

## **COVID-19 and debt problems in the Netherlands**

### *Research and problem-solving approaches for a joint action plan*

One million Dutch people face a harsh reality every day. They are dealing with debt problems that often keep them awake at night. Without targeted measures, the economic impact of COVID-19 will be a “wave” of additional people with debt problems.

This conclusion hardly requires any research: it simply results from the predicted deep economic contraction. And yet, if we are to properly anticipate the wave heading towards us, it is essential to have a better understanding of its nature and size. This is precisely why SchuldenLabNL and Deloitte have joined forces to highlight the urgency of the situation, the numbers involved, and which groups are most vulnerable. Armed with those insights, it is possible to take the best decisions for tackling the problem.

The research clearly reveals the urgency. Despite uncertainties about the exact impact, the fact that between 368,000 and 822,000 people are likely to experience a significant and prolonged loss of income this year is a mark of the pressing nature. More than ever before, this group is heterogeneous in terms of sector, age and region. They include many self-employed persons and flex workers. Many in these high-risk groups have no opportunities to cut costs, neither do they have a financial buffer. What’s clear, too, is that most of the people are not yet on the “radar” of the authorities.

Municipalities and aid organisations should thus prepare for a huge influx of people with money problems and debts. This is a challenge for an ecosystem of debt cocounseling already faced with considerable challenges in recent years and hindered by a piecemeal approach to reducing debt problems.

The full report will be made available in English next week. The insights in this report are merely an initial step in the collaboration between public and private parties to tackle this major social issue together. The report identifies problem-solving approaches that will be further explored in the coming period. Especially in these times we need to keep sight of the ambition SchuldenLabNL has: a debt stress free Netherlands.

## Introduction

The aim is to collaborate in tackling the “bow wave” of people with COVID-19 induced debts

- In March 2020, private and public parties were ready to conclude a pact to combat and banish personal debt stress in the Netherlands. However, the COVID-19 crisis forced a rethink of the joint approach
- As an independent foundation, **SchuldenLabNL** followed the request from its partners to take the coordinating lead, with **Deloitte** conducting the analysis and writing the action plan
- Over the past month, input has been gathered from various sources and in discussions with institutes such as NVB, NIBUD, NVVK, VNG, Wijzer in Geldzaken, the Ministry of SZW, Manifesto Group, various municipalities, and other organisations
- The action plan aims to form a private public partnership that will work on solutions to prevent or combat household debt problems
- The action plan’s problem-solving approaches focus on actionable initiatives as much as possible (scaling, accelerating, initiating); this fits the nature, scope and urgency of the challenge we face
- The ambition is to focus on further detailing six problem-solving approaches. Our action plan can serve as input for all other programmes already in place. Collaboration is the motto

## COVID-19 impact

- COVID-19 will force the Netherlands into a recession in 2020, possibly continuing into 2021
- Measures have been implemented to temporarily cushion its impact
- However, COVID-19 is still expected to cause employment to drop - potentially a historically strong drop
- Indications of economic hardship can already be seen in the Netherlands
- Especially people working in culture, sports and recreation, hospitality, transport, rental, (professional) services, and trade will be affected
- People with a flexible form of employment, low-skilled people, the under 35s, and over 55s - they are the most vulnerable workforce groups

- These groups are over-represented in the 10 high-risk sectors, but with large differences between subgroups
- Some 368 - 822 thousand people are expected to experience a significant and prolonged loss of income in 2020
- Because expenditures cannot drop proportionally for everyone and buffers are insufficient, the risk of household debt will increase
- Any lasting imbalance between income and expenditures can ultimately lead to problematic debts
- COVID-19 will push up the number of households with debt to between 1.5 and 2.6 million in 2021, 41% of which will be problematic
- And the composition of the population of indebted households will slightly change

### **Current system**

- Right now, in the Netherlands we are insufficiently prepared to turn the tide
- Problematic debts lead to personal distress, but also to direct and indirect social costs
- Debt counselling in the Netherlands focuses on all phases of payment and debt problems
- Many parties and initiatives are involved in solving debt problems
- Nearly 70% of all households with payment or debt problems in the Netherlands are "invisible"
- On average, people wait 5 years for applying for help, after that period problems have increased already significantly
- Only 32% of the people who apply for debt counselling end up with a debt restructuring scheme
- The inflow into statutory debt restructuring has been dropping since 2011
- COVID-19 now intensifies two already existing challenges for debt assistance in the Netherlands:
  - How do we ensure that people do not slide from a (temporary) imbalance into debt problems because of COVID-19?
  - How do we ensure that people with problematic debts are quickly relieved of their debt problems?

## **Possible problem-solving approaches for an effective and joint approach**

- Sixteen problem-solving approaches have so far been identified; both scaling of existing initiatives and initiating new ones
  1. Private-public debt fund for buying personal debts
  2. Routing towards debt counselling
  3. Collective debt settlements
  4. Optimising the use of facilities (i.e. allowances)
  5. Reducing restructured debt payment periods to 12 months
  6. Data standardisation and monitoring of debt problems
  7. Early warning by linking self-employed persons to debt counsellors
  8. Bridging credit for non-bank payment obligations
  9. Simplifying and/or reducing exclusion criteria
  10. Cancelling the obligation to reach a settlement prior to WSNP
  11. Establishing a "Dutch Institute for Repayment Schemes"
  12. One-off collective remission
  13. Maximising the impact of current early warning initiatives
  14. Uniform digital data exchange
  15. National Debt Restructuring Credit Guarantee Fund ("Garantiefonds Saneringskrediet")
  16. Encouraging own initiative of -new groups of - debtors
- In the months to come we will jointly take extra steps. Ambition: a debt worry free Netherlands, despite the consequences of COVID-19
  - Support fast
  - Social solution
  - Short process
- And we try to focus on all stages of debt problems
  - Being faster in finding people with existing or potential payment or debt problems and helping them by improving the route to assistance and optimising the use of facilities
  - Solving payment and debt problems quickly and socially and preventing them from getting worse through a private-public fund for

buying personal debts and monitoring of problems and effectiveness of interventions

- Short programmes and quick outflow from debt restructuring programmes through collective settlement of debt files and reduction of repayment periods from 36 to 12