Finnish Retail lending Market study

June 2019

accenturestrategy

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Context of the study

In June 2019, Accenture was engaged on behalf of the International Personal Finance Group (IPF) to assess Finnish indebtedness and root causes behind the debt problems as well as compare Finland to other similar countries

Objective and scope of the study

- Objective of the study was to create a **neutral overview of**
  - Finnish household indebtedness
  - Causes behind debt problems
  - Comparison to other similar countries and their approaches for regulation
- Scope of the study included **a fact-based assessment of the current state**

How the study was conducted

- **Interviews with relevant stakeholders:** 16 expert interviews with companies, authorities and organizations
- **Data Analysis:** Detailed analysis of all relevant data sources, e.g. Suomen Pankki, Tilastokeskus, OECD
- **Secondary research:** Gathered and reviewed large volume of available secondary research, e.g. academic studies and media articles

Timeline

- The study took place in May-June 2019
- Duration of the study was 5 weeks

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Conclusions of the study

1. **Finnish household debt/income has significantly increased mainly driven by housing related loans**. Housing related loans account roughly 80 %, while **consumer loans account 10 %**. Compared to other Nordic countries debt/income is still relatively low

2. **Number of payment default notices and enforcements are increasing.** Compared to the peer group countries, Finland is the only country where payment problems are clearly increasing. The biggest reasons for enforcements are taxes, social & health service payments and fines accounting total of 50%, while consumer loans account roughly 10%

3. **Based on the expert interviews, consumer lending related problems are typically complex and driven by several different root causes.** These include, for example, lack of financials skills, sudden changes in life situation, inadequate information or conscious risks when providing loans

4. **The new Finnish consumer credit regulation mainly driven by low fixed nominal interest rate cap is exceptional compared to the peer group.** Experts indicate low interest rate cap to favor longer repayment times and larger loan amounts, probably increasing the amount of payment problems

5. **Peer group countries with a more diverse set of regulatory tools have been able to decrease payment problems.** These countries are using several regulatory mechanisms for licensed & supervised market, consumer affordability and sanctions, and have seen a positive trend in payment problem metrics

The findings of the study indicate that instead of price cap driven regulation, Finnish regulators should adopt a more diverse set of mechanisms to address the complex root causes of the payment problems

Notes: Peer group countries include Australia, Estonia, Germany, Lithuania, Slovakia, Spain and Sweden. Expert interviews included total of 16 interviews with companies, authorities and organizations

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Agenda

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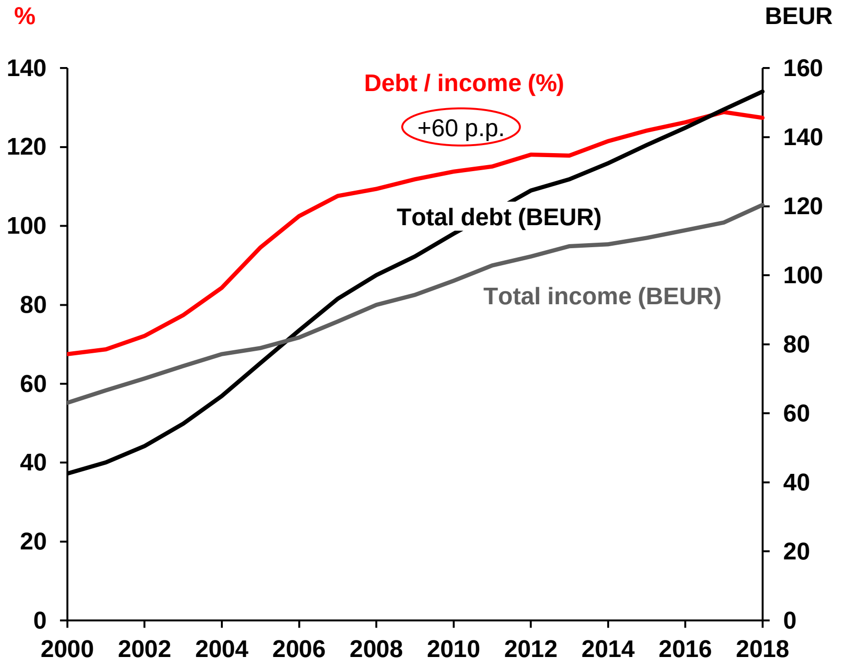
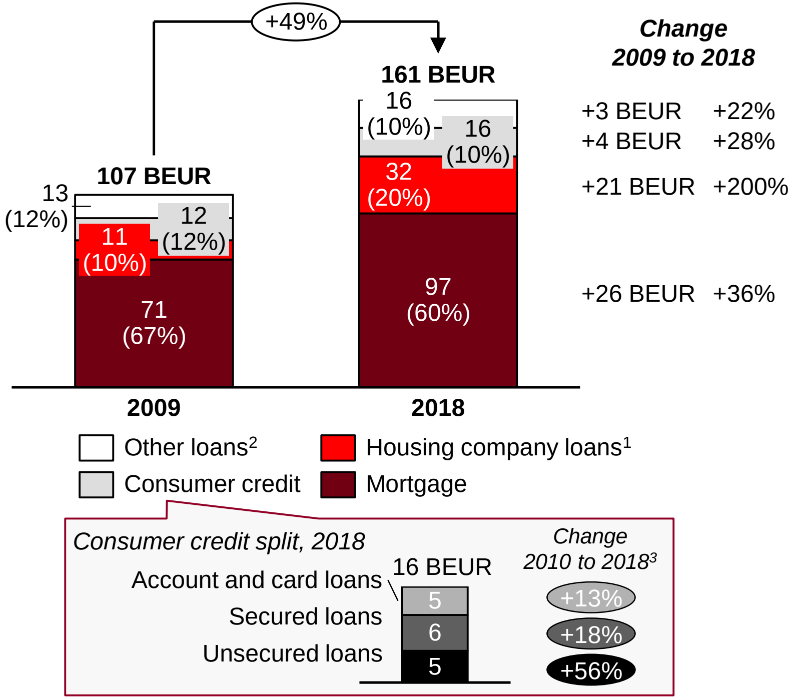
Growth of the household indebtedness in Finland has been driven by a significant increase in housing related loans

Household indebtedness in Finland

Development of household debt and income in Finland[1]



Total household debt in Finland[2]



Sources: [1] Statistics Finland – Household debt and income; [2] Bank of Finland, Loans of Finnish Households & Housing Companies

Notes: 1) Statistics Finland estimates that 2/3 of total are for household housing company loans; 2) Mainly loans for stock and bond investing purposes, study loans and leisure residences; 3) Consumer credit split data available only from 2010 onwards

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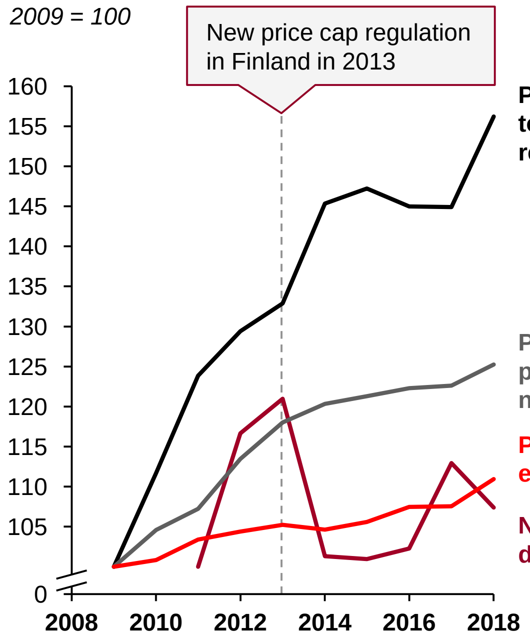
All major payment problem metrics have been increasing with problems focusing on few age and income groups

Development of payment problems

Development of major debt payment problem metrics (indexed)



	2009	2018	Change
People applied to debt restructuring[1]	2,8 k	4,5 k	+56%
People with payment default notice[2]	305 k	380 k	+25%
People in enforcement[1]	420 k	460 k	+11%
New payment default notices[2]	1,5 M[1]	1,6 M	+7%

Groups[2] with current and emerging problems

Moderately growing large group:

Age group 35-44 and income group II[3] are the most problematic groups with large and growing number of people in enforcement

Income group II

Age group 35-44

Large group with no change in size:

Age groups 25-34 and 45-54 also have large number of people in enforcement with a difference that the growth of problems is stagnant

Age group 25-34

Age group 45-54

Small but fast growing group:

People above 65 year old have the lowest share of people in enforcement but the number of people with problems is growing rapidly

Age group >75

Age group 65-74

Notes: 1) 2011 value for new payment default notices; 2) Age groups and income groups can be overlapping; 3) Annual income per person in 2017 14-17 kEUR

Sources: [1] Statistics Finland – Debt restructuring and enforcement statistics; [2] Suomen Asiakastieto – Statistics of payment default notices

