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The Impact of Debt Advice as a Response to Financial Difficulties in Ireland

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Irish social policy has, since the early 1990s, prioritised debt advice as the primary policy tool for addressing over-indebtedness, targeting low-income households in particular. This article, which draws on secondary analysis of datasets and qualitative interviews, suggests that 'person-centred' debt advice plays a major role in alleviating personal over-indebtedness and its effects among this group. However, the government's objective that it should facilitate financial independence is unrealistic. For such debt advice to be effective, complimentary legal and institutional solutions to debt problems are required in Ireland. The dearth of financial options and resources available also needs to be addressed.

Keywords: Over-indebtedness, debt advice, financial exclusion, poverty.

Introduction

'Debt advice' has become a widely used policy tool for dealing with over-indebtedness[1] in many European countries (European Consumer Debt Network, 2007b). It commonly involves advisers working with people, on a one-to-one basis, to undertake a number of things, namely to: identify the extent and causes of the debt problem, maximise income, minimise expenditure, prioritise debts, exercise consumer rights and make realistic and sustainable arrangements with creditors (Hinton and Berthoud, 1988; Mannion, 1992; Kempson, 1995; European Commission, 2008).

In many countries, including Ireland, debt advice is one aspect of broader 'money advice', through which information and guidance on such things as credit use, financial planning and eligibility for welfare benefits is also provided (European Commission, 2008). There are, broadly speaking, three major traditions of money advice provision in Europe (Gibbons and Stamp, 2010). The first is an 'official model', where a legal basis for debt adjustment gives rise to 'official' or legal debt advice provision, such as in Belgium. The second is a 'central government' model, in which the state takes responsibility for the provision of money advice services, resulting from concern about the problem of over-indebtedness in a particular jurisdiction, as in Austria for example. The third tradition is a 'regional or local' model, whereby, in countries such as the Netherlands, money advice is supported by municipalities or local government. Over time, these various traditions have sometimes merged and in some countries, a somewhat disjointed money advice landscape has emerged of central government support, municipal provision and in some cases private (fee charging, or industry sponsored) services as well; the UK being an example to some extent.

The 'Irish Model'

In Ireland, a distinctive, primarily 'centralised', money advice model has evolved over time, whereby central government, via a statutory independent body, the Citizens Information Board, funds a network of 53 Money Advice and Budgeting Services (MABS), which operate as individual companies, limited by guarantee (Korczak, 2004). These services have a primary target group of 'social welfare recipients and other low-income households'; most operate a client account in conjunction with local credit unions, which are community-based, mutual, saving and borrowing societies (Dillon and Redmond, 1993). A set of objectives is also set by government for MABS; the first of these, and the one of specific interest to this article, is the 'debt advice' objective, which is to facilitate people to cope with their immediate debt problems and become financially independent in the long term (Money Advice and Budgeting Service, 2010). The model is nationally co-ordinated (aggregate MABS statistics are published quarterly for example), and moves are currently in train to address an absence of quality assurance standards, accreditation, licensing and evaluation procedures.

The specification of a low-income target group is indicative that over-indebtedness has traditionally been considered by Irish policymakers as largely a poor person's, or 'residual', problem, resolvable by a service tailored to this group. There are echoes here of Esping-Andersen's (1990) categorisation of welfare states. As discussed below, this view appears to be changing, principally as a consequence of the fallout from the current recession. Over the last few years, as the economic downturn has worsened, in addition to MABS, a number of private fee-paying debt management companies have established themselves in Ireland. Several concerns have been expressed about their activities (Hough, 2011). There is no licensing system for such companies, unlike in the UK, where such a system has been recently revised owing to concerns about the practices of some companies, many of which have been de-licensed or ceased trading (Office of Fair Trading, 2011).

Irish legal and institutional arrangements and debt advice

Throughout the Celtic-Tiger period, and indeed beyond it, Irish legal and institutional arrangements for dealing with personal debt have remained archaic and inappropriate to a modern consumer society (Joyce, 2003; Free Legal Advice Centres, 2009; Law Reform Commission, 2010). This period saw, for the first time in Ireland, the extension of huge amounts of consumer credit, aided by a light-touch regulatory regime. The ratio of personal debt to disposable income among Irish consumers increased from 48 per cent in 1995 to 176 per cent in 2009 (Law Reform Commission, 2009: 15).

