Executive Summary

Exploring Household Debt in Ireland:

The Burden of Non-Mortgage Debt & Opportunities to Support Low-Income Households

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Executive Summary

This report analyses the policy and social context of non-mortgage household debt in Ireland – and problem debt faced by Irish households. The aim of the research was to scrutinise this context in order to discern how a service or training that focuses on building financial capability and financial resilience could be effectively deployed in Ireland to complement existing national services at work.

Problem debt or over-indebtedness occurs when households are over-burdened by debt and do not have the means to meet essential living costs and debt repayments when they fall due. This project particularly focuses on the experiences of low-income households (in the bottom 40% income levels) and non-mortgage debt. The report is underpinned by data provided by the European Union Survey on Income and Living Conditions (EU-SILC) from 2017. According to this data:

- 22% or over 1 in 5 of all Irish households who are in debt are over-burdened by their debt repayments.
- This figure climbs to 32% when looking at low-income households, or those households whose income levels are in the bottom 40%.

In both policy and practice, unmanageable levels of personal debt are often seen as a personal failing or problem. This attitude ignores the macroeconomic drivers of debt and places the blame on borrowers who are accused of making poor financial decisions. The report challenges this notion and recognise that debt is intimately connected to key structural and political factors outside individual action and behaviour. Personal "causes" of household debt are compounded by these wider structural issues and this is exacerbated for low-income households. Understanding inequality in financial access is key, as these households, depending on their need and access to lines of credit, may even pay significantly more in interest and other costs for the loans than households with higher income.

It is imperative that the subject of "over-indebtedness" is integrated into an understanding of wider social norms and national policies in Ireland – in particular those that emerged in the years following the financial crash, such as austerity, the rise of insecure and precarious employment and decreases in public expenditure.

About the research: focusing on financial capability

The research highlights a further need for preventative services that build *financial capability* and *financial resilience* in Ireland. The key objective is to inform the development of a service or training that focuses on these key areas and based on the research findings. In order to meet this aim, the research deployed the following methods:

1. An in-depth review of relevant international debates and discussions related to the concept of "financial capability"
2. Extensive research on the nature of household debt and credit access in Ireland, including policies and practices
3. Qualitative data collection with relevant stakeholders, including national Money Advisors with the national Money Advice and Budgeting Service (MABS) and persons who have accessed debt relief services
4. A systematic review of recent quantitative data on household behaviours (the 2017 EU Survey on Income and Living Conditions) and the specific indicators related to over-indebtedness and financial difficulty.

The concept of financial capability refers to the extent to which people are able to make key decisions about their financial lives and well-being – and how resilient they are in the face of negative financial events and decisions. Financial capability focuses on not just what someone knows, but what they do – and the environmental and normative factors that influence those behaviours.

Unmanageable personal debt in Ireland and structural factors

In this report we argue that unmanageable debt levels are directly connected to four main structural factors:

- Housing
- Cost of living
- Access to financial services
- Income

Ireland is experiencing a "housing crisis" – made evident by a level of homelessness that is currently the highest in the history of the state. In Dublin, rent now accounts for over half (51.9%) of a single person's minimum living costs, and monthly rent prices increased by over €90 since 20181. High cost of housing has also contributed to an increase in the overall cost of living. In terms of income, average annual earnings have recovered since the crash, rising by 8.1% from €35,951 in 2013 to €38,87[1] in 2018[2]. However, this rise was not uniform across income groups – evident of an increasingly fragmented labour market. Research from the OECD found that income has "declined significantly" for households in the bottom 40%[3] in recent years. Ireland's labour market is also continually defined by precarious and weak employment and working adults make up over 14% of those in poverty[4].

1 Living Wage (2019) https://www.budgeting.ie/living-wage/
2 CSO (2019) https://pdf.cso.ie/www/pdf/20190611090910_Earnings_and_Labour_Costs_Annual_Data_2018_full.pdf
3 OECD (2019) The Potential of Tax Microdata for Tax Policy https://www.oecd-ilibrary.org/taxation/the-potential-of-tax-microdata-for-tax-policy_d2283b8e-en
4 Social Justice Ireland (2019) https://www.socialjustice.ie/content/publications/poverty-focus-2019

Ireland also has a history of financial exclusion and certain marginalised communities continue to lack access to basic credit and financial products. Many rely on moneylenders (over 350,000 households borrowed from moneylenders in 2017[5]) and other high-interest options. These tend to be female and aged 35-54. The most common APR for moneylending loans in Ireland is 125% over 9 months and the average loan principal offered by those who charge collection fees is €566[6].

Key findings: "the struggling" and "the squeezed"

Sections 4 and 5 of this report offer an in-depth presentation of the data from the EU-SILC Survey as it relates to household debt in Ireland and related issues. The following is a concise overview of some of the key findings from this data as it relates to households that are "struggling" (the least financially resilient and at the greatest risk of financial difficulty, with debt repayments that are a "heavy burden") and those that are "squeezed" (barely getting by in terms of their financial commitments and for the majority, their debt repayment amounts are "somewhat heavy")[7].

We classified those in the *private rental sector* as "struggling" because:

- Over 33% of those in debt are over burdened by debt repayments
- 28% faced utilities arrears in the previous 12 months
- Only 40% are able to save income on a regular basis – with this number dropping to 20% for renters who are in the bottom 40% income brackets.
- Those who are renting in the private sector are nearly four times more likely to go without heating due to lack of money than those who own their homes.