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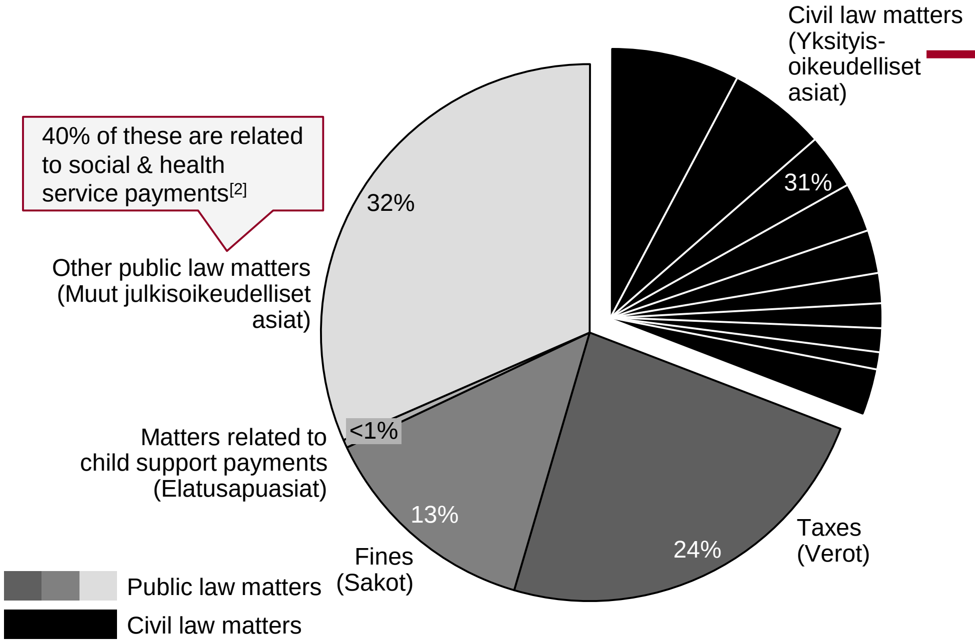
Taxes, fines and other public law matters cause majority of enforcements; lending firms account roughly 10% of reasons

Reasons for enforcement (ulosotto)

Reasons for enforcement in 2018, both from natural persons (~90%) and companies and organizations (~10%)[1]



Approximate split of civil law matters based on random sample study (court judgements[1] related to natural person debt from private sector)[3]

Type of original debt/creditor	Approximate share of total reasons[2,3]	Trend 2013-2016
Lending firms (instant & consumer loans)	10%	↘
Distance selling firms	7%	↗
Telecommunications (operator & TV)	4%	↗
Housing (rent, electricity & others)	4%	↗
Newspapers and periodicals	3%	↗
Credit card debt	2%	→
Bank as creditor / other banking issues	1%	→
Peer-to-peer loans	1%	→
Health services	<1%	→
Other (e.g. insurance) & unknown	5%	↗

Notes: 1) Study excluding student loans and housing loans; 2) Estimate based on enforcement reason data from Valtakunnanvoudinvirasto and court judgement data from the study (n=968) 3) One court judgement can include several types of debt/creditor

Source: [1] Valtakunnanvoudinvirasto (2019): Ulosotto Suomessa; [2] SOSTE (2019); [3] Majamaa & al. (2017): Viime vuosien muutokset vakavissa velkaongelmissa

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Consumer lending related problems are typically complex and driven by several different root causes

Overview of root causes for consumer debt problems based on expert interviews

"Debt problem journey"

Lack of financial skills and insufficient planning of financial matters make individuals prone to debt problems

Certain groups of consumers, e.g. people with addictions or too low absolute income, are more at risk

"**Shock", such as life situation change or sudden expense** can risk the financial situation due to a major decrease in income or a major increase in expenses

Easier availability, increased advertising, larger loan amounts and longer repayment times can increase negligent management of financial matters

Continuous overconsumption combined with paying existing loan repayments with new loans is a significant reason for having debt problems

Problematic loan providing occurring from lack of common rules and inadequate information for providing loans can increase the magnitude of debt problems

Lack of information or threshold to get needed debt counselling can extend problems

Problems become evident. There are multiple sources of debt, and the payment default notice can be triggered by any of them, regardless of the root cause of the problem

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Finland is compared to the selected countries in terms of indebtedness, payment problems and regulation

European OECD countries' household debt/income and GDP

Country	Debt/income '17[1]	GDP/capita, k$[2],'18
Denmark	281%	56
Netherlands	243%	57
Norway	236%	64
Switzerland[3]	212%	69
Australia[4]	216%	54
Sweden	186%	53
Luxembourg	183%	112
Ireland	153%	84
UK	149%	46
Finland[5]	138%	49
Portugal	134%	34
Average	*129%*	49
France	120%	46
Belgium	117%	51

Country	Debt/income '17[1]	GDP/capita, k$[2],'18
Spain	116%	41
Greece	105%	30
Germany	93%	54
Austria	92%	56
Italy	87%	42
Estonia	80%	36
Slovakia	78%	34
Czechia	66%	40
Poland	62%	32
Slovenia	57%	39
Latvia	48%	31
Lithuania	44%	36
Hungary	43%	31

- ***Highlighted countries*** *are selected for further analysis. Selection includes countries with different regulation mechanisms, different debt/income levels and different GDPs*
- *Selection methodology is elaborated in more detail on page 45*

Sources: OECD (2019), "Household debt" (indicator); OECD (2019), "GDP per capita"

Notes: OECD data do not contain Iceland household debt; 1) Calculated by dividing total debt with total net disposable income; 2) OECD GDP per capita based on USD, constant prices, 2010 PPPs; 3) Switzerland data only until 2016; 4) Australia is added as an additional country to supplement the peer group of European OECD countries; 5) OECD definition of debt is wider that Statistics Finland's, therefore debt/income for Finland is higher

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Finland differs from the peer group due to increasing payment problems and different approach to price cap

Key findings from the peer group comparison

Finland stands out with increase in payment problems

- Share of people with payment problems has increased significantly and is high compared to the peers
- In the peer group countries, payment problem metrics have been either decreasing or stagnant. Good macroeconomical development after financial crisis has been a major driver in the positive trend

Most peer countries have more diverse approach to regulation

- Most peer countries use more mechanisms for licensed market (e.g. authority supervision), sanctions (e.g. revoking license) and consumer affordability (e.g. affordability rule)
- For example, Lithuania has been able decrease payment problems with 1) License system with active monitoring 2) Positive credit register and income register 3) 40% affordability rule 4) Total Cost of Credit cap 5) Special restrictions for advertising and loan availability

Finland's approach to the price cap differs from other countries

- Countries with more diverse regulation have price cap either based on Total Cost of Credit (TCC) or Annual Percentage Rate (APR). Finland is an exception with regulating nominal interest rates and other fees separately
- New Finnish approach to price cap favors longer repayment times and larger loan amounts compared to TCC or APR based price cap

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Finland stands out from the peer group as the only country with increasing payment problems

Evaluation of overall current state and trend of payment problems

	Overall current state and trend of payment problems	Evaluation
Estonia	▪ Share of people in arrears and non-performing loans to total loans both better than OECD average and decreasing ▪ Other payment problem metrics have also decreased in recent years	
Australia	▪ Non-performing loans to total loans better than OECD average and decreasing ▪ Variation between different payment problem metrics, some are decreasing and some are increasing	
Germany	▪ Share of people in arrears and non-performing loans to total loans better than OECD average and stagnant ▪ Stagnant or decreasing development in other payment problem metrics	
Sweden	▪ Share of people in arrears and non-performing loans to total loans better than OECD average. Share of people in arrears decreasing while non-performing loans increasing ▪ Other payment problem metrics also indicate stagnant development	
Lithuania	▪ Share of people in arrears is worse than OECD average and non-performing loans to total loans better, but both have decreased ▪ Other payment problem metrics also indicate decreasing trend	
Slovakia	▪ Both share of people in arrears and non-performing loans to total loans only slightly better than OECD average but having a decreasing trend ▪ Decreasing development in other payment problem metrics as well	
Finland	▪ Share of people in arrears is worse than OECD average and stagnant while non-performing loans to total loans is better but has increased ▪ Other payment problem metrics have been also increasing	
Spain	▪ Share of people in arrears and non-performing loans to total loans worse than OECD average but the recent trend has been decreasing ▪ Other payment problem metrics have also significantly decreased	

Evaluation of metrics

- Metrics better than OECD average
- Metrics varying around OECD average
- Metrics worse than OECD average
- Payment problems are decreasing
- Stagnant trend in payment problems
- Payment problems are increasing

Bank of Lithuania, Credit and Payments Services Supervision Division[1]:

Restrictions especially in terms of creditworthiness assessment determined significant changes in the market: decreased provision of new consumer credits (most in smallest payday loans, <290 EUR), decreased amount of overdue loans and the interest rate dropped

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Sources: See country specific analyses in appendix for full list of sources

Notes: 1) See page 61 for additional comments from Bank of Lithuania

Lithuania, Estonia and Australia are assessed to be countries with most diverse set of regulatory measures

Finland differs remarkably in regulation from the peer group countries

		Lithuania	Estonia	Australia	Slovakia	Germany	Sweden	Spain	Current Finland	9/2019 → Finland
Diversity of regulation measures	License and market entry requirements	●	●	●	●	●	◕	○	◔	◔
	Sanctions for breaches	◕	●	●	●	◕	◕	◔	◔	◕
	Consumer affordability	●	◕	◕	◕	◔	◔	◔	◔	◔
	Advertising and contractual terms	●	◑	◑	○	◑	◑	○	◑	◑
	Scoring summary	10 / 11	9 / 11	9 / 11	8 / 11	7 / 11	6 / 11	2 / 11	4 / 11	5 / 11
	Summary of regulation diversity	● Diverse	● Diverse	● Diverse	◕ Moderate	◕ Moderate	◕ Moderate	◔ Light	◕ Moderate	◕ Moderate
	Cap logic for cost of credit	TCC cap + fixed nominal interest rate cap + fixed other fee cap	Relative APR cap	Several mechanisms, depends on loan amount and maturity	Relative APR cap	Relative nominal interest cap	TCC cap + fixed nominal interest rate cap	None	Fixed APR cap for loans less than 2000€	Fixed nominal interest cap + fixed other fee cap

Sources: See country specific analyses in appendix for full list of sources

TCC = Total cost of credit; APR = Annual Percentage Rate; Nominal interest rate cap = The maximum rate of nominal interest of credit restricted, other fees restricted separately

◔ Light set of regulatory measures = 1 p.
◕ Moderate set of regulatory measures = 2 p.
● Diverse set of regulatory measures = 3 p.