In a major European-wide study, pre-recession, Ireland was considered a country with 'limited policy interest in the area of over-indebtedness' (European Commission, 2008: 58). This largely remains the case post-recession. Institutional mechanisms to release people from chronic over-indebtedness over a fixed, realistic period, remain unavailable to consumers in Ireland.

Provisions for judicial or non-judicial debt settlement arrangements, Debt Relief Orders and Individual Voluntary Arrangements, available elsewhere in Europe (European Consumer Debt Network, 2007a; European Commission, 2008), do not exist in Ireland. Bankruptcy provisions are rarely used by consumers, a 12-year discharge period being a

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particular barrier (Free Legal Advice Centres, 2009). Provisions permitting imprisonment for non-payment of civil debt currently remain on the Irish statute book, although these provisions have recently been amended to better protect debtors as a result of the 'McCann case' brought by a MABS client (Oireachtas Library and Research Service, 2010).

The Law Reform Commission (2010) has made a series of recommendations in relation to fundamental reform of the current system, and the introduction of more appropriate procedures, but, as yet, none has been implemented. Irish debt advice is largely 'personalised' and disconnected from current, albeit limited, institutional and legal arrangements, although MABS has entered into a debt management protocol with the Irish Banking Federation (Irish Banking Federation and MABS, 2009); how this is working in practice is unclear.

Taken together, the nature and paucity of institutional provisions, coupled with a reliance on budgeting services, appear to be an example of a distinctive societal model of dealing with over-indebtedness proposed by Groth (2000: 8–9), namely a 'conservative model', which views debtors as, by and large, the authors of their own downfall, and creditors as the wronged parties. Continuing debates about 'moral hazard', in the context of growing mortgage arrears, illustrate that such a view remains prevalent in Ireland (Department of Finance, 2010). Groth contrasts this 'conservative' model with three others, including a 'liberal social' model followed in Scandinavia, and a 'liberal economic' one pursued in the United States. In such models, the system is viewed as important in rehabilitating debtors, albeit from different ideological perspectives.

The current policy debate and recommendations for improved institutional and legal processes for addressing personal debt situations, evident in both the above reports, suggest that a paradigm shift may be taking place in Ireland. It seems that personal debt is now becoming viewed more as a force-majeure, 'can't pay' problem, affecting a range of people, than a behavioural, 'won't pay' problem, affecting a small minority of predominantly poor people. A more liberal-social consensus appears to be emerging. Within all of this, MABS continues to be regarded as having a key role. However, little consideration appears to have been given to what role it is reasonable to expect MABS to play in terms of debt advice, given that so many of its clients (nearly 70 per cent) are now on a low income.

The available research on debt advice impacts

A body of research is emerging into the specific impacts of debt advice on service users. Most of this research emanates from the UK, where such advice was pioneered by the Birmingham Settlement in the 1970s. Some studies suggest that debt advice brings short-term relief through easing pressure, followed by a struggle to maintain repayment plans over time, particularly in the context of ongoing demands on limited incomes (Jones, Wainwright and Doling, 1993; Money Advice Trust, 1999; Williams, 2004). In such cases, the overall impact is to manage or contain money problems rather than to resolve them (Hinton and Berthoud, 1988; Mannion, 1992).

More recent UK longitudinal research suggests, however, that there are more positive and longer-term impacts of debt advice than these earlier studies suggested in relation to clients' financial circumstances, health, wellbeing and future outlook (Pleasence *et al.*, 2007; Williams and Samson, 2007; Orton, 2010). Financial impacts identified in these studies were: significant debt reduction, better understanding among respondents of how

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much they owed, greater ease of debt repayment in line with affordability, prevention of further debt and, finally, the withholding of future legal action. Low income, however, continues to be a factor in constraining people's ability to overcome over-indebtedness (Orton, 2010).

Respondents in these studies further reported a greater ability to live normally whilst repaying debts, that they worried less about their debts, and that health and well-being had improved. Relationships within the family and with friends were also better in many cases. As regards outlook, people were more in control and knowledgeable about their finances, and could see a time in the future when their debt problems would be completely resolved.

