household Income Deciles, EU-SILC 2008



We saw in the previous section that 51% of households are excluded from savings. For households that are 'at risk of poverty' 80% are unable to save. A similar picture exists for consistent poverty. Indeed, 94% of households that are consistently poor are excluded from savings, which is 1.9 times more than households which are not consistently poor (49%).

Figure 3.17: Percentage of Households Saving Excluded by 'At Risk of Poverty' and Consistent Poverty, EU-SILC 2008



Multivariate Analysis of Savings Exclusion

Model 1, Table 3.4, shows that of the basic demographic characteristics, only lone-parent households and households with widowed/divorced/separated HRPs have a significantly higher rate of 'savings exclusion, the age, the nationality and the gender of the HRP are not significant.

In Model 2 we observe the highest odds ratios for the principal economic status of the HRP. Households where the HRP is unemployed are 8.4 times more likely to be excluded from savings. The odds ratio is 3.8 for ill/disabled HRPs. The education level variables have a weaker influence but households with a HRP with no qualifications are 2.8 times more likely to have no capacity to save than those where the HRP is in employment. The odds ratios attached to social class positions are between 1.5 and 1.8. Controlling for employment status and education level, older households are less likely to report that they are unable to save compared to those aged 25-54 years.

Controlling for supplementary variables, Model 3 highlights the relative importance of the income position in savings exclusion. Households that are located in the bottom income quintile are 8 times more likely to be excluded from savings. Those in the second income quintile are 4.7 times more likely to be excluded from savings. While the odds for principal economic status fell in Model 3, households where the HRP is unemployed are still almost 6 times more likely to be excluded from savings than when the HRP is at work. The effect of the education variable is also much lower than in Model 2 and is only significant for households where the HRP has no qualifications. An odds ratio of 1.6 is observed for single adult with children households. Local authority tenants are twice as likely to be excluded from savings as private owners.

Table 3.4: Logistic Regressions of Savings Exclusion

	Odds Ratios (1)	Odds Ratios (2)	Odds Ratios (3)
HRP Irish National	Ref	Ref	Ref
HRP Non-Irish National	1.237	1.348	1.219
HRP male	Ref	Ref	Ref
HRP female	0.941	0.964	0.886
HRP aged 25 to 54	Ref	Ref	Ref
HRP aged less than 25	1.053	0.696	0.813
HRP aged 55+	1.148	0.675***	0.815
HRP married	Ref	Ref	Ref
HRP single	0.923	0.754**	0.739**
HRP widowed/divorced/separated	1.233*	0.973	0.891
HRP not lone parent household	Ref	Ref	Ref
HRP Lone parent household	2.939***	2.541***	1.605**
HRP at work		Ref	Ref
HRP unemployed		8.416***	5.966***
HRP on home duties		2.346***	1.674***
HRP retired		1.334**	0.918
HRP ill/disabled		3.882***	1.957***
HRP middle class		Ref	Ref
HRP self-employed		1.824***	1.347*
HRP working class		1.500***	1.160

HRP higher educ level		Ref	Ref
HRP no qualifications		2.775***	1.508**
HRP inter/Junior Cert level		2.064***	1.277
HRP Leaving Cert level		1.644***	1.216
Top income quintile			Ref
Bottom income quintile			8.035***
Second income quintile			4.776***
Third income quintile			3.864***
Fourth income quintile			2.505***
Private owner			Ref
Private tenant			0.823
Local authority owner			1.076
Local authority tenant			2.050***
Urban location			Ref
Rural location			1.088
Observations (unweighted)	5204	4809	4751
Nagelkerke R Square	0.021	0.178	0.260
Reduction on log likelihood	36.74	269.6	413.4

*** $p<0.01$, ** $p<0.05$, * $p<0.1$

3.5 Insurance Exclusion

Insurance exclusion is the last component of the four ‘mainstream’ financial services covered by financial exclusion. In modern economies, there are a wide range of insurance policies, including car insurance, life insurance, home insurance and sickness/disability insurance. Some of them are mandatory (car insurance, for example) while others are discretionary (personal property and valuables).

In the EU-SILC survey there is limited information on the topic and we use the following question (yes/no answer) as a proxy for a very narrow measure of insurance exclusion:

‘Do you have the structure and/or the contents of this dwelling insured?’

Again the question records only whether the respondent has such insurance and not whether they have had difficulties accessing it, or whether the coverage provided is appropriate. Note that the way the question is worded (‘and/or’) means that it only distinguishes those who have neither structure nor contents insurance, and the ambiguous phrasing may well cause confusion for respondents. Those who answer ‘Yes’ may have either structure or contents insurance or both. In general, in rented accommodation, insurance for the structure of the building is the responsibility of the landlord while tenants may opt to take out insurance for their own personal contents. Structural insurance is usually a compulsory condition for mortgage and tenant purchase schemes. Therefore, the prevalence of insurance will vary by the respondents’ housing tenure.

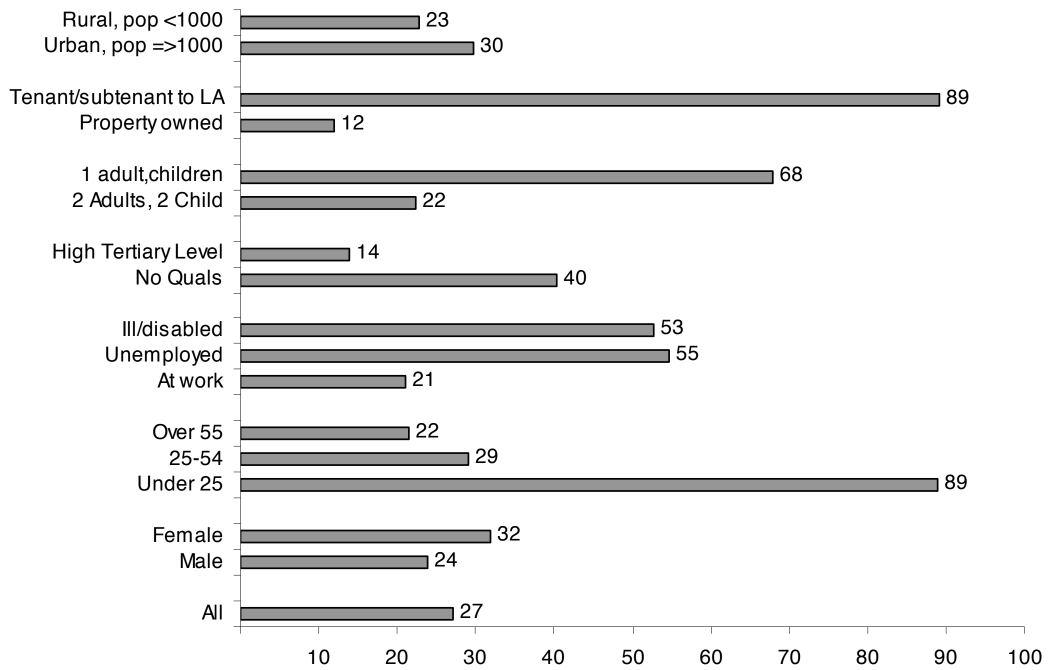
Overall, 27% of households state that they do not have the structure and/or the contents of their dwelling insured (see Figure 3.17). Almost one-third of female-headed households (32%) do not have such cover, compared to one-quarter of male-headed households (24%). Households headed by a person under the age of 25 are also quite distinctive, in that an extremely high percentage of this group lack insurance cover (89%). This might reflect the type of accommodation (rented and structure insured) that this group of the population occupy, as well as their limited resources to consider any expenditure on insurance protection. For the other age groups, the percentages are close to the national average.

While the percentage of households headed by someone at work and without insurance (22%) is also close to the national average, the proportion with no insurance is 55% and 53% respectively, where the HRP is unemployed or ill/disabled. Where the HRP has a lower education level, a higher level of insurance exclusion was reported (40%). This compared to 14% where the HRP had a third-level qualification. Lone-parent households report an extremely high level of insurance exclusion at 68%. This is three times higher than the rate for two adults and two children households (22%).

A very high percentage of households living in local authority housing (89%) report that they do not have insurance. The structures of the dwellings are already insured (against fire and storm damage) by the relevant council. The question about insurance does not distinguish the insurance of the structure from the contents of the dwelling. Therefore, one can suppose that the vast majority of local authority occupiers do not possess contents insurance. A similarly high proportion without insurance (91%) is also a feature of households living in privately rented accommodation.

Almost half of households located in the bottom quintile of the income distribution are insurance excluded. This is five times more than those located at the top of the income distribution at 9%. Finally, slightly more urban households do not have insurance than their rural counterparts.

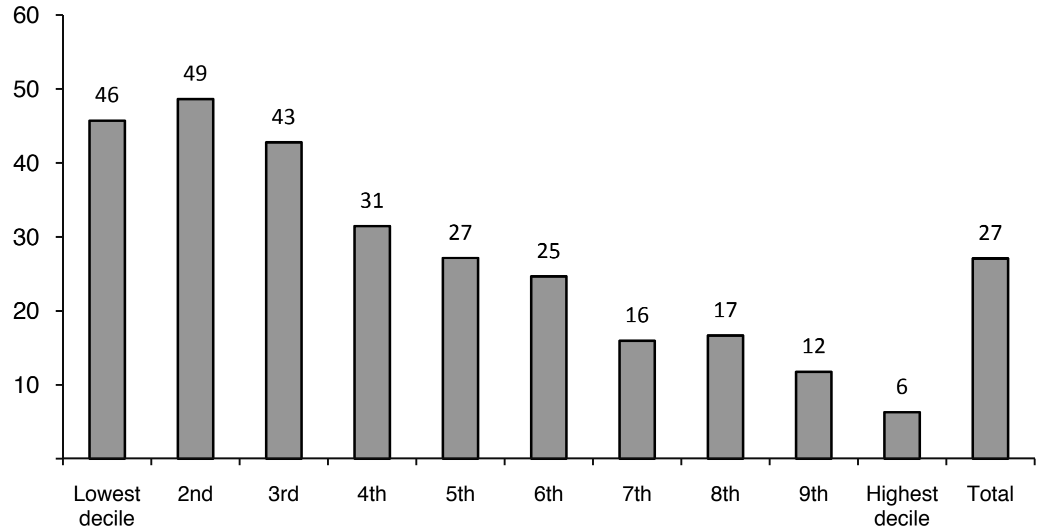
Figure 3.18: Percentage of Households Insurance Excluded, EU-SILC 2008



Insurance Exclusion, Household Income Position and Poverty

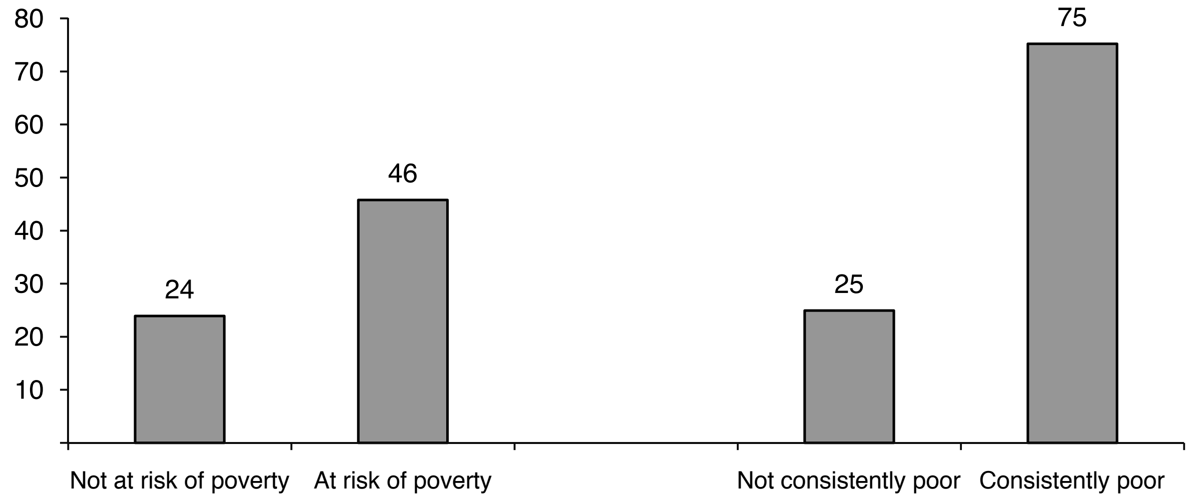
Access to home insurance is strongly related to the level of household income, as shown in Figure 3.19. Indeed, almost half of the households from the two bottom deciles do not have home or contents insurance. This proportion then falls to a quarter of the households in the middle of the income distribution. Even in the ninth decile, just over one-tenth of households do not have insurance cover.

Figure 3.19: Percentage of Households Excluded from Insurance by Household Income Deciles, EU-SILC 2008



Finally, in Figure 3.20 we focus the analysis on households that are experiencing poverty. Households 'at risk of poverty' are twice as likely to lack insurance (46%) as households that are not 'at risk of poverty' (24%). Those in consistent poverty are three times more likely to be excluded.

Figure 3.20: Percentage of Households Insurance Excluded by 'At risk of Poverty' and Consistent Poverty, EU-SILC 2008



Multivariate Analysis of Insurance Exclusion

We end this section by looking at the determinants of insurance exclusion with the results of three logistic regressions, as presented in Table 3.5.

In Model 1, we see that households headed by a young person or by an immigrant have a very high risk of not having such insurance protection, with respective odds of 8 and 7, followed then by single and lone-parent households with odds of 6 and 4.

Adding more control variables, Model 2 has the consequence of increasing the odds ratio for young HRPs or immigrant HRPs to 11 and 9. The risk remains almost the same as in Model 1 for other characteristics such as being single or in lone-parent households.

The labour market status of the HRP also has a significant effect. Those who are unemployed or ill/disabled are almost three times more likely not to have insurance cover as those who are at work. Controlling for the education level of the HRP, we see that where the HRP has no qualifications, the likelihood of not having insurance protection is higher than for those where the HRP has third-level education (with odds of 2.8).

In the final model, Model 3, we add control variables for household income position, location and housing tenure. Adding these controls reduces the effect of nationality and lone parenthood to non-significance. In this model the highest odds ratios are now experienced by those living in privately rented accommodation and those renting from local authorities, with respective odds ratios of 177 and 65. These very high odds can be explained by looking at the results of the Appendix presented in Table A.11. As noted above, 91% of households living in privately rented accommodation and 89% of households renting accommodation from the local authorities do not have insurance protection. As these percentages are extremely high, the odds ratio of access to insurance protection compared to private owners are very high (see Model 3). Membership of these two housing tenure groups predicts almost perfectly insurance exclusion, as can be seen with the high Nagelkerke R square (0.69).

Controlling for income level and housing tenure almost halves the risk attached to households headed by a young person (4.5), but the risk stays at the same level for single households (4.5). The odds ratios are also reduced for ill/disabled and unemployed HRPs to about 2. The odds ratios for household income position might not be as high as for previous models (savings and credit exclusion) but they are still of importance, with those in the two bottom income quintiles facing a four times greater risk of insurance exclusion.

Table 3.5: Logistic Regressions of Insurance Exclusion

	Odds Ratios (1)	Odds Ratios (2)	Odds Ratios (3)
HRP Irish National	Ref	Ref	Ref
HRP Non-Irish National	7.100***	9.183***	1.376
HRP male	Ref	Ref	Ref
HRP female	0.855	0.856	0.640*
HRP aged 25 to 54	Ref	Ref	Ref
HRP aged less than 25	8.197***	10.99***	4.550***
HRP aged 55+	1.050	0.549***	1.533**
HRP married	Ref	Ref	Ref
HRP single	5.953***	5.805***	4.563***
HRP widowed/divorced/separated	2.725***	2.191***	2.084***
HRP not lone parent household	Ref	Ref	Ref
HRP Lone parent household	3.982***	4.042***	1.517
HRP at work		Ref	Ref
HRP unemployed		2.954***	1.795*
HRP on home duties		1.646**	1.372
HRP retired		1.060	0.960
HRP ill/disabled		3.306***	2.123***
HRP middle class		Ref	Ref
HRP self-employed		1.153	1.713*
HRP working class		2.638***	2.502***
HRP higher educ level		Ref	Ref
HRP no qualifications		2.831***	1.482
HRP inter/Junior Cert level		0.937	0.608
HRP Leaving Cert level		0.752	0.645
Top income quintile			Ref
Bottom income quintile			3.851***
Second income quintile			4.551***
Third income quintile			2.361**
Fourth income quintile			1.733
Private owner			Ref
Private tenant			176.6***
Local authority owner			2.526**
Local authority tenant			65.23***
Urban location			Ref
Rural location			1.335*
Observations	5198	4803	4746
Nagelkerke R Square	0.258	0.392	0.694
Reduction on log likelihood	923.3	1340.2	2681.6

*** p<0.01, ** p<0.05, * p<0.1

Insurance exclusion is the final of the four components of financial exclusion examined. In Appendix Section A.3, we present a short description of the overlap between these different forms of exclusion. In the next section, we move the analysis from a national to an international perspective by placing Ireland in a wider European context.

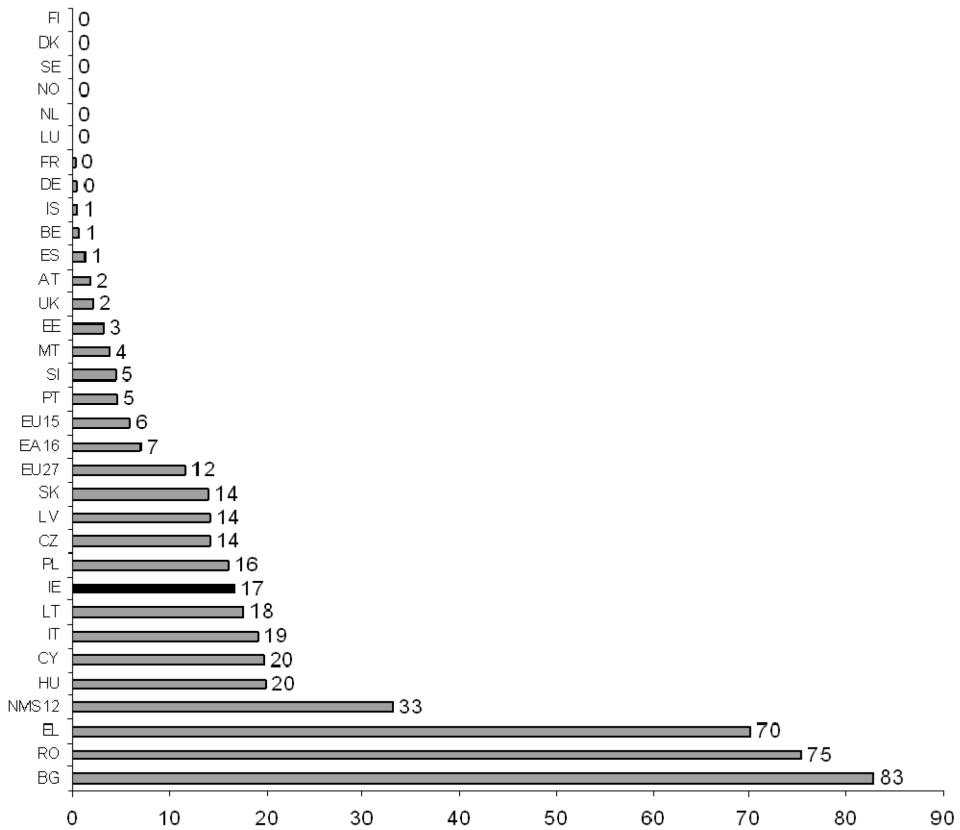
3.6 An Overview of Financial Exclusion in Europe

This section draws on published results from Eurostat SILC 2008. This allows us to compare the Irish levels of exclusion with other EU countries[23].

Banking Exclusion

Figure 3.21 presents the percentage of individuals who are in households that do not have a bank current account across the 27 EU countries. The variation in banking exclusion across the European Union is extremely wide, ranging from 0% in eight countries to a high of 83% in Bulgaria. In only three countries do the majority of households not have a bank current account, Greece (70%), Romania (75%) and Bulgaria (83%). Then there is a group of nine countries with values of between 20% and 14%. With the exception of two countries, Italy (19%) and Ireland (17%), all the countries in this group are from the New Member States. So, Ireland is quite distinctive from the rest of the EU15 in having one of the highest percentages of banking exclusion and having three times the EU15 average. Finally, for the last group of countries, the proportion of individuals who are in households without bank current accounts is less than 5%.

Figure 3.21 Percentage of individuals in Households without a Bank Current Account, Eurostat EU-SILC 2008



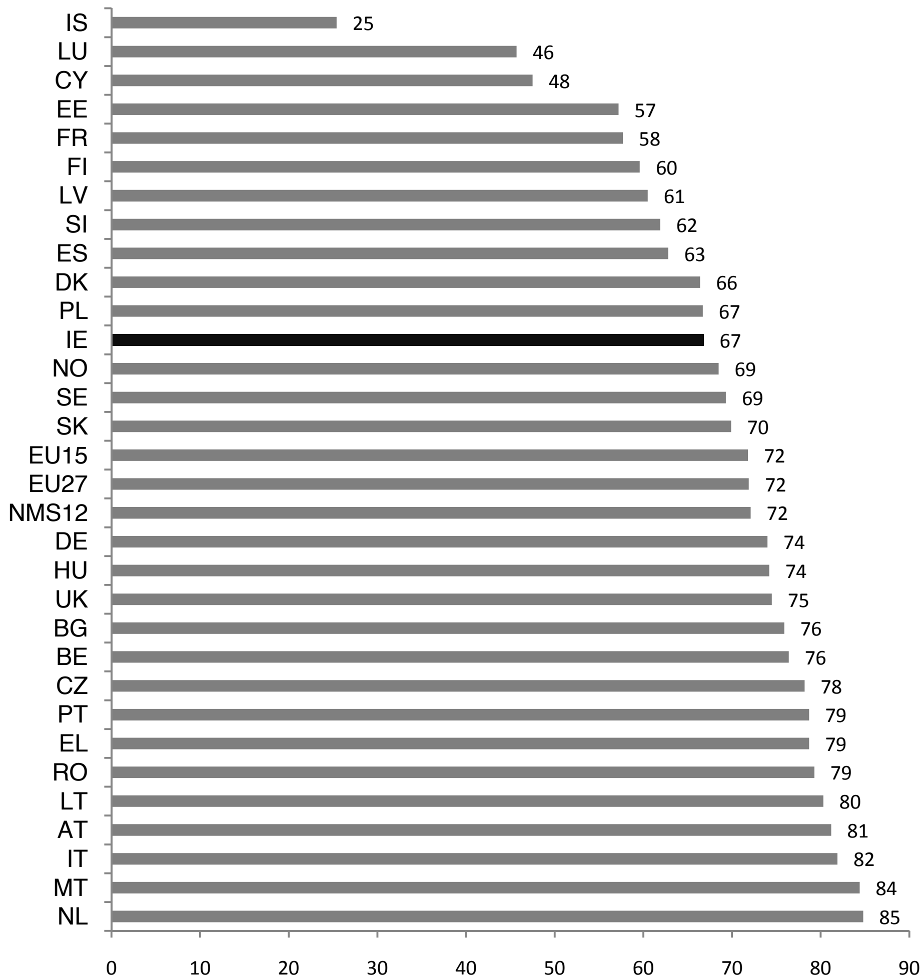
Source: Eurostat reference database, SILC 2008

[23] The figures on bank accounts published by Eurostat differ somewhat from the figures presented in Chapter 3. This is because the Eurostat figures refer to the proportion of individuals who are in households that do not have a bank account, rather than the proportion of households that do not have a bank account.

Credit or Loan Exclusion

Figure 3.22 explores the relative position of Ireland in relation to credit or loans but excluding mortgage for the main dwelling. One is struck first by the high percentage of individuals who are in households that do not have these financial products. Only three countries have values below 50%: Iceland (25%), Luxembourg (46%) and Cyprus (48%). For the rest of the countries, the percentages range from 57% (Estonia) to a very surprising 85% in the Netherlands. There is no divide between the members of the EU15 and the New Member States (NMS12), as the average percentage for both groups is 72%. Ireland, at 67%, is located towards the bottom of the distribution, indicating a relatively 'high' level of access to credit or loans in comparison to the majority of the other European countries.[24]

Figure 3.22: Percentage of Individuals in Households without Credit or Loans (other than mortgage for the main dwelling), Eurostat SILC 20081



Source: Eurostat reference database, EU-SILC 2008

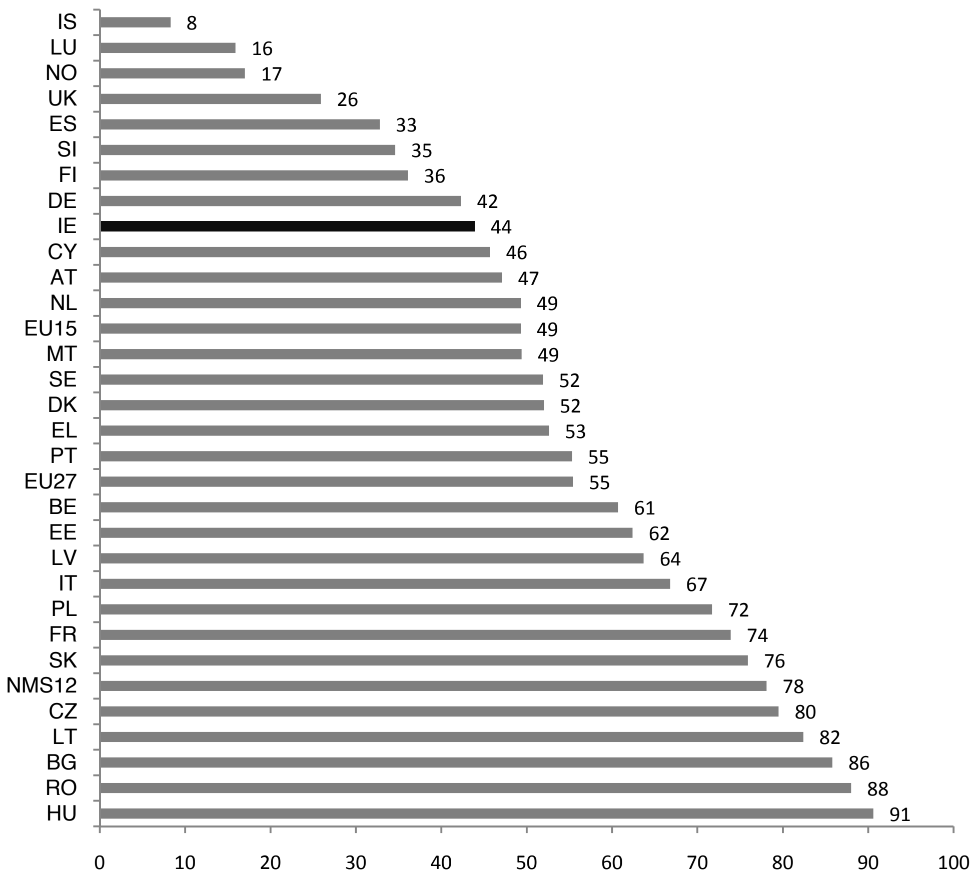
Access to Credit Cards/Store Cards

The final element of comparison concerns access to a credit card/store card. As in the case of banking exclusion, there is a wide disparity across Europe, from a low 8% in Iceland and 16%–17% in Luxembourg and Norway to 91% in Hungary. There is a very clear divide between the EU15 and the NMS12 countries. The former group of countries are characterised by a lower level of exclusion. The EU15 average is 49%, while the rate is 78% for the NMS12. Indeed, the six countries that have the highest percentages of exclusion (above 75%) are all from the NMS12. Ireland is at the opposite end of

24 The positioning of Ireland, France, Denmark, Luxembourg (and Finland) above the average for the EU15 in terms of the proportion of households with consumer loans is consistent with the findings of Betti *et al.* (2007). However, in that study, the UK was also above the average whereas the EU-SILC places it below the EU15 mean.

the spectrum, where 44% of individuals who are in households do not have access to credit cards/store cards.

Figure 3.23: Percentage of Individuals in Households Not Having Credit Cards/ Store Cards, Eurostat EU- SILC 2008



Source: Eurostat reference database, EU-SILC 2008

3.7 Conclusion

In this chapter, we have explored the extent of financial exclusion in Ireland, based on the analysis of the Irish EU-SILC 2008 special module on financial exclusion and over-indebtedness. We examined financial exclusion for each of the four mainstream financial products identified in Chapter 1: banking exclusion (bank current account); credit exclusion; savings exclusion and insurance exclusion. For each of these services, we explored the relationship between some specific socio-demographic characteristics of the household and exclusion from these services. Here, we summarise the main findings in relation to each of the financial products.

Banking exclusion

Banking exclusion is the most critical form of financial exclusion, as it is a key gateway to access to other financial services. We saw that 20% of households do not have a bank current account. A detailed examination of the risk factors associated with banking exclusion showed that particular groups of the population are more likely to be excluded. These are households headed by an inactive person (unemployed, ill/disabled), with lower education qualifications. Other groups at high risk are single adults with children, local authority tenants, and households located in the bottom of the income distribution. A follow-up examination of the relationship with poverty showed that households 'at risk of poverty' were particularly exposed, but not to the same extent as consistently poor households. A formal statistical analysis, with the use of logistic regression techniques, highlighted the importance of low income and lower education level as strong predictors of banking exclusion and, to a lesser extent, disadvantaged principal economic status and particular housing tenure.

Credit exclusion

The analysis of the Irish EU-SILC revealed that 71% of households did not have credit/loans, 65% did not have overdraft facilities and 49% did not have a credit card/store card. We identified 10% of households lacking all three financial products (excluding those not wishing to borrow). A descriptive analysis of this measure of credit exclusion showed broadly similar patterns of risk for the same vulnerable households as for banking exclusion: households headed by an ill/disabled or unemployed person; households headed by single adults with children; tenants/sub-tenants to local authorities and low-income households. In comparison to banking exclusion, the results from the logistic regressions showed much higher odds of credit exclusion for low-income households and households headed by a person with no educational qualifications, while the principal economic status or lone parenthood did not play such an important role.

Savings exclusion

Savings exclusion was measured crudely by a single indicator on the ability to save regularly. It showed that 51% of households were unable to save. We observed that there was not much variation across the group of households analysed. There are no differences across gender and age, for example. Nevertheless, higher risks exist among the same groups, as identified in the two previous paragraphs: households headed by an inactive person (unemployed, ill/disabled), with lower education qualifications and lone-parent households. The largest inequality is found in terms of location in the income distribution. The vast majority of those 'at risk of poverty' are unable to save and nearly all of those who are consistently poor are also unable to save. The results from the logistic regression showed the greater impact of household income level in the capacity to save.