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Different cost of credit cap logics are used in the peer group countries

Overview of different cost of credit cap logics and comparison of countries

	Nominal interest rate cap	Annual Percentage Rate (APR)	Total Cost of Credit (TCC)	Several mechanisms in use
Description of cap logic for cost of credit	▪ Only the maximum rate of nominal interest of credit is restricted ▪ Other fees are restricted separately	▪ Maximum annual percentage rate for all costs, includes both nominal interest and other fees	▪ Maximum for total cost of credit is limited. Therefore, APR depends on the maturity of the credit	▪ The price cap mechanism depends on the loan amount and maturity of the credit
Comparison of country specific logics	**Finland** ▪ Starting from 09/2019, maximum annual interest rate is 20%. Max daily amount of other fees is 0,01% of the credit and max 150 EUR annually ▪ Currently, the max is 50% APR for only loans less than 2000€ **Germany** ▪ Max nominal interest rate is double or max +12 p.p. above average market rate calculated by the Central Bank (in 2018, maximum interest rates were around 15-20%) ▪ In general, additional fees are not allowed (based on earlier court decisions)	**Estonia** ▪ Maximum cap of three times the average APR for consumer credits calculated by Bank of Estonia ▪ In 2018, the maximum APR for consumer credits was ~60% **Slovakia** ▪ Max cap of two times average APR (includes also voluntary costs and linked services) calculated by Bank of Slovakia based on banking sector rates ▪ In 2018, the maximum APRs for consumer loans were around 15-30% depending on the loan amount and maturity	**Lithuania** ▪ Total cost of credit can not exceed the total loan amount ▪ Max annual nominal interest rate is 75% ▪ Cap for other costs is 0,04% per day **Sweden** ▪ Total cost of credit can not exceed the total loan amount ▪ Max annual nominal interest rate is 40%	**Australia** ▪ For small amount credit (<$2k, <1y) – No interest can be charged – Establishment fee max 20% of credit amount and monthly fee max 4% of credit amount ▪ For medium amount credit ($2k-5k, <2y) – Max annual cost rate (ACR*) of 48 % and max establishment fee of $400 **) ACR is similar to the APR with some local differences, e.g. excluding establishment fee*

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Sources: See country specific analyses in appendix for full list of sources

Diverse regulation mechanisms complement observations from the expert interviews to tackle debt problem issues

Different mechanisms from Lithuania and potential ways to decrease debt problems

Ways to decrease debt problems from the expert interviews mapped on the debt problem journey*

- Lack of financial skills
- Risk groups
- "Shock", such as life situation change or sudden expense
- Easier availability & increased advertising
- Continuous overconsumption & paying credit with credit
- Problematic loan providing
- Lack of information or threshold to get help
- Problems become evident

- Preventive work and education, and helping of risk groups
- Regulation changes and common rules, advertising restrictions and monitoring
- Positive credit register, income register and other registers and tools
- Easy access debt counselling, debt restructuring and social credit

Regulation mechanisms used in Lithuania

- License requirements
  - Inadequate information → Removal of license
- Publicly available list of licensed companies, actively monitored by BoL
  - In case of breach → Removal of license
  - In case of breach → Financial fines
- Adverti-sement restrictions
- Centrally managed positive credit register
- Centrally managed income register
- 40% affordability rule
- 75% nominal interest rate cap and TCC max 100% of the loan amount
  - In practice, affordability rule and TCC cap lead to substantially lower annual interest rates than 75%
- Two day cooling-off period and restricted loan taking during 10pm-7am

*) Non-exhaustive TCC = Total cost of credit; Nominal interest rate cap = The maximum rate of nominal interest of credit restricted, other fees restricted separately; BoL = Bank of Lithuania

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Agenda

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Overview of indebtedness and retail lending in Finland

Conclusions

1 **The major increase in debt/income is driven by significantly faster growth in total household debt compared to income**

- Household debt growth has been mainly driven by increases in mortgages and housing company loans
- Housing company loans and unsecured consumer credit loans are two fastest growing household debt categories
- Housing related loans are large and consolidated market while consumer credits are much smaller and fragmented

2 **All major debt payment problem metrics are growing in Finland**

- Number of people in enforcement is 460k with 11% increase during last ten years
- Number of people with payment default notice is 380k with 25% increase during last ten years
- The problems can be seen to accumulate to same people. On average, a person with payment default notices has 15 separate records

3 **People in age group 35-44 and income group II are the most problematic with large and increasing problems**

- Age groups 25-34 and 45-54 also have large number of people in enforcement with a difference that the growth of problems is stagnant
- People above 65 year old have the lowest share of people in enforcement but the number of people with problems is growing rapidly
- Payment problems occur rather evenly across all regions in Finland

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Indebtedness and payment default notices have increased significantly during the last ten years in Finland

Overview of current situation in Finland, 2018

Household debt/income has increased by +60 p.p. since the beginning of the millennium

127%
Household debt / income

- **+44 p.p.** increase from 2000 to 2008
- **+16 p.p.** increase from 2009 to 2018
- **161 BEUR**, amount of total household debt in 2018

Total debt has increased much faster than total income, which drives household indebtedness

+49%
Increase in total household debt since 2009

- **+57%** increase in average household debt from 2009 to 2018
- **+27%** increase in GDP in same period
- Total household debt has grown **170 p.p.** more than total income in 2000-2018

Total household debt increase is mainly driven by growth of housing related debts

80%
Share of housing related debt of total debt

- **10%** share of consumer credit loans and **10%** share of other loans
- **+200%** increase in housing company loans from 2009 to 2018
- **+56%** increase in non-secured loans from 2010 to 2018

All major debt payment problem metrics have grown during the last ten years

+25%
More people with payment default notices since 2009

- **380 000** people with payment default notices in 2018
- **25%** are in the age group of 25-34
- **~0,5 million** people in enforcement in 2018

Sources: Bank of Finland, Statistics Finland, Suomen Asiakastieto

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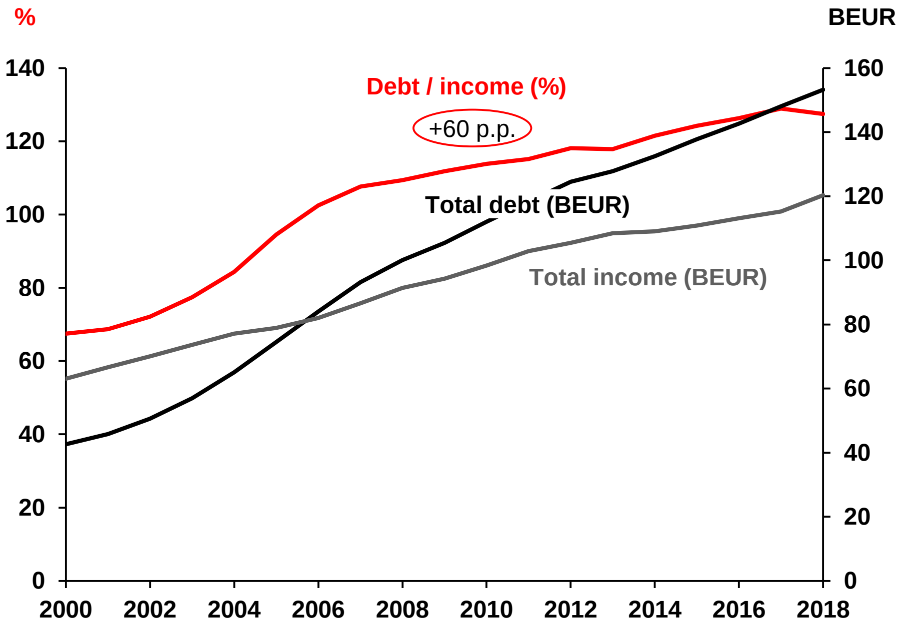
Total debt has increased much faster than total income, which drives the growth of household indebtedness

Relative indebtedness in Finland

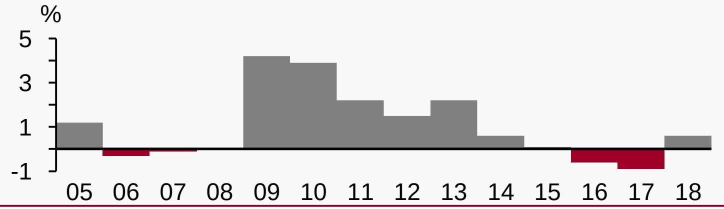
Development of household debt and income in Finland[1]



Remarks

- The growth in debt/income is driven by significantly faster growth in total household debt compared to income (**+260% vs. +90%** 2000-2018)
- The fast growth rate of relative indebtedness at the beginning of the millennium (**+44 p.p.** 2000-2008) has slowed down (**+16 p.p.** 2009-2018)
- Simultaneously with increase in indebtedness, households' saving rate has had a decreasing trend since 2009. However, in 2018 saving rate returned to slightly positive

Household saving rate[2]



Note: Households' saving rate formula:
(disposable income – consumption expenditure) / disposable income

Sources: [1] Statistics Finland – Household debt and income; [2] Statistics Finland – Household saving rate

