

Summary

Government measures against over-
indebtedness (RiR 2015:14)



Government measures against over-indebtedness

The Debt Relief Act regulates three activities that together aim to have a preventive and rehabilitative effect on over-indebtedness: The Swedish Enforcement Authority's debt restructuring operations, the municipal budget and debt counselling services and the Swedish Consumer Agency's support to the municipal services. These activities together constitute the debt restructuring system. In this report the Swedish NAO audits central government commitments within this system.

Audit background

After the crisis of the 1990s many people had such large debts that they could never become debt free. They were over-indebted. Over-indebtedness entailed not only great personal suffering – it was also costly for the national economy. The first Debt Relief Act was introduced in 1994 to deal with the problem. The Act was intended to be rehabilitating by allowing heavily indebted people the opportunity to solve their financial problems and thus gain a new chance of a more tolerable life of more benefit to society.

In the years subsequent to its introduction, the Act was evaluated several times. The evaluations indicated a number of different problems. Among other things there were large national variations in access to budget and debt counselling services at local level. There was also a large number of people who had been indebted for a long period who did not apply for debt restructuring despite probably being eligible. Moreover, the support and supervisory roles of central government agencies were unclear.

In light of this, a new Debt Relief Act was introduced in 2007. The new Act contained amendments aimed at rectifying many of the problems indicated in previous evaluations. Further amendments to the Debt Relief Act were made in 2011.

In its prestudy the Swedish NAO noted that many of the problems of the debt restructuring system that had been known for a long period still remained – despite the amendments that had been made. At the same time indebtedness in the country continued to rise. Increased indebtedness entails an increased risk of over-indebtedness, which in turn has major consequences both for the individual and for society. Against this background the audit aims to examine the effectiveness of the debt reconstruction system. The audit dealt with the following audit issues:



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1. How much does over-indebtedness cost in the form of ill health and absence from the labour market?
2. Have the Government's debt restructuring measures been effective in the sense that the number of applications granted has progressed satisfactorily in relation to the purpose of the Debt Relief Act?
3. Has the Government created conditions for appropriate municipal budget and debt counselling services?

Audit findings

On several occasions the Riksdag has expressed the objective of reducing the number of heavily indebted people. In recent years a number of measures have been implemented aimed at fulfilling this objective. Developments in the past five years, however, show an increase of more than 3 000 heavily indebted individuals. However, it is possible that the number of heavily indebted people would have been even greater without the implemented measures.

The overall assessment of the Swedish NAO is that the amendments made in the debt restructuring system have led to improvements. The number of people applying for and being granted debt restructuring has increased substantially. This is a positive trend. It is also positive that the Government has taken more measures aimed at improving future efforts to combat over-indebtedness. However, several of the deficiencies observed in previous evaluations remain. The number of heavily indebted people continues to rise and the deficiencies in the municipal budget and debt counselling services continue to be great. This is partly due to deficiencies in the conditions created by central government for the activities. This must be regarded as serious. Sound measures at an early stage lead to less personal suffering and savings in both the local and central government sectors. Consequently, central government measures aimed at rectifying the deficiencies would probably be economically effective in the long term.

Considering that indebtedness in the country is increasing, the risk of over-indebtedness is also rising. Over-indebtedness causes major personal suffering and considerable costs to society. The longer an individual is in debt, the more difficult the path back will be. Measures aimed at preventing over-indebtedness and quickly rehabilitating heavily indebted individuals are therefore of great importance – from the perspective of both individuals and the national economy. The Swedish NAO considers that such measures can be taken within the framework of the existing system without risking a deterioration in general payment behaviour.

The costs of over-indebtedness

There is a major lack of reference data that can be used to calculate the costs to society of over-indebtedness. Consequently, the Swedish NAO commissioned a consultant's report in order to obtain reference data and thereafter carry out a tentative calculation of the costs to society of over-indebtedness in the form of loss of production and costs within the social insurance systems and



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medical care services. The Swedish NAO then calculated, on the basis of a narrow definition of over-indebtedness, a floor level that probably gives a picture of the lowest possible cost of over-indebtedness. The results cannot be generalised, but a picture is presented that gives an estimate of the size of the problem.

According to this narrow definition of over-indebtedness there is an estimated 28 015 individuals who would probably be granted debt restructuring if they applied for it. That figure implies an estimated cost distribution as follows: The cost of medical care is estimated to be SEK 3.3 billion, loss of production SEK 2.8 billion and payments within the social insurance systems and unemployment insurance SEK 2.2 billion. This does not include the municipalities' costs for income support and any loss of tax revenue.