Insurance exclusion

The insurance exclusion dimension was analysed with a very narrow definition of access to insurance, that is, whether or not the household had insurance for the structure and/or the contents of the dwelling where the household lived. Using this crude measure, 27% of households did not have such insurance cover. Among the groups most exposed to such exclusion were households headed by a young person (aged less than 25); a person who was unemployed, or ill/disabled; households headed by a single adult with children; as well as those 'at risk of poverty' and consistently poor.

Overall, on each of the dimensions of financial exclusion analysed in this chapter, there is a clear pattern of exclusion among the most vulnerable groups in society.

How does Ireland compare to other European countries? We can explore Ireland's relative position by looking at descriptive results, using the Eurostat EU-SILC 2008 module on financial exclusion and over-indebtedness. Looking at first at banking exclusion, we saw that Ireland, along with Italy, had the highest percentage of banking exclusion in the EU15. Many Scandinavian countries have no banking exclusion, as all individuals are in households that have a bank current account, while the highest levels of banking exclusion were observed in the New Member States. Moving on to the measure of access to credit/loans, the overall level of access is much lower across the EU. Ireland, where 33% of individuals have access to credits/loans, is among the countries with a relatively lower level of exclusion on this measure. The final cross-country comparison is access to credit cards/store cards. There is a wide variation across countries on this indicator. Access to credit cards is higher in the EU15 than in the EU12 countries. Ireland, where 44% of individual do not possess credit/store cards, is among the countries with the lowest level of exclusion on this measure.

The analysis has highlighted the limitations of the EU-SILC survey for capturing the full complexity of financial exclusion. Very often, the information that is collected refers to the possession of a specific financial product and there is little information about respondents' difficulties in accessing or using this financial service. Nor is there enough information about the appropriateness of the service for the respondent. These limitations have implications for the accuracy of the estimate of the extent and distribution of financial exclusion. The policy implications of these results, as well as the implications for the future measurement of financial exclusion, are discussed in Chapter 7.

SECTION 2

Over-indebtedness in Ireland

CHAPTER 4

Over-indebtedness: Research and Measurement

4.1 Introduction

While personal debt is not a new phenomenon in Ireland or within Europe, the rapidly rising level of debt in recent years is unprecedented. In 1995, the ratio of household debt to disposable income in Ireland stood at 48%, that is, for every €100 of income €48 was borrowed. By 2008, this had increased by almost 270% to a ratio of 176, where €176 was owed for every €100 of income (Oireachtas Library and Research Service 2010). While these high rates of debt indicate an increasingly widespread use of credit in Irish society, they do not measure the extent of over-indebtedness. Over-indebtedness only occurs when debts and expenses become unmanageable.

> **'People are over indebted if their net resources (income and realisable assets) render them persistently unable to meet essential living expenses and debt repayments as they fall due.' (Stamp 2009)**

The onset of the economic recession has added to concerns that, as a result of job loss and pay cuts, an increasing number of households will be unable to repay the high levels of borrowing during the boom period.

This chapter sets the scene for the analysis of over-indebtedness based on the EU-SILC 2008 module in the following chapter. It outlines the measures of over-indebtedness that have been applied in Ireland and Europe. Section 4.3 summarises the results from the international literature on the processes that lead to over-indebtedness and the groups that are vulnerable to being over indebted. Section 4.4 describes the existing evidence on the level of debt and arrears in Ireland. The chapter ends with a brief description of the policy context.

4.2 How has over-indebtedness been measured and defined?

While there is agreement that debt levels have substantially increased, there has been less consensus on how over-indebtedness has been defined and measured throughout the European Union, making comparison between countries difficult. Furthermore, it is widely recognized that the concept of over-indebtedness is multi-dimensional and, therefore, no one single indicator can encapsulate it.

It is possible to conceptualise three broad models for measuring consumer over-indebtedness (adapted from Ferreira 2000; Finlay 2006 and Betti *et al.* 2007).

The first model, is an objective quantitative model, based on the notion of unsustainable spending behaviour (consumption/income ratio) or unsustainable level of debt (debt/asset ratio) or inability to service the debt (debt payment/income ratio). However, there is no established methodology for determining the critical level of these ratios beyond which a household is defined to be over indebted. According to the UK Taskforce on Over-indebtedness, households are considered to be over indebted where credit commitments (excluding mortgages) exceed 25% of gross income. However, as Finlay (2006) argues, this type of rule does not take into account personal circumstances. Furthermore, Betti *et al.* (2007) asserts that, even if a critical level of indebtedness can be established, it is likely to fluctuate widely through the life cycle of an individual.

A second model is a subjective model that classifies as being over indebted all those who judge themselves to be unable to repay their debts without reducing their other expenditure below their normal minimal levels, with the result that the debt has become unsustainable. Within this model, over-indebted households are identified as those that expressed 'difficulty' or 'serious difficulty' in making debt payments, including credit debt, mortgage payments and hire purchase instalments. One difficulty with this measure is that tolerance for debt may vary across countries and time and, therefore, may be an unstable indicator if used in isolation.

The third alternative is an administrative model, that records as over indebted all those cases of non-payment of debt that have been officially registered or declared before a court. However, since this model is linked to a specific judicial system, the variations in the data between EU member states collected on this basis are very considerable. Administrative sources have been found to be of limited use for measuring over-indebtedness in Ireland (see Stamp 2009 p7-8; Joyce 2003). Moreover as the point of reference is often bankruptcy or court proceedings, it can be regarded as a measure of the outcome, rather than the situation of indebtedness (Betti *et al.* 2007).

Within the European Union a mixture of all three measurement models appears to be applied. For example, in some countries, such as Norway and Belgium, measurements of over-indebtedness are based around the administrative model. In other countries, for example in Germany and Portugal, measurements are based around the objective model, whereas in some others, such as Italy and the UK, a wider definition is used that takes into account the subjective burden of a household's borrowing repayment.

In addition, the types of commitments that ought to be taken into account when measuring over-indebtedness vary between commentators. For some, over-indebtedness refers just to the level of borrowing (mortgages and/or unsecured credit) relative to income (Betti *et al*. 2001), while others refer to people facing payment difficulties on household bills as well as mortgages (Kempson 2002).

Given such disparity, a consortium of researchers was appointed by the European Commission to develop a common operational definition of over-indebtedness in Europe (Davydoff *et al.* 2008). The consortium reviewed existing definitions and measures of over-indebtedness across the EU and identified a number of underlying common elements (2008, p37):

- The unit of measurement in most cases is the household;
- Half of the definitions reviewed make some reference to time (such as long-term or structural problems). The emphasis here is that the definition must capture persistent and on-going financial problems, so as to exclude one-off occurrences that may simply arise due to forgetfulness. There are, however, differences in opinion over how long the period of time ought to be in order for the debt to be considered a structural problem. For some this is more than three months (UK Department for Business Innovation and Skills 2010) whilst Davydoff *et al.* (2008) specify more than once in the last 12 months;
- Many of the definitions include debt or contractual financial obligations such as mortgages and consumer credit commitments; utility and telephone bills and rent. Informal commitments entered into with families are excluded;
- Half make reference to cost of living expenses;
- Most refer to payment capacity such as inability to pay or level of difficulty paying contracted obligations at the same time as meeting recurring expenses on a long-term basis.

The indicators proposed by Davydoff *et al.* (2008; p55–56) are a mix of both the objective and subjective models above, that is, households are considered to be over-indebted if they have:

1. Comparably high commitment payments, which push the household below the poverty threshold;
2. Structural arrears on at least one financial commitment (these include all types of credit commitments but also other recurring bills such as utilities, etc.);

3. Burden of monthly commitment payments (housing costs including mortgage payments or rent and payment for other loans) is considered to be a heavy one for the household;
4. Payment capacity considered to be 'very difficult' or 'difficult' by the household;
5. Illiquidity – the household is unable to remedy the situation by recourse to assets or other resources (an inability to meet an unexpected expense).

Households that meet all the criteria are considered over indebted. Households that fulfil all the criteria but whose income is not reduced below the poverty threshold (criterion 1) are considered to be 'at risk' of over-indebtedness (Davydoff *et al.* 2008).

4.3 Processes behind over-indebtedness

Access to Credit and Irresponsible Lending

For some, the rapid rise in debt can be linked to changes in access to and use of credit, even for those on lower incomes who were traditionally excluded from credit (Kempson 2002; Burton *et al.* 2004; Oireachtas Library and Research Service 2010). These commentators point out an ever-broadening range of credit available through both prime and sub-prime markets. In addition, due to widespread access to prearranged lines of credit and technological advances, it has become easier for creditors to offer revolving credit, which promotes a vicious circle of indebtedness (O'Loughlin 2006).

Some research has found that higher levels of credit are linked to problem debt. Poppe (1999), Berthoud and Kempson (1992) and Kempson (2002) found that the more credit commitments a household had, and the larger the proportion of their income that they spent on repaying them, the more serious was the level of arrears/financial difficulties.

In contrast, a number of cross-national studies have shown that in countries where access to credit is more restricted over-indebtedness appears to be more severe, for example, Betti *et al.* (2007) found that in Denmark, where 43% of households had consumer debts, 19% of these households were over indebted, and in Ireland, where 29% of households had consumer debt, 25% of these households were over indebted. In Greece, in contrast, where only 9% of households borrowed, 96% of these households had a serious problem with debt repayment. Betti *et al.* (2007) find that high borrowing countries such as the UK, Ireland and Denmark tend to have lower proportions of over-indebted households across all income groups. This may be because more households face a liquidity constraint in times of personal economic shocks in countries where the consumer debt market is less liberalised (Byrne *et al.* 2005; Pleasence *et al.* 2007; Betti *et al.* 2007).

A key issue in the discussion of credit is the extent to which financial institutions engaged in irresponsible lending, which encouraged consumers to take on levels of credit that were unsustainable. Exceptionally low interest rates meant that banks actively encouraged consumers to borrow and to speculate on the housing market (McWilliams 2008; Kelly 2009). Moreover, the sub-prime market specifically targeted borrowers who had been turned down by other financial institutions which considered that the loans had too high a risk of default. According to Kempson (2002), in a highly competitive market the most profitable customers may also be those who carry the greatest risk for lenders. Thus, as the Law Reform Commission (2009) points out, the question arises as to the responsibility of creditors for debts going unpaid when money is lent to high-risk borrowers.

When taking into consideration the responsibility of creditors, an obvious question is the quality and adequacy of the financial services risk assessment. While lenders are expected to assess creditworthiness, the European Commission public consultation on responsible lending (2009) found a number of disincentives exist to doing so. Firstly, lenders may provide risky loans that are secured against an asset such as the borrower's home since the bank will benefit from a loan default[25]. Secondly, lenders working on a commission basis may have an incentive to do a less rigorous assessment. In addition, in highly competitive credit markets, it may be in the lender's interest not to conduct a thorough credit assessment to speed up the loan process. Risky lending practices have been the focus of much debate following the banking crisis but much of this discussion focuses on lending to developers. Kelly (2009) points to the very high loan to value ratios for mortgages at the peak of the boom, the increasing length of mortgage terms, and the ratio of house prices to average earnings to

[25] In Ireland and other countries where there has been a housing market crash this incentive has been reduced.

highlight that much mortgage lending to private consumers was unsustainable.[26] Other non-mortgage lending practices have also raised concerns such as the automatic increase of credit limits by lenders, the reduction of the minimum payment on credit cards and unsolicited loan offers (Law Reform Commission consultation paper 2009). In 2006, the Financial Regulator (IFSRA) banned automatic increases in credit card limits and unsolicited offers or pre-approved credit facilities by regulated financial service providers.

Financial Exclusion

As outlined at the outset of this report (Chapter 1) there appears to be a relationship between financial exclusion and over-indebtedness. For example, in Ireland some studies have shown that the inability to open a bank account and then to access affordable credit are related to the persistent use of moneylenders, who can legally charge 100%–200% APR, which can result in individuals experiencing even heavier burdens of debt (Balmer 2006; Byrne *et al.* 2005; Corr 2006).

Employment Status

Similar to the case of access to credit, there is no clear consensus regarding the nature of the relationship between employment status and financial difficulties. In some studies in Ireland and the UK, employment status, specifically unemployment, has been found to be associated with an increased likelihood of over-indebtedness (Kearns 2003; Kempson *et al.* 2004). On the other hand, studies in Germany and Portugal found that the employed were more likely to be over-indebted than those not in employment (Davydoff *et al.* 2008).

Low Income

Unlike access to credit or employment status, there is agreement that household income has an independent effect on the risk of over-indebtedness. Whilst financial difficulties can exist across a range of incomes, a number of studies have found that the lower the income the greater the risk of over-indebtedness (Berthoud and Kempson 1992; Herbert and Kempson 1995; Poppe 1999; Webley and Nyhus 2001; Stamp 2006). Furthermore, Stamp (2006) also found that households living on low incomes were more likely to face persistent over-indebtedness, that is, those households that were below the poverty line were twice as likely to report being in arrears on credit commitments for two years running.

Inability to Pay

Inability to pay is closely linked to low income. Distinguishing between debtors who ‘can’t pay’ and those who ‘won’t pay’ is a central issue in the legal enforcement of debts. The recent Law Reform Commission Consultation Paper on Personal Debt outlines a number of reasons why it is in the interest of the courts and citizens that debtors who are unable to pay are not pursued through the judicial system (2009 p30). While there are difficulties in distinguishing these categories of debtors and more subtle differentiation can be made within the ‘can’t pay’ and ‘won’t pay’ groups (ibid. 32; Dominy and Kempson 2003) a key issue is that the majority of people in arrears intend to pay their debts but are unable to do so due to financial difficulties:

> **‘Only a minority of debts go unpaid as a result of a refusal to pay by a debtor who possesses the means to do so, with some research suggesting the number of deliberatively evasive debtors may be as low as one in twenty.*’* (Law Reform Commission 2009 p22).**

Adverse Financial Shocks

Adverse financial shocks that lead to loss of income are common reasons for financial stress across a range of studies. Betti *et al.* (2007) found that unexpected adverse shocks to expenditure requirements and/or total resources were consistently related to over-indebtedness. Herbert and Kempson (1995) found drops in income to be predictive of over-indebtedness independently of income *per se.* More recently, in a survey of over-indebtedness in the UK, loss of income was cited by 45% of households as a reason for being in financial difficulties, with job loss or redundancy being cited by one household in five (Kempson 2002).

[26] In 2006, 64% of first-time buyers of new houses had loan to value ratios above 90%, and 30% had 100% mortgages. Only 17% of this group took out mortgages of less than 25 years, and 58% took out loans of over 30 years. Among first-time buyers in Dublin the corresponding figures were 9% and 69%.

Such shocks can include not only changes in employment status but also interest rates, the value of household financial and fixed assets, health, family structure and hence changes to both household resources and basic expenditure requirements. For example, a number of studies have found that a change in family circumstances, most especially relationship breakdown leading to separation or divorce, is a potential trigger for financial difficulty (Berthoud and Kempson 1992; Kempson 2002; Kempson *et al.* 2004; MORI 2005). Other studies have shown that loss of income through illness, accident or disability was the explanation for 11% of people who were over indebted in France (Gloukoviezoff 2006 cited in Davydoff *et al.* 2008) and 6% of households with arrears in the UK (Kempson 2002).

Life Events

A number of studies have shown that the birth of children is a significant stress point in terms of over-indebtedness, as it is often accompanied by one parent reducing their working hours or ceasing paid work altogether (Keese 2009; Niviere 2006 cited in Davydoff *et al.* 2008). Research among low-income families in Ireland have found that significant events such as Christmas, Communion and Confirmation, which have become increasingly consumption-centred, place a huge financial strain on families and can add to problem debt (O'Loughlin 2006).

Money Management

A number of studies have found that, in addition to personal characteristics and income, various aspects of money management are associated with the risk of over-indebtedness. Indeed, McCarthy (2010) argues that, while demographic and economic variables are important, behavioural characteristics such as an individual's capacity for self-control, planning and patience are both statistically significant and economically important for predicting 'financial distress', which is a measure of the difficulty individuals face in keeping up with bills and credit commitments (see Table 4.1 below). Just over a quarter of Irish respondents were defined as 'impulsive', i.e. they agreed with the statement 'I am impulsive and tend to buy things even when I can't really afford them'. Such impulsiveness increased the risk of financial difficulties even when income and employment status were held constant.

In the UK, Berthoud and Kempson (1992) found that those who placed high importance on making payments, even if this meant going without other things, were much less likely to have problems with debt. Lastly, given that savings provide a safety net in times of hardship it is not surprising that the absence of savings has been found to be related to heightened levels of being in arrears (Berthoud and Kempson 1992). However, it is likely that for many households a lack of savings is indicative of a lack of resources rather than of poor financial management. Additionally, different aspects of financial management are more important depending on household income level. Atkinson *et al.* (2006 p20) argue that

> **"day-to-day money management is of prime importance for people on low incomes, who often have little spare money to do much planning ahead and engage little with the world of financial services. On the other hand, for people with high incomes, money management is far less important than making appropriate choices with regard to financial products. With a sufficiently high income it is possible to make ends meet with very little skill."**

As with most complex social phenomena, there is unlikely to be a single simple cause of over-indebtedness (Davydoff *et al.* 2008). It is more likely that risk factors (such as low income) will work in combination with each other and with triggers (changes in circumstances) to lead to over-indebtedness, while poor money management and over-commitment will tend to compound the problems being faced.

Groups At Risk

A number of characteristics are associated with thet ris of over-indebtedness. The literature on which these results are drawn adopts a variety of the measures of over-indebtedness as outlined above but nevertheless show some common findings.

Age

A number of studies have found that younger adults are more at risk of financial difficulties, irrespective of other characteristics or circumstances (Atkinson *et al.* 2006; Berthoud and Kempson 1992; Kempson *et al.* 2004). Davydoff *et al.* (2008) found that, after controlling for the influence of other socio-demographic characteristics and country of residence, the likelihood of falling into arrears peaked in households headed by someone in their thirties and was also high for those in their twenties and forties. The relationship between age and debt is likely to be related both to life stage and attitudes. Household formation and birth of children are both associated with an increase in debt. Younger people are also more likely to have a more liberal attitude to using credit and have a lower propensity to save even when other income factors are controlled (Demery and Duck 2006), while older age groups put a high priority on making ends meets and living within their means (Kelly and Parker 2003).

Gender

For some commentators over-indebtedness has a clear female dimension. In supporting this argument, some point to a higher proportion of females who ask for help with managing debt (Korczak 2004). Indeed, in 2009, 58% of new MABS clients were female. Women's higher level of engagement with MABS may reflect their role in the day-to-day management of the household budget. British studies have found that in couple households women are generally responsible for buying food and clothes and for paying bills, although decisions about major financial purchases are more often taken jointly or by the husband (Pahl 1983; Vogler and Pahl, 1993). Moreover, as the household budget becomes smaller, female management becomes more common so that in low-income households it is usually the women's task to make ends meet (Vogler and Pahl 1993 p77). In contrast to the findings about managing debt, McCarthy (2010) found no significant difference in the proportion of men and women reporting financial distress. However, it is important to note that this study was based on individuals rather than households.

Others have pointed to the fact that the great majority of lone-parent households are headed by women and 40% of these lone parents reported that they experienced debt problems arising from ordinary living expenses (EU-SILC 2005 cited in Conroy and O'Leary 2008). Thus, it could be argued that the relationship between gender and over-indebtedness is in fact mediated by lone parenthood and the higher rate of poverty experienced by this group. Russell *et al.* (2010) show that lone-parent households have one of the highest rates of income poverty and consistent poverty in Ireland.

Family Type and Number of Children

A number of studies have found that there are links between levels of over-indebtedness and the number of adults in the household, with single people facing a much higher risk than couples. Studies in Ireland and the UK have shown over-indebtedness is especially high among lone parents (CSO 2005; Kempson 2002). However, Davydoff *et al.* (2008) argue that the association between lone parenthood and financial difficulties needs careful interpretation, citing two studies in the UK where lone parenthood was not predictive when other factors were taken into account. Rather, lone parents had higher levels of over-indebtedness because they were young, had children and often faced a drop in income following a relationship breakdown.

The number of adults in the household may not be the only factor influencing levels of debt. Indeed, research in the UK, France, Belgium, Germany and Portugal found that the likelihood of being in financial difficulties increased if dependent children were present in the household (Berthoud and Kempson 1992; Frade *et al.* 2005 cited in Davydoff *et al.* 2008; Kempson 2002).

Housing Tenure

Studies in Belgium, France and the UK found that living in rented accommodation was associated with increased likelihood of being in financial difficulties (Berthoud and Kempson 1992; Kempson *et al*. 2004; Davydoff *et al*. 2008). Home ownership has been identified as being associated with a lower risk of over-indebtedness in the UK and Norway (Berthoud and Kempson 1992; Kempson *et al*. 2004; Poppe 1999).

4.4 Findings of levels of indebtedness and over-indebtedness in Ireland and elsewhere

While much data exists on debt in Ireland, information on the levels of over-indebtedness is more limited (Oireachtas Library and Research Service 2010). We begin by examining sources of information on the scale and trends in personal indebtedness and then examine existing figures on arrears and problem debts.

A number of sources indicate an increase in the level of personal debt over time in Ireland. The Central Bank publishes annual figures on credit card debt, which show a steady increase in the level of credit card debt per capita from €102 in 1996 to €707 in 2008 followed by a decline in 2009. Over the same period there has been a rapid growth in the number of credit cards issued from 422 per 1000 population in 1998 to 538 per 1000 ten years later. This reflects the increasing access to credit over the period of economic boom and again there is a notable decline in 2009 as the recession took hold.

Table 4.1: Credit card debt in Ireland

		1996	1997	1998	2003	2004	2005	2006	2007	2008	2009
CC Debt	€ per capita	102	138	180	433	494	558	646	690	707	697
N credit cards	Per 1000 population	n.a.	n.a.	422	501	495	521	510	531	538	523

Sources: Central Bank Irish Economic Statistics 2010, 2009, 2008, 2006, 2005.
n.a. not available

National figures are also available on the level of borrowing for residential mortgages. These figures also show a very strong growth in the amount of personal debt in Ireland. Per capita mortgage credit rose over tenfold between 1995 and 2008, from €3,315 per capita in 1995 to over €33,000 per capita in 2008. The year on year percentage growth in mortgage lending grew by double digits throughout the period examined, reaching a peak of 27 per cent in 2005. There was a marked decline in the year on year rate of growth in 2008, and in 2009 there was a decline in mortgage credit per capita.

Table 4.2: Residential Mortgage Credit in Ireland 1996-2008

		1995	1996	1997	1998	2003	2004	2005	2006	2007	2008	2009
Mortgage Credit per capita	€	3315	3827	4693	5632	2938	19048	23956	29078	32229	33447	33105
Growth in mortgage Lending, % yr on yr		13.3	16.3	23.9	21.3	13.8	26.5	27.1	24.2	13.4	5.8	-0.3

Sources: Central Bank, Irish Economic Statistics 2005, 2006, 2008, 2009
Note gap in series from 1998 to 2003

Negative Equity

Negative equity occurs if the house value is lower than the outstanding mortgage debt[27]. Recent research by Duffy (2010) estimated that 116,000 borrowers were in negative equity at the end of 2009,

[27] To calculate negative equity information is needed on both the current value of the house and the amount outstanding on the mortgage loan (principle plus interest owed), therefore it is not possible to calculate such figures with EU-SILC.

rising to 196,000 borrowers by end-2010[28]. The 2010 figure represents 13.4% of private households in Ireland[29]. Those most likely to be in negative equity are borrowers who bought at or close to the peak of the property market in 2007, those who have high loan-to-value ratios, those with interest only mortgages and longer mortgage terms, and first-time buyers. Duffy points out that negative equity by itself does not cause problems with mortgage payment but it can lead to a greater probability of arrears/default when combined with other problems such as a drop in income due to job loss or illness.

> **'This is because in the face of a temporary income shock a borrower could normally withdraw equity from the home or take out a loan to make repayments using housing equity as collateral. Negative equity can reduce the borrower's willingness to make repayments as default is considered preferable to continuing to struggle to make repayments.' (Duffy 2010 p112).**

Statistics on Arrears and Problem Debts

The main sources of information on those encountering difficulties in meeting financial commitments are figures from the Financial Regulator, the utilities companies, and the Money Advice and Budgeting Service (MABS).

For the last year the Financial Regulator[30] has provided information about the number of cases of residential mortgage arrears and the amount of arrears recorded on a quarterly basis. A total of 40,427 households were in arrears in September 2010, which amounts to 2.8% of all Irish households. The number of households in mortgage arrears increased by 14,156 in the twelve months between September 2009 and September 2010, which represented an increase of 54%. The rate of increase was somewhat higher for longer term arrears (over 180 days) than arrears of 91-180 days. There were also more than twice as many cases of long-term arrears. The average amount owed has also increased in this short time from €13,500 in September 2009 to €15,754 in September 2010. The increase in the number of cases of residential mortgage arrears and in the amount owed highlights the growing financial difficulties that some Irish households are experiencing over the recent period.[31]

Table 4.3: Residential Mortgage Arrears in Ireland

	Sept 2009			Sept 2010		
Duration	**N of cases**	**Amount € '000**	**Average Arrears[1] € '000**	**N of cases**	**Amount € '000**	**Average Arrears[1] € '000**
91-180 days	8,504	47,684	5,607	12,423	74,121	5,966
over 180 days	17,767	306,730	17,264	28,049	562,412	20,051
Total	26,271	354,414	13,491	40,427	636,533	15,754

Source: Financial Regulator 2009, 2010
[1] This calculation is based on the aggregate figures

Utility Suppliers

A recent hearing of the Oireachtas Committee on Communications, Energy and Natural Resources (September 2010) brought to light a substantial rise in customer arrears on energy bills in the last 12 months. Bord Gais reported that approximately 100,000 customers, from a total of one million, were now 'slow' in paying their bills. Of these, 26,000 were over €500 in arrears and 20,000 were nearing the

[28] These estimates are sensitive to the underlying assumptions, and alternative estimates are also calculated in the paper (Duffy 2010).
[29] The 2006 Census counted 1,462,296 private households in permanent dwellings.
[30] http://www.financialregulator.ie/press-area/press-releases/Pages/
[31] The report of the Expert Group on Mortgage Arrears and Debt, 16/11/10, reported that the number of arrears in December 2006 was 11,252 and in June 2008 was just under 14,000 cases. The report also contained information that up to 45,000 mortgages had been rescheduled. There is an estimated overlap of 20%–25% between rescheduled mortgages and arrears cases, giving an estimated total of 70,000 who are either in arrears or have rescheduled.

stage where they could be disconnected. Since the start of the year 23,000 customers entered into special payment plans after experiencing difficulties in paying their bills. A worrying level of arrears was also noted by the ESB. It reported that 90,000 customers entered into special payment plans since the start of the year after experiencing difficulties in paying their bills. The Commissioner for Energy Regulation noted that there had been a significant increase in electricity disconnections in 2010 and that between 2,000 and 2,500 customers were being disconnected each month. It was noted that the number of electricity disconnections was almost 14,000 up to September 2010 compared to 9,700 for 2009[32].

Money Advice and Budgeting Service (MABS) Statistics

Information on MABS clients is another source of information on trends in arrears and problem debts. MABS provides information and support to those with debt problems and helps provide access to affordable credit (see below for further description of the service). The statistics reported, therefore, relate to individuals who seek debt counselling rather than the general population. Nevertheless they indicate an upward trend in the number of individuals in this category and can provide an insight into whether the profile of this group has changed over time with the onset of economic recession.

In a report to the Oireachtas Committee on Social and Family Affairs on Levels and Trends in Personal Debt in Irish Society, MABS reported that their caseload grew by 7,079 or 43% between Q1 2006 and Q1 2009. The active caseload in Q3 2009 stood at 30,160, up from 14,707 at the end of 2006 (MABS Pre-Budget Submission 2010). The demographic profile remained relatively stable over that time period[33]. The majority of MABS clients are female (55% in 2010) and aged between 26 and 40 years. Over the period 2008 to 2010, around 60% of the client group had children. The majority of clients are social welfare recipients: in 2010, 69% of clients relied on social transfers as their main source of income, up from 62% in 2008. One notable change was the increase in the proportion of clients who are mortgage holders from 29% in 2008 to 39% in 2010.

MABS also reports information on the nature of the debt incurred by clients. Although the average number of debts declined somewhat over the period, the average amount owed by clients grew from €6,990 in 2006 to €13,700 in 2009[34]. The most common debts incurred by clients at the end of 2008 were personal loans from financial institutions (40.5%), credit card debts (11.5%), mortgage debts (11.5%), overdrafts (7.5%) and hire purchase agreements (7%). Rental arrears accounted for 2.3% of debts[35]. MABS note that while mortgage and rent debts account for a relatively low proportion of the number of debts, this is partly because clients are advised to prioritise these debts because of the serious consequences of non-payment, noting that:

> **'In many instances clients are managing to pay for housing costs but, on examination, their situations are ultimately unsustainable as they have growing personal debt and utility arrears.' (MABS 2010)**

Analysis of the MABS statistics by the Oireachtas Library and Research Service (2010) shows that from 2008–2009, four types of debt showed increases of over 70% among the MABS client group. These include:

- Sub-prime (82.5%);
- Overdraft (75.4%);
- Hire purchase loan (72.1%);
- Catalogue (70.8%).

The types of debt incurred are found to differ across client groups. Stamp's (2009) analysis of MABS statistics from 2006 showed that 61% of social welfare recipients were in debt on utilities compared to 31% of those at work. Almost 42% of wage earners had credit card debt as opposed to only 15% of

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[32] Joint Oireachtas Committee on Communications, Energy and Natural Resources, 29/9/2010 http://debates.oireachtas.ie/MAJ/2010/09/29/
[33] MABS statistics 2008, 2009, 2010. The 2010 figures are based on the first three quarters of the year
[34] The figures refer to Quarter 1 of the year.
[35] Note that the figures refer to the number of debts rather than the amount of debt owed

social welfare recipients. This pattern is connected to access to credit cards, which varies across income groups (see Chapter 3 above).

The Financial Regulator (2008) conducted research on levels of financial capability in Ireland between October 2007 and January 2008. This research involved interviewing a random national sample of 1,500 adults and therefore it is more representative than the sample of MABS clients. However, similar patterns emerge. In regard to paying bills the study found that, while 60% reported they had little problem paying bills, 28% had difficulties on an occasional basis while 9% had a greater degree of difficulty. Those who reported difficulties keeping up with paying bills were more likely to be lone parents and those on lower incomes.