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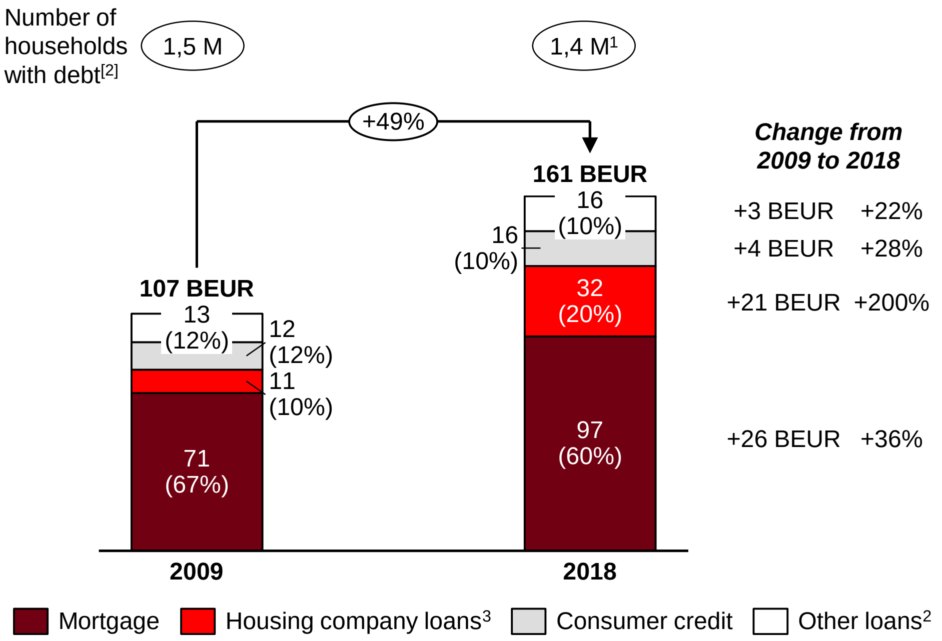
Housing company loans and unsecured consumer credit loans are two fastest growing household debt categories

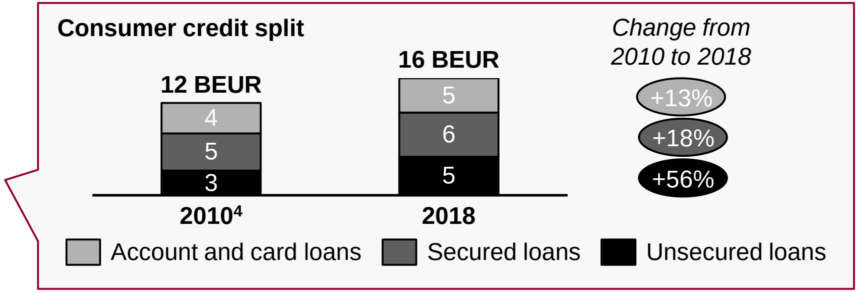
Household debt in Finland

Total household debt in Finland[1]



Remarks

- Total amount of household debt in Finland has grown by 49% in last ten years mainly driven by 36% increase (26 BEUR) in mortgage and 200% increase (21 BEUR) in housing company loans
- Unsecured loans have also grown rapidly (+56%), but the absolute increase amounts only roughly to 2 BEUR
- Average debt per household has increased by 57% from 72 kEUR in 2009 to 113 kEUR in 2018[1]



Notes: 1) Household number from 2017; 2) Mainly loans for stock and bond investing purposes, study loans and leisure residences; 3) Statistics Finland estimates that 2/3 of total are for household housing company loans; 4) Consumer credit split data available only from 2010 onwards

Sources: [1] Bank of Finland, Loans of Finnish Households & Housing Companies; [2] Statistics Finland, Household Indebtedness

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Housing related loans are large and consolidated market while consumer credits are much smaller and fragmented

Overview of different categories

Loan categories	Description	Total debt in 2018 (BEUR)[1]	Change in 2009-2018[1]	Market consolidation	Examples of key players
Mortgage loans	▪ Category includes loans taken for mortgages ▪ Loans are mainly provided by traditional banks	97	+36%		These three players have ~80% market share in mortgage loans[1]
Housing company loans	▪ Loans taken by housing companies mainly for building new houses or renovation	32	+200%		
Consumer credit: Account & card loans	▪ Continuous consumer credits with a credit limit ▪ Examples include credit cards or flexible credits	5	+13%*		
Consumer credit: Secured loans	▪ One-time consumer credit with collateral ▪ For example, loan for car purchase or renovation	6	+18%*		
Consumer credit: Unsecured loans	▪ One-time consumer credit loans without collateral ▪ For example, instant loans and loan aggregators	5	+56%*		~60 non-bank loan providers[2]
Other loans	▪ Mainly loans for stock and bond investing purposes, study loans and leisure residences	16	+22%	N/A	

Sources: [1] Bank of Finland, Loans of Finnish Households & Housing Companies; [2] Regional State Administrative Agency of Southern Finland

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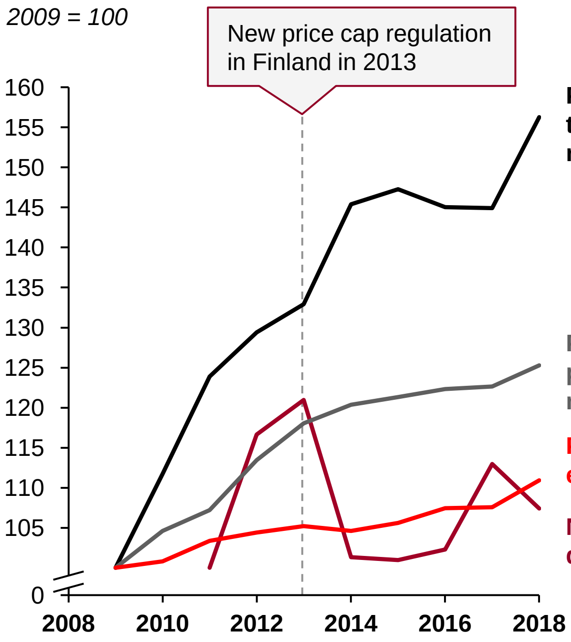
High consolidation in the market
Low consolidation in the market

All major debt payment problem metrics are growing – there are 460k people in enforcement

Development of payment problems

Development of major debt payment problem metrics (indexed)



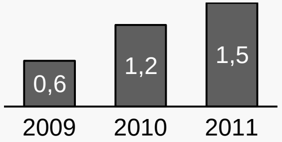
	2009	2018	Change
People applied to debt restructuring[2]	2,8 k	4,5 k	+56%
People with payment default notice[1]	305 k	380 k	+25%
People in enforcement[2]	420 k	460 k	+11%
New payment default notices[1]	1,5 M[1]	1,6 M	+7%

Remarks

- After the price cap regulation in 2013, the number of new payment default notices decreased by 16%
- The problems can be seen to accumulate to same people. On average, a person with payment default notices has 15 separate records[1]
- Only ~1% of people in enforcement have applied to debt restructuring
- In addition, the amount of contacts to Guarantee Foundation's (Takuusäätiö) debt line has grown by 115% between 2014-2018 and the average debt of caller has increased from 24 kEUR to 34 kEUR[3]

New payment default notices metric is comparable only from 2011 due to new regulation in April 2010, resulting in every debt in enforcement to generate a separate payment default, i.e. no groupings

New payment default notices (million)



Notes: 1) 2011 value for new payment default notices

Sources: [1] Suomen Asiakastieto – Statistics of payment default notices; [2] Statistics Finland – Debt restructuring and enforcement statistics; [3] Guarantee Foundation (Takuusäätiö) – Contacts to debt line

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People in age group 35-44 and income group II are the most problematic with large and increasing problems

Groups with current and emerging problems

Groups[1]		People in enforcement in the group ('000)[1]		Change in 2014-2018	Male/female split in enforcement[1]		Debt / income[2]	Change in 2013-2017
					Male	Female		
Moderately growing large group: Age group 35-44 and income group II[2] are the most problematic groups with large and growing number of people in enforcement	Income group II	94 (17%)	539	+12%	n.a.[3]		57%	-3 p.p.
	Age group 35-44	106 (15%)	698	+12%	62%	38%	189%	+7 p.p.
Large group with no change in size: Age groups 25-34 and 45-54 also have large number of people in enforcement with a difference that the growth of problems is stagnant	Age group 25-34	105 (15%)	705	+4%	61%	39%	174%	-13 p.p.
	Age group 45-54	97 (14%)	680	-2%	61%	39%	126%	+9 p.p.
Small but fast growing group: People above 65 year old have the lowest share of people in enforcement but the number of people with problems is growing rapidly	Age group >75	9 (2%)	500	+48%	51%	49%	17%	+5 p.p.
	Age group 65-74	31 (5%)	650	+41%	63%	37%	44%	+6 p.p.

Notes: 1) Age groups and income groups can be overlapping; 2) Annual income per person in 2017 14-17 kEUR; 3) Male / female segmentation not available for income groups

Sources: [1] Statistics Finland – Population statistics & people in enforcement; [2] Statistics Finland – Household Indebtedness

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Most payment problems exist in age groups 25-34 and 35-44 but problems with people above 65 year increase the most

Summary of metrics by age groups

Age group	People with payment default notice (thousands)[1]			People in enforcement (thousands)[2]			Debt / income[3]		Total debt / hh, average (kEUR)[3]		Income / hh, average (kEUR)[3]		Debt breakdown (mortgage/other)[3]	
	2018	% of ppl in group	2016-2018	2018	% of ppl in group	2014-2018	2017	2013-2017	2017	2013-2017	2017	2013-2017	2017	
< 24	31	5%	-8%	46	8%	-12%	66%	-5 p.p.	13	-6%	20	+1%	58%	42%
25-34	92	13%	-1%	105	15%	+4%	174%	-13 p.p.	63	-7%	36	0%	81%	19%
35-44	89	13%	+7%	106	15%	+12%	189%	+7 p.p.	95	+5%	50	+1%	81%	19%
45-54	77	11%	-2%	97	14%	-2%	126%	+9 p.p.	66	+13%	53	+5%	68%	32%
55-64	60	8%	+6%	71	10%	+12%	76%	+8 p.p.	35	+18%	46	+5%	55%	45%
65-74	16	3%	+3%	31	5%	+41%	44%	+6 p.p.	16	+19%	35	+3%	47%	53%
> 75	15	3%	+22%	9	2%	+48%	17%	+5 p.p.	4	+49%	26	+8%	49%	51%

Sources: [1] Suomen Asiakastieto – Statistics of payment default notices; [2] Statistics Finland – Enforcement statistics; [3] Statistics Finland – Household debt and income

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Income group II include by far the most people in enforcement; problems in high income groups are increasing