In contrast to this body of UK literature, there has been little independent evaluation of debt advice services in Ireland since an evaluation of the initial five MABS pilot projects almost 20 years ago (Dillon and Redmond, 1993). Only one national evaluation has since been undertaken of MABS services, in 1999, and this was largely an internal review, focusing on value for money and organisational structures (Eustace and Clarke, 2000). Policy development has, thus, not been matched by policy reflection in relation to the role of debt advice as currently constituted in Ireland, and its impact on the clients who avail of it.

The study

This article draws on a study that combined quantitative and qualitative research methods to evaluate the impact of MABS' 'one-to-one' debt advice. To put MABS' casework in context, secondary data analysis was carried out of nationally representative household panel surveys, in particular the Living in Ireland Surveys 1994–2001 and the EU Surveys on Income and Living Conditions (EU-SILC) 2003–2006, and of administrative data collated by MABS services nationally throughout 2006. These data were used primarily to identify divergences between those households reporting financial difficulties and the population as a whole.

Analysis of the panel data revealed certain characteristics of households that had reported having experienced arrears of some sort during the previous 12 months, or having had to go into debt to meet ordinary living expenses during the same period. These households were significantly more likely to be living on net incomes below the (60 per cent median) poverty line, to be dependent on social welfare as their main source of income, to contain children and to be renting from the local authority. Households living below the poverty line were found to owe less in terms of overall debt, but to be more likely to report utility debt, than those above it. A limitation of the sources used is that all data pre-date the economic downturn in 2008, although these findings were subsequently corroborated by a recent national study into 2008 SILC data (Economic and Social Research Institute, 2011); the ESRI study also revealed Irish levels of financial exclusion from mainstream banking, credit, savings and insurance services to be comparatively high by European standards. Research based on more recent (2009) data further illustrates that although the incidence of debt problems has grown across income groups, it is still strongly associated with those on lower incomes (Central Statistics Office, 2010). The available data indicate that over-indebtedness is still increasing (Central Bank of Ireland, 2011).

Table 1 Comparison of interview sample 2007 ($n = 36$), overall MABS client base 2006 ($n = 12,395$) and population, 2006

Feature	Interview sample %	MABS client base %	Population %
Urban	42	45	35
Rural	58	55	65
Female	61	64	50
Male	39	36	50
Social welfare main income	69	70	26
Families with children	69	57	54
Tenants	53	52	24
Purchaser/owner	31	26	75
Access €1,000 in an emergency	25	Not available	60
Median equivalised income	€237.20	€241.30	€337.50

Source: Interview Survey, 2007; MABS administrative data, 2006; Census, 2006; EU-SILC, 2006.

To gain a deeper understanding of the causes of debt problems at the household level, and to identify the impacts of debt advice on individual clients over the longer term, a qualitative interview survey of a quota sample of 36 MABS clients was carried out in the summer of 2007. These clients were broadly reflective of the overall MABS client base as shown in Table 1 above. The Table also illustrates the extent to which households who use MABS' services differ from the population at large. They are significantly more likely to be female-headed, recipients of social welfare, on lower incomes, with fewer savings and in rented, as opposed to owned or mortgaged, accommodation. This is still largely the case, although since 2008, the number of homeowners using MABS services has increased considerably (Money Advice and Budgeting Service, 2011).

Clients were interviewed between six and 12 months after they had first approached MABS, and were asked specific questions about their financial situation at the time of interview as compared to that at the time of their initial approach to MABS. Specifically, they were asked about income, savings, spending, debts and the causes and consequences of their debt problems. Questions used in the LIIS and EU-SILC on people's ability to make ends meet, to deal with a future crisis and to repay debts were included in the semi-structured questionnaire that was employed for these interviews.

The interview study has certain limitations. Only (then) existing clients were used for the sampling frame for confidentiality reasons, thus clients who had left the MABS service, or who had lost contact with it, were not included. The sample pool may, therefore, over-represent those who are more vulnerable or dependent and need the support of MABS over a longer period. Those that have started to pay down their debts more rapidly are likely to have ceased to be MABS clients. A longitudinal study, whereby clients would have been interviewed at the time of initial approach, and thereafter at periodic intervals, was not possible for logistical reasons. A further limitation is that the fieldwork pre-dated the current recession.