Table 4.4: Difficulties with Financial Commitments 2007–2008

	%
Keeping up with all bills and commitments without any difficulties	60
Keeping up with all bills and commitments but struggling from time to time	28
Keeping up with all bills and commitments with a constant struggle	7
Falling behind with some bills or credit commitments	2
Having real financial problems and have fallen behind with many bills or credit commitments	<0.5
Don't know	<0.5
Don't have any bills or credit commitments	2
Refused	<0.5
Total	100
Weighted Base	1529

Source: O'Donnell and Keeney (2009) Financial Capability Survey 2007–2008

How Ireland Compares

Given the lack of consistent up-to-date data, it is difficult to compare levels of debt in Ireland with other countries. Some macro-level data exists on household debt as a proportion of disposable income (Amarach 2009). These findings show that in Ireland the ratio of household debt to disposable income in 1995 was 48, the lowest recorded compared to the UK, France, Spain and Canada. This position was reversed by 2008 when Ireland had the highest increase in household debt to disposable income.

Despite Ireland having the highest household debt to disposable income (compared to the UK, France, Spain and Canada), it is interesting to note that, in a Eurobarometer survey in 2009 (cited in Oireachtas Library and Research Service 2010) levels of financial stress in Ireland were lower than in many of the other EU 27 countries. However, respondents were less positive about the level of risk they would experience if they had to face an unexpected expense. In Ireland, 49% of respondents stated that they would be placed in high or moderate risk in terms of having to cope with an unexpected expense of €1,000 over the next 12 months. This placed Ireland fourteenth out of 27 countries and above the EU average of 45% of respondents who would be placed in a moderate or high risk (cited in Oireachtas Library and Research Service 2010).

4.5 Consequences of over-indebtedness

Financial Hardship

Over-indebtedness can have a detrimental effect on various aspects of a household's quality of life. Most overtly, over-indebtedness can lead to financial hardship as servicing debts leaves households without enough resources to maintain an acceptable standard of living. The financial hardship dimension is built into some definitions of over-indebtedness, which include the criterion that the household is pushed below the poverty line.

Financial Exclusion

It was noted above that though financial exclusion can be among the causes of over-indebtedness, it is also possible for the relationship to run the other way. Over-indebtedness can lead to exclusion from financial services due to a poor credit record (Gloukoviezoff 2006; European Commission Internal Market and Services DG 2009).

Ill-health

Ill-health can be both a cause and a consequence of over-indebtedness and the direction of causality can be difficult to assess without longitudinal data. Studies based on panel data and on in-depth qualitative interviews suggest that over-indebtedness has a knock-on effect on both physical and mental health and puts an immense strain on family and social relations. As the Law Reform Commission notes:

> **'Indebtedness has been shown to have a detrimental impact on health, with debt problems almost doubling a household's likelihood of experiencing health difficulties within the next year' (Law Reform Commission 2009 p13).**

A joint report by the Women's Health Council and MABS (2007) found that 81% of women mentioned their mental or emotional health during their consultation with MABS money advisers, with stress, depression and anxiety the most common problems.

Whilst debt can cause health problems it can also mean that such health problems are not treated. Layte *et al.* (2007) found that across the national population 50.7% had an unmet medical need as they could not afford the medical examination or treatment for the health problem.

Homelessness

Though homelessness may seem an extreme consequence of over-indebtedness, analysis shows it is a stark reality for a minority of over-indebted households. Indeed, in 2008 rent arrears were the cause of 34% of illegal eviction cases brought to the attention of Threshold (Threshold 2008; Oireachtas Library and Research Service 2010). For mortgage-holders, the loss of the home is also the ultimate sanction for persistent arrears. The Central Bank reported that a total of 387 properties were repossessed in the 12-month period between 1 July 2009 and 30 June 2010.[36]

Imprisonment

A second severe consequence of over-indebtedness is imprisonment. Technically, imprisonment should only be used as a method of enforcement against debtors who have been proven to have means to pay the debt yet refuse to do so, referred to as the 'won't pay', as opposed to the 'can't pay' or over-indebted consumer. However, a consultation paper by the Law Reform Commission (2009) noted that the current enforcement system does not distinguish between 'can't pay' and 'won't pay' debtors. Further, the LRC found that the law provides no solution to the problem of those who 'can't pay'. It argues that the procedures under the Bankruptcy Act 1988 are in practice unavailable to over-indebted consumers and many 'can't pay' debtors end up in the legal enforcement system. Indeed, the Free Legal Advice Centre Study (2009) found that, of the 38 debt enforcements surveyed, none of the debtors involved could be categorized as 'won't pay' debtors. The LRC (2009) indicates that such 'can't pay' debtors should not be subjected to court-based legal enforcement procedures; rather a system of debt settlement should be introduced to provide a solution to the difficulties of the over-indebted.

[36]http://www.financialregulator.ie/press-area/press-releases%5CPages%5CLatestArrearsandRepossessionsFiguresshow387ResidentialPropertiesRepossessedin12months.aspx

4.6 Policy context

The current economic recession and failures in financial regulation that have contributed to the banking crisis have led to a renewed focus on policies to prevent and ameliorate over-indebtedness. Detailed discussion of EU and Irish legislation and policy in this area is contained in the Law Reform Commission's Consultative Paper and the recent report of the Free Legal Aid Centres (2009). In this section we provide a brief overview of relevant policy developments in Ireland and Europe in recent years.

The policy options for addressing over-indebtedness have been outlined by Stamp 2009 (citing Bohan 2001) as follows[37]

Preventative strategies

- Financial regulation;
- Information and education;
- Consumer protection.

Curative strategies

- Access to financial services/lower cost finance;
- Money and budgeting advice;
- Debt settlement/fresh start.

The initiatives described below fall into this set of responses.

EU Policy Developments

At the European level there have been a number of initiatives aimed at prevention. The Consumer Credit Directive 2008[38]**,** which was transposed into Irish law in June 2010, establishes common rules across member states regarding consumer credit and responsible lending for personal loans (excluding mortgages). The Directive requires lenders to:

- disclose information on the costs of a loan both in advance of the contract (that can be taken away and considered) and in the contract itself;
- include a warning about the consequences of missing repayments;
- give the borrower a 14-day period within which they can withdraw from an agreement;
- assess the credit-worthiness of a potential borrower.

The monitoring of these regulations and the sanctions for non-compliance are left with individual member states, although the Directive does state that sanctions must be 'effective, proportionate and dissuasive'.

However, it should be noted also that the effectiveness of this Directive (along with other measures to provide information to borrowers) has been questioned, as such information may be of little value to borrowers who do not possess the necessary financial literacy to comprehend and use them (Donnelly 2006 cited in the LRC 2009). Indeed, the importance of financial literacy skills was highlighted in the EC Communication on Financial Education 2007, which stressed that good financial education was a way of

[37]EU working group on over-indebtedness (Davydoff *et al.* 2008) identify five policy responses which overlap closely with those outlined by Bohan. 1. Programmes to improve financial capability; 2. Consumer protection from irresponsible lending; 3.Responsible arrears management and debt recovery; 4. Free and independent debt advice; 5. Debt resolution arrangements.
[38]Directive 2008/48/EC of the European Parliament and of the Council on credit agreements for consumers.

enabling consumers to be aware of the risks and opportunities and to help them to make informed decisions.

In a further initiative, the European Commission launched a Public Consultation on Responsible Lending and Borrowing in the EU (DG Internal Market Services 2009). The consultation covered the advertising and marketing of credit products, the pre-contractual information provided, ways to assess product suitability and borrower creditworthiness and the standards of advice provided to consumers.

Policies encompassing curative strategies are less developed at the EU level. However, a recent set of recommendations on debt enforcement was issued by the Council of Europe[39]. These outline best practice in relation to debt collection activities.

Irish Policy Developments

Irish policy on over-indebtedness has focused more on curative measures than on preventative measures. The principle policy initiative on over-indebtedness was the setting up of the Money Advice and Budgeting Service (MABS) in 1992. The 1997 National Anti-Poverty Strategy (NAPS) committed to rolling out the service on a national basis. There are currently 53 MABS services operating in 65 locations nationwide, providing advice, support and services to those who are experiencing debt problems or who are at risk of over-indebtedness. Importantly, the service is free, confidential and independent. MABS aims to decrease reliance on money-lenders and help clients to access affordable credit, savings accounts and special budget accounts to pay creditors, in partnership with the credit union movement (Corr 2006). MABS also negotiates on behalf of clients with creditors in order to reach agreement on repayment plans that are satisfactory to both parties, as well as being viable and sustainable. In 2009, MABS and the Irish Banking Federation (IBF) launched a protocol outlining agreed procedures in addressing debt problems of IBF customers (see IBF–MABS 2009).

In 2008, MABS was given statutory recognition by the Social Welfare (Miscellaneous Provisions) Act 2008, which placed the MABS under the remit of the Citizens Information Board. A telephone helpline service was also set up in September 2007. It took 24,737 calls in 2009, up from 10,973 in 2008 (MABS statistics 2009). In addition, a financial education programme was established by MABS in conjunction with the Irish Financial Services Regulatory Authority in 2008. The programme, aimed at transition year students, encourages students to explore their attitudes to money and focuses on budgeting, planning ahead, shopping around and saving. Therefore, the programme could be regarded as more preventative than curative in its approach.

The place of MABS as the primary policy response to over-indebtedness is reiterated in policy documents subsequent to NAPS. The National Action Plan Against Poverty and Social Exclusion (NAPincl 2000–2003) mentions tackling 'indebtedness' through MABS[40] while in NAPincl 2007–2016 the commitment to place MABS on a statutory footing is the only policy that refers explicitly to debt.

The recent financial and banking crisis has prompted a number of preventative initiatives that are designed to protect consumers, prevent irresponsible lending and borrowing and educate consumers. A number of high-level reviews have been undertaken or are under way.

In 2009, the Law Reform Commission published a Consultation Paper on Personal Debt Management, which made 122 provisional recommendations for reform of the law on personal debt. These recommendations emphasized the importance of the law recognizing the distinction between debtors who cannot pay and those who refuse to pay. This has since been followed by an interim report (May 2010) and a final report (December 2010). Among the key recommendations are a proposal to extend the IBF-MABS operational protocol on managing debt to include credit unions and potentially sub-prime lenders and utility companies. The action plan also included a proposal by the Commission and the Court Service management for a pre-action protocol for consumer debt cases. This would impose a mandatory requirement on creditors to issue a warning letter before bringing debt proceedings, allowing the individual to obtain advice from MABS, including developing a standard financial statement to present to the creditor before court proceedings began. The 14-point action plan of initiatives to address

[39] Council of Europe (2006) *Final activity report of the group of specialists for legal solutions to debt problems (CJ-S-Debt)* available at: http://www.coe.int/t/e/legal_affairs/legal_co-operation/steering_committees/cdcj/cj_s_debt/CJ-S-DEBT%20_2006_%206%20e%20Final%20-%20web%20version.pdf
[40] Under the objective 'Preventing the risks of exclusion'.

current personal debt issues is outlined in the Appendix Section A4[41]. It should be noted that the LRC's report does not deal directly with the issue of mortgage debt, as this was covered by the Government's Mortgage Arrears and Personal Debt Review Group.

The Expert Group on Mortgage Arrears and Personal Debt published its interim report in July 2010 and its final report in December 2010. The group recommended that urgent consideration be given to the implementation of measures for the comprehensive reform of the judicial bankruptcy proceedings contained in the Bankruptcy Act 1988 and the establishment of an effective and cost-efficient non-judicial debt settlement process. The group also recommended that lenders cease to charge penalty interest or arrears charges to borrowers who are part of the Mortgage Arrears Resolution Process; that the Code of Conduct on Mortgage Arrears be amended and extended; that all lenders develop a Mortgage Arrears Resolution Process and Framework and that the Department of Social Protection make amendments to their existing Mortgage Interest Supplement Scheme. The group did not recommend the extension of a moratorium that gives mortgage lenders 12 months protection from legal action nor did it propose a system of debt forgiveness.

As mentioned above, the Irish Financial Services Regulatory Authority's (IFSRA) Consumer Protection Code was introduced in 2006 and prohibited the use of a number of irresponsible lending practices. Although Irish consumers are not protected by a statutory interest ceiling, in Ireland the Financial Regulator imposes a *de facto* ceiling of 200% APR because companies must renew their licences annually and there is a policy that companies charging more than 200% APR will not be granted a licence. A further protection for consumers introduced in recent years is the Financial Services Ombudsman's Bureau, which was set up in 2005 to address grievances from consumers in relation to the conduct of regulated financial service providers. FLAC (2009) argues that these provisions concerned consumer protection either at the point of borrowing or during the course of a credit agreement itself, but not at the point where a default in payment occurs and legal proceedings against the borrower are being considered.

A final piece of legislation, falling into the financial regulation/consumer protection category, was a measure introduced in 2008 to regulate the sub-prime market (see Section 19, Amendment of Central Bank Act 1997, of the Markets in Financial Instruments and Miscellaneous Provisions Act 2007).

Conclusion

The onset of economic recession and the banking crisis have re-focused attention on the issue of over-indebtedness. Figures from a variety of sources show a strong upward trend in personal indebtedness over the last decade. While credit is a fundamental element of the financial system and access to affordable credit is a resource for consumers, there is evidence that a growing number of households are falling into arrears and are experiencing problems repaying debts. The concept of over-indebtedness focuses on this inability of households to meet their commitments for debt repayments and other living expenses, and has been measured in a variety of ways. The EU working group recommendations (Davydoff *et al.* 2008) described above will form the basis of the analysis of EU-SILC in the following chapter. The literature reviewed above shows the multi-faceted nature of over-indebtedness and the negative consequences for those affected. Therefore it is timely and important to consider this issue in detail in the Irish context.

[41]Law Reform Commission's *Interim Report on Personal Debt Management and Debt Enforcement 14-point Action Plan*.

CHAPTER 5

Over-Indebtedness in Irish Households

5.1 Introduction

The results presented in this chapter are based on analysis of the Survey of Income and Living Conditions (SILC) 2008. Section 5.2 begins with analysis of the nature of debt in Irish households, focusing both on the form and the level of debt. Section 5.3 examines the amount of arrears reported by respondents. In section 5.4 we discuss the difficulties that households face in meeting their financial commitments based on their subjective assessments and the degree to which households have resources to deal with financial difficulties. Section 5.5 goes on to develop a measure of over-indebtedness based on the foregoing indicators and on the measure developed by the EU working group on over-indebtedness (Davydoff *et al.* 2008). Section 5.6 examines the characteristics of over-indebted households and the factors that influence households' risk of becoming over indebted. In answering this question we consider the role played by income shocks in pushing households into over-indebtedness (Section 5.7) and the relationship between over-indebtedness and poverty (Section 5.8).

5.2 The nature of personal debt in Ireland – Evidence from EU-SILC 2008

There is a wide variety of forms of credit and/or debt in Ireland. These vary across a range of dimensions from formal to informal, prime and sub-prime, sanctioned and unsanctioned (e.g. loans versus arrears on bills)[42]. As discussed in the previous chapter, these varying forms of credit and debt have very different sorts of conditions attached. The analysis presented here is restricted to formal credit/debt and does not include loans from friends or family. Previous research suggests that the forms of debt differ across income groups. Among higher income groups consumer credit such as credit cards, loans for consumption and mortgages are more common. For lower income families, delayed payment of bills is a more common form of unsanctioned credit (McKay 2005). The focus in the data is not so much on the amount of money borrowed but on the extent to which households have experienced arrears or have current debts that they are unable to clear.

Form and level of arrears

Information on four types of arrears is collected in the EU-SILC survey: mortgage/rent; utilities; loan repayments and other bills (see Table 5.1). In each case the question wording specifies that the arrears are due to financial difficulties. The measure therefore excludes cases where bills/debts have not been paid for some other reason, for example because the respondent forgot to pay or there was an error in payment. The questions were asked about the household rather than at the individual level and were answered by the head of household[43]. Persistence of debt is measured by the frequency of arrears; households that have been in arrears twice or more over the preceding 12 months are defined as having persistent or structural arrears. It is argued in the literature that persistence of arrears indicates structural arrears rather than temporary arrears (O'Loughlin 2006; Davydoff *et al.* 2008; Stamp 2009).

[42] We do not have information on the nature of the provider – e.g. bank, building society, credit union, moneylender and therefore this cannot be examined in the research.
[43] The person with responsibility for payment of the mortgage or rent; if two or more people are jointly responsible the older of the two respondents is defined as the household head or household reference person.

In addition to the information on arrears over the last 12 months, respondents were also asked specifically about debt on credit card and store cards over the last three months. Many cardholders use credit cards as a form of revolving/rolling credit (Kelly and Reilly 2005) albeit at very high interest rates or APRs [44]. While the question mentions being 'unable' to clear the balance it does not explicitly link this to financial difficulty.

Table 5.1: EU-SILC Measures of Arrears

Measures of Arrears	**Response Categories**
In the <u>last 12 months</u>, did it happen that the household was unable to pay rent or to make a mortgage repayment for the main dwelling on time, due to financial difficulties?	Yes, once Yes, twice or more No
In the <u>last 12 months</u> the household was unable to pay utility bills (heating, electricity, gas, refuse collection) for the main dwelling on time, due to financial difficulties? *Excludes phone bills*	
In the <u>last 12 months</u>, did it happen that the household was unable to pay hire purchase instalments or other loan payments (besides mortgage repayments) on time, due to financial difficulties? *This applies only to scheduled repayments for hire purchase or other loans excluding mortgages.*	
In the <u>last 12 months</u>, did it happen that the household was unable to pay any other bills (education, health. . .) on time, due to financial difficulties?	
Has there been any month in the <u>last 3 months</u> when you or anyone else in your household was unable to clear the outstanding balance on credit cards or store credit cards?	Yes No
Is any member of your household <u>currently overdrawn</u> on any of the household bank accounts due to financial difficulties?	

The final item relating to current household debt relates to being overdrawn on bank accounts due to financial difficulties. Again, running up this form of debt requires financial inclusion as the 20% of households without access to a bank current account will not have access to overdraft facilities. The household reference person is asked: 'Is any member of your household currently overdrawn on any of the household bank accounts because of financial difficulties?' Cases where individuals are overdrawn for other reasons, such as the timing of the transfer of funds, are excluded. Overall 5% of households have current debt of this type.

The question on rent/mortgage arrears was only put to households with current housing costs, i.e. those making rent payments or mortgage repayments. Just under 50% of households had no housing costs. In the vast majority of these cases the property was owned outright without a mortgage. Among households paying a mortgage or rent, 9.3% were in arrears. This represents 5% of all households. Arrears on household utility bills were somewhat more common, affecting 7.5% of all households. Less than 3% of households reported arrears on hire purchase/loan repayments and arrears on other bills. For all four types of arrears the majority of households with such debt were in persistent debt, i.e. the household had been in arrears more than once over the previous 12-month period.

Overall, 9% of households had outstanding balances on a credit/store card that they were unable to pay in the three months prior to interview. As outlined in Chapter 2, just over half of all households have access to credit/store cards (51%). Restricting the analysis to households with credit cards shows that 18% of this group had outstanding debt in the preceding three months

44 Interestingly, Kelly and Reilly (2005) report that this revolving credit through credit cards was only available in the Ireland, the UK and France, while in other countries they operate more like a debit card and are linked to particular accounts.

Table 5.2: Percentage of Households with Arrears[1] 2008

	Mortgage/rent arrears		Utility arrears	Hire purchase	Other bills	Over-drawn[2]	Credit card debt[3]	
	Hh with housing costs	All hh	All hh	All hh	All hh	All hh	All hh	hh with cc
Once	1.8	0.9	2.1	0.6	1.0	4.9	9.0	17.5
Twice or more	7.5	3.9	5.4	1.8	1.5			
No	90.7	95.2	92.5	97.6	97.4	95.1	91.0	82.5
Total	100.0	100	100.0	100.0	100.0	100.0	100.0	100.0
N	2312	4440	4442	4442	4442	4429	4437	2264

[1] Arrears in last 12 months: mortgage/rent, utilities, hire purchase/scheduled loans, other bills.
[2] Currently overdrawn due to financial difficulties.
[3] Unable to pay off credit card debt in last 3 months.

Information on arrears, although not on persistency, has been collected in previous EU-SILC surveys. Figures for 2009 also have been published recently by the CSO (2010) but the micro-data are not yet available. The proportion of all households with mortgage/rent arrears hovered around 4% between 2004 and 2007. However, there is a discernible upward trend in 2008 and 2009. A similar upward trend is observed for arrears on utility bills and ordinary living expenses, since 2007. The rate of arrears on hire purchases and other loans was stable over the period 2004 and 2008 but jumped from 2% to 4% of households between 2008 and 2009. The biggest increase is noted in other bills, which rose from 3% to 17% between 2008 and 2009 (however, this may be due to a measurement change). As the economic recession has continued since 2008, it is likely that these upward trends in financial difficulty measured in the EU-SILC will continue and perhaps accelerate in 2010 as household resources are exhausted (e.g. savings, mortgage, insurance). The Central Bank figures on mortgage arrears since September 2009 suggest that this is the case (see Chapter 4).

Over the period 2004 to 2009 the proportion of households going into debt to meet ordinary living expenses reached a low of 6.5% in 2006 but rose to 9% in 2008 and to just over 11% in 2009.

Table 5.3: Trends in Household Arrears 1998-2009

	1998	2004	2005	2006	2007	2008	2009
Arrears on Rent/mortgage hhs with housing costs	n.a.	9.3	8.7	7.6	8.6	9.3	n.a
Arrears on Rent/mortgage all hhs	4.3	4.4	4.4	3.7	4.3	4.8	5.0
Arrears on Utility bills	3.8	6.9	5.9	6.0	5.3	7.5	9.6
Arrears on hire purchase/loan repayments	1.9	2.4	2.9	2.4	1.9	2.4	4.0
Arrears on other bills[1]	0.3	n.a.	n.a.	n.a.	n.a.	2.6	17.0
Hh has gone into debt to meet ordinary living expenses in last 12 months	n.a.	7.4	8.3	7.6	6.5	9.1	11.4

Sources: Living in Ireland Survey 1998, EU-SILC 2004–2008 micro-data. 2009 published by CSO (2010)

[1] In 1998 this referred only to hospital/medical bills
n.a. not available.

Over-indebted households are likely to prioritise and juggle different types of debt, for example, one month they may go into debt on utilities to pay the rent, while in another month utility bills are paid at the expense of other loans or debt (Daly and Leonard 2002; Kempson *et al.* 1994). For this reason, persistent arrears on any one of these payments are used as one indicator of over-indebtedness. It is also instructive to examine the extent of multiple arrears. Overall, 10% of households have arrears on at least one of the items and 8% have persistent arrears on at least one item. Just under 4% of households have persistent arrears on more than one of the items listed.

Table 5.4: Count of Arrears and 'Problem' Debts

	4 Arrear Items		Arrears, Unpaid Credit Card, Overdrawn	
	Persistent Arrears	**Any Arrears**		
None	92.4	89.9	None	80.0
One	4.1	5.3	One	12.3
Two	2.2	2.9	Two	5.3
Three	1.0	1.5	Three	1.5
All Four	0.3	0.4	Four	0.9
			Five	0.0
			All Six	0.0
	100.0	100.0		100.0
N	*4442*	*4442*		*4442*

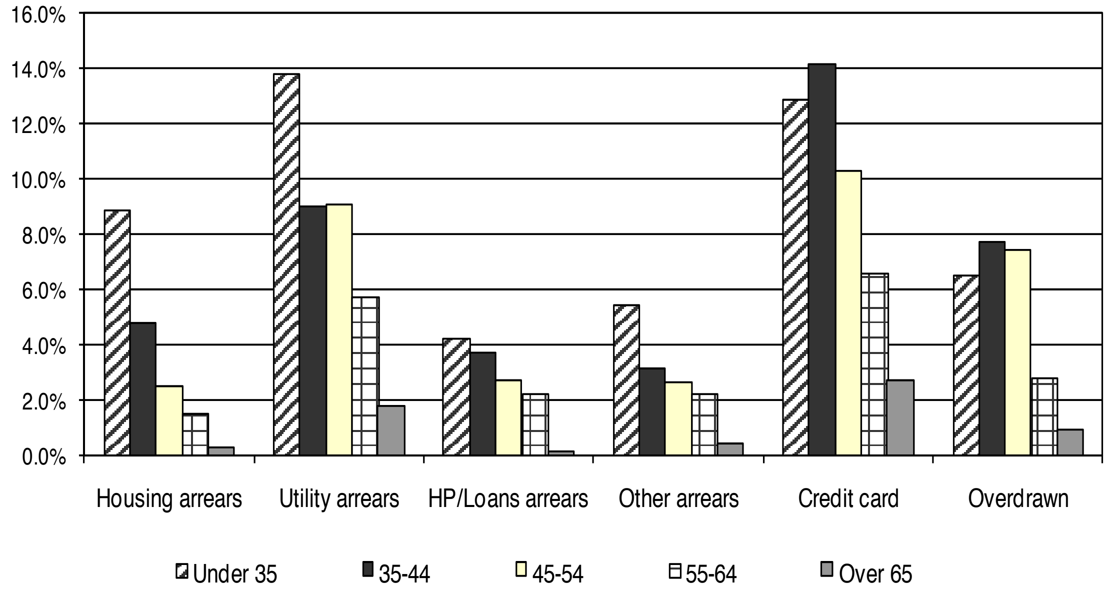
Four Arrears Items = Mortgage/rent, Utilities, Hire Purchase, Other Bills

In the following graphs (Figures 5.1 to 5.4) we explore whether the forms of arrears differ by age group of the head of household, household income, gender of head of household and employment status.[45] Households headed by an individual under the age of 35 are considerably more likely to have arrears on housing costs, utility bills and other bills. However, they are not distinctive from the 35 to 44 age group in relation to hire purchase/loan repayments. The over-65s have a low rate of arrears on all four items measured.

The age distribution of credit card debt and of being currently overdrawn due to financial difficulty differs from the pattern for arrears. In both cases the under-35 age group are not the group who are most likely to be in debt, but rather the 35 to 44 age group for credit cards and the 34 to 54 age group for overdrafts. This is likely to reflect differences in access to these credit facilities by age.

[45] All the relationships shown in Figures 3.1 to 3.4 are statistically significant at the 5% level with the exception of the relationship between gender and hire purchase arrears.

Figure 5.1: Form of Arrears/Debt by Age Group

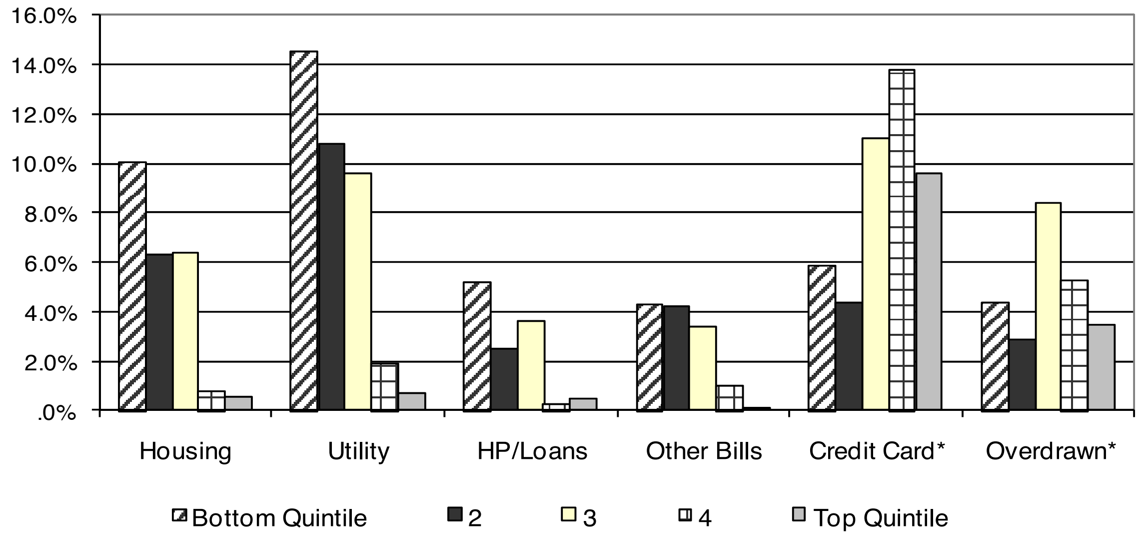


Note: % in arrears at least once over 12-month period

Low-income households in the bottom 20% of the income distribution scale are significantly more likely to be in arrears on housing costs, utility bills and hire purchase/loan repayments than any other income group. As noted in Chapter 2, income is measured over the same 12-month period for which the arrears are observed. The top two income quintiles have a negligible risk of arrears across all four items. Arrears on 'other bills' are somewhat less differentiated by income group.

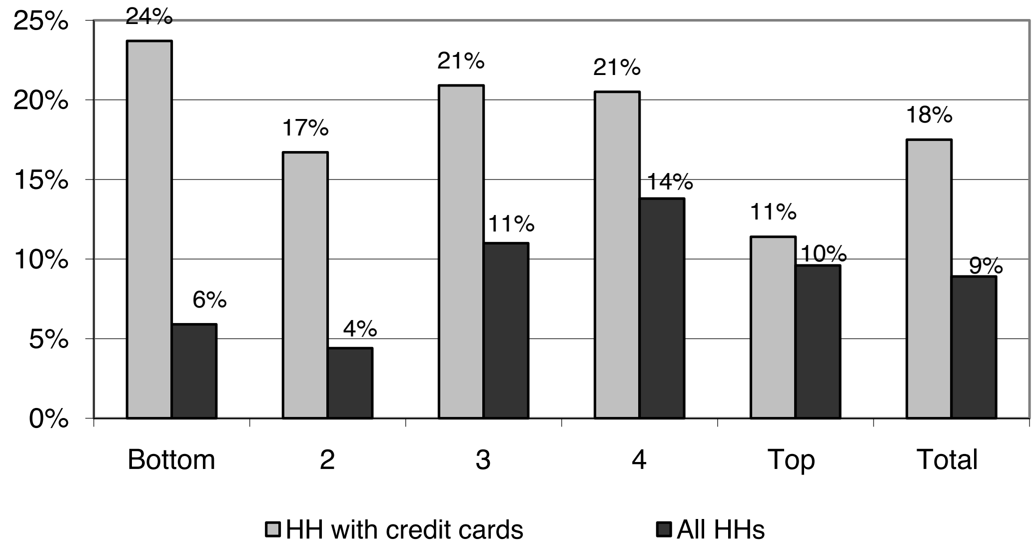
Because of the differential access to this form of credit, the profile of those with credit debts is very different to the four types of arrears. Across the income distribution it is households in the fourth income quintile who are more likely to record credit card debt (14%) while only 6% of those in the bottom quintile report such debt. Selecting those households with access to a credit card shows, in contrast, that almost a quarter of households in the bottom quintile who have a credit card had outstanding debt compared to only 10% of credit card holders in the top income quintile (Figure 5.3).