Summary of metrics by income groups

Income group (Annual income per person, 2017, kEUR)		People in enforcement (thousands)[1]			Debt / income[2]		Total debt / hh, average (kEUR)[2]		Income / hh, average (kEUR)[2]		Debt breakdown (mortgage/other)[2]	
		2018	% of ppl in group¹	2014-2018	2017	2013-2017	2017	2013-2017	2017	2013-2017	2017	
I	<14,0	49	9%	+4%	73%	-6 p.p.	9	-4%	13	+4%	55%	45%
II	14,0-17,0	94	17%	+12%	57%	-3 p.p.	11	-1%	20	+4%	67%	33%
III	17,0-19,7	56	10%	+2%	76%	-4 p.p.	19	-2%	25	+3%	73%	27%
IV	19,7-22,3	42	8%	+7%	94%	-4 p.p.	29	-2%	31	+1%	76%	24%
V	22,3-24,9	39	7%	+2%	109%	-1 p.p.	38	0%	35	+1%	78%	22%
VI	24,9-27,6	39	7%	+4%	118%	0 p.p.	47	+2%	40	+2%	78%	22%
VII	27,6-30,9	38	7%	+7%	127%	+3 p.p.	58	+4%	45	+2%	78%	22%
VIII	30,9-35,3	36	7%	+10%	130%	+4 p.p.	67	+5%	52	+2%	77%	23%
IX	35,3-43,0	31	6%	+10%	134%	+7 p.p.	82	+8%	61	+3%	74%	26%
X	>43,0	26	5%	+11%	122%	+8 p.p.	127	+13%	104	+6%	62%	38%

Sources: [1] Statistics Finland – Enforcement statistics; [2] Statistics Finland – Household debt and income

Notes: 1) Share of group is calculated from 2017 total amount of people in the income group

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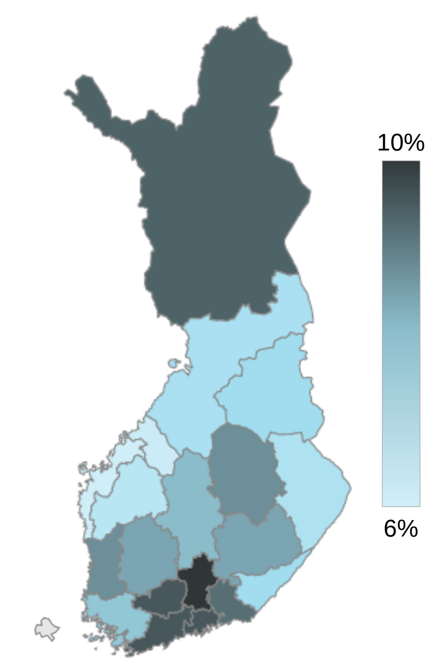
Payment problems occur rather evenly across all regions in Finland

Geography split for payment defaults and debt / income

People with payment default notices by regions (Q1/2019)[1]



People with payment default notices (Q1/2019)[1] and debt / income by regions (2017)[2]

Region	People with payment defaults	Debt / income*	Change 2008-2017
Päijät-Häme	9,4%	100%	-3 p.p.
Kanta-Häme	8,7%	114%	-2 p.p.
Uusimaa	8,7%	121%	+13 p.p.
Lappi	8,6%	91%	+1 p.p.
Kymenlaakso	8,5%	88%	-3 p.p.
Pohjois-Savo	8,2%	108%	+6 p.p.
Satakunta	8,2%	101%	+4 p.p.
Finland*	**8,1%**	**112%**	**+8 p.p.**
Etelä-Savo	8,0%	97%	+2 p.p.
Pirkanmaa	8,0%	113%	+8 p.p.
Keski-Suomi	7,8%	107%	+6 p.p.
Varsinais-Suomi	7,7%	117%	+6 p.p.
Etelä-Karjala	7,5%	93%	-2 p.p.
Kainuu	7,5%	89%	+6 p.p.
Pohjois-Pohjanmaa	7,3%	112%	+1 p.p.
Pohjois-Karjala	7,2%	93%	+9 p.p.
Etelä-Pohjanmaa	7,0%	120%	+16 p.p.
Keski-Pohjanmaa	6,6%	125%	+11 p.p.
Pohjanmaa	6,0%	120%	+12 p.p.
Ahvenanmaa	4,7%	150%	+34 p.p.

Remarks

- None of the regions stands out with significantly high share of people with payment defaults – the payment default metrics vary between 5-10%
- Uusimaa and Kanta-Häme are the only regions being above Finland average in both share of people with payment defaults and debt / income
- Pohjanmaa area and Ahvenanmaa stands out with fewest payment defaults. However, debt / income is clearly above Finland average and has increased the most

Sources: [1] Suomen Asiakastieto – Statistics of payment default notices; [2] Statistics Finland – Household Indebtedness

(*) Region specific data does not include housing company loans, some small loans and imputed rent, therefore Finland average debt / income is shown as 112%

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Analysis of root causes for debt problems in Finland

Conclusions

1

Authority payments, taxes, fines and statutory insurance payments cause 40% of payment default notices

- Large share of payment default notices is caused by other civil law matters category (31%), which include e.g. contracts between individuals, payments for work performances, damage claims but also matters from other categories depending on the procedures for documenting them by authorities
- Other categories with over 10% share are authority payments, taxes and account and one-time credit

2

The majority of enforcements are caused by taxes, fines and other public law matters (69%)

- Enforcements due to civil law matters (31%) are split between several creditor categories.
- Lending firms (instant & consumer loans) account approximately 10 % of total enforcements

3

Payment problems triggered by lending have several root causes in the background

- These include, for example, lack of financials skills, sudden changes in life situation, inadequate information or conscious risks when providing loans

4

Positive credit register and preventive work came up most in the interviews as ways to decrease debt problems

- Also, regulation changes and common rules came up often in the interviews, but there were few concrete recommendations behind these topics

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Agenda

- Executive summary
- Overview of indebtedness and retail lending in Finland
- **Analysis of root causes for debt problems in Finland**
  - **Overview of causes for debt problems**
  - Root cause analysis
- Comparison of Finland to peer group countries
- Appendix

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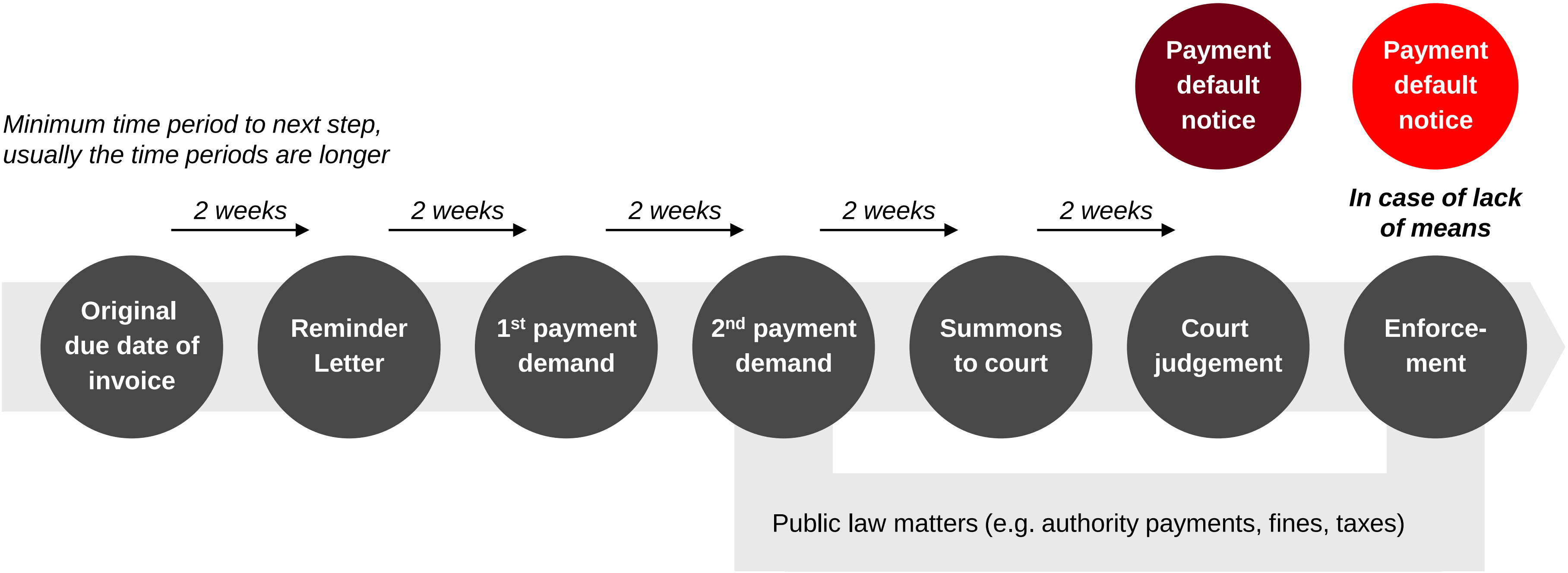
Background info: Payment default notices are caused by judgement debt and enforcement

Overview of debt collection process



Source: www.maksumyohassa.fi

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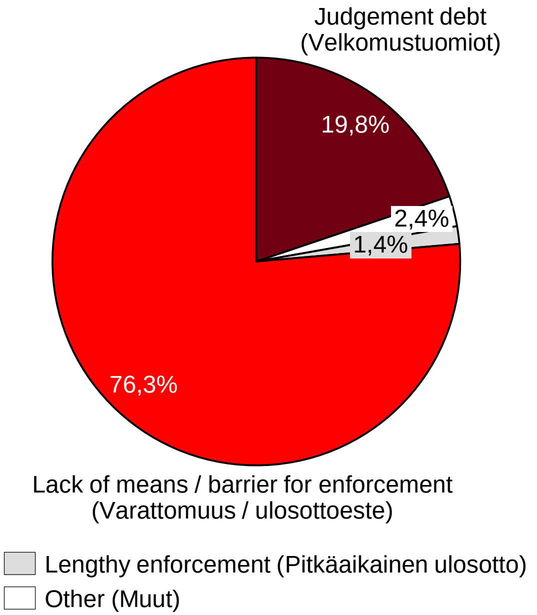
Authority payments, taxes, fines and statutory insurance payments together cause 40% of payment default notices