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Debt 'triggers'

The 'triggers' of debt problems among the interview respondents were identified, in the main, as relating to external factors such as unemployment, business failure, redundancy and ill-health. This had resulted in most experiencing a drop in income, although a complex interplay of factors was often involved which exacerbated the financial difficulties. Money mismanagement or poor financial planning was identified as a cause in around a third of cases. These findings are broadly in line with the emerging Irish evidence (Daly and Walsh, 1988; Daly and Leonard, 2002; Kearns, 2003; Conroy and O'Leary, 2005), and are also in line with a much larger body of research emerging in this area in other countries, as reviewed in the European Commission (2008) study.

Specific impacts

The five main areas of impact identified are discussed below: firstly, the extent to which debt advice enabled people to address immediate crises, alleviated the associated pressures and stresses of being in debt and led to changed relationships within the home; secondly, the impact of MABS in re-negotiating debt repayments, on enabling people to access and use appropriate repayment methods and on the reduction of outstanding debts over time; thirdly, the extent to which clients were now able to prioritise their expenditure, make the best use of their income and understand the importance of managing money; fourthly, the impact of MABS in enabling people to keep to their repayment plans, make ends meet and to sustain the changes made to their lifestyles; finally, the extent to which clients were able to cope with unexpected financial shocks, their ability to access affordable credit in the future and to maximise their incomes and assets.

Helping people cope with crises and pressure

MABS proved to be very successful in enabling people to deal with crisis debt, and helped people to avoid eviction, home repossession, utility disconnection, goods' repossession or committal to prison in respect of a particular debt or debts (half of respondents were in this position). Debt advice also had a considerable, initial impact in alleviating the pressure experienced by its clients, and the alleviation of pressure in the short-term had led to longer-term benefits in many cases, such as reported improvements in family relationships and in psychological health. The service was seen both as a 'buffer' between clients and their creditors, and as an 'empathiser' in understanding the situations respondents found themselves in. As in the more recent UK research, these non-financial benefits of debt advice were very important.

Repaying creditors and debts

The vast majority of respondents were repaying their debts to some extent, and there appeared to be few issues around liability and enforceability. MABS had assisted most people to re-negotiate the amount of their debt repayments: half were now spending less, and a quarter more, than when they first approached MABS. The re-establishment of communication between debtors and their creditors was a further impact in many cases. In Ireland, unlike in the UK, credit institutions do not contribute to the funding of debt advice services and initiatives. This finding suggests that in Ireland credit institutions could, and possibly should, play a funding role, as there are clear benefits to creditors from the work of such services.

As regards a suitable method of making the agreed payments, a clear majority reported that it was now easier 'physically' to make their payments compared with how it was before seeking advice. Payments through the credit union by way of a MABS client account, through the banking system, via the post office and by way of social welfare payments, were four examples given of easier payment methods that were now being used. In three cases, the periods between repayments had changed to facilitate the making of these payments. Thus, debt advice had clearly made a difference to the methods used by respondents to manage their available resources. In this regard, services were helping to promote financial inclusion, defined as the ability to both access and use appropriate financial services (Gloukoviezoff, 2006: 214).

However, it appeared that balances of debt were reducing very gradually. This finding was subsequently corroborated by analysis of administrative data pertaining to the totality of the MABS client-base. This is in contrast to the more rapid pace of debt reduction suggested in the UK studies, although the authors of one study suggest the figures quoted in this regard 'should be treated with some caution' (Pleasence *et al.*, 2007: 10). Only about a fifth of respondents felt that they owed 'considerably less' than when they first approached MABS, whereas the vast majority felt that they owed either 'a little less' or 'about the same'. These findings indicate that for these respondents, although the amount of outstanding debt was declining, it was doing so only very gradually. The majority reported that it would take at least five years to pay off outstanding debts.

Managing money

MABS also had a significant impact in the short-term in encouraging people to identify the resources available to them and the various demands on these resources. People had clearly made choices, cutbacks or increases in various areas of expenditure as a result. This led directly to longer-term changes in spending behaviour. Three-quarters of respondents replied that they were now more able to budget as a result of MABS, although actual spending on fuel and social activities remained largely unaffected.