Figure 5.2: Form of Arrears/Debt by Income Quintile



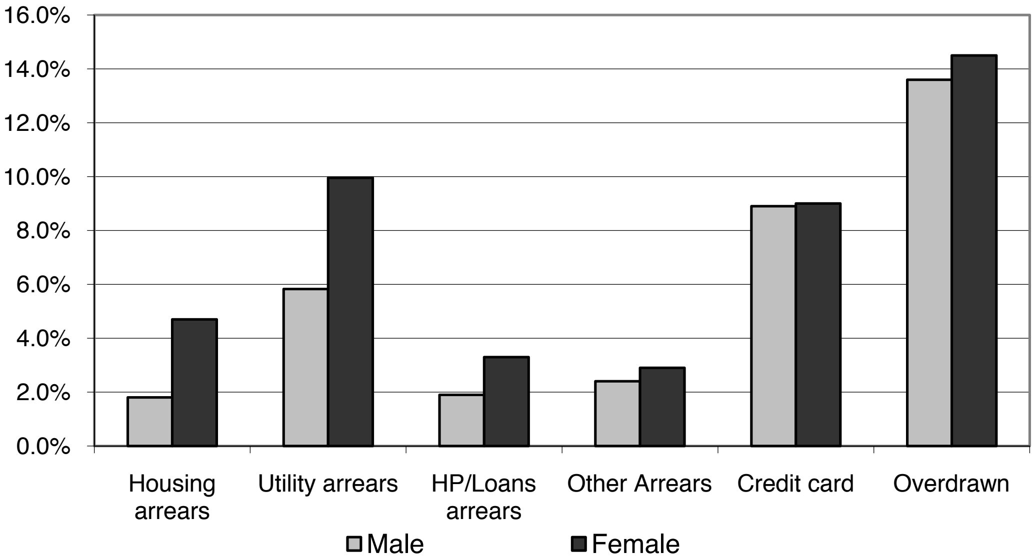
Note: % in arrears at least once over 12 month period

Figure 5.3: Household Credit Card Debt by Income Quintiles Controlling for Access



There is a significant gender pattern in the distribution of arrears. Female-headed households are 2.6 times more likely than male-headed households to have been in arrears with mortgage or rent payments and are 1.7 times more likely to have run up arrears on utility bills and on HP or other loan repayments. There is no significant gender difference in relation to 'other bills' nor for credit card or being overdrawn due to financial difficulty. If the comparison is confined to those who have access to these latter two financial services, there is no significant gender difference among those with overdrafts, but female-headed households with credit cards are more likely to have unpaid debt (20%) than male-headed households with credit cards (16%).

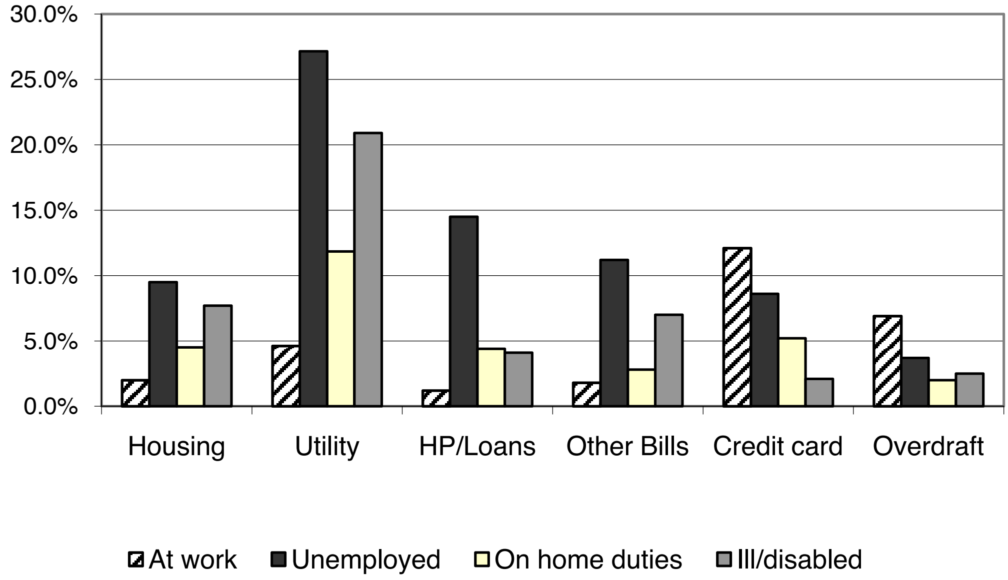
Figure 5.4: Form of Arrears/Debt by Gender of Household Reference Person



Note: % in arrears at least once over 12-month period

There are substantial differences in the rate of arrears across groups with different employment status (Figure 5.5). Less than 5% of households where the HRP was employed are in arrears on any of the four items measured. In comparison, more than a quarter of households headed by someone who was unemployed were in arrears on utilities, just under 10% were in arrears with housing costs, 15% in arrears on loans and 11% were in arrears on other bills. Households headed by a person who is ill or disabled also have high rates of arrears, reaching a maximum of 21% for utility arrears. Again, the pattern is very different for unpaid credit card debts and overdrafts where it is the employed who record the highest rate of such debts[46]. The contrasting picture for these two measures across nearly all the variables examined underline that these are forms of credit that the most disadvantaged group do not have access to. It also suggests that these measures (particularly credit cards) are unlikely to be picking up the same problems in capacity to pay back credit.

Figure 5.5: Form of Arrears/Debt by Principle Economic Status[1] of Household Reference Person



[1] Only selected statuses are illustrated.

5.3 Amount of arrears

Householders who recorded arrears on any of the items over the preceding 12 months were asked how much they currently owed. Information on the amount owed on housing costs and utility bills was only collected jointly (i.e. respondents were asked for the total amount owed on utility plus mortgage/rent arrears). For each of the items, a considerable minority of households were no longer in arrears at the time of the survey; this was most common for housing costs. Three in ten households that reported arrears in rent, mortgage or utility bills in the preceding 12 months were no longer in arrears at the survey. This dropped to a low of 15% for households in arrears on hire-purchase, credit card debt or loans with structured repayments. For households with outstanding debts, the figures show that the amount owed in arrears is generally less than €570. The highest arrears figures are recorded in relation to hire purchase/other loans; in one-fifth of these cases (21%) the amount owed was over €1,400.

[46] We saw earlier that less than one-quarter of the unemployed had credit cards. However among this group 36% had been unable to pay off the bills compared to 18% of the employed.

Figure 5.6: Proportion of Households which reported Arrears in last 12 months who were not in arrears at the time of Survey

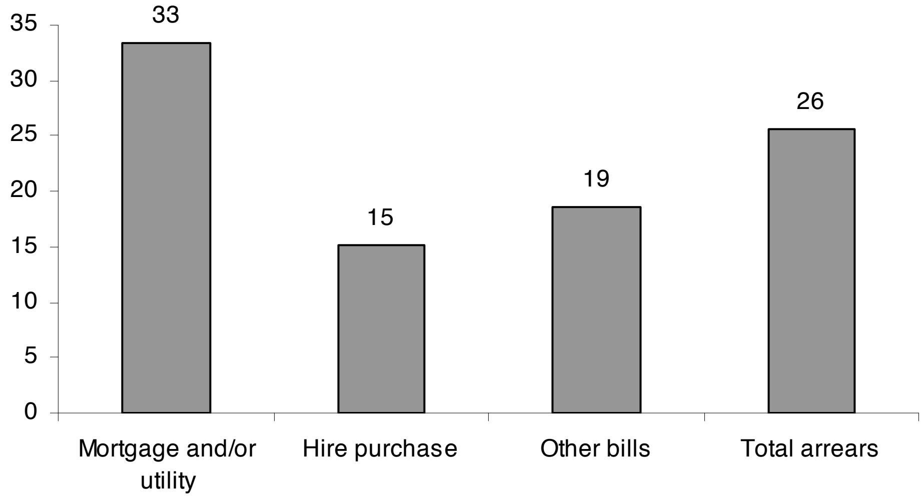


Table 5.5: Amount *Currently* Owed in Arrears Among Households in Arrears in Last 12 Months, Currently Overdrawn or Unable to Pay Credit Card

Amount Owed	Mortgage and/or utility	Total arrears (4 types)	Credit card	Overdrawn	Arrears + CC debt + overdraft
			% of Households		
No longer in arrears	33.3	25.6	-	-	-
€1 - €140	12.1	10.2	3.2	8.7	6.0
€141 - €290	20.5	18.4	6.6	7.1	11.5
€291 - €570	14.5	17.7	12.0	15.2	17.1
€571 - €860	3.4	6.1	9.9	11.4	8.8
€861 - €1400	3.2	4.1	13.5	17.6	9.2
€1401- €2850	8.8	9.3	20.8	18.2	19.4
€2851- €5700	4.2	6	23.8	10.1	17.3
€5701- €8550	.0	0.7	6.3	2.0	5
Over €8550	.0	1.9	4.0	9.9	5.6
Total	100.0	100.0	100.0	100.0	100.0
N	*405*	450	*397*	*216*	*784*

1The amount owed for mortgage/rent arrears and utility arrears was collected together in the survey.
[2] This figure only includes households who report current debt on at least one of the six items examined (housing arrears, utility arrears, HP/loan arrears, arrears on other bills, credit card debt, or overdraft debt).

The distribution of levels of debt across different types of debt becomes clearer when the average amount owed is calculated, excluding those who are no longer in arrears at the time of the survey.[47] Among households who are currently in arrears, the average debt on mortgage plus utilities was €1,249. For those with housing cost arrears but not utility arrears, the average amount owed was €700 while for

[47] To calculate the mean the mid-point is taken for each response category. Those in the top payment category of 'Over €8,500' were given a value of €10,000. This is likely to underestimate the extent of debt amongst high outliers.

utility bills only it was €437. The average amount owed in current debt on 'other bills' was €980 among the small N of households recording such debt. The highest levels of current debt occurred for hire purchase/loan repayment, which averaged €1,680. Among those with current credit card/store card debts the amount owed varies considerably. One-fifth of households with such debt owe less than €571, a further fifth owe between €571 and €1,400, while 10% of these households owe more than €5,700 on their credit card. The average amount owed by the 216 households with an overdraft that they are unable to pay off is €2,314. These amounts may be subject to error because the household reference person may not have full information on the amount owed by other household members on credit/store cards. This issue becomes more problematic the greater the number of adults in the household.

Table 5.6: Average Amount Owed in Arrears by Households Currently in Arrears

Type	Mean Amount €	Unweighted N
Mortgage/Rent and Utilities	1,249	76
Mortgage/rent only	(699)	36
Utilities only	437	62
Hire purchase/loan	1,680	76
Other Bills	981	79
Credit card	2,594	397
Overdraft	2,314	216
Total Arrears[1]	2,505	695

1 This figure only includes households who report current debt on at least one of the six items examined (housing arrears, utility arrears, HP/loan arrears, arrears on other bills, credit card debt, or overdraft debt.
2 Average calculated from mid-points on answer categories.

Taking all forms of current debt (current arrears plus unpaid credit card balances and overdrafts due to financial difficulty) we find that 82% of households have no current debts. For the 18% of households with arrears/problem debt, the mean amount owed is €2,505. While much of this debt appears modest in absolute terms, a crucial issue for the households concerned is how the level of debt compares to the household income. For households with any arrears, or outstanding credit card debt/overdrafts that they were unable to pay off, we calculate current debt as a proportion of household income. The mean amount owed was 80% of total monthly income, and the median was 36% of monthly income.[48] It is worth reiterating that the majority of households (82%) have no current arrears or outstanding debts on these measures.

The level of arrears/unpaid debt as a proportion of monthly income is found to increase as household income drops. For households in the bottom income quintile with current arrears/debts, the mean amount owed is almost one and a half times the monthly income compared to a mean of 55% for the top income quintile. The mean figure can be strongly affected by outliers, i.e. a small number of cases who owe a very high amount relative to their income. Therefore, the median figure is also reported. Interestingly, the proportion owed is highest in the bottom and the top income quintile. It is possible that for the high income group the risk of falling into arrears or being unable to pay off credit card debts only arises when the amount owed reaches a high level.

[48] As a proportion of annual income the mean was 7% and the median was 3%.

Table 5.7: Total Current Arrears and Unpaid Debt* as a Proportion of Monthly Household Income

Arrears as a % of Monthly Household Income	% of Households
<10%	17.7
10-20	16.3
20.1 to 30%	11.2
30.1 to 50%	14.7
50.1 to 70%	9.1
70.1 to 90%	7.8
Over 90%	23.1
Total	100.0
N	783

Base = households with current arrears, unable to pay credit card in last 3 months, or current overdraft due to financial difficulties.
*this is not a measure of the total household credit (secured and unsecured); it does not include the amount of credit in scheduled loans or mortgages that are not in arrears.

Table 5.8: Current Arrears/Unpaid Debt as a Proportion of Monthly Income by Income Quintiles

Income quintile	Mean debt as a % of HH Income	Median Debt as % of HH Income	N
Bottom	141.8	46.9	190
2	58.0	21.4	141
3	65.2	28.7	195
4	60.2	34.1	157
Top	55.3	50.1	101
Total	80.2	35.6	784

5.4 Household difficulties in meeting financial commitments

In this section we examine a range of additional subjective indicators of households' difficulties in meeting their financial commitments (essential living expenses and repayment of debt). The measures take three forms. The first indicators address the issue of burden of payments, the second examine the extent to which households can cope with unexpected expenses.

As outlined in the discussion of the literature, a key element in the definition of over-indebtedness recommended by the EU working group and used by many other researchers is the extent to which the repayment of debt and meeting regular financial commitments is problematic for those concerned (Davydoff *et al.* 2008). EU-SILC contains two measures of the extent to which debts are a burden for householders – the first concerns total housing costs, while the second concerns repayments of debts or loans not connected with the house including hire purchase. The question defines housing costs broadly to include service charges, maintenance, etc. so that all households are included.

Overall, 22% of households consider their housing costs to be a heavy burden while 55% consider them somewhat of a burden. Local authority tenants are most likely to perceive housing costs as burdensome, with 41% saying that it is a heavy burden (Table 5.10). Those in the private rented sector and those purchasing houses from the Local Authorities were also significantly more likely to consider housing costs a heavy burden. The perceived burden of housing costs by tenure does not follow differences in absolute costs. Local authority tenants pay an average of €208 per month, and private tenants pay €402, while the mean monthly mortgage repayment is €826 (these figures make no adjustment for factors such as mortgage interest relief, or inclusion of utilities costs in rents)[49].

The burden of housing costs also varies substantially by income: 35% of those in the bottom income quintile report that their housing costs are a heavy burden compared to 10% of those in the top income quintile. However, the proportion of households that think housing costs are somewhat of a burden even in the top income groups may reflect high mortgages and rent payments at the height of the housing price boom. The proportion considering that housing costs are a burden also increases with exposure to poverty. Just under one in five households not in poverty report a heavy burden compared to one in three of households at risk of poverty and almost two out of every three households in consistent poverty (Figure 5.8).

Just over a third of households have scheduled loans or hire-purchase arrangements in place, so this measure of difficulty in meeting commitments is less comprehensive than housing costs. Twenty-two per cent of households with such loans report that repayments are a heavy burden, which amounts to 8% of all households. The degree of variation with income group and poverty status is lower for loan repayments than housing costs when all households are examined (though still significant). However, when only households with loans are considered the differences by income position and poverty status are much more pronounced (Figures 5.9 and 5.10). It should be noted that the number of poor households with loans is low.

Table 5.9: Burden of Housing Costs and Debt Repayments

	Housing costs	**Repayments of debts from hire purchases and loans**	
	All hhs	All hhs	HH with loans
A heavy burden	21.6	8.1	22.2
Somewhat a burden	55.0	16.2	44.0
Not a burden	23.4	12.4	33.8
Not applicable		63.2	-
Total	100.0	100.0	100.0
N	4441	4442	1633

Table 5.10: Burden of Housing Costs by Nature of Tenancy

	Owned outright	**Mortgage**	**LA Mortgage**	**Privately rented**	**Local authority tenant**
A heavy burden	13.6	22.5	36.5	31.0	41.1
Somewhat a burden	53.7	60.9	46.0	55.9	50.5
Not a burden	32.7	16.6	17.5	13.1	8.4
Total	100.0	100.0	100.0	100.0	100.0
N	*2150*	*1126*	*137*	*503*	*477*

[49] Households in receipt of rent supplement had this amount deducted from their housing costs but this was only recorded for 5 of the 402 households in the private rented sector and so appears to be under-reported.

Figure 5.7: Housing Cost Burden by Income Quintile

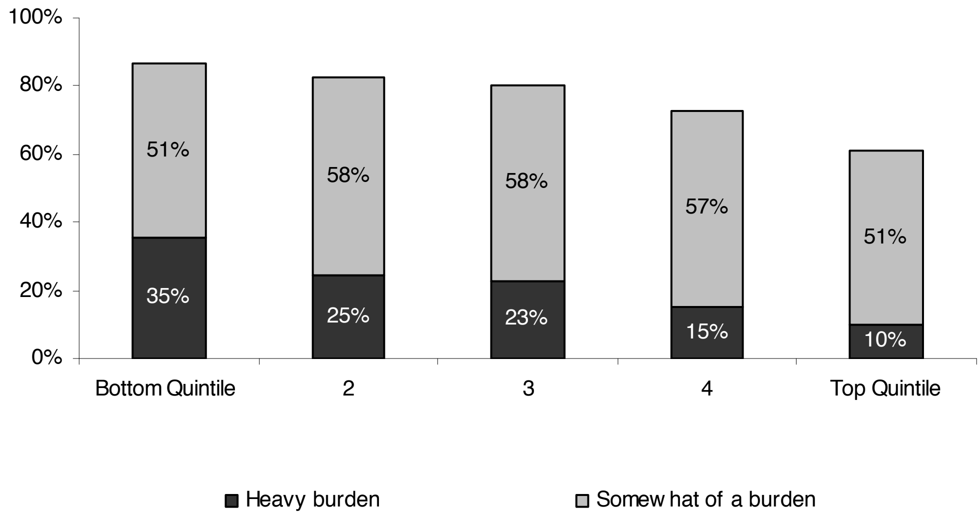
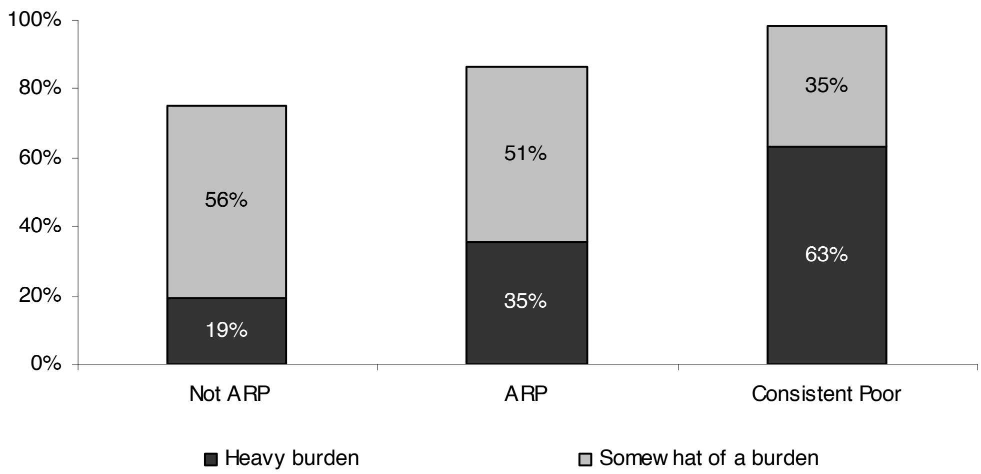


Figure 5.8: Housing Cost Burden by Poverty Measures



ARP = households 'at risk of poverty', <60% median income.
Consistent poverty= households are ARP and enforced lack of two basic deprivation items.

Figure 5.9: Loan Repayment Burden by Income Quintile (all households)

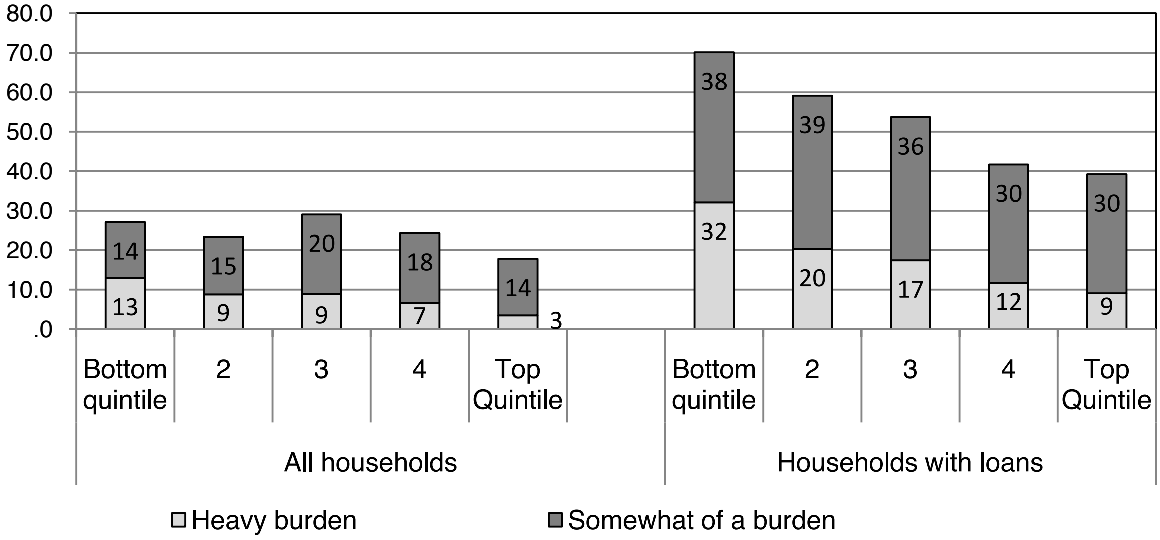
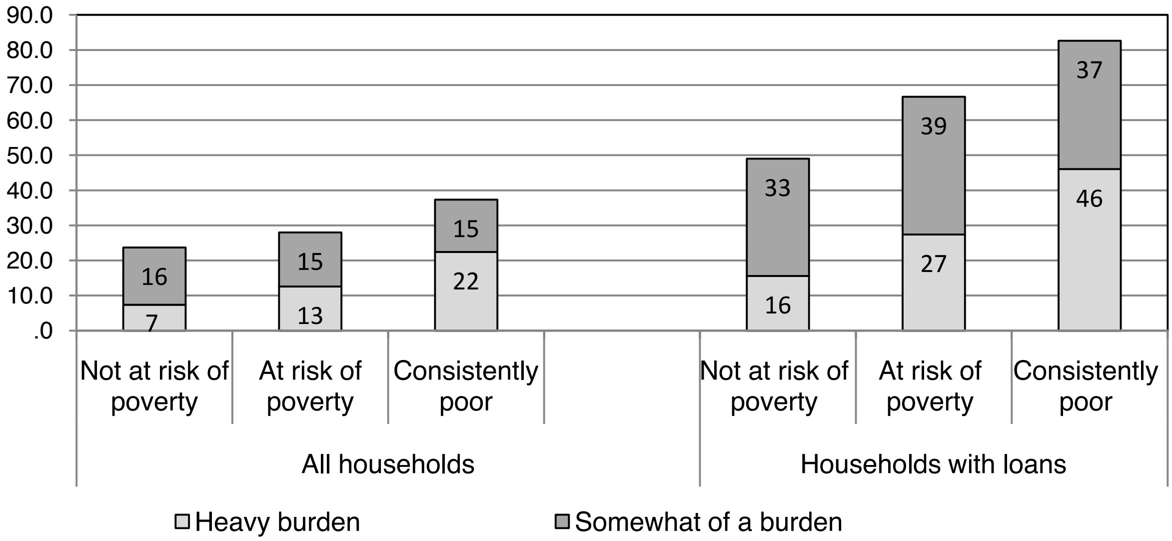


Figure 5.10: Loan Repayment Burden by Poverty Status



Ability to deal with unexpected expenses

In order to establish households' access to additional resources with which they could pay off debts, we draw on a question relating to liquidity. The household reference person in EU-SILC was asked, 'Can your household afford an unexpected expense of €985[50] without borrowing?' As noted in Chapter 4, studies of over-indebtedness or problem debt commonly utilize the concept of illiquidity, which means that "The household is unable to remedy the situation by recourse to (financial and non-financial) assets. . . " (Davydoff *et al* .2008). The households must be able to raise this money without borrowing and further increasing their debt. Overall, 41% of households say that they would not be able to meet an unexpected expense of just under €985 without borrowing it. This suggests that a significant proportion of Irish households are vulnerable to a sudden income shock such as job loss. The ability of households to raise funds from their own resources to meet unexpected expenses varies widely with income level. In the bottom income quintile, just over two-thirds of respondents are unable to afford an unexpected expense and this figure falls steadily for each income quintile down to 6% in the top quintile. Households in the top two quintiles who cannot afford unexpected expenses are likely to have high levels of financial commitments.

Table 5.11: Household Ability to Afford Unexpected Expenses by Income Quintile

	Bottom Quintile	2	3	4	Top Quintile	All
Yes	32.1	41.4	54.5	74.2	93.6	59.2
No	67.9	58.6	45.5	25.8	6.4	40.8
Total	100.0	100.0	100.0	100.0	100.0	100.0
N	882	888	885	886	888	4426

There is a very high overlap between presence of arrears and inability to raise money to pay for unexpected expenses: 94% of those in persistent arrears say they would be unable to meet such an expense. This indicates that the vast majority do not have resources that they could draw on or could not re-organise their current income to pay off the debts.

Table 5.12: Households' Ability to Afford Unexpected Expenses by Arrears

	No Persistent Arrears	Persistent Arrears on Any Item	Total
Yes	63.6	5.9	59.2
No	36.4	94.1	40.8
Total	100.0	100.0	100.0
N	4089	337	4426

[50] This amount is selected with reference to the poverty threshold established by the CSO in the EU-SILC survey two years prior to the current survey. The 60% of median annual household income for 2006 was divided by 12, which gave the figure of €985.

5.5: Measure of Over-Indebtedness

To define over-indebtedness we draw on the work of the European consortium to develop a 'Common Operational European Definition of Over-Indebtedness' (Davydoff *et al.* 2008). We adopt three of the five measures recommended by the group:

- Structural arrears (more than once in the last 12 months) on at least one financial commitment. Information on four types of credit commitments and bills are included: mortgage/rent, utilities, loan repayments and other bills; Outstanding credit card debts and overdrafts are not included as there is inadequate information on the persistence of these forms of debt;
- Burden of monthly commitment payments, housing costs including mortgage payments or rent and payment for other loans are considered to be a heavy burden for the household;
- Illiquidity, an inability to meet an unexpected expense.

The burden of monthly payments is a measure of payment capacity of the household. An additional measure of payment capacity recommended by the group is that the household finds it 'very difficult' or 'difficult' to *pay bills each month* (emphasis added). This measure is not included in the 2008 EU-SILC; rather there is a more general question described above about difficulty making ends meet. In the poverty literature, this has been used extensively as a measure of financial difficulty, and it is included, for example, as one of the variables to identify those vulnerable to poverty. Because of the ambiguity of whether this is an indicator of over-indebtedness or a cause or a consequence of over-indebtedness, we prefer to rely on 'payment burden' as a measure of payment capacity for the composite measure of over-indebtedness. Moreover, there is a high overlap between these two payment capacity measures and tests showed that adding this criterion to the definition would not change the composition of the over-indebted group, although it would marginally reduce the number of such households51.

Davydoff *et al.* (2008) also argue that over-indebted households have 'comparably high commitment payments, which push the household below the poverty threshold' (2008 p55). They outline that the calculation of this measure would require detailed information on recurring household expenses (mortgage, rent, utility payments, childcare expenses); these expenses would be subtracted from the personal disposable income to establish whether the household then falls below the poverty threshold within each country. However, while the EU-SILC contains information on housing costs, information on the cost of other recurring bills or minimum payments on loans is not available. Therefore, we cannot include the suggested indicator in the over-indebtedness measure. In order to assess the extent to which high housing cost commitments put a strain on household finances, we examine housing costs as a proportion of household income (see Appendix Section A5). Furthermore, in Section 5.6 we empirically examine the relationship between poverty and over-indebtedness.

Level of over-indebtedness

Just over half of all households record no problems on any of the three dimensions used in the over-indebtedness measure (see Table 5.13), 28% of households have a problem on one of the three items and 14 per cent on two of the three dimensions. Just over 5% of households have a problem on all three dimensions and therefore meet the criteria of being over indebted. Table 5.14 presents information on the way in which the dimensions are combined: 7.6% of households are in persistent arrears and the majority of these (74%) also consider that their housing cost or loan repayments (if they have them) are a heavy burden, therefore the addition of this additional condition only reduces the proportion of households affected by two percentage points from 7.6% to 5.6%. Nearly all of the households that are in persistent arrears and consider their commitments to be a burden also have liquidity problems in that they are unable to meet an unexpected expense[52].

[51] In terms of overlap, 93% of those who have 'great difficulty' and 59% of those have 'difficulty' making ends meet also report that housing or other repayments is a heavy burden. We tested the impact of adding the 'making ends meet' indicator to the over-indebtedness measure. If it is added as an additional condition then the percentage of over-indebted households declines marginally to 4.5% (N=202). Calculating a measure of over-indebtedness that included those who *either* had difficulties making ends meet *or* found payments to be a heavy burden, produced a rate of over-indebtedness of 6.2% and defined an additional 36 households as over-indebted. The characteristics of over-indebted households and risk factors remain largely unchanged.

[52] Therefore this additional indicator is largely redundant in the Irish case.

Table 5.13: Components of Over-indebtedness

	%
No persistent arrears, no burden, no liquidity problem	52.5
Yes to one of three	28.1
Yes to two of three	14.0
Yes to all three measures	5.4
Total	100.0

Table 5.14: % of Households that are Over-indebted

	% of Households	N
No arrears	92.4	4440
Arrears (at least 1 out of 4 persistent arrears)	7.6	338
Arrears + heavy burden	5.6	247
Over-indebted = Arrears + heavy burden + cannot face expected expenses	5.4	239

The average amount owed in arrears, unpaid credit card balances and overdrafts by over-indebted households was €1,397 and the median figure showed that half of over-indebted households owed less than €430. The figure for all other households is significantly lower; this is because the majority of these households have no current debts of this sort. However, if we look at households with current debts that are not over indebted we see that they owe a significantly higher amount of money. These findings highlight the importance of considering payment capacity and not just the level of the debt. While the amounts owed by over-indebted households are not high in absolute terms, low income levels mean that on average the level of arrears amounts to 70% of monthly household income, and the median percentage is 26%. Households that are not over indebted with current debt owe a higher amount of money relative to their monthly income.