Reasons for payment default notices (maksuhäiriömerkinnät)

Types of payment default notices[1]



Snapshot from October 2018; total valid payment default notices during 2018 = 5,8 million

Reasons for payment default notices (reasons with >1% share from total amount)

Other civil law matters (Muut yksityisoikeudelliset asiat)	31,3%
Authority payments (Viranomaismaksut)	16,3%
Taxes (Verot ja veroluonteiset maksut)	11,8%
Account and one-time credit (Tili- ja kertaluotot)	11,7%
Fines (Sakot, vahingonkorvaukset)	7,4%
Statutory insurance (Lakisääteiset vakuutukset, eläkevakuutukset)	4,4%
Debt collection costs (Perintäkulut)	3,1%
Comms and utilities (Viestintä, energia ja polttoaine)	2,5%
Distance selling (Verkko- ja postimyynti)	2,3%
Study loans (Opintolainat)	1,2%
Rent (Huoneenvuokra)	1,1%

Remarks

- Largest share of payment default notices are caused by other civil law matters; these can include e.g. contracts between individuals, payments for work performances, damage claims but also matters from other categories depending on the procedures for documenting them by authorities
- Other categories with over 10% share are authority payments, taxes and account and one-time credit
- Authority payments, taxes, fines and statutory insurance payments together cause 40% of payment default notices

Sources: [1] Suomen Asiakastieto

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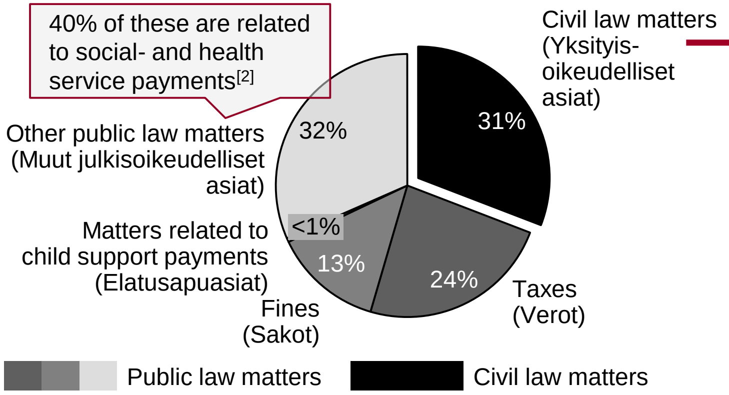
Taxes, fines and other public law matters cause majority of enforcements; lending firms account roughly 10% of reasons

Reasons for enforcement (ulosotto)

Reasons for enforcement in 2018, both from natural persons (~90%) and companies and organizations (~10%)[1]



- The majority of enforcements are caused by public law matters (69 %)
- Enforcements due to civil law matters are split between several creditor categories
- Lending firms (instant & consumer loans) account approximately 10 % of total enforcements

Approximate split of civil law matters based on random sample study (court judgements¹ related to natural person debt from private sector)[3]

Type of original debt/creditor	Approximate share of total reasons[2,3]	Share of civil law matters: Share	Share of civil law matters: Difference 2013-2016
Lending firms (instant & consumer loans)	10%	31,0%	-14,8 p.p.
Distance selling firms	7%	21,4%	+6,2 p.p.
Telecommunications (operator & TV)	4%	14,2%	+5,0 p.p.
Housing (rent, electricity & others)	4%	13,7%	+4,6 p.p.
Newspapers and periodicals	3%	9,0%	+6,1 p.p.
Credit card debt	2%	6,9%	+1,0 p.p.
Bank as creditor / other banking issues	1%	4,4%	-0,1 p.p.
Peer-to-peer loans	1%	2,1%	+1,6 p.p.
Health services	<1%	1,6%	+0,4 p.p.
Other (e.g. insurance) & unknown	5%	15,5%	+4,9 p.p.
		n=968	

Notes: 1) Study excluding student loans and housing loans; 2) Estimate based on enforcement reason data from Valtakunnanvoudinvirasto and court judgement data from the study 3) One court judgement can include several types of debt/creditor

Source: [1] Valtakunnanvoudinvirasto (2019): Ulosotto Suomessa; [2] SOSTE (2019); [3] Majamaa & al. (2017): Viime vuosien muutokset vakavissa velkaongelmissa

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Consumer lending related problems are typically complex and driven by several different root causes

Overview of root causes for consumer debt problems based on expert interviews

“Debt problem journey”

Lack of financial skills and insufficient planning of financial matters make individuals prone to debt problems

Certain groups of consumers, e.g. people with addictions or too low absolute income, are more at risk

“**Shock”, such as life situation change or sudden expense** can risk the financial situation due to a major decrease in income or a major increase in expenses

Easier availability, increased advertising, larger loan amounts and longer repayment times can increase negligent management of financial matters

Continuous overconsumption combined with paying existing loan repayments with new loans is a significant reason for having debt problems

Problematic loan providing occurring from lack of common rules and inadequate information for providing loans can increase the magnitude of debt problems

Lack of information or threshold to get needed debt counselling can extend problems

Problems become evident. There are multiple sources of debt, and the payment default notice can be triggered by any of them, regardless of the root cause of the problem

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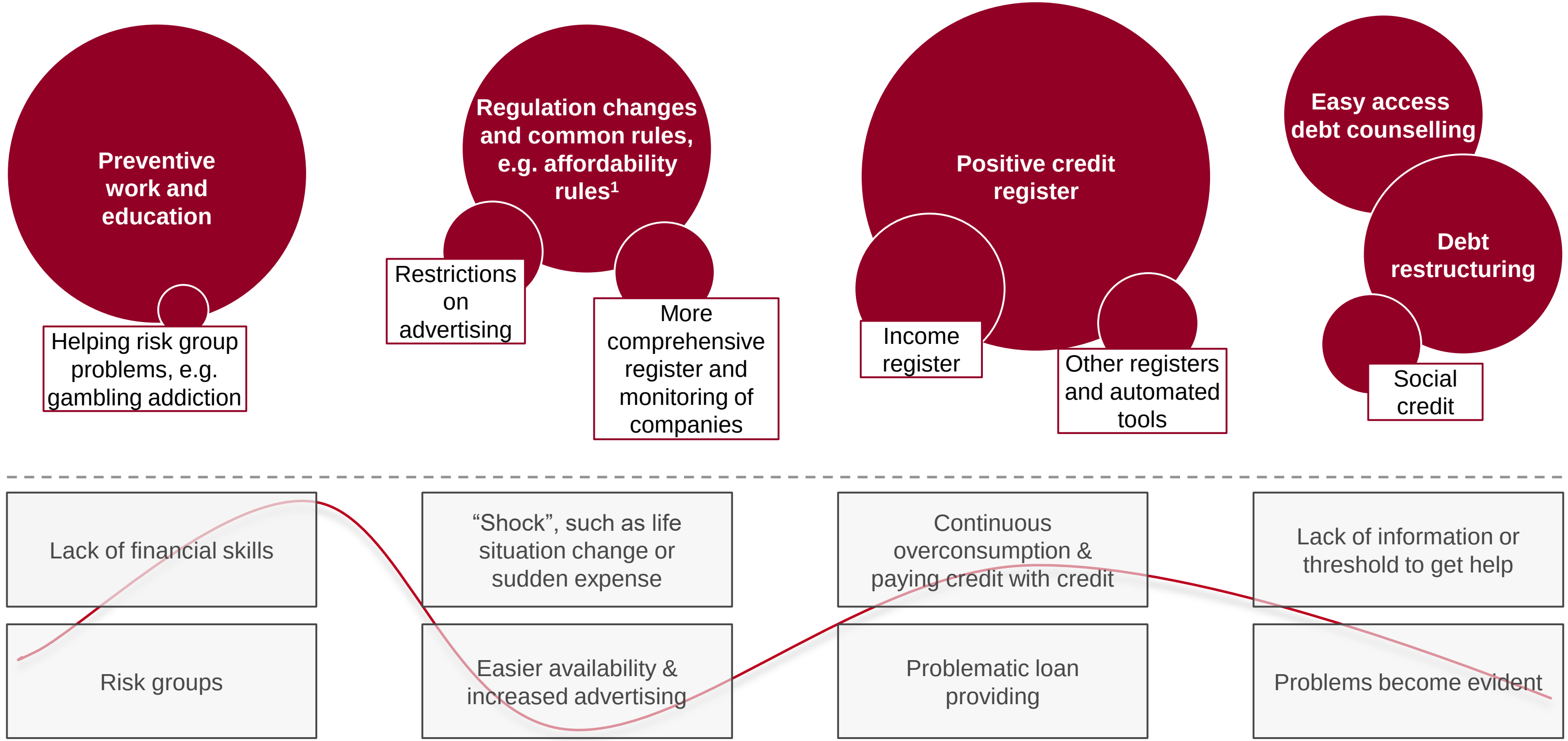
Positive credit register and preventive work came up most in the interviews as the ways to decrease debt problems

Potential ways to decrease debt problems from the expert interviews

*Different ways to decrease debt problems from the expert interviews mapped on the debt problem journey**



Source: Expert interviews *) Non-exhaustive Note: 1) See page 62 for recognized regulation mechanisms from the peer group countries