The Swedish NAO has also investigated the costs to society for measures within the debt restructuring system. The investigation shows that the costs between 2009 and 2013 increased from SEK 173 million to SEK 236 million. The greatest increase took place within the Swedish Enforcement Authority's debt restructuring operations. However, these calculations only refer to what the Swedish NAO has defined as the debt restructuring system.

The calculations of the costs of over-indebtedness are a way of illustrating the degree of seriousness of the problem in relation to the measures taken by society. The Swedish NAO would like to point out here that more data and further research are necessary to provide a more comprehensive and robust picture of the costs of over-indebtedness.

The Swedish NAO's results fall far short of the results estimated by the Swedish Enforcement Authority in its 2008 report. The difference is mainly due to the Swedish NAO's results being based on a much lower number of over-indebted individuals, where the definition builds on individuals meeting the criteria for being granted debt restructuring. The differences are also due to the Swedish NAO's figures being based on actual differences in health status between the group of over-indebted individuals and the population as a whole.

In summary the Swedish NAO notes that the macroeconomic and fiscal costs of over-indebtedness – including loss of production, medical care and social insurance system costs – conservatively estimated, probably far exceed the costs of public measures to deal with the problem. Further, the Swedish NAO notes that there are no reference data or statistics available to enable better and more accurate calculations of the extent of the over-indebtedness problem.

The Government's measures are effective but there is a rising need

The Swedish NAO notes that the number of debt restructuring applications has increased considerably in the past eight years (163 per cent). In 2014 the highest number of applications was received since the introduction of the Debt Relief Act – 10 083 applications. Since the proportion of granted applications was stable it means that more people have been granted debt restructuring. According to the Swedish Enforcement Authority the amendments to the law that have been made



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have led to a higher number of applications. Moreover, awareness of debt restructuring has grown. Recession and changes in the welfare systems have also led to an increased number of applications according to the Authority.

As the number of applications has increased the Swedish Enforcement Authority's debt restructuring operations have been extended. The costs of the operations increased by 195 per cent between 2005 and 2014 – from SEK 42 million to SEK 124 million. At the same time productivity increased somewhat and according to the Authority the operations retained the same quality. However, waiting times and the number of old cases have increased in recent years.

In parallel with this development, the number of heavily indebted debtors (prospective debtors for debt restructuring) is estimated to have increased by 13 per cent between December 2010 and April 2015. In 2010 the figure was 24 851 and in 2015 it was 28 015 individuals.

Research indicates that the period of over-indebtedness has an impact on health. A long period of over-indebtedness can lead to chronic ill health, which is not cured by debt restructuring. Thus there is a risk that lengthening waiting times in debt restructuring operations mean that the intention of the Debt Relief Act of allowing people to return to a tolerable life is not being fulfilled. In this context the Swedish NAO wishes to point out the risk of waiting times increasing even more, since the Government has announced measures intended to make more people apply for debt restructuring.

The conclusion of the Swedish NAO is that the measures taken by the Government in debt restructuring have had an effect to the extent that more people have applied for and been granted debt restructuring. This is a positive trend. However, the number of prospective debtors for debt restructuring has continued to grow, despite the measures having led to a positive trend in debt restructuring operations. This means that the measures taken have not succeeded in curbing the number of heavily indebted debtors. This is important to emphasise in light of the Government's planned proposals aimed at reducing the number of heavily indebted individuals by means of measures for more people to apply for debt restructuring.

The Swedish NAO wishes to emphasise that there are other measures – not included in the audit – that probably affect the number of prospective debtors for debt restructuring. Examples of such measures are regulations concerning the granting of credit and educational measures.

Conditions for budget and debt counselling services

The Swedish NAO notes that the large variations in the municipal budget and debt counselling services that other actors have drawn attention to still remain. Waiting times continue to be long in many municipalities – 20 per cent of municipalities do not comply with the Swedish Consumer Agency recommendation of a maximum waiting time of four weeks. At the same time the number of full time equivalents in the operations has increased somewhat in recent years.



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Moreover, the Swedish NAO notes that the preventive work in budget and debt counselling services is close to non-existent – only eight per cent of the time is devoted to such work. At the same time both the Riksdag and the Government have on several occasions pointed out the importance of preventive work. The importance of measures to prevent or turn a negative debt trend round is also highlighted in research.

In 2010 the general government grant to municipalities was increased by five million kronor to improve the municipal budget and debt counselling services. However, according to the Swedish Consumer Agency only a small percentage of the funds came to benefit the services. In this context the Swedish NAO also noted that there are studies indicating that an individual municipality has weak economic incentives to invest in budget and debt counselling.