Table 5.15: Amount Currently Owed[1] by Households with Current Arrears by Over-indebtedness

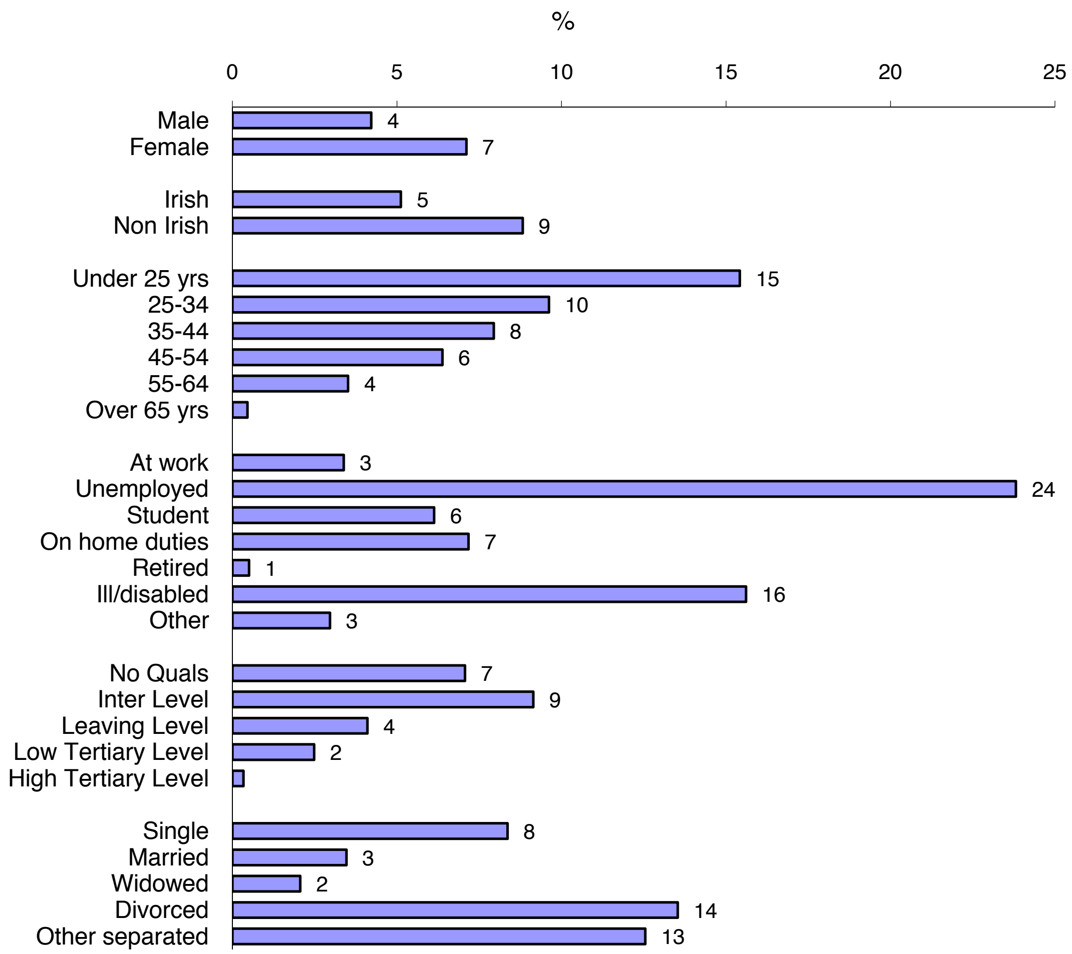
		Total arrears €	% of monthly income
Not Over-Indebted	Mean	2796.9	83.8
	Median	2125.5	38.1
	N	**583**	**583**
Over-Indebted	Mean	1396.77	70.4
	Median	430.5	25.8
	N	**239**	**199[2]**

1 Households with current arrears Current arrears on rent/mortgage, utility bills, hp/loans, other bills, outstanding credit card debt, unpaid overdraft (see text above for further details).
2 Smaller N because of cases missing information on monthly income.

Characteristics of over-indebted households

We look first at the characteristics of the head of household that influence the risk of the household being over indebted. For all the characteristics in Figure 5.11 the differences are statistically significant and, therefore, are extremely unlikely to arise due to chance variation. Female-headed households are more likely to be over indebted than male-headed households, and households headed by a non-Irish national are also at higher risk. The risk of over-indebtedness decreases substantially with the age of the household reference person. Fifteen per cent of households where the reference person is aged under 25 are over indebted, though it should be noted that the majority of 18- to 25-year-olds have not formed their own households[53].

Figure 5.11: Risk of Over-Indebtedness by Characteristics of the Head of Household



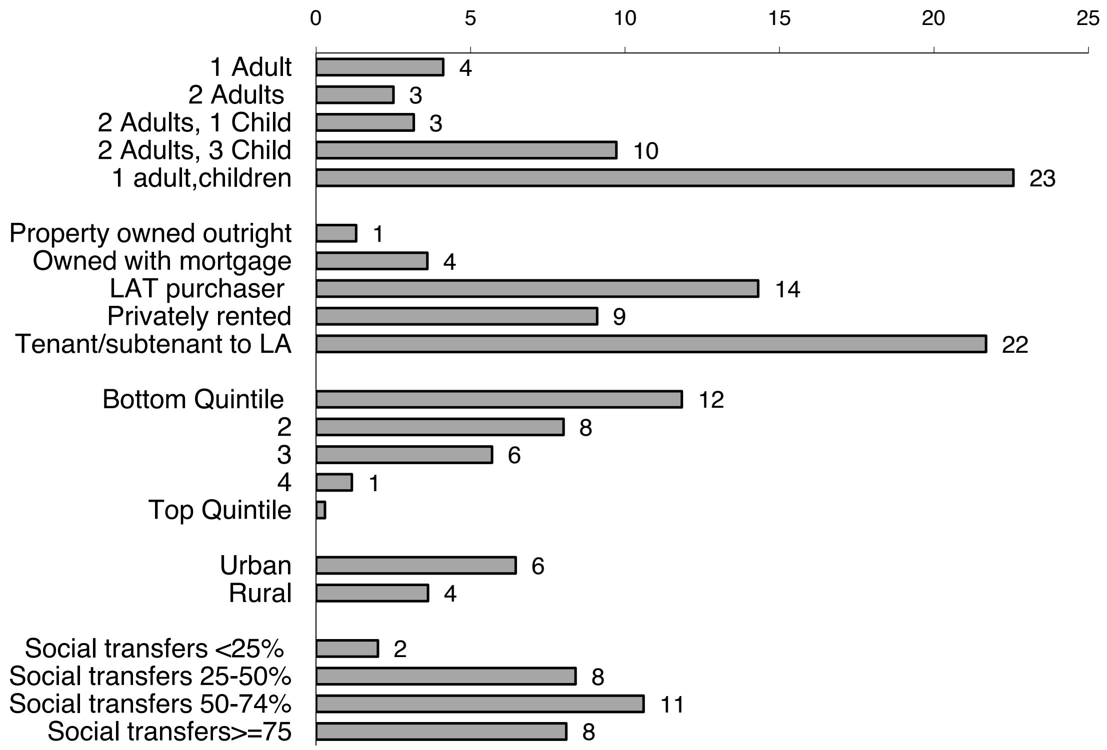
Households where the reference person is unemployed have the highest risk of over-indebtedness (24%) followed by households headed by a person who is unable to work due to illness or disability (16%). Low education level is also linked to over-indebtedness but not as strongly as current employment status. Those who are divorced or separated also have a high risk of over-indebtedness, which is consistent with international findings on the link between family breakdown and problem debt. This issue is further investigated when financial shocks are examined below.

Figure 5.12 considers the characteristics of the whole household rather than just those of the HRP. The groups that stand out as having the highest risks of over-indebtedness are lone-parent households

[53] Only 9.5% of respondents aged 18 to 25 were designated as the household reference person.

(23%) and local authority tenants (22%). Those purchasing houses from the local authority also have a relatively high rate of over-indebtedness but this is a small group in the population. Household income also has a strong influence on over-indebtedness. Only 1% of households in the top 40% of the income distribution are classified as over indebted compared to 12% of households in the bottom. Households that are reliant on social transfers for more than a quarter of their income are more likely to be over-indebted than those where it makes up less than a quarter. The relationship between welfare dependency and over-indebtedness is even stronger if only households where the HRP is aged under 65 are considered[54]. Among working age households, 18% of those relying on social transfers for three-quarters or more of household income are over indebted compared to 2% where such transfers constitute less than a quarter of income. Moreover, further analysis found that 45% of households classified as over indebted relied on social transfers for three-quarters or more of household income. Since many of these characteristics are interrelated, in the final section of the chapter a model of over-indebtedness is constructed to establish which factors have the strongest influence.

Figure 5.12: Risk of Over-Indebtedness by Household Characteristics



5.6 Over-Indebtedness and Income Shocks

The review of the literature in Chapter 4 highlighted the role of income shocks in pushing households into over-indebtedness. The literature on over-indebtedness shows that income shocks are common triggers of over-indebtedness. A sudden or unexpected drop in income or increase in costs means that households are no longer able to maintain their previous patterns of expenditure. Households that were already struggling to manage financially or have little disposable income to spare following recurrent expenses and necessities are likely to be particularly vulnerable to income shocks. Similarly, the availability of savings may cushion better-off households from the immediate effects of income shocks but this may not be sustainable in the longer term.

[54] This is because most older households are reliant on social transfers for a large part of their current income (through state pensions) even among the higher social classes.

EU-SILC respondents were asked whether their household had experienced 'a major drop in income in last 12 months'. Overall, 19% of households had experienced such a drop in income. This figure rose to 40% for households which are classified as over indebted. The survey also sheds further light on the reasons behind this income drop. Unsurprisingly, given that the survey covers the beginning of the recession in Ireland, one-quarter of those who experienced a drop in income said this was due to job loss or redundancy. This figure rose to 31% among over-indebted households[55]. A drop in hours or wages, which may also be linked to the economic downturn, was responsible for the income shock in 17.5% of cases, while illness/disability, which limited a household member's capacity to work, emerged in 12% of cases overall and 19% of cases where the household was over indebted. The increased household costs that come with the birth of a child (including reduced earning capacity) discussed in the literature is evidenced among the 8% of households where the income drop is due to maternity/parental leave or childcare. The birth of children may also be picked up in the 'other changes in household composition' category, which was given as a reason for a major drop in income by 8% of respondents (12% among over-indebted households). Relationship breakdown was mentioned in 2% of cases.

Table 5.16: Households' Experience of Income Shocks Over the Last 12 Months by Over-Indebtedness

	Not over-indebted	Over-indebted	Total
Income Shock	17.8	39.9	19.0
No Income Shock	82.2	60.1	81.0
Total	100.0	100.0	100.0

Table 5.17: % Giving Each Reason for Drop in Income Over the Last 12 Months

	All Households	Over-indebted HHs	HHs Not over-indebted
Job loss/redundancy	25.5	30.5	24.8
Unable to work sickness/disability	12.0	**18.9**	**11.1**
Drop in hours or wages	17.5	17.9	14.7
Maternity/parental leave/childcare	7.7	8.4	7.5
Retirement	4.1	**0.0**	**4.6**
Marriage/relationship breakdown	2.2	**5.3**	**1.9**
Other change in household composition	8.1	11.6	7.5
Other reason	31.5	25.0	32.5
No Reason given	13.9	12.5	14.1
Total	*843*	*74*	*768*

Note: Bold type indicates differences between household types significant at 5% level
Multiple responses allowed so percentages add to over 100%

Comparing the responses of households that were over indebted and those that were not, shows that the over indebted are more likely to have experienced a drop in income due to sickness and

[55] Caution must be exercised with these figures as there are only 74 households who were both over indebted and had experienced an income shock.

marital/relationship breakdown and were significantly less likely to have experienced an income shock due to retirement of a household member.

Households across all income groups experienced a 'major drop of income', ranging from 22% of income in the bottom quintile to 14% of households in the top quartile. The household's ability to cope with an income shock without running up arrears or other burdensome debt is clearly related to the overall income level of the household. Only 2% of households in the top income quintile who experienced a major drop in income in the previous 12 months were over indebted. In contrast, 21% of households in the bottom income quintile were over indebted following an income shock (Table 5.18).

Similarly, access to other sources of support including savings or help from family and friends also protect households from falling into over-indebtedness when their income drops unexpectedly. Among households that experienced a financial shock only 2.5% of those who 'can save' were over indebted, but this rises to 16% of those who cannot save.

Table 5.18: % of Households in Over-indebtedness following Financial Shock by Household Income Quintile Position

Income Quintile	%
Bottom	21.2
2	16.0
3	10.8
4	2.3
Top	2.0
Total	11.3

Base = households that experienced a financial shock in the previous 12 months N=843

Table 5.19: % of Households Over-indebted by Financial Shock and Ability to Save

Financial shock		Can save	Cannot save
Yes	Not over-indebted	97.5	84.5
	Over-indebted	2.5	15.5
	Total	100.0	100.0
No	Not over-indebted	99.7	91.8
	Over-indebted	0.3	8.2
	Total	100.0	100.0

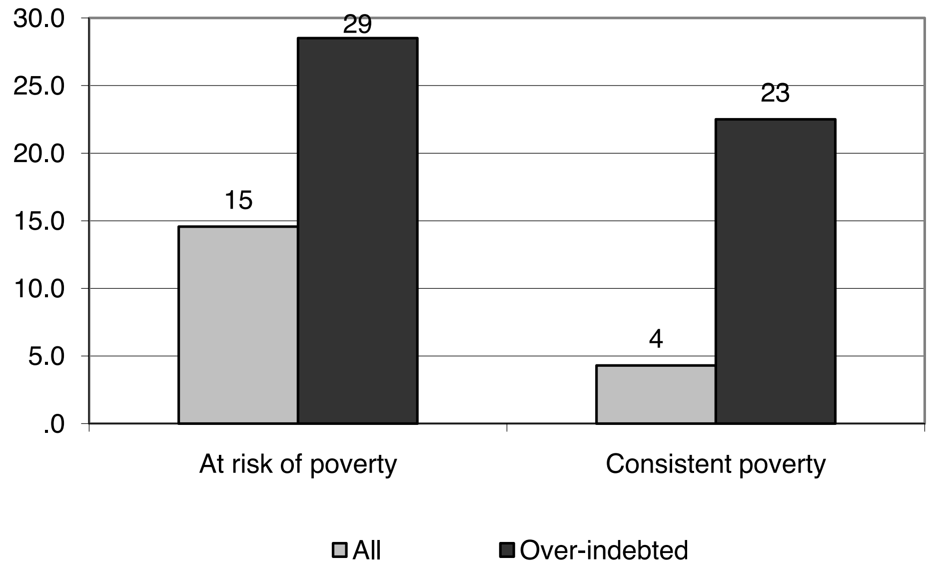
5.7 Over-indebtedness and poverty

The analysis in the preceding section showed that there was a strong connection between income and over-indebtedness (and its sub-elements: arrears; illiquidity; payment burden). However, the overlap is not complete and other factors appear to have a stronger impact, such as lone parenthood, current employment status and housing tenure. In the following analysis the relationship between over-indebtedness and poverty is examined. As outlined in the previous chapter, poverty is a likely cause of over-indebtedness as households simply do not have enough resources to participate in the normal way of life of the society and that gap between resources and needs can result in over-indebtedness. Over-indebtedness can also be a cause of poverty and deprivation as resources are directed toward paying off debts away from basic necessities. Unsustainable debt levels may also be associated with very high interest payments and can lead to financial penalties, stress-related illness, loss of home/enforced moves and, in extreme cases, homelessness and imprisonment (see Chapter 4).

As there are limits to income as a measure of household standard of living and needs (Whelan *et al.* 2004; Russell *et al.* 2010), we examine the relationship between over-indebtedness and both income poverty and non-monetary measures of poverty. First we use the income-based 'at risk of poverty' measure, which means the household income is less than 60% of median income. Second we examine non-monetary measures of deprivation and these are combined with income to produce the consistent poverty measure (see Chapter 3 for further detail).

Looking first at the poverty rates for over-indebted and all households (Figure 5.12), we see that 29% of over-indebted households are 'at risk of poverty' compared to 15% of all households. When the non-monetary indicators are also included, the gap becomes even wider: 23% of over-indebted households are in consistent poverty compared to 4.3% of all households.

Figure 5.13: Over-Indebtedness, Income Poverty and Consistent Poverty



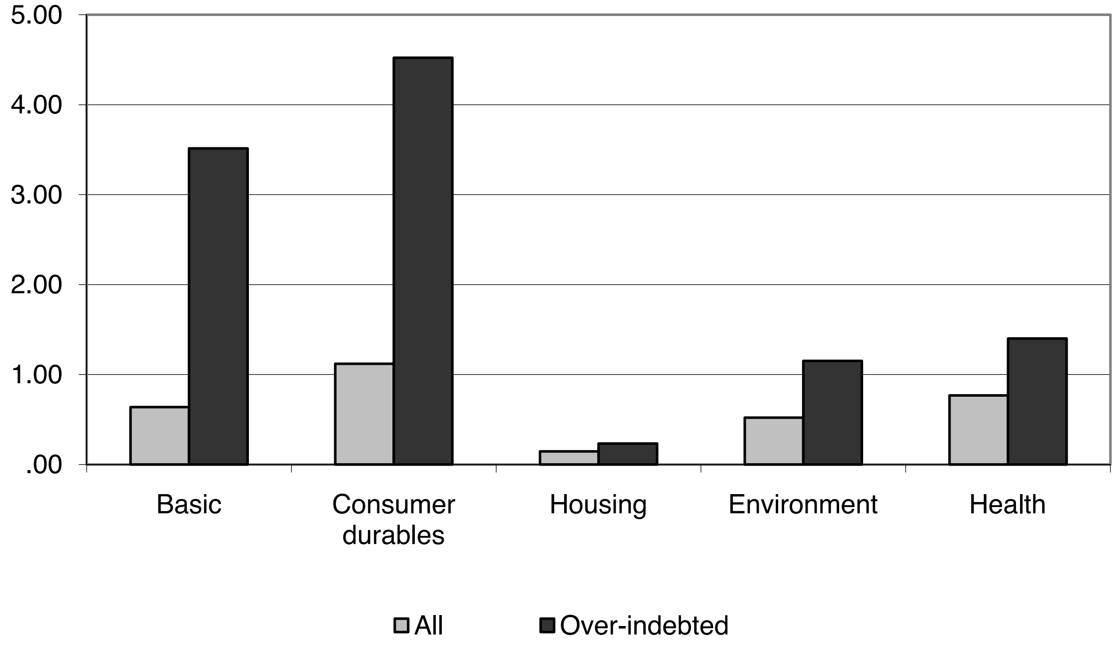
In Table 5.20, we outline the level of deprivation experienced by over-indebted households across the 11 basic deprivation items that are used to construct the consistent poverty measure. On all 11 items, over-indebted households experience substantially higher levels of deprivation than average. Over half of the group are unable to afford to replace worn-out furniture (64%) or to have an afternoon or evening out in the last fortnight for entertainment (56%). Forty-three per cent were unable to afford to have family or friends over for a meal/drink once a month. The lowest deprivation was recorded for inability to afford presents for friends/family once a year (16%) but even on this item over-indebted households were distinctive. Using these measures of non-monetary deprivation, over-indebted households look significantly more deprived than households that are defined as consistently poor.

Table 5.20: Basic Deprivation Among All Households and Over-Indebted Households

	All	Over-indebted
	%	%
Does the household buy presents for family or friends at least once a year?	3.0	15.6
Respondent for household can afford an afternoon, evening out	9.7	56.2
Household has family or friends for a drink or meal once a month	8.6	43.0
Household replaces worn-out furniture	13.8	63.5
Household keeps home adequately warm	4.1	26.2
Household members possess a warm waterproof overcoat	2.1	17.8
Household members buy new rather than second-hand clothes	5.8	29.2
Does household eat meals with meat, chicken, fish (or vegetarian option)	3.3	20.9
Does household have a roast joint (or equivalent) once a week	4.3	25.4
Each household member possesses two pairs of strong shoes	2.4	21.1
Respondent for household had to go without heating in the last 12 months through lack of money	6.7	32.6
Proportion who cannot afford two or more items	13.7	73.9

Figure 5.14 illustrates that over-indebted households not only have higher levels of basic deprivation but are also considerably worse off in relation to consumer durables, health and environment. These results strongly suggest that over-indebted households are not using credit/debt to support high levels of current consumption. The only dimension on which they do not differ from all households is in relation to housing.

Figure 5.14: Mean Deprivation Scores by Dimensions of Deprivation; Over-indebted and All Households



5.8 Regression Analysis of Over-Indebtedness Scale

In the foregoing sections the relationship between over-indebtedness and a range of risk factors and triggers was discussed. However, many of these items are interrelated and statistical modelling can tell us which are the most salient for over-indebtedness. In addition, the models can allow us to investigate the relationship between over-indebtedness and financial exclusion controlling for level of household income. There are two competing hypotheses in this respect. One hypothesis is that financial exclusion is associated with a greater likelihood of over-indebtedness. The causality in this relationship could run in either direction. Exclusion from conventional financial services could mean consumers are pushed into the unregulated sector to access credit such as borrowing from moneylenders and loan sharks. These forms of credit incur very high interest rates and may result in individuals experiencing heavier burdens of debt (Corr 2006; Balmer 2006; Pleasence *et al.* 2007). Running the opposite way, those who are over indebted may face financial exclusion because their poor credit history makes it difficult to access financial services.

An alternative hypothesis is that the financially excluded group (and those on low incomes) have not had the same access to credit over the recent period. Therefore they have not built up the same level of problematic debt as those on moderate or high incomes who were financially included and who are then vulnerable to income shocks.

The modelling is carried out in two steps. In Model 1, we include the range of socio-economic and demographic variables, including household income position. In Model 2, we examine the relationship between over-indebtedness and financial shocks, financial exclusion and consistent poverty. These processes are all strongly related to income position and labour market status and by adding them separately we can test whether they bring additional explanatory power to the model or if they simply replace the income and employment status effects.

The results in Model 1 show that income levels have the strongest impact on the household's risk of over-indebtedness. Households in the bottom income quintile are 14 times more likely to be over indebted than those in the top income quintile. Those in the second last income quintile have an even higher risk; they are 16 times more likely than the top income group to be over indebted. Despite these very strong income effects, other factors also remain influential when income is controlled. Unemployment of the household reference person is associated with a fourfold increase in the chances of being over indebted, while households headed by someone who is ill or disabled are 2.6 times more likely to be over indebted compared to households headed by someone in employment. The higher risk for households headed by someone aged under 25 years becomes non-significant when other factors are controlled, suggesting that these households have other disadvantages that account for their higher risk, for example low income, unemployment, etc..

Table 5.21: Logistic Regression Analysis of Over-Indebtedness (households)

	Model 1		**Model 2**	
	Exp(B)	Sig.	Exp(B)	Sig.
Ref=Male headed hh				
Female headed hh	1.39	.114	1.192	.408
Age ref=25 to 65 years				
18-24 years	1.79	.104	1.917	.089
Over 65 years	0.10	.000	0.151	.000
Ref=married				
Single	0.96	.865	1.17	.481
Divorced/Separated/Widowed	1.32	.191	1.523	.057
Ref=Not lone parent hh				
Lone Parent	1.96	.003	1.672	.030
Ref=Employed				
Unemployed	4.26	.000	3.15	.000
Home duties	1.15	.542	1.03	.909
Retired	0.65	.492	0.67	.520
Ill/disabled	2.59	.000	2.44	.001
Ref=Third level Quals				
No qualifications	1.63	.090	1.86	.043
Inter/Junior cert	2.33	.003	2.83	.000
Leaving cert	1.50	.167	1.78	.054
Ref=Top Income Quintile				
Bottom income quintile	13.72	.000	10.94	.000
2nd income quintile	15.77	.000	15.60	.000
3rd income quintile	9.85	.001	10.10	.000
4th income quintile	2.73	.160	2.55	.189
Ref= Private owner				
Private tenant	2.50	.000	2.94	.000
LA owner	2.97	.000	2.66	.002
LA tenant	3.48	.000	3.61	.000
Ref=Urban Location				
Rural location	0.62	.005	0.63	.009
Ref=no income shock				
Income Shock			2.43	**.000**
Ref=Have Bank current a/c				
No Bank Current Account			**1.54**	**.020**

Ref=Possess Credit[1]				
No credit and 'don't need'			0.14	.000
No credit for other reason			0.75	.169
Ref=not consistently poor				
Consistent Poverty			2.39	**.001**
Constant	0.002	.000	0.00	.000
Nagelkerke R Square	.330			
N	4298		4298	

1 Have at least 1of 3 forms of credit (loans, credit card/store card, overdraft facility). See Chapter 3.

Household composition also has an additional effect over and above income. Lone-parent households are twice as likely to be over indebted as other households. Lone parents are predominantly female and including lone parenthood in the model is likely to account for the non-significance of the female-head variable. The results mean that female-headed households who are not lone parents have no higher risk of over-indebtedness. Housing tenure also remains highly significant. Those in local authority housing or the private-rented sector have a higher risk of over-indebtedness than those in the owner-occupier sector[56] even when their income and employment status are controlled. The age effect shows that those aged over 65 have a substantially lower risk of over-indebtedness than those in the age group 25–64 years.

Model 2 shows that an adverse financial shock in the last 12 months more than doubles the likelihood of over-indebtedness even when income is held constant, though household income still has a stronger effect. Similarly, consistent poverty also increases the household's risk of over-indebtedness over and above the strong impact of income alone. Moreover, these factors work in addition to the income and labour market effects, which remain strong and significant. Indeed, the income effects are virtually unchanged and the effect of unemployment weakens only slightly (compared to Model 1). Adding income shock, financial exclusion and consistent poverty makes the impact of being divorced/separated/widowed significant, suggesting that, in addition to the immediate income drop that can occur with the loss of a partner, there is also a longer-term link to over-indebtedness.

The results on financial exclusion are nuanced. Even controlling for income position and other socio-economic factors, households that do not have access to a bank current account are also more likely to be over indebted. This demonstrates a connection between over-indebtedness and banking exclusion, although it is not possible to establish the direction of causality. Credit exclusion as measured by lack of access to any of three types of credit – structured loans, credit/store cards and overdraft facilities (see Chapter 3 for details) – was initially found to decrease the risk of financial exclusion. Further analysis showed that this effect is confined to those who do not have credit and say they 'do not need to borrow'. It is likely that this variable is picking up financial management behaviour, in that this group do not use credit and correspondingly do not run up arrears, which is part of the over-indebtedness measure.

5.9 Conclusions

The findings above suggest that, in 2008, 5% of Irish households were over indebted using a measure of over-indebtedness based on the recommendations of the EU working group on over-indebtedness, which combines information on persistent arrears, heavy payment burden (subjectively defined) and illiquidity (a lack of access to other resources). It should be noted that this measure is experimental, in that this is the first time in which the EU-SILC provided more detailed information on arrears, which allowed this definition to be *partially* operationalised. The EU working group has recommended that such measures be tested in different contexts to assess their validity. Further discussion of the measure

[56] This group includes those who own with a mortgage and those who own their property outright.

and on the limitations of the data is outlined in the conclusions (Chapter 7) and recommendations are made for future data collection.

The analysis outlined above shows the strong association between low income, poverty and over-indebtedness. Lower-income households and households in poverty have a higher risk of arrears (except in the case of credit card arrears), are more likely to find regular costs and debt repayment a heavy burden, have a greater rate of illiquidity, and therefore have a high risk of over-indebtedness on the combined measure. Households that are over indebted are also more likely than other households to be income poor and in consistent poverty. They have higher than average levels of basic deprivation, as well as secondary deprivation (based on access to consumer durables), environmental deprivation and health deprivation. The results suggest that inadequacy of resources is a key factor in over-indebtedness rather than a high level of personal consumption. Given this linkage with low income and lack of other resources, households in persistent arrears on bills appear to fall predominantly into the category of 'can't pay' rather than 'won't pay'.

The other risk factors for over-indebtedness also highlight the role of lack of accumulated resources, or an ability to generate additional income. Households most at risk of over-indebtedness (even controlling for income) are those where the head of household is unemployed, unable to work due to illness or disability, has low levels of qualification or is a lone parent. Those living in local authority housing also have a distinctively high risk of over-indebtedness, even when other factors are controlled.

The results also show the key role of income shocks as a trigger of over-indebtedness. A sudden loss in income or an increase in a household's needs in the previous 12 months was common among over-indebted households (40%). The most common cause was job loss/redundancy followed by sickness and pay cuts/drop in hours. While a proportion of all income groups experienced drops in income, those in the lowest income groups were more vulnerable to becoming over indebted following such a shock. Higher-income groups are more likely to have savings and other resources to avoid running into arrears in response to such a shock, at least in the short term.

The survey does not contain complete information on the amounts of money borrowed. However, the available information on arrears suggests that the amount owed in arrears by over-indebted households is in many cases modest in absolute terms. The mean amount owed in total arrears, unpaid credit card balances and overdrafts was €1,397 and the median figure showed that half of over-indebted households owed less than €430. The issue of over-extension of credit does not appear to play a significant role in the financial difficulties experienced by this group. However, because of low incomes, this translated into 70% of monthly income on average, with the median percentage being 26%.

The analyses here and in Chapter 2 on financial exclusion show that low-income groups had lower access to credit cards and overdraft facilities and therefore had lower indebtedness on these measures. Furthermore, the models confirm that lack of access to basic bank services in the form of a bank current account is associated with a greater likelihood of over-indebtedness. Lack of access to credit, in contrast, was found to be associated with a lower risk of over-indebtedness. However, this only applied to households who said they did not need any credit, which may reflect financial management behaviour or greater resources to meet needs. As the concepts of banking exclusion and over-indebtedness are measured simultaneously, we cannot establish the direction of causality in this relationship. As outlined above, debt problems may lead to financial exclusion through poor credit history/credit ratings, or financial exclusion may contribute to over-indebtedness because the excluded groups are pushed into forms of borrowing with very high interest rates or into unsanctioned credit in the form of arrears on utility bills.