Size of a circle indicates how often the topic occurred in interviews

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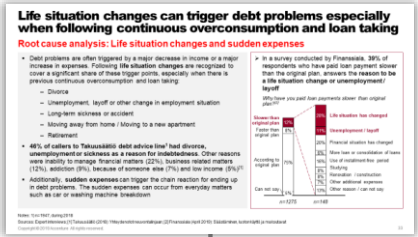
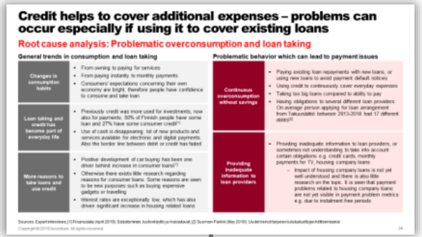
Debt problem journey phases are examined more thoroughly to elaborate their characteristics

Overview of root cause analyses for debt problem journey





Lack of financial skills

“Shock”, such as life situation change or sudden expense

Continuous overconsumption & paying credit with credit

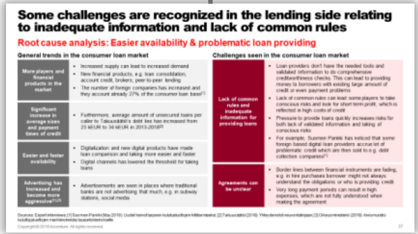
Lack of information or threshold to get help

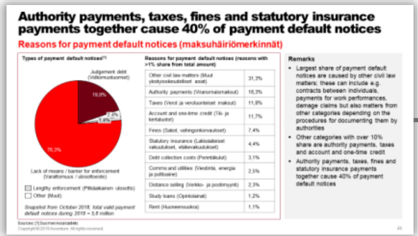
Risk groups

Easier availability & increased advertising

Problematic loan providing

Problems become evident





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Lack of financial skills can result in loosing control of the balance between expenses and income

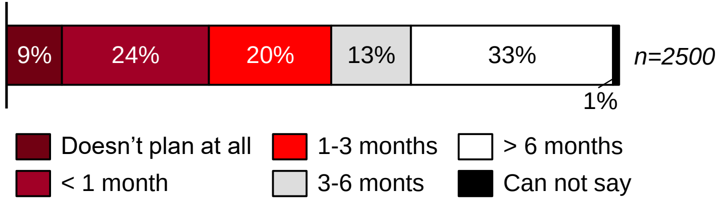
Root cause analysis: Lack of financial skills

- **Overall lack of financial skills and know-how** can make individuals prone to debt problems. These situations can be for example following:
  - Lack of **skills and tools to follow and plan own financial matters**, including basic mathematical skills e.g. percentage calculations
  - Difficulties in **understanding the technical terms** and/or true cost and commitment of loans and other contracts
  - Lack of **information where to get help** when things start to go wrong and payment problems start to arise
  - Lack of understanding **how the payment default notice will impact everyday life**
- In overall, many consumers have optimism and confidence in their own financial situation, which can postpone solving of the payment problems
  - Expectations concerning consumers' own economy is significantly brighter than expectations concerning Finland's economy[1]
- Additionally, shame can slow down or even prevent solving of the problems[2]

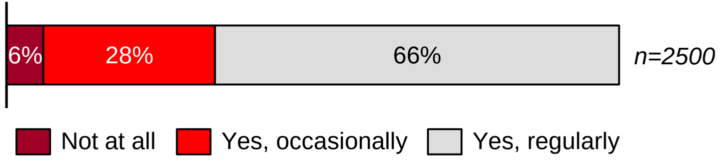
➢ In a survey conducted by Finanssiala, **66%** of respondents plan their financial matters **less than 6 months away or does not plan them at all**

➢ 6% do not follow their expenses in any way

For over how long period do you usually plan your financial matters?[3]



Do you follow your expenses in some way?[3]



Sources: Expert interviews; [1] Tilastokeskus (2019): Consumer confidence; [2] OK Perintä (2018): Kuinka käy kukkarollemme – Asiantuntijakirjoituksia velkaantumisesta ja maksamisen muutoksesta; [3] Finanssiala (April 2019): Säästäminen, luotonkäyttö ja maksutavat

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People with gambling addiction and too low absolute income are seen to be very vulnerable to debt problems

Root cause analysis: Certain risk groups of consumers*

Gambling addicted

- Gambling addiction differs from other addictions, as there is a possibility to spend significant amounts in a very short time, and therefore quickly end up in serious problems
- Additionally, people often feel shamed to tell anyone about their inability to control gambling[1]

Too low absolute income

- People with low absolute income are very vulnerable to sudden expenses and also to e.g. tax increases
- This accumulates especially when living alone and living costs can be high
- During unemployment period, problems can start occur when the earnings-related daily allowance ends (ansiosidonnainen päiväraha)

Young adults with low income, especially men

- Young adults are allowed to make contracts and commitments, but may have little experience from these
- Men are likely to have more payment default notices than women[2]
- Manners learned from home can be insufficient e.g. in cases of second generation unemployment

Pensioners

- Expenses might not be balanced to match the lower income when retiring
- Older people might live in expensive apartments, but do not want to move away from familiar home
- Older people might also face obligations and need to help out their children

*) Non-exhaustive

Sources: Expert interviews; [1] Takuusäätiö (2016): Peliriippuvaisen häpeä; [2] Suomen Asiakastieto (2018): Maksuhäiriölliset henkilöt

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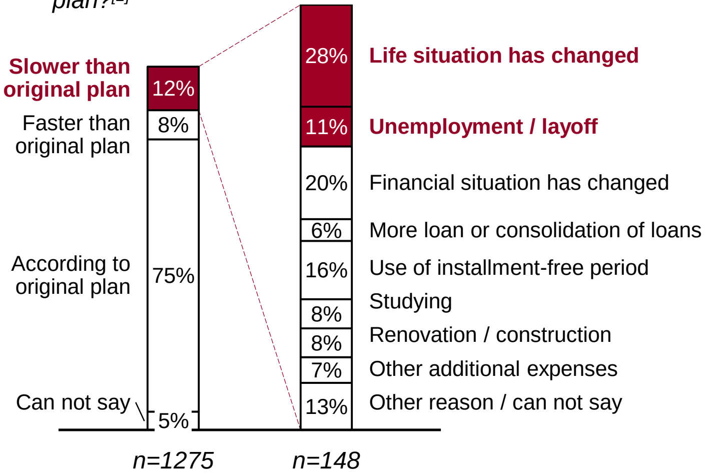
Life situation changes can trigger debt problems especially when following continuous overconsumption and loan taking

Root cause analysis: Life situation changes and sudden expenses

- Debt problems are often triggered by a major decrease in income or a major increase in expenses. Following **life situation changes** are recognized to cover a significant share of these trigger points, especially when there is previous continuous overconsumption and loan taking:
  - Divorce
  - Unemployment, layoff or other change in employment situation
  - Long-term sickness or accident
  - Moving away from home / Moving to a new apartment
  - Retirement
- **46% of callers to Takuusäätiö debt advice line1 had divorce, unemployment or sickness as a reason for indebtedness**. Other reasons were inability to manage financial matters (22%), business related matters (12%), addiction (9%), because of someone else (7%) and low income (5%)[1]
- Additionally, **sudden expenses** can trigger the chain reaction for ending up in debt problems. The sudden expenses can occur from everyday matters such as car or washing machine breakdown

➢ In a survey conducted by Finanssiala, **39%** of respondents who have paid loan payment slower than the original plan, answers the **reason to be a life situation change or unemployment / layoff**

Why have you paid loan payments slower than original plan?[2]



Notes: 1) n=1947, during 2018

Sources: Expert interviews; [1] Takuusäätiö (2018): Yhteydenotot neuvontalinjaan; [2] Finanssiala (April 2019): Säästäminen, luotonkäyttö ja maksutavat

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Credit helps to cover additional expenses – problems can occur especially if using it to cover existing loans

Root cause analysis: Problematic overconsumption and loan taking

General trends in consumption and loan taking

Changes in consumption habits	▪ From owning to paying for services ▪ From paying instantly to monthly payments ▪ Consumers' expectations concerning their own economy are bright, therefore people have confidence to consume and take loan
Loan taking and credit has become part of everyday life	▪ Previously credit was more used for investments, now also for payments. 50% of Finnish people have some loan and 27% have some consumer credit[1] ▪ Use of cash is disappearing; lot of new products and services available for electronic and digital payments. Also the border line between debit or credit has faded
More reasons to take loans and use credit	▪ Positive development of car buying has been one driver behind increase in consumer loans[1] ▪ Otherwise there exists little research regarding reasons for consumer loans. Some reasons are seen to be new purposes such as buying expensive gadgets or travelling ▪ Interest rates are exceptionally low, which has also driven significant increase in housing related loans

Problematic behavior which can lead to payment issues

Continuous overconsumption without savings	▪ Paying existing loan repayments with new loans, or using new loans to avoid payment default notices ▪ Using credit to continuously cover everyday expenses ▪ Taking too big loans compared to ability to pay ▪ Having obligations to several different loan providers. On average person applying for loan arrangement from Takuusäätiö between 2013-2018 had 17 different debts[2]
Providing inadequate information to loan providers	▪ Providing inadequate information to loan providers, or sometimes not understanding to take into account certain obligations e.g. credit cards, monthly payments for TV, housing company loans – Impact of housing company loans is not yet well understood and there is also little research on the topic. It is seen that payment problems related to housing company loans are not yet visible in payment problem metrics e.g. due to instalment free periods

Sources: Expert interviews; [1] Finanssiala (April 2019): Säästäminen, luotonkäyttö ja maksutavat; [2] Suomen Pankki (May 2019): Uudet keinot tarpeen kulutusluottojen hillitsemiseksi

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Some challenges are recognized in the lending side relating to inadequate information and lack of common rules