For many respondents, cutting back on what they saw as 'extravagant' spending, keeping track of their money and shopping in cheaper stores had become normal practice. People were also prioritising their spending as a result of MABS. For example, in a number of instances, food and household bills were now being given higher prominence than before. The findings suggest that MABS had a significant impact in helping people make the best use of the money available to them, that is in terms of managing money, an important component of what has come to be referred to as 'financial capability' (Financial Services Authority, 2005).

A majority reported that they now understood more about money than they did before and in particular, in most of these cases, about how to budget. The replies from three respondents indicated that their involvement with MABS had resulted in them experiencing a 'wake-up call' with regard to money, and an acknowledgement of the need to give more consideration or respect to it.

Making ends meet

Several respondents to the interview survey were clearly having difficulties, six to 12 months on, in keeping to the repayment agreements that they themselves had made on the basis of MABS advice, or that MABS had made on their behalf. Over half of respondents, mainly those on the relatively higher incomes, reported that they were finding it 'easy' or 'fairly easy' to keep to the agreed repayments. What is of cause for concern, however, is that the remainder on lower incomes were not finding things so easy: 15 out of the 36 found some degree of 'difficulty' and, in one case, no repayments were being made at all.

Given the length of time that it will take respondents to repay debts, the likelihood is that unless there is a significant improvement in clients' resources, such difficulties will continue to grow. Inadequate resources to cope with ongoing demands on a limited budget, and the inability to see any realistic end in sight, appeared to be at the root of these problems.

Respondents were also finding it difficult to sustain the changes that they had made in their lifestyles. Two-thirds of respondents (24 out of 36) were finding at least some degree of difficulty in making ends meet, compared with a figure of 44 per cent for the population as a whole in 2001 (Whelan *et al.*, 2003) and 56 per cent for the population as a whole in 2006 (Central Statistics Office, 2007). Nearly a third of respondents were 'in difficulty' or 'in great difficulty' as compared with 10 per cent of the population as a whole in 2001 and 24 per cent in 2006.

Thus, despite the fact that those interviewed had received advice on budgeting over a considerable period, unlike the vast majority of the population and had made significant changes to their lifestyles as a consequence, the majority were just about managing to keep their heads above water financially. A real lack of resources was clearly at the root of these difficulties; the absence of a foreseeable 'way out' appeared to be compounding them.

MABS had clearly had some impact on people's sense of wellbeing or their quality of life, particularly through its initial support and interventions, but again the impact for many appeared to be reducing as time passed. Although the vast majority (29 out of 36) felt that their quality of life was now better compared with when they first approached MABS, on closer examination, under half of the sample reported that it was now 'much better'. For the remainder, the impression from the interviews was that their quality of life had either not improved at all, or at best, only slightly.

Financial security

The financial insecurity of MABS clients was another issue to emerge. Interviewees were asked how they would cope with an unexpected expense of €1,000; three quarters reported that they could not afford such an expense out of the resources readily available to them. This compares with a figure of 40 per cent for the population as a whole in the same period (Central Statistics Office, 2007).

Another way of dealing with an impending crisis or need is to borrow the money. The majority of interview respondents (19) replied that they would not be able to do so and only 15 (42 per cent) replied that they could. Less than a third of clients felt that they would be able to borrow from the credit union, which is cause for concern given the

Table 2 Overall assessment of MABS' debt advice impacts on interview respondents, 2007

Strong impacts	Minimal impacts
Resolution of crisis debt	Dispute of liability
(Re-) communication with creditors	Reduction in level of debt
Arrangements for debt repayment	Ability to repay debt over time
Re-assessment of spending	Ability to make ends meet
Access to appropriate repayment method	Quality of life
Understanding of money	Ability to deal with future crises
Alleviation of pressure	Access to affordable credit
Improvement in health	Amount of ongoing income
Improvement in relationships	Amount of assets

movement's links with MABS. Five of the 25 who gave a potential borrowing source, cited moneylenders as that source which suggests that these respondents saw no cheaper or more accessible alternative. Only a fifth of respondents cited mainstream credit sources, such as banks and building societies. Four respondents cited family sources as their only source of borrowing. Access to future credit is an important issue in the context of the role of debt advice in combating financial exclusion (Gloukoviezoff, 2006). The majority of respondents, however, appeared to lack both sources, and perhaps more importantly resources, to access and use affordable credit.