This is not to say that 'over-borrowing' or reckless lending will not become a more common source of over-indebtedness as the economic recession persists. The EU-SILC module on over-indebtedness was carried out in 2008 early on in the current recession. Households with a high level of credit, particularly mortgage credit, may be at risk of over-indebtedness due to income loss caused by unemployment and pay cuts. This is particularly true if loss of income becomes more permanent through long-term unemployment or inactivity, which will mean that resources, insurance and savings are depleted. The level of long-term unemployment has increased significantly since 2008, from 1.5% to 5.9% in the second quarter of 2010. Almost half of unemployed men (49%) and one-third of unemployed women are now long-term unemployed (49%) (CSO 2010b).This, combined with significant cuts in pay and rises in tax levels since the survey in 2008, means there is likely to have been a significant increase in over-indebtedness in 2009 and 2010. However, the data is not available to conduct this analysis as the special module was only fielded in 2008.

CHAPTER 6

Cross-National Comparisons

6.1 Indebtedness in Europe

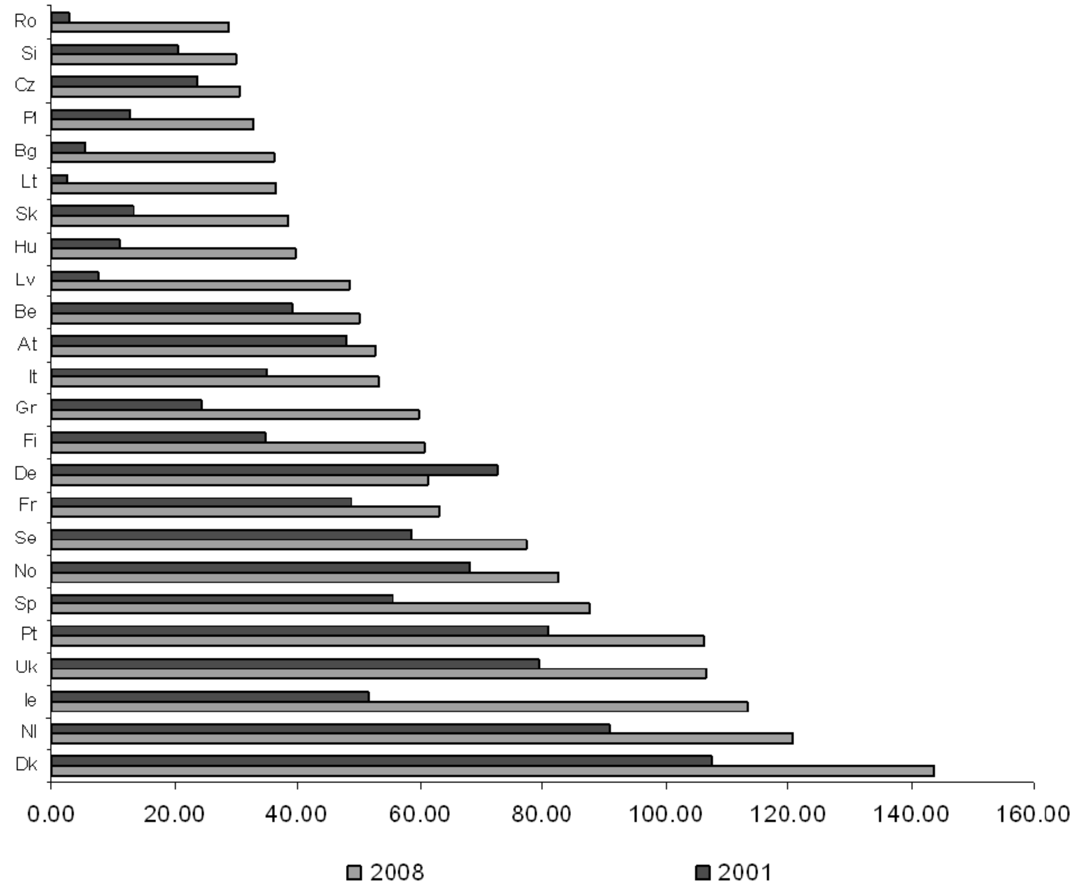
In many countries and particularly in the EU, a general increase of household debt has been observed over the last 20 years, while in some countries there has been a very rapid acceleration in recent years (see Girouard *et al.* 2007). This trend is illustrated in Figure 6.1, which shows the evolution of household financial liabilities as a percentage of GDP since 2001.57

In all countries, with the exception of Germany, there was an increase in the financial liabilities of households (as a % of GDP) between 2001 and 2008. In 2008, Ireland recorded the third highest rate of household financial debt as a proportion of GDP (113%) behind only Denmark (144%) and the Netherlands (121%). The Irish rate increased by 120% in seven years, the second largest increase of the EU15 countries after Greece (146%).

The level of household debt as a percentage of GDP is considerably lower in EU12 countries than in EU15 countries in both years. However, countries like Bulgaria, Lithuania, Hungary and Latvia have experienced a dramatic increase in this measure of debt between 2001 and 2008. Persson (2009) suggests that the rapid growth in household debt in the new member states is due to the transition that these countries have made into market economies with deregulated financial markets and the greater availability and accessibility of financial products such as mortgages and commercial credit to the population.

[57] Financial liabilities include mainly loans (short and long term) and other accounts payable (such as trade credits). Included here are financial liabilities held by households as well as non-profit institutions serving households.

Figure 6.1: Household Stock of Financial Liabilities as a Percentage of GDP, 2001 and 2008

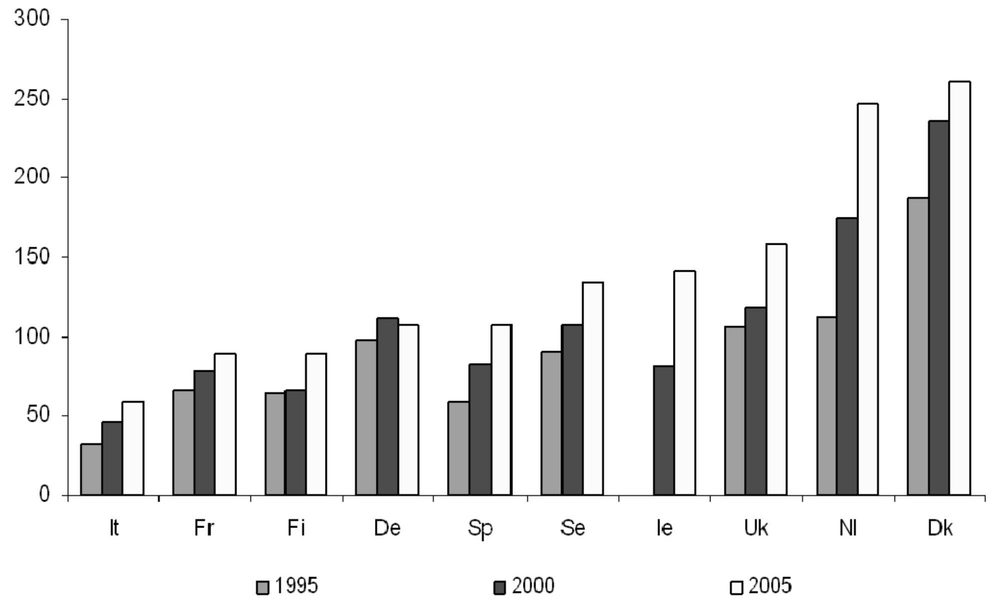


Source: Eurostat

The increasing level of household debt across Europe is also evident in figures that examine the level of debt as a percentage of annual disposable income[58] (see Figure 6.2). This information is available for a smaller subset of countries. Again, Ireland, Denmark, the Netherlands and the UK stand out as having the highest proportion of household debt to annual disposable income. Household debt in Ireland stood at 141% of annual disposable income in 2005, which represented an increase of 74% since 2000. This was the largest increase recorded among the ten countries presented here.

[58] Household disposable income is calculated as net current receipts of households minus direct taxes on households minus total current transfers paid by households (see www.oecd.org/eco/sources-and-methods).

Figure 6.2: Household Debt as a Percentage of Annual Disposable Income, 1995, 2000 and 2005



Source OECD Economic Outlook 80

These figures illustrate that household debt is an issue of increasing importance for EU economies and households. This general increase in the overall level of debt increases households' exposure to financial difficulties that may arise through the economic slowdown or recession (through rising unemployment) or through changes in personal circumstances (separation, divorce, ill health, etc.).

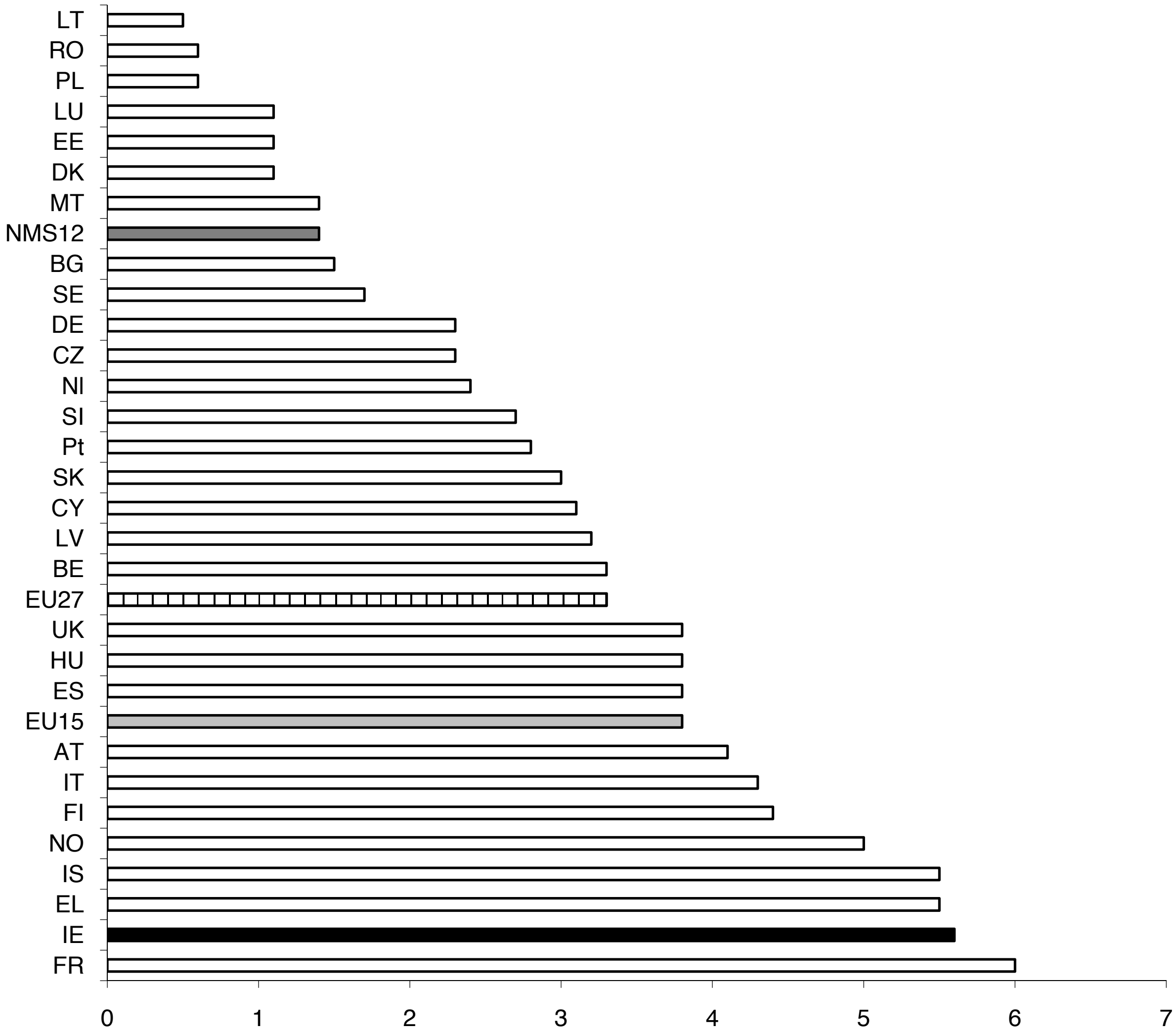
6.2 Over-Indebtedness in Europe

The EU-SILC 2008 special module on debt and financial exclusion provides new harmonised data on over-indebtedness across the EU and will allow more rigorous cross-country analysis of this issue than has been possible heretofore. To date, only limited tabular data from the European data set has been made available; the European micro-data was released before the end of 2010. Here we make use of the statistics published by Eurostat.[59] The figures on arrears published by Eurostat differ somewhat from the figures presented in Chapter 5. This is because the Eurostat figures refer to the proportion of *individuals* who are in arrears rather than the proportion of *households,* i.e. if the household is in arrears, each individual in the household is recorded as being in arrears.[60]

Figure 6.3 presents the percentage of individuals that have been in arrears on mortgage or rent payments in the preceding 12 months. Overall, the percentage range is extremely narrow, ranging from 0.5 % in Lithuania to 6% in France. Ireland has the second highest percentage at 6%, followed by Greece and Iceland. The average percentage for the EU15 stands at 4% while it is only 1% in the EU12. Denmark and Luxembourg are the only two countries from the EU15 that are below the EU12 average. The low percentage of arrears for the EU12 countries can be explained by the fact that in these countries ownership with a mortgage is a rare phenomenon. Ownership without a mortgage in 2003 in countries such as Slovenia, Romania and Bulgaria was 80%, 83% and 86% respectively (Domanski *et al.* 2006). In the early 1990s there was a widespread privatisation of public housing in many EU12 countries often at a relatively low cost.[61]

[59] (epp.eurostat.ec.europa.eu/portal/statistics/themes).
[60] All individuals include children.
[61] Housing co-operatives and council housing were common forms of accommodation prior to the 1990s. Following the political transformation of many EU12 countries, residents were given the opportunity to become owners at a low cost.

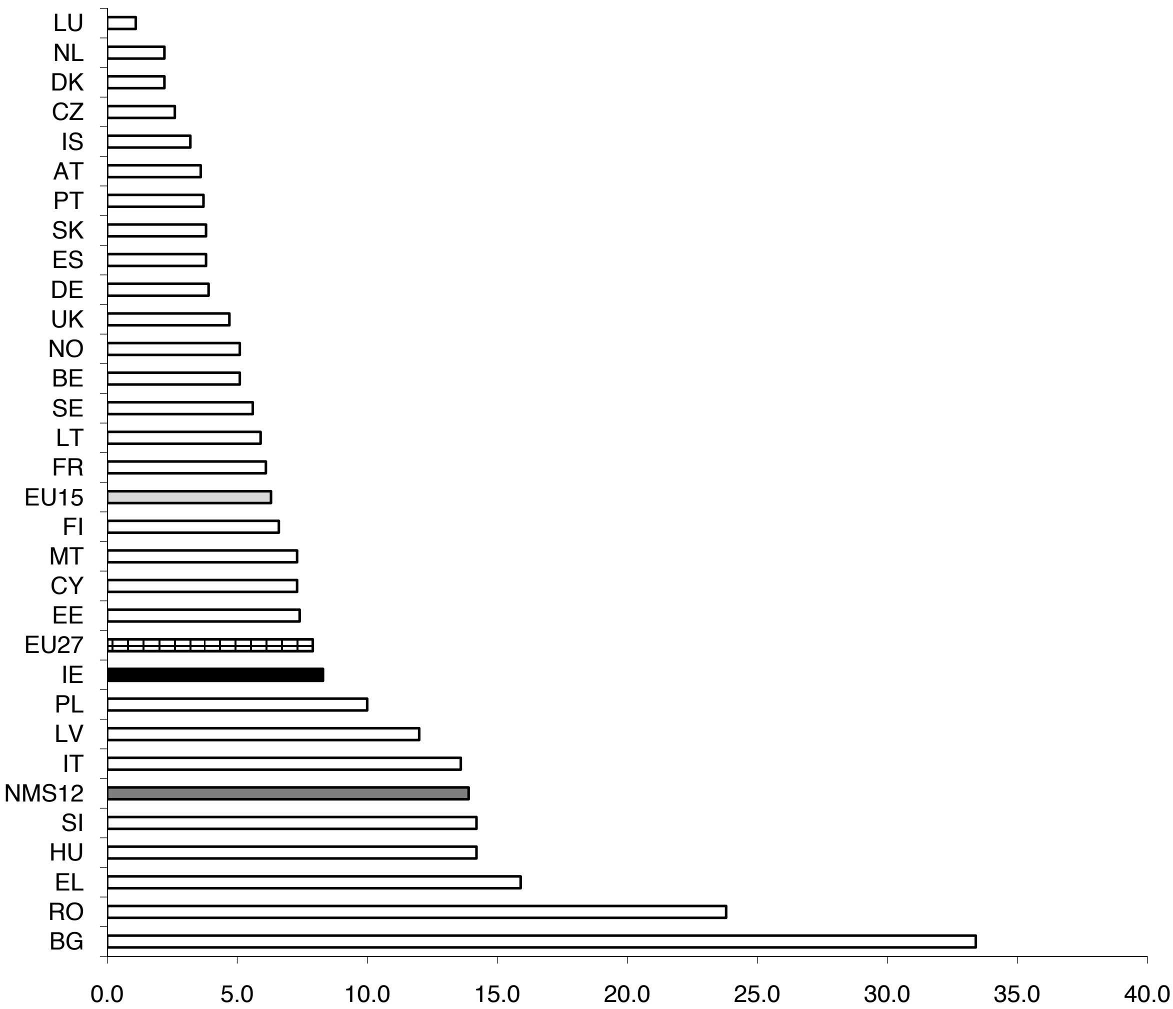
Figure 6.3: Percentage of Individuals with Arrears on Mortgage or Rent Payments across the EU, EU-SILC 2008



Source: EU-SILC 2008

Arrears on utility bills follow a very different cross-national pattern than arrears on housing costs. First, the overall distribution is much wider, ranging from 1% in Luxembourg to 33% in Bulgaria. Also, the position of EU12 countries and EU15 countries is now reversed. The average rate of arrears on utility bills in the EU12 (14%) is more than twice the rate in the EU15 (6%). However, Ireland at 8% is among the EU15 countries with the highest rate along with Greece (16%) and Italy (14%).

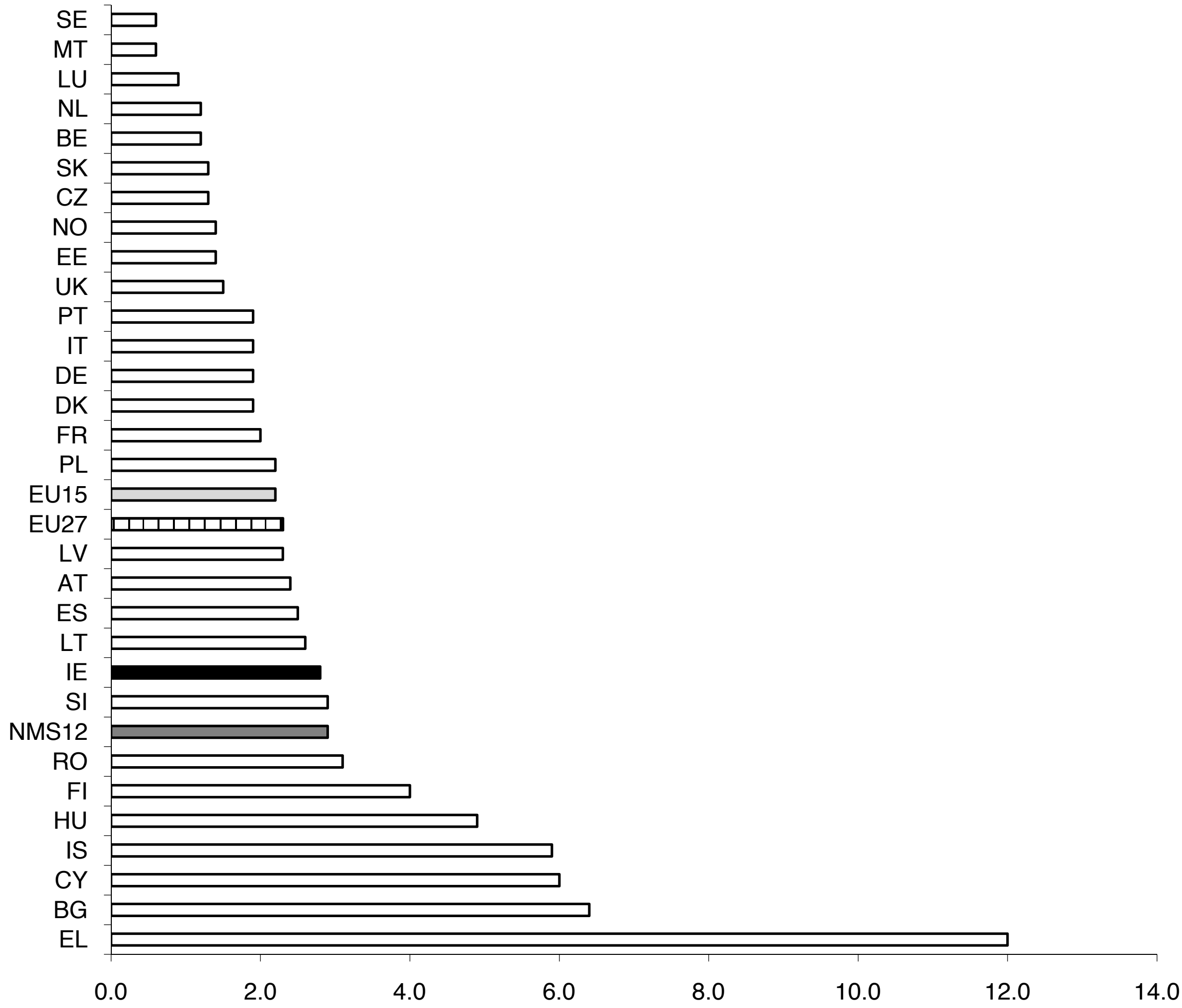
Figure 6.4 Percentage of Individuals with Arrears on Utility Bills Across the EU, EU-SILC 2008



Source: EU-SILC 2008

Overall, as Figure 6.5 illustrates, fewer individuals in Europe experience arrears on hire purchase instalments or other loan payments than for utility bills. The average proportion for the EU27 is 2% of individuals. There is very little variation around this figure, with the exception of Greece where 12% of individuals have such arrears. In Ireland the figure is 3%.

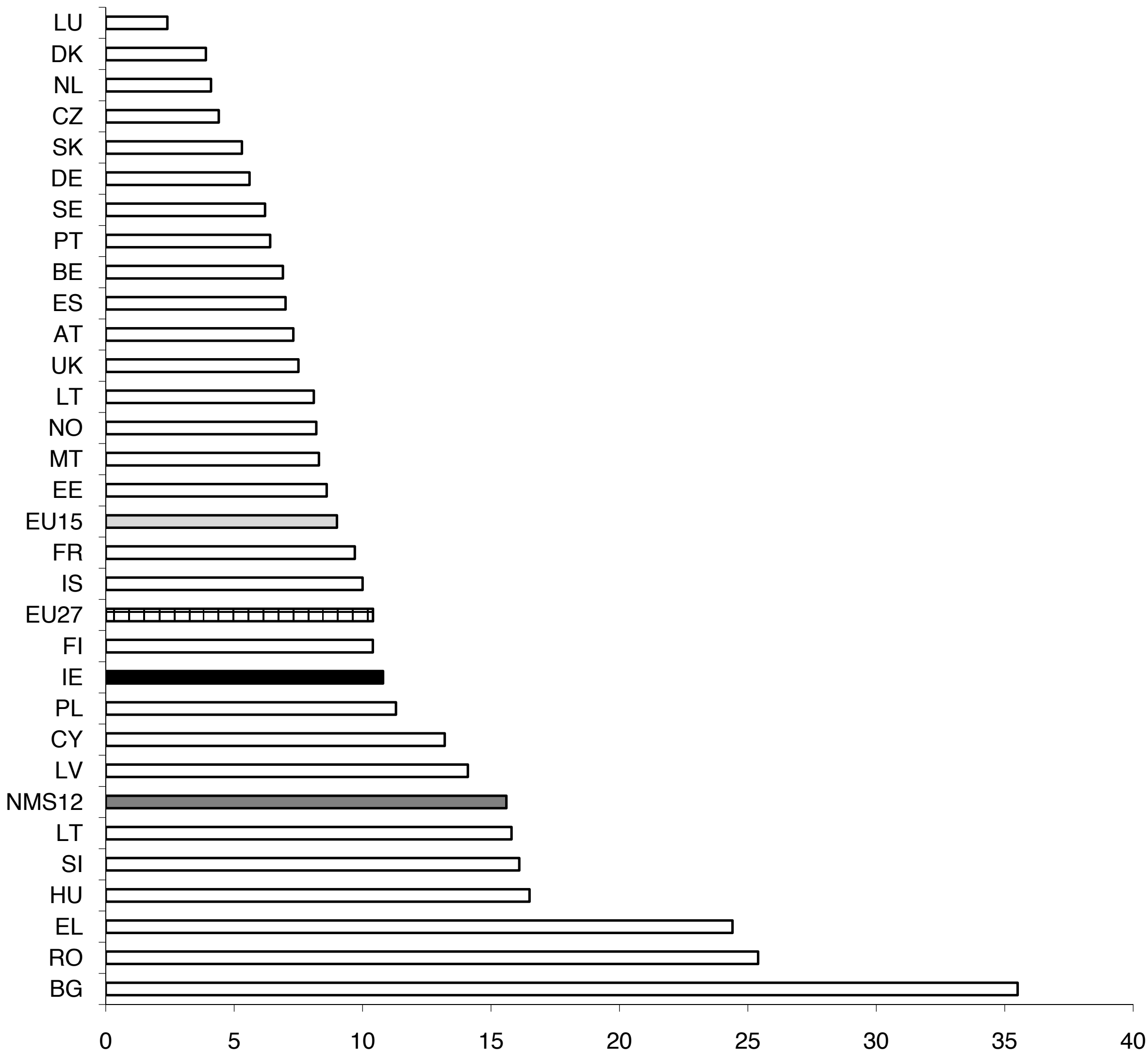
Figure 6.5: Percentage of individuals with Arrears on Hire Purchase Instalments or other Loan Payments across the EU, EU-SILC 2008



Source: EU-SILC 2008

The Eurostat figures do not report the level of persistent arrears (i.e. those who experienced arrears more than once in the previous 12 months) nor do they contain information on arrears on 'other bills'. Therefore it is not possible to produce the same combined indicator of persistent arrears. Instead, in Figure 6.6, the responses to the three previous arrears items are combined and the percentage of individuals experiencing at least one of the three forms of arrears is presented. Arrears on utility bills was by far the most common form of arrears across the EU countries; the percentage reporting other forms of arrears is much lower. As a consequence, the combined measure is driven by the utility arrears results. The two countries with the highest percentage of arrears are Bulgaria and Romania at 36% and 25% respectively, followed by Greece at 24%. At the other end of the spectrum we find Luxembourg, Denmark, the Netherlands and the Czech Republic at less than 5%. The percentage of Irish individuals who experience arrears (11%) is above the EU15 average (9%) and lower than the average for the EU12 (15%).

Figure 6.6: Percentage of individuals with Arrears on Mortgage or Rent Payments, Utility Bills, Hire Purchase Instalments Across the EU, EU-SILC 2008

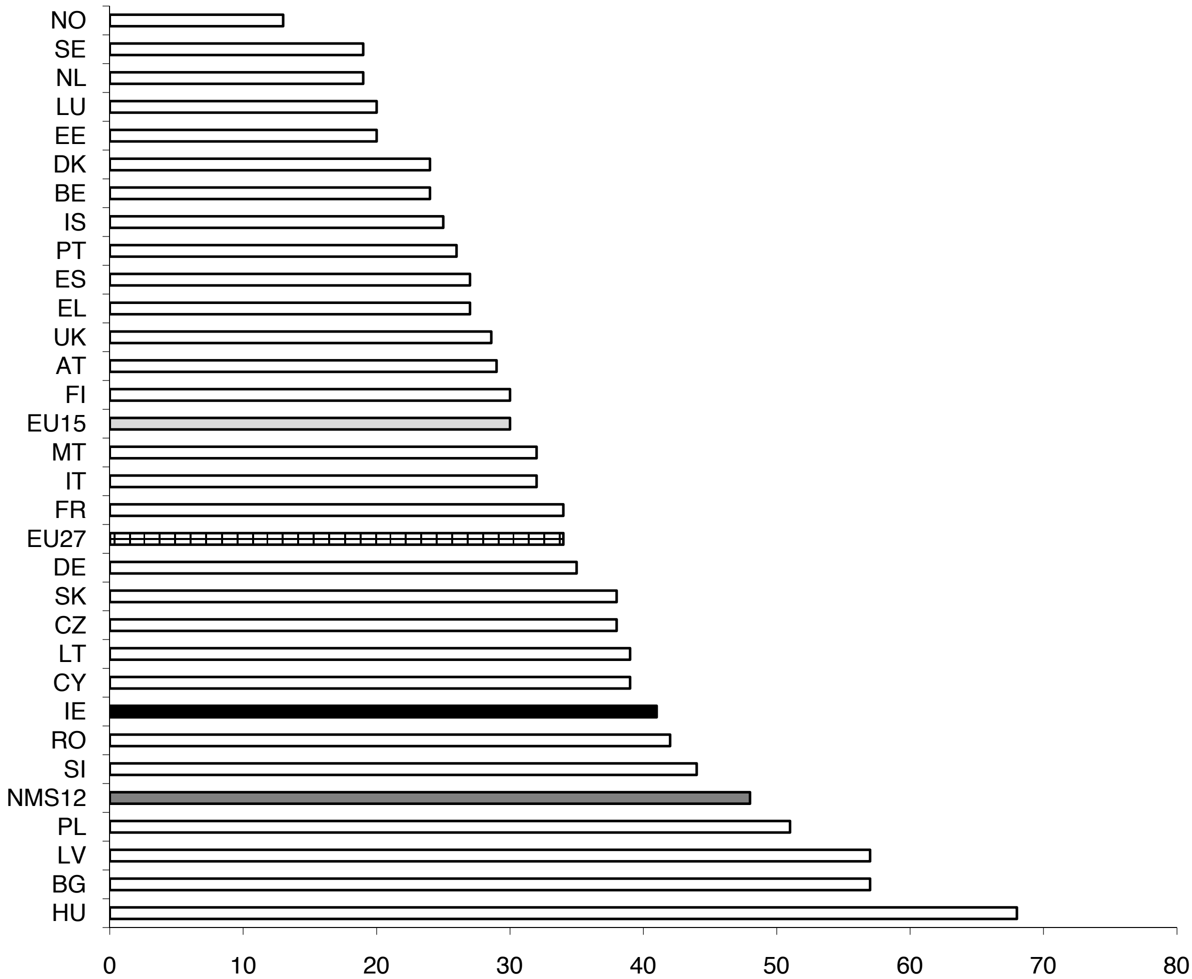


Source: EU-SILC 2008

Next we examine the illiquidity element of the over-indebtedness measure discussed in Chapter 3; that is, do individuals have resources to meet unexpected expenses without increasing their debt? The percentage of individuals that do not have such resources ranges from 13% in Norway to 68% in Hungary. The six countries with the highest percentages are from the EU12, a pattern that was also evident in the statistics on arrears in utility bills. These six countries are then followed by Ireland where 41% of individuals cannot access these resources. Ireland has the highest rate among the EU15, where the average percentage is 30%[62].