Single-parents remain one of the most consistently "struggling" cohorts across household type.

- In Dublin there are 66,365 single parent households and in Ireland there are 218,817 (which is 1 in 5 Irish households and 1 in 4 Irish households with children).
- According to our research, over 36% of single-parent households who are in debt are overburdened by debt amounts, and 1 in 2 said their overall housing costs are a heavy burden.
- Only 30% are able to save income on a regular basis.
- A further 21% of single parent households faced utilities arrears and 27% faced mortgage or rental arrears.

There is also a significant number of *working households* that are "struggling" and "squeezed":

- 20% or 1 in 5 workers in Ireland with debt are struggling with debt repayment burdens.
- Nearly 50% of all workers face debt repayment levels that are a "somewhat heavy burden" – and are at risk of becoming over-indebted in the future, and less resilient to financial shocks.

5 Brennan (2019) https://www.irishtimes.com/business/financial-services/government-weighs-capping-interest-rates-charged-by-moneylenders-1.3911194

6 Faherty et al (2017) https://sff.ie/wp-content/uploads/2018/11/irr.pdf ; Society of St Vincent de Paul (2019) ttps://www.svp.ie/getattachment/0e88d7ca-8c6a-49cb-97d3-a39a362002c5/SVP-Submission-on-Money-Lenders-2019.aspx

7 These definitions are based on the chart from Money Advice Service (MAS) in the UK: https://masassets.blob.core.windows.net/cms/files/000/000/936/original/Market_Segmentation_-_Segment_Infographics_-_Revised_February_2018.pdf

The research shows that working does not necessarily equate to financial security.

Across the board, the report also found that **53%** of all Irish households cannot save income regularly – and this figure rises to **77%** for low-income households. Having the ability to save on a regular basis is a key determinant of financial capability, and not being able to save leaves households increasingly vulnerable to unforeseen financial events. It appears that the majority of Irish households are struggling on this front.

Mapping national debt relief supports and services and recommendations for practice

Ireland importantly has two principal public services to support households facing unmanageable levels of debt: MABS (the Money Advice and Budgeting Service) and the ISI (Insolvency Services of Ireland).

MABS is a national debt advice service with an office in every county in Ireland. MABS offers a range of supports: a national helpline, email inquiries, face to face counselling and debt restructuring, online tools and budgeting calculators as well as financial education. MABS undoubtedly provides an invaluable service in the Irish context and served approximately 15,300 first-time clients in 2018 and over 9,000 new clients already in the first six months of 2019[8]. The type of non-mortgage debt they faced ranged from loans with financial institutions to credit card debt, utilities and rental arrears as well as moneylender debt[9].

Since 2013, the ISI has supported remedial options for over-indebted individuals who meet certain criteria. It was established in the aftermath of the financial crash and offers four possible debt relief solutions: Personal Insolvency Arrangement (PIA), Debt Relief Notice (DRN), Debt Settlement Arrangement (DSA) and Bankruptcy. While the introduction of an insolvency service was badly needed, it should be noted that the initial take up of the ISI has lower than anticipated: research shows that in its first 58 months (2013 – 2018) it had a total of only 12,424 applicants and only 4,238 arrangements being approved[10]. However, the use and number of approved agreements brokered by the ISI is growing on an annual basis, signalling the increasing success of the scheme.

Overall, existing preventative resources are largely "self-service" and require individual initiative. Highlighting this gap provides an important context to the report and underlines the need for developing additional tools and services to address this shortfall.

8 MABS (2019) https://www.mabs.ie/downloads/statistics/Mabs_National_Stats_Report_2019_Q2.pdf
9 MABS (2019) available at: https://www.mabs.ie/downloads/statistics/Mabs_National_Stats_Report_2019_Q2.pdf
10 Roche (2019) https://193.1.102.136/bitstream/handle/10344/7537/Roche_2018_LIfe.pdf?sequence=6

Recommending new policy and supporting practical tools

TASC propose the development of a practical support for building financial capability that expands on the findings of international literature and best practice and takes on board our own observations of the Irish context for this research. We recommend that this "training" is framed as follows:

> *An intensive and personalised "training" that builds financial resilience and financial capability in Ireland that is transferable to different contexts and acts as a preventative measure to household problem debt.*

In particular, we are proposing to design a training that incorporates a mixed-methods delivery, including *both* designated and personalised 1:1 support as well as learning in a group environment. These supports will be designed in such a way as to provide participants with the necessary basic numeracy skills and financial literacy learning within the sense of personal capabilities and knowledge. This training will be designed in 2020.

In terms of policy, the report calls for the implementation of new housing policies[11] and increased regulation for moneylenders[12] in order to address the contextual contributors (such as the increasing cost of living and limited financial access) to household debt. Other specific policy recommendations include:

- Improve data collection and analysis on household debt.
- Improve information and flexibility concerning insolvency options.
- Better coordination of national debt support services.
- Expansion of the "It Makes Sense" Lending Scheme.
- Monitoring of the behaviour of creditors and the methods they use to pursue clients.

As discussed throughout this report, personal debt is an intricate policy issue – and there is no one-size fits all policy solution. However, we maintain that policy makers have an obligation to recognise the wider contextual factors at work and to design policies that take these factors on board and support interventions.

11 Social Justice Ireland (2019) https://www.socialjustice.ie/content/policy-issues/type/housing
12 St Vincent de Paul (2019) https://www.svp.ie/highcostloan

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