The Swedish Consumer Agency is responsible for the IT system Boss, which has been under construction since 2010. Development has been delayed, which has restricted the possibilities of obtaining more detailed statistics about budget and debt counselling services. The delay has also meant that the project has taken more resources than planned.

As regards support from central government agencies to budget and debt counselling the Swedish NAO notes that in general the support is appreciated by the municipal counsellors. However, the role of counsellor has become more complex over time. This implies new and more demanding requirements of the counsellors' competence. In general the counsellors have broad knowledge needs. At the same time it can be noted that the Swedish Consumer Agency's range of courses has become more specific in recent years. The assessment of the Swedish NAO is that even if the courses offered by the Swedish Consumer Agency are appreciated, there is a difference between the counsellors' broad needs and the courses offered. It must, however, be pointed out here that for its part the Swedish Consumer Agency – within the framework of limited resources – has to make priorities between different types of support. The assessment of the Swedish NAO is further that the difference mentioned between the need for training and the courses offered constitutes a risk to the extent that the need for qualified financial counselling at local level will increase as indebtedness increases.

Furthermore, serious regulatory deficiencies can be noted in the supervision of municipal budget and debt counselling. In the first place the Health and Social Care Inspectorate considers that it can only exercise supervision of budget and debt counselling services in cases where these fall under the social services in the municipality responsible. At present this means that the services in 100 municipalities fall outside the Inspectorate's supervisory mandate. In the second place, according to the Inspectorate there are no requirements or targets for budget and debt counselling services, which makes it impossible for the Inspectorate to examine the quality of the services. The Swedish NAO also notes that the Inspectorate bases its supervision on a risk analysis, but budget and debt counselling is not an indicated risk area in the Inspectorate's current risk analysis. Consequently,



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the Swedish NAO assesses that there will probably be no supervision of budget and debt counselling services within the foreseeable future.

The Swedish NAO's overall conclusion is that the central government agencies' support to budget and debt counselling services is mainly adapted to needs. However, there is a difference between the need for education and training and the courses offered. Moreover, the assessment of the Swedish NAO is that regulation has serious deficiencies as regards the conditions for ensuring by means of supervision that inhabitants of the municipality have access to an equivalent service. The lack of supervision and clear requirements and targets for the services probably contributes to their low priority in many places. The services that are then offered are mostly reactive.

The Swedish National Audit Office's recommendations

Recommendations concerning the costs of over-indebtedness

- The Government should take measures to raise the quality of statistics concerning the existence of over-indebtedness in society and the costs this entails in the form of reduced labour force participation and ill health, to enable improved design of preventive and rehabilitating measures.

Recommendations concerning debt restructuring

- The Government should ensure that debt restructuring operations at the Swedish Enforcement Authority have the capacity to manage the increasing inflow of cases without waiting times becoming too long. A long period of indebtedness is strongly linked to ill health. Retaining or increasing the capacity of the Swedish Enforcement Authority becomes particularly important in light of the Government's plan to take measures aimed at more applications for debt restructuring. The costs that arise could probably be covered for example by reduced expenditure on healthcare due to reduced ill health among over-indebted individuals.
- The Government should support the Swedish Enforcement Authority in its continued work of identifying prospective debtors for debt restructuring in order to inform them of the possibilities of debt restructuring.
- The Swedish Enforcement Authority should continue to develop the work of identifying prospective debtors for debt restructuring in order to inform them of the possibilities of debt restructuring. Within this framework it is important to continue investigating the reasons for the increase in the number of prospective debtors for debt restructuring.



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Recommendations concerning conditions for budget and debt counselling services

- The Government should clarify the regulatory framework that governs central government supervision of municipal budget and debt counselling, so as to ensure that the Health and Social Care Inspectorate is equipped to carry out supervision of the services in all municipalities, as well as to audit the quality of services.
- The Government should draw up clear basic requirements and targets for municipal budget and debt counselling services. Partly to enable appropriate supervision, partly to strengthen the role of the services.
- The Government should augment the Swedish Consumer Agency's resources for support to municipal budget and debt counselling services in order to better match the municipal counsellors' needs, for example as regards education and training.
- The Government should initiate the building of a network between agencies and actors concerned, for the purpose of cooperating on issues related to over-indebted individuals and budget and debt counselling. The network should consist of actors that in various ways come into contact with, and refer to the municipal budget and debt counselling services

Apart from these recommendations, the Swedish NAO wishes to encourage the Government to investigate more closely alternative ways of funding budget and debt counselling services. One example that can be given is the situation in the United Kingdom. The British equivalent to the budget and debt counselling services is funded partly by a fee levied on British financial market actors. The fee is levied by the UK equivalent of Finansinspektionen, the Financial Conduct Authority.