[62] Further research using the micro-data (when this becomes available) is necessary to explain the high level of illiquidity in Ireland. This could examine whether this differential persists across all groups and whether compositional differences between countries contribute to the difference.

Figure 6.7: Percentage of Individuals Unable to Face Unexpected Expenses Across the EU, EU-SILC 2008



Source: EU-SILC 2008

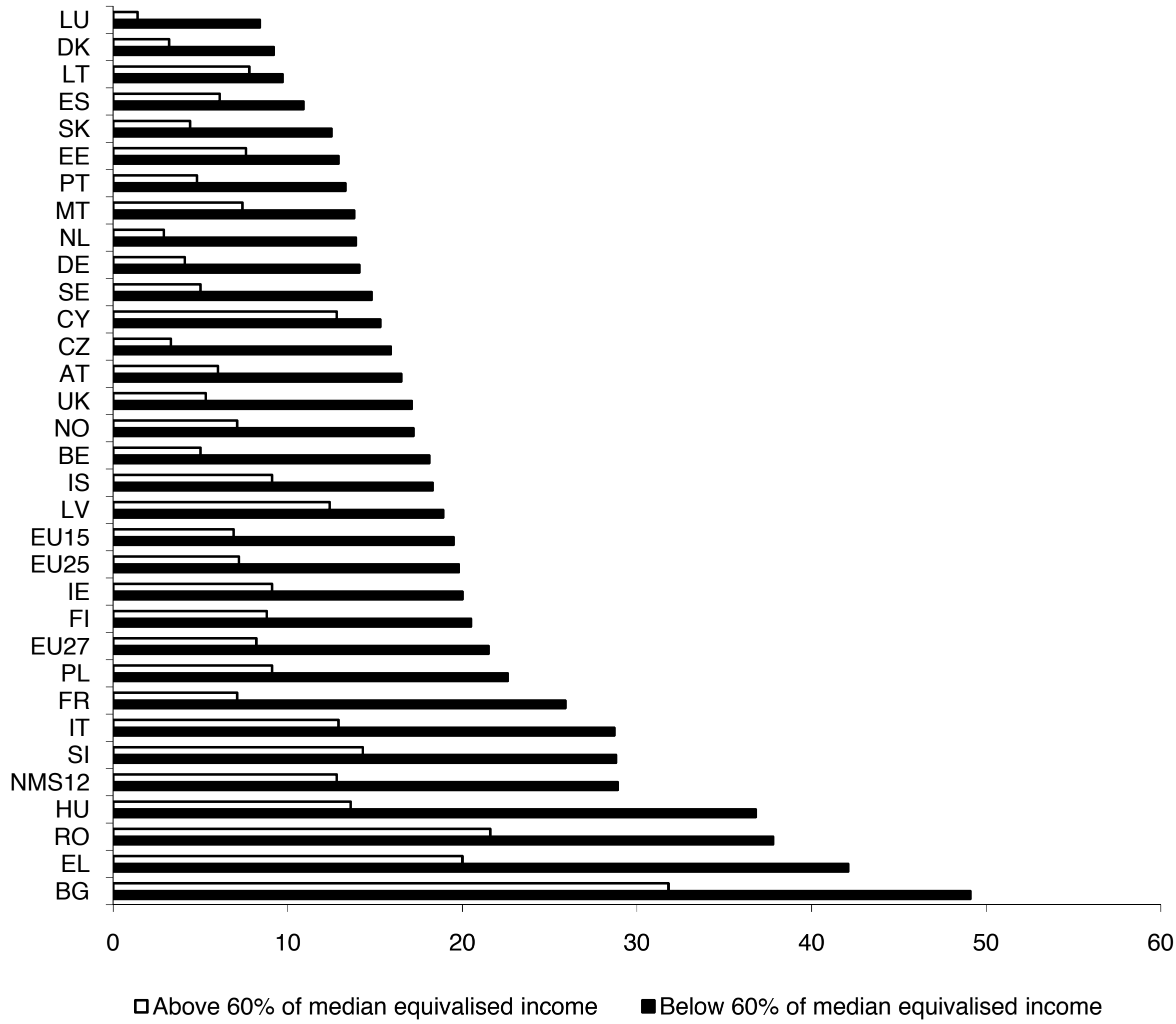
'At risk of Poverty' and Arrears

Figure 6.8 explores the relationship between being 'at risk of poverty', that is, having an income that is less than 60% of the median household income and having arrears on any of the three types of arrears identified earlier. Looking first at those who are 'at risk of poverty', we find that almost half of Bulgarian poor individuals are in arrears while this is only true for one in ten in Luxembourg, Denmark and Lithuania.

The rate of arrears among Irish individuals living below the 'at risk of poverty' line is very similar to the rate for the EU15 as a whole (20% in both cases) while, in the EU12, 29% of poor individuals experience arrears. Among the non-poor, the rate of arrears is somewhat higher in Ireland than in the EU15.

The ratio of arrears between income-poor and non-income poor households varies between one, where there is no difference between the two groups, to six in Luxembourg, that is, the poor are six times more likely to have arrears than the non-poor group. In Ireland, individuals 'at risk of poverty' are just over twice as likely to have arrears as individuals not 'at risk of poverty'. An identical ratio is found for the EU12, while for the EU15 there is a ratio of three. In other words, the risk of arrears is slightly more concentrated among poor individuals than among non-poor individuals in the EU15 countries than it is in EU12 countries and in Ireland.

Figure 6.8: Percentage of Individuals with Arrears on Mortgage Rent Payments, Utility Bills, Hire Purchase instalments Across the EU by 'At risk of Poverty' Status, EU-SILC 2008



Source: EU-SILC 2008

Household Structure and Arrears

The composition of the household, expressed in terms of number of adults (as well as their ages) and the number of children, influences the level of economic resources as well as needs. These resources and needs, conditional on many other socio-economic characteristics such as principal economic status, are likely to have an impact on the possibility to experience arrears on various items. Figure 6.9 presents the percentage of individuals who experience such arrears for a limited set of household types.

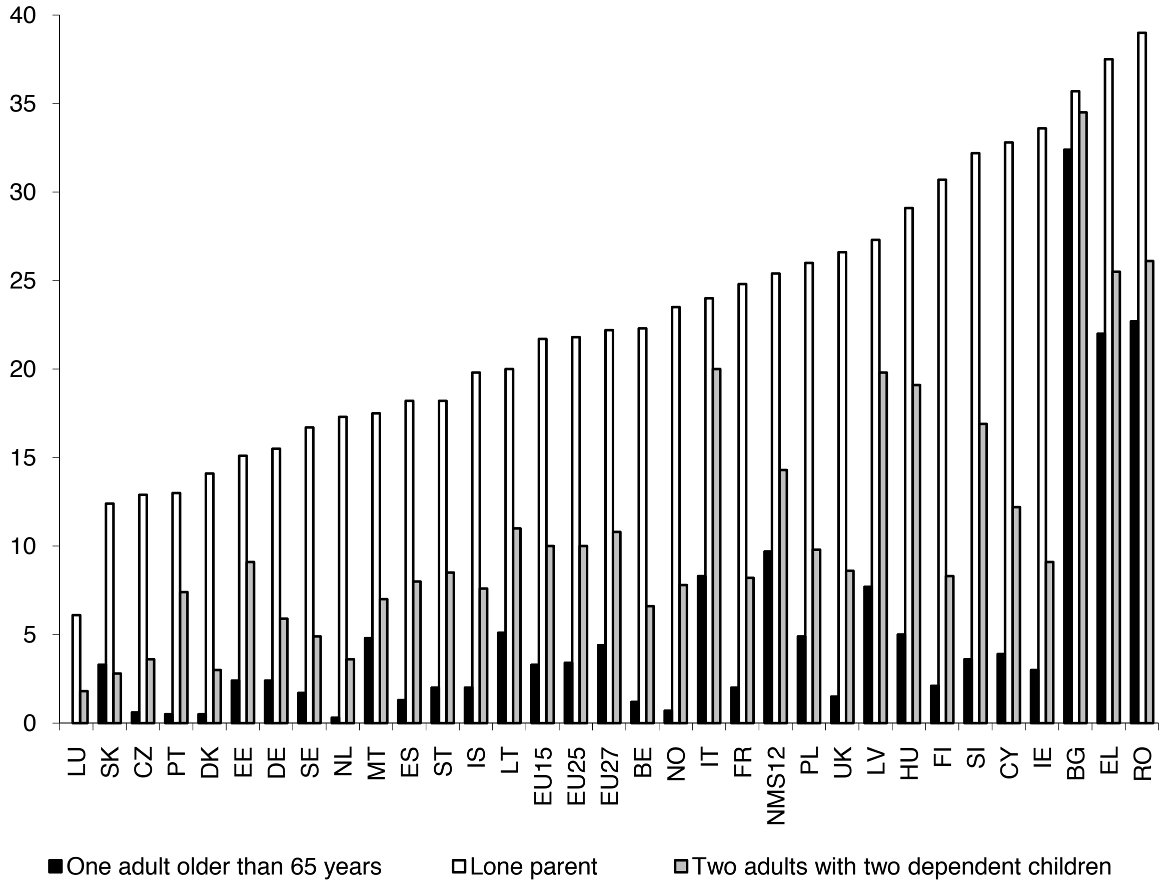
Across all countries the common feature is that individuals in lone-parent households have the highest rate of arrears. Individuals living in lone-parent households in Ireland have the fourth highest rate of arrears across all 27 countries, with one-third of this group experiencing arrears. Ireland, Greece and the UK are the only EU15 countries in the top ten countries for this household type; the remainder are from the EU12.

This high risk of arrears for individuals in lone-parent households contrasts with the situation for those from households with two adults and two dependent children. For 20 countries the percentage of individuals with arrears in this household type is below 10%, and among them Ireland stands at 9%. Most of the EU15 countries have values below 10% while the majority of the EU12 countries have values above 10%. So, the differential in terms of risk of arrears between the two adults with children and lone-parent households is greater in the EU15 countries than in the EU12 countries.

Finally we look at the percentage of households comprising one adult aged over 65 that have arrears. Of all three types of households this is the one that is the most insulated from any experience of arrears.

With the exception of three countries, Bulgaria, Romania and Greece with values of 32%, 23% and 22% respectively, all countries have values below 10%. In six countries less than 1% of these households have arrears. In Ireland, only 3% of older people in single-person households have arrears, a similar level to the EU15 countries, while it is three times more in the EU12 countries.

Figure 6.9: Percentage of Individuals with Arrears on Mortgage or Rent Payments, Utility Bills, Hire Purchase Instalments across the EU by Selected Household Type, EU-SILC 2008



Source: EU-SILC 2008

6.3 Conclusion

Ireland is not alone in experiencing a rise in indebtedness in recent years. However, the increase in personal debt in Ireland has been steeper than in most other countries in Europe. Some signs suggest that over-indebtedness is a bigger problem in Ireland than elsewhere in the EU15. The most common form of arrears in Europe is on utility bills, and this type of arrears is more common in the EU12 than in the wealthier EU15 countries. Levels of utility arrears in Ireland were somewhat above the EU15 average. The rates of Irish arrears are most distinctive in the case of mortgage/rent arrears. It was reported that 6% of Irish individuals experienced arrears in mortgage or rent payments, which was the second highest level in Europe after France, and may well be linked to the ease of access to mortgage credit in Ireland compared to elsewhere, as described above. More generally, cross-country patterns of arrears in housing costs are influenced by the nature of housing policy in different member states. Taking account of all three forms of arrears, Ireland has a rate of 11%, compared to 9% in the EU15 countries and to 15% in the EU12 countries. Irish figures for the proportion of individuals who are unable to raise money to deal with an unexpected expense (illiquidity) are also high when compared to other EU15 countries. Since this is a component of the proposed EU over-indebtedness measure it is possible that Ireland will emerge as having a higher rate of over-indebtedness than other EU15 countries if this is applied.

A close examination of arrears by 'at risk of poverty' status in Europe shows, first, that across all the European Union countries the experience of arrears is more frequent among the poor than the non-poor, and that this inequality is even greater among the richest countries than among the poorest countries. In Ireland the poor are twice as likely to have arrears as the non-poor, a similar level to the EU12 while, in the EU15 countries, the income poor are three times more likely to be in arrears.

An analysis of the experience of arrears by household structure showed evidence of much greater exposure among some household types. Indeed, a common feature across the European Union was the higher exposure to arrears among single parents, particularly in comparison with other household structures such as single elderly or couples with children. Ireland was one of the countries with the highest level of arrears for lone parents (33%), well above the EU15 average (21%) and ten times more than for Irish single older people (3%). This result mirrors findings that show that lone parents in Ireland have distinctively high rates of poverty vis-à-vis other groups compared to other countries (Whelan and Maitre 2008; Frazer and Marlier 2007).

Setting the experience of arrears and indebtedness into a macro-economic context, recent European statistics showed that across all Europe in recent years the overall level of household indebtedness is rising dramatically. Expressed as a ratio of household financial liabilities to national GDP, in some countries the debt level has reached level well above 100% of GDP. In Ireland it was 113% in 2008, one of the highest levels in Europe after Denmark (144%) and the Netherlands (121%). Not only is the importance of household debt rising in the economy as a whole, but also within households' personal financial situation. Recent figures from the OECD showed that for many European countries household debt as a percentage of household disposable income has risen consistently since the mid-1990s.

We saw with the example of countries such as Denmark and the Netherlands that a high level of household debt at a macro-economic level does not necessarily involve a high level of household over-indebtedness. However, depending not only on the structure of household debt (long versus short commitment) but also on the level of financial strain experienced by the household, any external change in the economic circumstances (economic recession, unemployment growth, etc.) or personal situation (divorce, illness, etc.) will increase considerably the risk of over-indebtedness. In Ireland high levels of debt and the sudden onset of the economic crisis is likely to lead to higher levels of over-indebtedness that are not fully captured in this report, which was carried out in 2008. Even at that point, Ireland was already higher on a number of the indicators underlying over-indebtedness and there is a worry that Ireland's relative position within Europe will have deteriorated since 2008.

SECTION 3

Conclusions

CHAPTER 7

Conclusions and policy implications

7.1 Introduction

This report has examined the issues of financial exclusion and over-indebtedness in Ireland, using data from the special module in the 2008 EU-SILC survey carried out by the Central Statistics Office. This period marked the end of a prolonged boom in the Irish economy and the beginning of recession. During the boom period there was a rapid rise in personal debt in Ireland, as illustrated by the increase in mortgage lending and credit card debt. While the proportion of households with arrears remained stable or even declined between 2004 and 2007, there were already signs in 2008 that arrears were on the increase. The report therefore provides an important account of over-indebtedness and financial exclusion in the early period of recession and of the risk factors and triggers for these two processes. It is likely that the proportion of households experiencing problems will have increased since then and it is therefore important that we continue to monitor and analyse these issues.

While financial exclusion and over-indebtedness are two distinct concepts the phenomena are linked in a number of ways. The analysis undertaken in this report shows that the groups affected by over-indebtedness and financial exclusion overlap in many ways. However, there are important exceptions to this convergence. Both financial exclusion and over-indebtedness are more common among (a) lower-income households, (b) lone-parent households, (c) households headed by someone who is unemployed or unable to work due to illness or disability. Households that are financially excluded are much more likely to be located in local authority housing, and this group is also significantly more likely to be over indebted. Importantly, both financial exclusion and over-indebtedness are linked to poverty although, because of the cross-sectional nature of the data, it is not possible to unpack the directions of these relationships.

The primary difference between the groups affected by financial exclusion and over-indebtedness is the situation of older people. Households headed by those aged over 65 are significantly less likely to be over indebted but they are the group most likely to lack a bank current account: 26% of those aged 65 to 75 years do not have a bank current account and this rises to 36% among those aged over 75. Older people are also less likely to possess loans (excluding mortgages), credit cards, or overdraft facilities compared to those aged 25 to 54 years. In contrast, older households are more likely to have home insurance (structural and/or contents) and do not differ from other age groups in terms of ability to save (when income, education level and employment are also taken into account).

Financial exclusion and over-indebtedness may also be linked in a causal manner although the direction of this relationship is unclear. As outlined in Chapter 5, we found that banking exclusion is associated with a greater likelihood of over-indebtedness even when factors such as low income, poverty and employment status are controlled. Debt problems may lead to financial exclusion through poor credit history/credit ratings and can cause ‘use difficulties’, for example, bounced cheques, failed standing orders, etc. (Gloukoviezoff 2007) or financial exclusion may contribute to over-indebtedness because the excluded groups are pushed into forms of borrowing with very high interest rates or into unsanctioned credit in the form of arrears on utility bills. The cross-sectional data used in this study do not allow us to disentangle the direction of causality in this relationship. Further research based on longitudinal data is necessary to explore this issue further.

While there are connections between financial exclusion and over-indebtedness and similar groups may be at risk, there may well be different policy implications as well as different antecedents and consequences arising from financial exclusion and over-indebtedness. These issues were explored in the separate sections on over-indebtedness and financial exclusion. Rather than summarising the results of each chapter again here, we highlight key issues and the findings for key groups.

7.2 Level of financial exclusion in Ireland

The results show that 20% of households in Ireland did not have a bank current account in 2008; 71% of households did not have credit/loans; 49% did not have credit card facilities and 65% did not have overdraft facilities. A lower 10% of households had no loans or credit cards (excluding those who said that they did not need to borrow); 51% of households were unable to save regularly, and 27% of households had no home insurance (neither contents nor structural insurance). Compared to other countries in the EU15, Ireland has a high level of banking exclusion but has one of the lowest proportions of respondents without credit cards/store cards, which is likely to reflect the very rapid extension of these facilities in the last decade (see figures in Chapter 2).

Financial Exclusion, Low Income and Poverty

The analysis showed that low income was highly predictive of banking exclusion, of credit exclusion, savings exclusion and insurance exclusion. Households that were 'at risk of poverty' were more than twice (36%) as likely to lack a bank current account as non-poor households (17%), while households in consistent poverty were four times more likely to lack a bank current account (60%).

Price exclusion was mentioned only by a small minority of those without a bank current account. Nevertheless this may be implicit in respondents' stated preference for cash. Qualitative studies suggest that low-income groups may prefer to use cash because there is a perception of greater control, which is crucial when managing on a restricted budget (Conroy and O'Leary 2005; Daly and Leonard 2002).

Financial Exclusion among Older People

Those aged over 65 account for a significant portion of the unbanked (36% compared to 19% of those holding bank current accounts). With only demographic controls, those aged over 55 are 2.5 times more likely not to have a bank account compared to those aged 25 to 54. When other relevant and related factors, such as lower level of education and income, are controlled this drops to 1.3 times more likely but remains significant. The EU-SILC data analysed here show that older people are also significantly more likely to give the reason that they 'do not need a bank account as they prefer to deal in cash'. Forty per cent of young unbanked respondents give this reason compared to two-thirds of those aged 65 to 75 years and three-quarters of the over-75s.

Banking exclusion among older people is related to lower education. A much higher proportion of older people have no or few formal educational qualifications and this is strongly linked to take-up of bank current accounts. Looking within educational categories we find that older people with third-level qualifications or Leaving Certificate qualifications do not differ significantly from those in other age groups with the same qualifications (see Appendix Table A.4.

There is only a limited capacity to explore, using EU-SILC, the reasons behind the non-take-up of credit and banking services among the older population and other groups. Previous research has highlighted a range of issues for older people that suggest that factors such as geographical exclusion, technological exclusion and access exclusion (through lack of financial literacy) play a role (Kelly and Park 2005; Corr 2006). The European Commission has also noted that older people often self-exclude because they come from a 'cash only' generation (EC 2008). This suggests that the difference is partly a cohort effect that will decline with the ageing of the more financially included younger age groups.

Low levels of access to credit among the older population are clearly linked to banking exclusion since having a bank account is often a gateway to other financial services. Similarly, the reasons behind lack of access to different forms of credit are distinctive for older people. A high proportion of the group say that they do not have credit facilities because they do not need to borrow. There is clearly a life-cycle element to the need for credit (and therefore levels of indebtedness); the period of household and family formation creates a higher demand for credit for the purpose of setting up homes, purchase of car, etc. There may also be differences in preferences and behaviour, for example that older people may prefer to save for a purchase than to take up credit.

Policy Implications – Financial Exclusion

Given that all households headed by older people should be in receipt of social transfers through the pension system, the Government's National Payment Strategy is a key policy vehicle for extending financial inclusion among this group and to other recipients of social welfare payments (which will include a high proportion of those on low incomes). The Department of Social Protection set up the Payments Strategy Project in September 2010 with the stated strategy that: 'By 2020 or earlier, all customer payments will be 100% electronic, recognizing both the DSP and customer needs'. This is an ambitious objective given that the figures in the Appendix A1 show that less than half of all social transfer payments are currently made through electronic fund transfers. The proportions of payments made electronically are particularly low for those in receipt of unemployment related benefits and Supplementary Welfare Allowances and Non- Contributory Pensions.

The strong link between income, poverty and financial exclusion found in this study underlines the importance of anti-poverty policies as part of the solution to financial exclusion (see the discussion of over-indebtedness below). This connection with low income and poverty also highlights the need for low-cost financial services for these groups that provide the full range of services necessary for financial inclusion (debit/payment cards, facilities for electronic fund transfer, cheque facilities). Countries such as Belgium, France and Sweden have introduced legislation on the right to a basic bank account. The introduction of such legislation would be entirely consistent with the Government's commitment to move to a more cash-free society and would promote financial inclusion.

The recent banking crisis in Ireland has forced the Government to intervene by recapitalising (decisions of 28 November and 14 December 2008) three banks (Anglo Irish Bank, Bank of Ireland, Allied Irish Banks plc). As part of this rescue package the Department of Finance has asked these financial institutions to deliver a number of measures 'to ensure that the financial system in Ireland meets the everyday financial needs of individuals, businesses and the overall economy' (Taoiseach, December 2008). The recapitalised banks have been asked to provide basic or introductory bank accounts as well as promoting them to 'socio-economic groups where the holding of bank accounts is less prevalent and to those who find that a current account does not suit their basic banking needs' (Department of Finance, 21 December 2008). There is little information available to evaluate the delivery on this commitment. However, given the high costs the banking collapse has placed on Irish households, including low-income households, it is appropriate that the government stake in the banks is now leveraged to improve access and use of basic financial services to financially excluded households.

For many vulnerable and low-income households the lack of access to affordable credit constitutes a financial barrier to improving their standard of living and to managing unexpected expenses. High interest rates and inappropriate credit can also exacerbate financial difficulties. It then seems relevant to develop affordable credit services for this part of the population. The partnership between MABS and the credit unions, which provide access to affordable credit for clients with a debt problem, is a useful model for low-income groups. In comparison to other credit institutions, credit unions are already dealing with a large customer base of low-income households and could play an important role in offering targeted affordable credit, specific saving schemes and other complementary services to low-income households.

The association between financial exclusion and low levels of formal education across all age groups (and controlling for income) suggests that there is a need for further financial education initiatives to assist this group to gain access to appropriate, affordable services and to get the maximum benefit through effective use of services. Such initiatives are relatively underdeveloped in Ireland although the European Commission has recently highlighted the importance of improving the ability of citizens to understand and engage with financial products and services (COM (2007)808).

The results also highlight those in local authority housing. This group is financially excluded across a range of measures, over and above the risks that might accrue to this group through other disadvantages. Further analysis, using the availability of growing information on the geographical location of services through GEO codes, would be useful in determining the role of geographical exclusion in this finding. These results suggest also that this group may be usefully targeted for interventions to improve financial inclusion. The low level of home insurance among local authority tenants suggests that there is significant scope for a group scheme of the type operating in the UK to provide tenants with basic home contents insurance at an affordable rate.

7.3 Over-Indebtedness

Overall it was found that in 2008 4.8 % of households were in arrears on rent or mortgage payments, 7.5% were in arrears on utility bills, 2.4% were in arrears on personal loans/hire purchase agreements and 2.5% were in arrears on other bills. A total of 9% of households had persistent arrears (i.e. more than once in the last 12 months) on at least one of these items. Additionally, 4.9% of households were currently overdrawn on a bank account due to financial difficulties and 9% of households had credit card debt that they were unable to pay in the last three months.

Using a composite measure of over-indebtedness[63] based on persistent arrears, heavy payment burden and an inability to access money to pay for unexpected expenses, we estimated that 5.4% of Irish households were over indebted in 2008.

In comparative terms Ireland had one of the highest levels of mortgage or rent arrears across the EU27 (second only to France). The level of utility arrears and arrears in hire purchase/loans in Ireland was also higher than the average for the EU15 countries. Taking all three forms of arrears together (i.e. the proportion of respondents with arrears on any of the three items) Ireland had a rate of 11% compared to 9% in the EU15.

Rising levels of Indebtedness

The figures outlined in the study show a rising level of indebtedness in Ireland during the economic boom both in terms of credit card debt and mortgage credit, for example the level of credit card debt per capita increased sevenfold between 1995 and 2008. EU statistics show that Ireland was clearly not alone in the rise in personal indebtedness but also reveal that the scale of the increase in Ireland was exceptional, and that the ratio of personal debt to income is now significantly higher in Ireland than elsewhere. While it has been emphasised in this report that indebtedness in itself is not a negative financial situation and that credit is a fundamental element of the current financial systems, these trends are nevertheless a cause of concern since there is a worry that, combined with the onset of the economic recession and the financial collapse, a greater proportion of this group will become over indebted.[64]

Arrears

Low-income groups were particularly likely to be in arrears on housing cost and utilities; these are essentially unsanctioned forms of credit. These may act as a substitute for sanctioned credit, which low-income households are less likely to possess (see above). This suggests that in some circumstances access to affordable credit may allow low-income households to better manage short-term financial shocks or unexpected expenses. That said, it is clear that for the majority of over-indebted households and households in arrears, persistent low income and lack of resources is a key issue.

Over-indebtedness, low income and poverty

The analysis shows that there is a strong connection between income and over-indebtedness and its sub-elements of arrears, illiquidity and heavy payment burden. Households that are over indebted are more likely to be income poor (less than 60% of median income) and in consistent poverty. Over-indebted households also have a higher rate of basic deprivation (which measures access to basic consumption items such as clothes, food and heating as well as social participation), secondary deprivation (which measures access to household durables such as a video, dishwasher etc., a car, ability to take a week's holidays away from home), environmental deprivation and health deprivation

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[63] Following the recommendations from the EU report Towards a Common Operational European Definition of Over-Indebtedness.

[64] Households can also be over indebted without any access to formal sanctioned credit, for example if they are in arrears on rental payments, utility payments or other bills.

(see Appendix Section A.2 for further details). These results suggest that income inadequacy is a key factor in over-indebtedness rather than a high level of personal consumption.

Other risk groups identified, such as lone-parent households, the unemployed and the ill/disabled also highlight the role of a persistent lack of resources in over-indebtedness. The results also demonstrate the importance of income shocks as a trigger to over-indebtedness. More than 40% of over-indebted households had experienced a major drop in income over the last 12 months, with unemployment and pay cuts being commonly cited factors. Households without access to savings or other ways of raising resources (illiquidity) were pushed into over-indebtedness by such shocks.

Policy Implications – Over-Indebtedness

As poverty and lack of resources play a key role in over-indebtedness, solutions to the problem include the broader anti-poverty measures as well as more focused strategies that aim to deal with more specific causes or consequences of over-indebtedness. Levels of welfare benefits are crucial in both preventing poverty and preventing households falling into over-indebtedness. Almost half (45%) of the households identified as over indebted were dependent on social transfers for more than three-quarters of household income. Low-income households and households in consistent poverty are particularly at risk of utility arrears and, therefore, measures are needed aimed at making these essential services affordable to households in poverty and at dealing with such arrears in a way that does not exacerbate problems of exclusion. The reduction in disconnection fees and reconnection fees of between 50-60% for electricity and gas supplies, announced by the Commission for Energy Regulation in December 2010, is to be welcomed. However, further reduction of these costs and an extension of the period of this reduction (from one year) could also be considered. Given the essential nature of these services it is important that vulnerable groups including the sick/disabled, families with young children and older people should not be put at risk because of disconnection.

The main policy intervention on over-indebtedness in Ireland is the Money Advice and Budgeting Service (MABS), which negotiates with creditors on behalf of clients, provides advice and support on budgeting and in partnership with credit unions, sets up special budget accounts to pay creditors, and savings accounts. Given the increasing demand for these services due to the recession it is important that MABS is given the resources to meet these demands. Increased waiting lists for MABS services have already been reported (*Irish Times*, 1 November 2010)

The issue of policy measures for mortgage arrears has received a good deal of attention through the Expert Group on Mortgage Arrears. There is an ongoing review of the Mortgage Income Supplement, which could be used to address anomalies in that scheme as pointed out by MABS (pre-Budget submission 2010). However, since the majority of over-indebted households identified in this report are not home-owners but are located in local authority housing or in the private rented sector, supports for tenants are likely to be more pertinent. Possible support could include greater involvement of the State in negotiating reductions in rent in the private sector for households in receipt of Rent Supplement. Vulnerable households that are unable to negotiate such rent reductions themselves will bear the cost of reductions in rent supplement allowances. The high risk of over-indebtedness among local authority tenants suggests that there is a need to reassess household means and to review differential rents for those households that are persistently unable to meet housing costs and other basic needs and commitments (such as utilities).

MABS and initiatives to deal with arrears focus on assisting those who are over-indebted, the EU has also highlighted the role of preventative policies. Such measures would include strengthened financial regulation, consumer protection, and financial education. The collapse in the banking sector in Ireland has focused attention on poor lending practices and weak regulation. Current efforts to restore this sector should place consumer protection as a primary objective alongside issues of financial stability. Consumer education to improve financial capability is a preventative measure that is pursued more vigorously elsewhere in Europe than in Ireland (see Report of the Working Group on Financial Education, 2009).

The evidence presented here suggests that since lack of resources and circumstances such as labour market/educational disadvantage are the main factors behind over-indebtedness, the role of preventative strategies that focus on over-borrowing and increasing financial capabilities are likely to have a limited impact on the level of over indebtedness. Financial education strategies may have a more indirect effect via increasing financial inclusion as the analysis found that financially excluded households were more likely to be over indebted.