People were living by and large on relatively fixed incomes, although, in some cases, MABS enabled people to access entitlements of which they were not previously aware. In some cases, these were one-off payments for specific things, in other instances people were assisted to claim weekly supplements or higher payments. In nearly a quarter of cases, respondents had, as a direct result of MABS, a higher regular income than when they first approached MABS. However, it was still not enough to live on for most. In one case, a respondent reported that as a result of getting on top of her financial problems, she now had more confidence both to seek work, and to find it.

Conclusions

The evidence from this study (summarised in Table 2) suggests that the overall impact of 'person-focused' debt advice, in an Irish context, is to alleviate, rather than resolve, clients' financial and associated difficulties. There are three main reasons for this. Firstly, service clients, and over-indebted households in general, have significantly fewer resources and options than the population at large. Secondly, the causes of their debt problems are predominantly socio-economic and externally triggered, rather than being related to poor budgeting or money mismanagement. The 'treatment', therefore, although helpful and bringing real benefits to clients, is not entirely appropriate to the underlying problem cause in the majority of cases.

Thirdly, there are no legal or institutional mechanisms of which the clients in question (and indeed over-indebted people in general) can avail. Thus, many of the people interviewed appeared to have become trapped in long, drawn-out repayment plans, negotiated through MABS, leaving them to struggle on, albeit supported by debt advisers, with little hope of becoming debt free within any sort of foreseeable period. The arrangements made had clearly assisted clients to resolve immediate crises, but did little to assist with debt resolution long-term for those on very low incomes. The (MABS) objective of facilitating clients to achieve long-term financial stability and independence was rarely met, and appears to be unrealistic in the absence of complimentary measures.

The findings suggest that there is a need to evaluate the impact of person-focused debt advice differently in Ireland. The emphasis to date has largely been on numbers and statistics. This study suggests that if the debt advice interventions had occurred earlier, people may not have fallen so heavily into debt; and further, that the 'non-financial' impacts of debt advice, particularly on health, relationships and wellbeing, were considerable. Taken together, these findings imply that there may be a big payback to society as a whole from increased public investment in money (including debt) advice at earlier stages.

In addition, the findings point to a need for a greater range of legal and institutional arrangements with fixed-term conditions, and the opportunity to resolve a debt issue once and for all at the end of a prescribed period; this would assist not just MABS clients, but over-indebted people in general. Private actors such as insolvency practitioners and debt management companies may have a role to play in assisting those, unlike most MABS clients, with the means to pay for such services. The UK experience illustrates that such companies must be properly regulated, and their activities adequately monitored and 'policed', otherwise their existence may only serve to exacerbate rather than resolve people's difficulties in many cases. The findings of this study imply that publicly funded debt advice does much more, however, than help people to manage their debts.

The support that MABS debt advice provides, and the importance of its advocacy (including welfare advocacy) role to service users, both of which were strongly identified in the study, suggest that it should remain outside the system, albeit as a friend of it, or *amicus curiae*. A more systemic and 'official' role for MABS is proposed in the current Programme for Government, which contains a commitment to turn MABS into a 'strengthened Personal Debt Management Agency with strong legal powers' (Department of the Taoiseach, 2011). Aside from the question of the 'space' MABS should most appropriately occupy, there seems to be a potential conflict of role issue here if a debt advice provider is being asked to be an 'advocate' at one point and an 'adjudicator' at another; the latter function would arguably be better performed by someone independent of debtor and creditor, a quasi-judicial mediator for instance.

Finally, Orton's longitudinal UK study concluded, among other things, that 'there is a depressingly familiar finding of low income holding back people's ability to move beyond over-indebtedness' (Orton, 2010: 3). This appears to be as true in Ireland as it is in the UK. Further, Irish levels of financial exclusion are very high compared to other European countries and, on the evidence of this study, MABS' clients appear to be particularly vulnerable. Consequently, unless the real lack of resources and options available to many of its clients is addressed, even with enhanced legal and institutional measures, MABS' debt advice may often be able to do little more in the long term than help people manage their poverty. A more strategic approach to tackle both over-indebtedness and financial exclusion is, therefore, needed.

Note

1 'Over-indebtedness' is defined as a persistent inability to meet essential living expenses and debt repayments as they fall due from net household resources.

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