Further research designed to examine the reach and effectiveness of existing interventions and those proposed in recent reports and policy documents would be useful. This could establish (a) the extent to which the relevant groups are included (b) the short and longer term outcomes for the individuals/households involved and (c) the economy-wide implications of such interventions. Ongoing monitoring and research is needed in order to establish whether the profile of those experiencing over-indebtedness has changed and to track changes in the level of over-indebtedness as the economic crisis has evolved since 2008. Data collection is at the core of such research and evidence-based policy making, therefore in the following section we draw out the lessons of the study for data and measurement.

7.4 Measurement and Data Implications and Recommendations

While acknowledging that the EU-SILC represents an important addition to harmonised data on financial exclusion and over-indebtedness across Europe, there are a number of limitations to the data that should be recognized. In some cases these issues may be addressed with adjustments to questions or the inclusion of additional questions. In other cases alternative data sources may be necessary.

Financial Exclusion

Chapter 3 outlined a number of limitations in the measurement of financial exclusion and here we highlight possible improvements that could be made in the collection of information:

- Further information about the types of financial services that respondents have and about the provider. This would allow the identification of sub-prime credit providers. It should include information on different types of bank accounts (current account, savings account), credit union membership, access to different payment mechanisms (debit/laser cards) and different types of savings products;
- Additional questions about technological exclusion (access to internet/telephone banking);
- Clearer distinction between possession of a financial product and whether respondents could access the product if they desired it ;
- There is a need for greater clarity around the influence of choice, preferences and constraints. This issue is not easily resolved but could be further clarified with follow-up questions on the reasons why respondents do not use a service. For example, a preference for using cash could be further explored (for example, is this because of charges, greater control of money, saves time, greater privacy) while those who respond: ‘I don’t need credit’ could be further questioned on the reasons (such as, because the household has savings/surplus income; because they prefer to save for purchases; because they prefer to borrow from family/friends?);
- Greater information on the use of products; if households have access to a financial service how do they use it? For example, households having a bank current account with a debit card might still prefer to use it to draw cash rather than using facilities offered by electronic forms of payment;
- More information about the reasons for households’ non-use or little use of products (for example, product could not be used as household had no need to use it, high charges, fear of penalties, difficulty to use, financial illiteracy, etc.);
- Do respondents feel that the service is appropriate to their needs? If not the reasons why this is the case;
- What are the levels of charges for services that respondents possess?

Measuring Over-indebtedness

It was noted above that the measurement of over-indebtedness applied in this report is experimental, in the sense that this is the first time in which the EU-SILC provided more detailed information, through the special module on over-indebtedness, which allowed the EU working group definition to be *partially* operationalised. The EU working group has recommended that such measures be tested in different contexts to examine their validity. The analysis for Ireland shows that the illiquidity element of the measure is largely redundant as a very high proportion of those in persistent arrears and with a heavy payment burden also lack alternative resources to meet unexpected expenses. A similar issue arises for the indicator 'difficulty making ends meet'. This was not included in the over-indebtedness measure on the basis that it is a more general measure than the one proposed by the EU working group, 'difficulty making repayments and paying bills'. Moreover, the discussion in the working group's report (Davydoff *et al.* 2008) suggests that the 'difficulty' measure and the subjective measure on whether housing costs and loan repayments are a heavy burden are both seen as indicators of the underlying dimension of 'payment capacity'. Our analysis for Ireland suggests that it is only necessary to include one indicator of payment capacity.

Additionally, the EU working group recommended including the criterion that the household is pushed below the poverty line by repayments. As household spending/ financial commitments are not measured comprehensively in the EU-SILC it is not possible to construct this measure. However, in the Irish case it is clear that many of the households that are over indebted fall below the income poverty threshold even before these costs are subtracted from their income. It is also extremely useful to analyse the relationship between poverty and over-indebtedness. If poverty is built into the definition in the way proposed by the EU working groups this analysis would not be possible.

On a purely technical basis the greater the number of criteria the household must meet before being considered over indebted, the smaller the group identified will be (unless there is complete overlap in the measures). Therefore caution should be exercised in including additional criteria in the measurement of over-indebtedness unless there is a clear added value for further items.

Further research testing this over-indebtedness measure with the EU-SILC data across other countries is needed to establish whether it is valid and reliable and whether further adjustments should be made to the measure.

Data issues

There are also several issues that arise in relation to the individual indicators that make up the over-indebtedness measure. The question on loans/credit arrears does not explicitly include or exclude sub-prime lenders (such as moneylenders). The question could include examples of sub-prime credit in the question or give a list of response categories for respondents to tick to prompt their inclusion. The question on utility arrears does not include phone bills. An additional question on this would provide a more comprehensive measure of arrears without compromising comparability over time. More generally there is a lack of information about the behaviour of lenders, which limits the opportunity to examine their role in over-indebtedness. Not all this information can be gathered from borrowers and further investigation of the role of lending institutions in irresponsible lending to private households is needed. Surveys of individuals or households could explore the advice they received about taking out loans or extending credit, and whether financial institutions encouraged greater borrowing.

A number of improvements could be made to the collection of information on credit card debts. The question in the EU-SILC questionnaire does not clearly identify problematic debt. Respondents are only asked if they were 'unable' to clear the debt any month in the last three months and this is not specifically linked to financial difficulty. Some individuals may use credit cards as a form of rolling credit or credit for a large purchase that they will pay off gradually (albeit at a high interest rate) and therefore do not plan to clear the whole sum each month. In these cases an unpaid balance may not necessarily represent financial difficulty. Furthermore the measure does not include information on the duration of the credit card arrears and, therefore, does not distinguish those who were unable to clear the balance on a once-off basis from those who have more persistent problems. If these adjustments were made to the measurement of credit card/store card debts, persistent debts of this sort could be included in the over-indebtedness measure.

Information on the amount of arrears could also be improved. The amounts of arrears on housing costs and utility bills should be collected separately. In the case of credit card/store card arrears there is a case to be made for collecting information from all household members and not just the head of household as he/she is unlikely to know the balances on each card where there are multiple card-holders in the household.

Finally, collecting information on whether members of the household have received any advice on managing their debt could provide useful policy information given the important role MABS plays in the Irish context.

Despite these limitations, the survey provides much needed comparable data on the issue of over-indebtedness. Given the strong policy interest in this issue and the concern that high levels of personal debt make people who experience job loss and pay cuts as a result of the recession vulnerable to over-indebtedness, it is very important that questions on persistent arrears, payment burdens and illiquidity should be repeated regularly (with adjustments made where necessary) within EU-SILC and ideally also on a larger scale survey such as the QNHS.[65] More detailed information on the amount of money owed (some of which needs to be collected at the individual level), on reasons for non-payment of credit card balance, and on lenders would also be a valuable contribution to building the evidence base for policy in this area and to filling some of the gap in relation to the role of lenders in over-indebtedness.

[65]Quarterly National Household Survey.

Appendix

A.1 Data

The current report draws on the analysis of the European Union Statistics on Income and Living Conditions (EU-SILC). In Ireland, the information required under the EU-SILC framework is being obtained via a survey conducted by the Central Statistics Office (CSO) each year. The EU-SILC survey is a voluntary survey of private households. The EU-SILC survey was initiated in 2003. Interviews were carried out on a six-month period only from June to December 2003, which resulted in a sample of 3,090 households and 8,101 individuals. The survey was then carried out every year onward. The EU-SILC survey collects information on the income and living conditions of households as well as a large range of socio-demographic information about the household members, ranging from personal characteristics to personal income, living conditions, labour market position, education, health, etc.

For this report we are using EU-SILC 2008. In 2008, the total completed sample size is 5,247 households and 12,551 individuals. A two-stage sample design with eight population density stratum groups, with random selection of sample and substitute households within blocks and with the application of appropriate weight was employed (CSO 2009).

Every year since 2005, a special module is added to the main survey in order to collect additional information, very often on issues about poverty and social exclusion. In 2005 it started with a module about inter-generational transmission of poverty and in 2008 the module that was used for this report was on over-indebtedness and financial exclusion.

A.2 Unit of Analysis, Income Measure, Poverty and Deprivation Measures

In this report we adopt the household as the unit of analysis. A household is defined as a person living alone or a group of people who live together in the same dwelling and share expenditures, including the joint provision of the essentials of living. Differences in household size and composition, in terms of the numbers of adults and children, affect the living standards that a particular level of income will support, so household income is routinely adjusted to take account of this variation in household needs. This adjustment is called an ‘equivalence scale’. One option would be to simply divide the household income by the total number of members. However, this ignores the economies of scale that exist within households, for example in the case of housing costs. In this study we adopt an equivalence scale that assigns a value of 1 for the first adult, .66 for any additional member aged 14 or over and .33 for any children under the age of 14 years. This is the equivalence scale that has been adopted for monitoring poverty trends in Ireland and that has been adopted in the NAPS poverty measure. It has been termed the ‘Alternate National’ equivalence scale by the CSO. The effects of adopting alternate equivalence scales have been investigated in a number of previous studies (Whelan *et al.* 2003; Callan *et al.* 1996). Moreover, some key poverty results calculated using the modified OECD scale were reported in the CSO report on EU-SILC 2008 (CSO 2009).

The total net disposable income is calculated for each household including all earned income after tax, income from social transfers and other sources of income such as interest on savings. The reference period for the income is the 12-month period prior to the day of the interview. The total household equivalised income is then calculated by dividing the total net disposable income by the number of adults equivalent, as described in the previous paragraph. The equivalised household income is then attached to each household member.

In the report we are using two poverty measures; these are the ‘at risk of poverty’ and the consistent poverty measure.

‘At risk of poverty: This is the indicator that identifies the proportion of the population with an equivalised household income below a certain percentage (known as income poverty threshold or income poverty line) of the median income. Conventionally the income poverty threshold is generally drawn at 60% of median income. This measure is used in the National Action Plan for Social Inclusion in Ireland and is also one of the key ‘Laeken indicators’ devised to study poverty across Europe.

Consistent poverty: This indicator measures the proportion of the population that is ‘at risk of poverty’ and living in a household lacking two or more items from a list of 11 items, which constitute the Basic Deprivation scale. The items in the Basic Deprivation scale can be divided into two groups. The first group consists of items such as food, clothing or heat. The second group includes items about participation in family and social life such as buying presents for family or socialising with friends. To be considered deprived the household must indicate that they lack the item because they cannot afford it and not because of choice. A detailed list of these items, as well as a few statistics about their corresponding levels of deprivation for Irish households, is available in CSO publications about EU-SILC (CSO 2009).   A discussion on the theory behind this measure and the rationale for including different items can be found in Maitre et al, 2006.

Consumption deprivation, also known as secondary deprivation, measures household access to nineteen items which are; holiday away from home for at least one week a year, telephone, PC, satellite dish, video, stereo, CD, camcorder, clothes dryer, dish washer, vacuum cleaner, fridge with separate freezer, freezer, micro wave, deep fat fryer, liquidiser, food processor, car, and washing machine.

Housing Deprivation consists of access to basic housing facilities such as water and toilet facilities and central heating.

The neighbourhood environment deprivation scale is made up of items relating to noise, pollution, crime and housing deterioration.

Health Deprivation measures the head of household’s health status on three items relating to chronic illness, mobility restrictions and the respondent’s subjective assessment of their general health.

Table A.1: Form of Payments by the Department of Social Protection on Specific Schemes (%), April 2010

Type of Benefit, Pension or Assistance	Cheque	E.F.T.	Postal Draft	Total
State Pension (Contributory)	0.3	55.3	44.4	100
State Pension (Non-Contributory)	0.0	24.7	75.2	100
Widow/er's (Contributory) Pension	0.5	40.4	59.1	100
One Parent Family Payment	0.1	48.8	51.1	100
Child Benefit	0.0	61.9	38.1	100
Invalidity Pension	0.0	46.3	53.7	100
Disability Allowance	0.0	39.8	60.2	100
Jobseeker's Benefit	40.4	2.3	57.3	100
Jobseeker's Allowance	8.5	14.8	76.8	100
Supplementary Welfare Allowance	20.5	3.6	76.0	100

Source: Department of Social Protection

Table A.2: Percentage of household not having a bank current account by socio-demographic characteristics, EU-SILC 2008

	% of Households
Irish National	19.9
Non-Irish National	15.2
Under 25	18.2
25-54	14.0
over 55	26.5
Male	16.7
Female	23.7
At work	8.6
Unemployed	34.5
Student	21.4
On home duties	36.4
Retired	25.1
Ill/disabled	52.2
No Qualifications	40.4
Intermediate Certificate Level	17.6
Leaving Certificate Level	10.2
Tertiary Level	4.4
Single	23.1
Married	13.5
Widowed	30.5
Divorced	18.7
Other separated	32.8
1 Adult 18	32.6
2 Adult 18	18.0
3+ Adults 18	13.5
2 Adults, 1 Child	12.4
2 Adults, 2 Child	7.4
2 Adults, 3 Child	8.3
2 Adults, 4+ Child	16.9
1 adult, children	33.7
3+ adults, children	18.9
Property owned outright	19.1
Owned with mortgage	5.6
Owned with tenant purchase scheme	21.9
LAT purchaser with mortgage	34.2
Privately rented	19.2
Tenant/sub-tenant to LA	49.6
Rent free	31.2
Bottom income quintile	38.5

2 income quintile	36.2
3 income quintile	14.0
4 income quintile	6.0
5 income quintile	3.2
Urban, pop =>1000	18.7
Rural, pop <1000	21.1
Total	19.6

Table A.3: Composition of households with a bank current account by HRP age (%), EU-SILC 2008

	Have a bank current account	Don't have a bank current account
Under 25	2	2
25-54	58	39
55-64	20	23
65-74	11	16
75+	9	20
Total	100	100

Table A.4: Percentage of 'unbanked' households by HRP age and HRP education level, EU-SILC 2008

	No Qualification	Inter Level	Leaving Level	Tertiary Level
Under 25	( )	( )	( )	()
25-54	38	18	9	5
55-64	39	13	12	1
65-74	39	15	10	3
75+	46	27	12	5
Total	40	18	10	4
Chi-square				

( ) there are less than 40 households within each education category where the HRP is aged under 25 years therefore the percentages are unreliable for these age group.

Table A.5: Among the 'unbanked' households, reasons for not having a bank current account by socio-demographic characteristics (%)

	We don't need a bank account and we prefer to deal with cash	We manage our money through other accounts	Other exclusion	N
HRP age				
Under 25	-	-	-	(10)
25-54	57	38	19	260
55-64	59	33	29	206
65-74	69	31	13	245
75+	74	25	15	355
HRP education level				
No Qualifications	68	28	21	768
Intermediate Cert Level	58	40	20	161
Leaving Cert Level	51	47	12	109
Tertiary level	38	52	15	38
Household income position				
Bottom income quintile	65	28	27	415
2nd income quintile	59	37	18	443
3rd income quintile	67	33	10	145
4th income quintile	61	45	5	50
Top Quintile	-	-	-	(24)

Note: % of responses rather than % of households. Multiple responses allowed.

Table A.6: Percentage of Households without Credit or Loans (excluding Mortgages) by Socio-economic Characteristics, EU-SILC 2008

	% of Households
Irish National	70.5
Non-Irish national	79.4
Under 25	71.3
25-54	63.0
Over 55	81.3
Male	71.1
Female	71.4
At work	64.9
Unemployed	62.4
Student	71.2
On home duties	77.9
Retired	89.0
Ill/disabled	77.0
No Qualifications	79.6
Intermediate Certificate Level	66.3
Leaving Certificate Level	66.2
Tertiary Level	69.1
Single	73.6
Married	68.7
Widowed	82.9
Divorced	70.0
Other separated	60.7
1 Adult 18	86.9
2 Adult 18	77.3
3+ Adults 18	65.7
2 Adults, 1 Child	63.2
2 Adults, 2 Child	61.6
2 Adults, 3 Child	50.0
2 Adults, 4+ Child	66.1
1 adult, children	57.1
3+ adults, children	64.0
Property owned outright	79.2
Owned with mortgage	57.0
Owned with tenant purchase scheme	85.7
LAT purchaser with mortgage	54.7
Privately rented	74.6
Tenant/sub-tenant to LA	68.6
Rent free	84.2
Bottom income quintile	78.3
2 income quintile	78.1

3 income quintile	65.9
4 income quintile	63.3
5 income quintile	70.3
Urban, pop =>1000	67.9
Rural, pop <1000	76.7
Total	71.2

Table A.7: Percentage of Households not having a Credit Card/Store Card by Socio-economic Characteristics, EU-SILC 2008

	% of Households
Irish National	49.4
Non-Irish national	43.7
Under 25	75.5
25-54	40.1
Over 55	58.7
Male	44.7
Female	55.2
At work	34.5
Unemployed	75.6
Student	51.7
On home duties	70.6
Retired	58.3
Ill/disabled	80.7
No Qualifications	78.4
Intermediate Certificate Level	56.5
Leaving Certificate Level	38.3
Tertiary Level	17.8
Single	62.5
Married	36.3
Widowed	65.8
Divorced	57.9
Other separated	63.2
1 Adult 18	67.3
2 Adult 18	49.1
3+ Adults 18	43.7
2 Adults, 1 Child	36.4
2 Adults, 2 Child	28.0
2 Adults, 3 Child	35.6
2 Adults, 4+ Child	35.7
1 adult, children	72.9
3+ adults, children	41.1

Property owned outright	51.2
Owned with mortgage	22.0
Owned with tenant purchase scheme	50.0
LAT purchaser with mortgage	63.8
Privately rented	56.7
Tenant/sub-tenant to LA	88.7
Rent free	61.5
Bottom income quintile	75.2
2 income quintile	73.8
3 income quintile	47.2
4 income quintile	32.4
5 income quintile	16.2
Urban, pop =>1000	44.6
Rural, pop <1000	56.2
Total	48.9

Table A.8. Percentage of Households not having Overdraft Facilities by Socio-economic Characteristics, EU-SILC 2008

	% of Households
Irish National	64.7
Non-Irish national	67.5
Under 25	80.9
25-54	60.0
Over 55	70.4
Male	60.7
Female	71.1
At work	54.1
Unemployed	85.5
Student	79.3
On home duties	77.9
Retired	73.8
Ill/disabled	88.9
No Qualifications	84.5
Intermediate Certificate Level	67.9
Leaving Certificate Level	59.5
Tertiary Level	44.0
Single	73.7
Married	55.6
Widowed	77.7
Divorced	68.6
Other separated	80.0
1 Adult 18	78.9

2 Adult 18	65.7
3+ Adults 18	56.6
2 Adults, 1 Child	55.2
2 Adults, 2 Child	55.9
2 Adults, 3 Child	53.7
2 Adults, 4+ Child	58.9
1 adult, children	78.9
3+ adults, children	58.0
Property owned outright	65.8
Owned with mortgage	47.0
Owned with tenant purchase scheme	71.4
LAT purchaser with mortgage	77.4
Privately rented	73.2
Tenant/sub-tenant to LA	91.0
Rent free	65.8
Bottom income quintile	83.2
2 income quintile	81.2
3 income quintile	63.5
4 income quintile	54.4
5 income quintile	42.6
Urban, pop =>1000	66.6
Rural, pop <1000	62.2
Total	64.9

Table A.9 Percentage of Households Credit Excluded by Socio-economic Characteristics, EU-SILC 2008

	% of Households
Irish National	9.6
Non-Irish national	14.5
Under 25	17.4
25-54	9.5
Over 55	10.2
Male	7.9
Female	13.0
At work	5.1
Unemployed	22.3
Student	13.1
On home duties	17.5
Retired	7.0
Ill/disabled	30.6
No Qualifications	19.6
Intermediate Certificate Level	11.1
Leaving Certificate Level	5.5
High Tertiary Level	1.7
Single	15.5
Married	5.8
Widowed	10.8
Divorced	17.4
Other separated	17.6
1 Adult 18	14.6
2 Adult 18	8.0
3+ Adults 18	7.0
2 Adults, 1 Child	7.1
2 Adults, 2 Child	1.9
2 Adults, 3 Child	6.9
2 Adults, 4+ Child	3.7
1 adult, children	27.1
3+ adult , children	11.7
Property owned outright	7.7
Owned with mortgage	n.a
Owned with tenant purchase scheme	n.a
LAT purchaser with mortgage	n.a
Privately rented	17.6
Tenant/sub-tenant to LA	38.3
Rent free	13.2
Bottom income quintile	23.9
2 income quintile	15.9

3 income quintile	7.1
4 income quintile	2.1
5 income quintile	0.7
Urban, pop =>1000	10.4
Rural, pop <1000	9.2
Total	10.0

*Households with a mortgage or with a tenant purchase scheme are not included in the construction of the credit exclusion indicator. During the interview only households renting their dwelling or owning without a mortgage and not having credit facilities and not having credits and/or loans were asked to give reasons for these.

Table A.10: Percentage of household not being able to save by socio-demographic characteristics, EU-SILC 2008

	% of Households
Irish National	50.6
Non-Irish national	54.0
Under 25	52.1
25-54	50.1
Over 55	51.7
Male	49.5
Female	52.7
At work	40.7
Unemployed	88.4
Student	78.1
On home duties	66.0
Retired	45.4
Ill/disabled	76.6
No Qualifications	65.4
Intermediate Certificate Level	56.9
Leaving Certificate Level	48.1
High Tertiary Level	26.4
Single	49.7
Married	48.8
Widowed	50.0
Divorced	50.5
Other separated	71.0
1 Adult 18	46.5
2 Adult 18	47.3
3+ Adults 18	47.9
2 Adults, 1 Child	49.8
2 Adults, 2 Child	47.4
2 Adults, 3 Child	57.4

2 Adults, 4+ Child	57.5
1 adult, children	72.6
3+ adults, children	60.7
Property owned outright	48.6
Owned with mortgage	41.2
Owned with tenant purchase scheme	34.3
LAT purchaser with mortgage	63.6
Privately rented	49.3
Tenant/sub-tenant to LA	81.7
Rent free	50.9
Bottom income quintile	78.2
2 income quintile	64.7
3 income quintile	54.1
4 income quintile	38.7
5 income quintile	18.4
Urban, pop =>1000	48.0
Rural, pop <1000	55.5
Total	50.8

Table A.11: Percentage of Households Insurance Excluded by socio-demographic characteristics, EU-SILC 2008

	% of Households
Irish National	
Non-Irish national	88.8
Under 25	88.8
25-54	29.1
Over 55	21.6
Male	23.8
Female	32.0
At work	21.1
Unemployed	54.6
Student	68.3
On home duties	35.8
Retired	16.4
Ill/disabled	52.8
No Qualifications	40.3
Intermediate Certificate Level	23.1
Leaving Certificate Level	20.8
High Tertiary Level	13.9
Single	53.6
Married	14.2

Widowed	21.6
Divorced	36.5
Other separated	42.6
1 Adult 18	35.2
2 Adult 18	22.2
3+ Adults 18	25.4
2 Adults, 1 Child	27.1
2 Adults, 2 Child	13.1
2 Adults, 3 Child	18.7
2 Adults, 4+ Child	15.3
1 adult, children	67.9
3+ adult, children	19.5
Property owned outright	11.9
Owned with mortgage	0.6
Owned with tenant purchase scheme	47.9
LAT purchaser with mortgage	24.6
Privately rented	90.8
Tenant/sub-tenant to LA	89.2
Rent free	55.7
Bottom income quintile	47.2
2 income quintile	37.1
3 income quintile	25.9
4 income quintile	16.3
5 income quintile	9.0
Urban, pop =>1000	29.6
Rural, pop <1000	22.9
Total	27.0

A.3 Multiple exclusion from financial services

The following table explores the overlap between different forms of exclusion in a general way. It counts respondents' exclusion across all four items measured (no bank current account, no home insurance, unable to save regularly and credit excluded).

Just over one-third of households in Ireland are not excluded on any of the measures, i.e. they have access to all four financial services, while a further one-third lack only one of the four financial services. Then, 28% of households lack at least two of the four financial services, 9% lack three out of the four financial services and 4% of households lack all four services.

Table A.12: Multiple Financial Service Exclusion

Number of Services Lacking	%
0	36.2
1	36.1
2	15.2
3	9.0
4	3.5
Total	100.0

A.4 Over-indebtedness

Table A.13: MABS New Clients Type of Debts

	2008	**2009**	**2010[1]**
Personal loans	33.8%	31.6%	35.2%
Utilities	26.5%	23.3%	18.3%
Credit cards	14.6%	18.4%	20.1%
Mortgage	6.2%	6.2%	7.3%
Hire purchase loan	5.0%	5.0%	4.9%
Money Lender	3.6%	4.9%	4.4%
Overdraft	4.0%	3.6%	3.5%
Rent	2.6%	2.8%	2.3%
Catalogue	1.3%	1.4%	1.6%
Fine	0.8%	1.0%	0.9%
Sub Prime	1.0%	1.1%	0.9%
Waste charges	0.6%	0.7%	0.6%
	100.0%	100.0%	100.0%
total (N of Debts)	27048	34123	27817%
N new clients	19041	19094	16969

1 2010 figures up to end of Q3 only.
Figures refer to the debt type as a proportion of the total number of debts reported by clients.

Law Reform Commission

Law Reform Commission's *Interim Report on Personal Debt Management and Debt Enforcement 14-Point Action Plan*. 14 specific initiatives and actions already undertaken or in train by members of the Working Group:

1. Reform of financial services regulation legislation;
2. Proposal for the regulation of money advice undertakings;

3. Proposal for the regulation of debt collection undertakings;
4. Reform of the credit union regulatory structure;
5. Proposal for the regulation of credit reporting practices;
6. Extension of the IBF-MABS Operational Protocol;
7. Review of the IBF-MABS Operational Protocol;
8. Development of a Standard Financial Statement
9. Proposal to clarify the status of statutory codes of practice in court proceedings;
10. Proposal for a Pre-Action Protocol, based on Model Rules of Court, in consumer debt proceedings;
11. Proposal for a right of participation for money advisers in court proceedings;
12. Consideration of legal advice and legal aid for debtors;
13. Proposal to reduce the waiting period for a discharge application under the *Bankruptcy Act 1988;*
14. Compilation and distribution of useful information to consumer debtors.

A.5 Analysis of Housing Cost

The literature review in Chapter 4 described a number of studies that used a measure of over-indebtedness based on housing costs as a proportion of income. The housing cost measure has the advantage that it can be constructed from items often collected in non-dedicated surveys, which facilitates comparisons over time. This type of measure has also been used in cross-national research. The housing boom and subsequent bust in Ireland means there is considerable interest in the level of mortgage and rental costs for households. It is suggested that such a measure is a useful indicator of households' vulnerability to future income shocks. It may also provide an indication of the level of unsustainable mortgage lending that occurred during the Celtic Tiger period. However, a significant disadvantage of this measurement approach is that it examines only one aspect of expenditure and households may have other significant financial commitments that push them into over-indebtedness that are not captured. Furthermore, the cut-off point/threshold applied is essentially arbitrary.

A measure of over-indebtedness based on housing cost does not identify the same sets of vulnerable households as the multi-dimensional measure outlined in the chapter. The housing cost measure does not have the same strong relationship to income. While the top income quintile is least likely to be over-indebted on the housing cost measure, the measure does not differentiate well between the other income groups. Similarly, while the unemployed and disabled groups had very high risks of over-indebtedness on the multi-dimensional measure, it is students who emerge as the most at-risk group on the housing cost measure.

The households that spend a high proportion of their incomes on housing are not likely to be over indebted on the multi-dimensional measure. Note that 90% of the households identified as over indebted on the multi-dimensional variable outlined above did not have housing costs that amounted to more than 35% of their household's income (Table A.14).

This compares to 20% of private renters and 1% of house purchasers in 1999–2000, or 2001–2002, 1% of LAT, 28% private tenants, 6% of mortgage holders (Fahey and Duffy 2007). This suggests that this measure of housing affordability has increased for mortgage owners and decreased for private renters.

Table A.14: Housing Costs greater than 35% of Household Income by Household reference Person characteristics

	% of hhs with mortgage or rent payments	% of all households
All	8.8	4.3
Male	7.1	3.4
Female	11.1	5.7
Irish	8.5	4.0
Non Irish	10.3	9.0
Under 25	18.4	16.8
25-34	13.4	12.7
35-44	9.2	7.0
45-54	5.0	2.7
55-64	4.0	1.1
Over 65	2.0	0.2
At work	8.2	5.0
Unemployed	8.0	4.9
Student	31.6	26.8
On home duties	11.4	4.1
Retired	4.2	0.4
Ill/disabled	5.8	3.1
Single	13.5	8.6
Married	5.9	2.8
Widowed	2.6	0.4
Divorced	8.6	5.4
Other separated	12.8	8.1

Table A.15: Household Costs > 35% of Household Income by Household Characteristics

	% of hhs with mortgage or rent payments	% of all households
	16.4	5.2
1 Adult		
2 Adult	6.3	2.2
3+ Adults	6.2	2.5
2 Adults plus children		
1 adult, children	19.3	16.6
3+ adults, children	1.2	0.7
Property owned outright	NA	.0
Owned with mortgage	11.0	11.0
LAT purchaser with mortgage	3.9	3.9
Privately rented	12.3	12.3
Local Authority Tenant	0.6	0.6
Bottom Income Quintile	9.5	4.5
2	10.3	4.1
3	8.7	4.5
4	10.2	5.6
Top Income Quintile	5.5	2.8
Urban	9.9	5.8
Rural	5.7	2.0
Over-indebted	10.5	
Not over-indebted	8.6	
Total	8.8	4.3

Note: Adults are defined as those aged 18 years and over and children are those aged under 18 years.

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Glossary

EU15: 15 EU Member States prior to enlargement in 2004 (Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom)

NMS12: 12 New Member States, 10 of which joined the EU in 2004 (Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia) and the remaining two in 2007(Bulgaria and Romania)

EU27: 27 EU Member States

Country Abbreviations

Country	Abbreviation
Belgium	BE
Bulgaria	BG
Czech Republic	CZ
Denmark	DK
Germany	DE
Estonia	EE
Ireland	IE
Greece	EL
Spain	ES
France	FR
Italy	IT
Cyprus	CY
Latvia	LV
Lithuania	LT
Luxembourg	LU
Hungary	HU
Malta	MT
Netherlands	NL
Austria	AT
Poland	PL
Portugal	PT
Romania	RO
Slovenia	SI
Slovakia	SK
Finland	FI
Sweden	SE
United Kingdom	UK

An Roinn Gnóthaí Pobail, Comhionannais and Gaeltachta
Department of Community, Equality and Gaeltacht Affairs
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