Root cause analysis: Easier availability & problematic loan providing

General trends in the consumer loan market

More players and financial products in the market	▪ Increased supply can lead to increased demand ▪ New financial products, e.g. loan consolidation, account credit, brokers, peer-to-peer lending ▪ The number of foreign companies has increased and they account already 27% of the consumer loan base[1]
Significant increase in average sizes and payment times of credit	▪ Furthermore, average amount of unsecured loans per caller to Takuusäätiö's debt line has increased from 23 kEUR to 34 kEUR in 2013-2018[2]
Easier and faster availability	▪ Digitalization and new digital products have made loan comparison and taking more easier and faster ▪ Digital channels has lowered the threshold for taking loans
Advertising has increased and become more aggressive[1],[3]	▪ Advertisements are seen in places where traditional banks are not advertising that much, e.g. in subway stations, social media

Challenges seen in the consumer loan market

Lack of common rules and inadequate information for providing loans	▪ Loan providers don't have the needed tools and validated information to do comprehensive creditworthiness checks. This can lead to providing money to borrowers with existing large amount of credit or even payment problems ▪ Lack of common rules can lead some players to take conscious risks and look for short term profit, which is reflected in high costs of credit ▪ Pressure to provide loans quickly increases risks for both lack of validated information and taking of conscious risks ▪ For example, Suomen Pankki has noticed that some foreign based digital loan providers accrue lot of problematic credit which are then sold to e.g. debt collection companies[1]
Agreements can be unclear	▪ Border lines between financial instruments are fading, e.g. in hire purchases borrower might not always understand the obligations or who is providing credit ▪ Very long payment periods can result in high expenses, which are not fully understood when making the agreement

Sources: Expert interviews; [1] Suomen Pankki (May 2019): Uudet keinot tarpeen kulutusluottojen hillitsemiseksi; [2] Takuusäätiö (2018): Yhteydenotot neuvontalinjaan; [3] Oikeusministeriö (2019): Arviomuistio kuluttajaluottojen markkinoinnista lausuntokierrokselle

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- Executive summary
- Overview of indebtedness and retail lending in Finland
- Analysis of root causes for debt problems in Finland
- **Comparison of Finland to peer group countries**
  - Indebtedness and loan market comparison
  - Payment problems comparison
  - Regulation comparison
  - Summary and findings from the comparison
- Appendix

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Finland differs from the peer group due to increasing payment problems and different approach to price cap

Conclusions of the peer group comparison

Finland stands out with increase in payment problems

- Share of people with payment problems has increased significantly and is high compared to the peers
- In the peer group countries, payment problem metrics have been either decreasing or stagnant. Good macroeconomical development after financial crisis has been a major driver in the positive trend

Most peer group countries have diverse approach to regulation

- Most peer countries use more mechanisms for licensed market (e.g. authority supervision), sanctions (e.g. revoking license) and consumer affordability (e.g. affordability rule)
- For example, Lithuania has been able decrease payment problems with 1) License system with active monitoring 2) Positive credit register and income register 3) 40% affordability rule 4) Total Cost of Credit cap 5) Special restrictions for advertising and loan availability

Finland's approach to the price cap differs from other countries

- Countries with more diverse regulation have price cap either based on Total Cost of Credit (TCC) or Annual Percentage Rate (APR). Finland is an exception with regulating nominal interest rates and other fees separately
- New Finnish approach to price cap favors longer repayment times and larger loan amounts compared to TCC or APR based price cap

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Seven countries are selected for the in depth comparison

Criteria for selecting the countries

Consumer credit regulation mechanism[1]	Description
Low price cap as a primary measure	▪ Countries which have price cap (both interest and fees) as the primary mechanism to regulate the consumer credit market ▪ Relatively low price cap (<40 %) for interest and fees
Multiple measures to regulate market	▪ Countries which have multiple measures, such as affordability rules and cooling-off periods, in addition to price caps to regulate the market ▪ Price cap is higher (40%+) for interest and fees
No price cap to regulate market	▪ Countries without set price cap for consumer credit market ▪ Often other measures to control the market, such as consumer termination possibilities, affordability checks and advertising rules

Examples of OECD countries meeting the criteria

Country	*Debt/income, 2017*	*GDP/capita, k$, 2018*
Germany	**93 %**	**54**
Slovakia	**78 %**	**34**
France	120 %	46
Finland[2]	138 %	49
Australia	**216 %**	**54**
Estonia	**80 %**	**36**
Lithuania	**44 %**	**36**
Sweden	**186 %**	**53**
UK	149 %	46
Spain	**116 %**	**41**
Austria	92 %	56
Luxembourg	183 %	112

***Highlighted countries** are selected for further analysis. Selection includes countries with different regulation mechanisms, different debt/income levels and different GDPs*

Notes: 1) Categorization of countries is based on the high-level regulation analysis and expert views; 2) Finland's categorization based on the new consumer credit regulation as of 1st of September 2019

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Finland's debt/income is ~10 p.p. above European average but significantly lower compared to other Nordic countries

European OECD countries' household debt/income and GDP

Country	Debt/income '17[1]	GDP/capita, k$[2],'18
Denmark	281%	56
Netherlands	243%	57
Norway	236%	64
Switzerland[3]	212%	69
Australia[4]	216%	54
Sweden	186%	53
Luxembourg	183%	112
Ireland	153%	84
UK	149%	46
Finland[5]	138%	49
Portugal	134%	34
Average	*129%*	49
France	120%	46
Belgium	117%	51

Country	Debt/income '17[1]	GDP/capita, k$[2],'18
Spain	116%	41
Greece	105%	30
Germany	93%	54
Austria	92%	56
Italy	87%	42
Estonia	80%	36
Slovakia	78%	34
Czechia	66%	40
Poland	62%	32
Slovenia	57%	39
Latvia	48%	31
Lithuania	44%	36
Hungary	43%	31

Remarks

- Europe has large variation in household debt: the most indebted country is Denmark with 281% debt/income ratio while Hungary's ratio is only 43%
- In most of the cases, above average GDP countries have higher debt/income ratio than lower GDP countries. Germany and Austria are clear exceptions in this
- Finland's debt/income ratio is ~10 p.p. above the average. Finland's ratio is significantly lower compared to other Nordic countries

Sources: OECD (2019), "Household debt" (indicator); OECD (2019), "GDP per capita"

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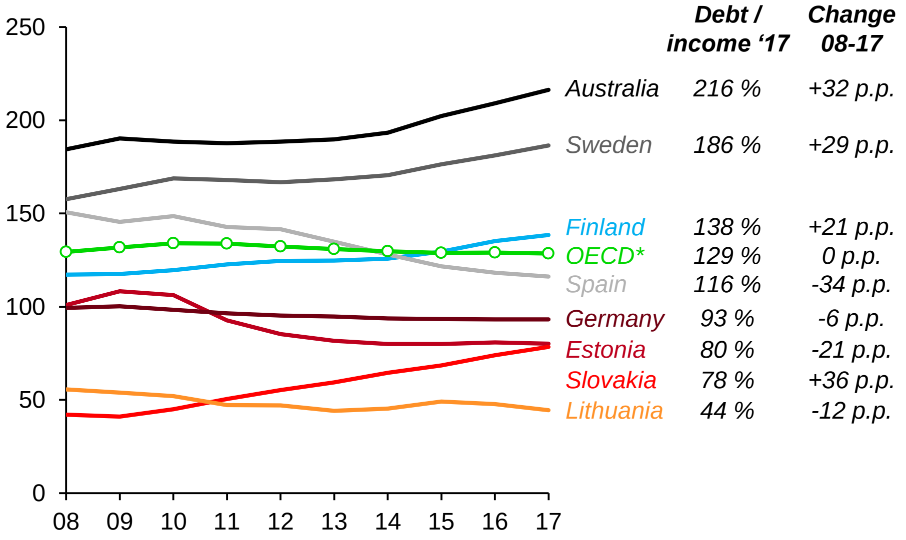
Notes: OECD data do not contain Iceland household debt; 1) Calculated by dividing total debt with total net disposable income; 2) OECD GDP per capita based on USD, constant prices, 2010 PPPs; 3) Switzerland data only until 2016; 4) Australia is added as an additional country to supplement the peer group of European OECD countries; 5) OECD definition of debt is wider that Statistics Finland's, therefore debt/income for Finland is higher

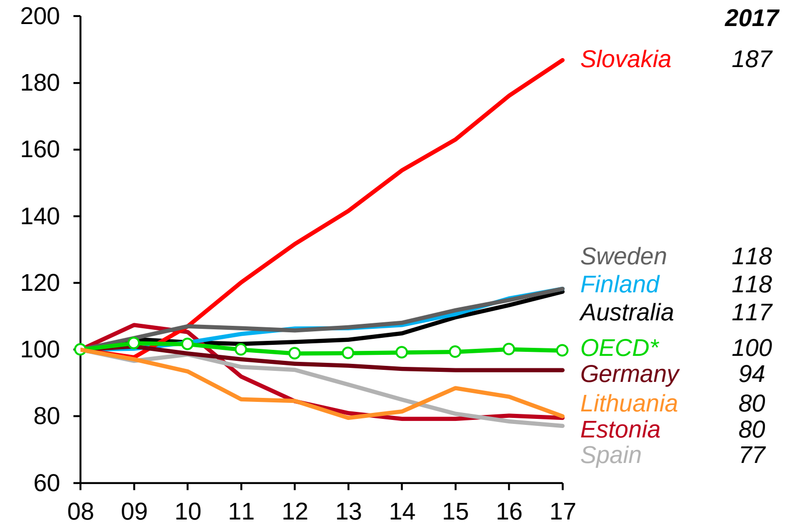
Slovakia's debt / income has increased the most, but it is still low compared to the peers

Development of debt / income in the peer group countries

Debt / income (%)



Debt / income (indexed, 2008 = 100)



- Australia has the largest debt/income ratio, additionally Australia's change between 2008-2017 was the second highest as percentage points
- Slovakia's debt/income has increased the most both relatively and as percentage points. However absolutely it is still low compared to the peers
- After Slovakia, Finland's relative debt/income growth has been among the highest together with Sweden and Australia

Sources: OECD (2019), "Household debt" (indicator) *) OECD average includes European countries and Australia

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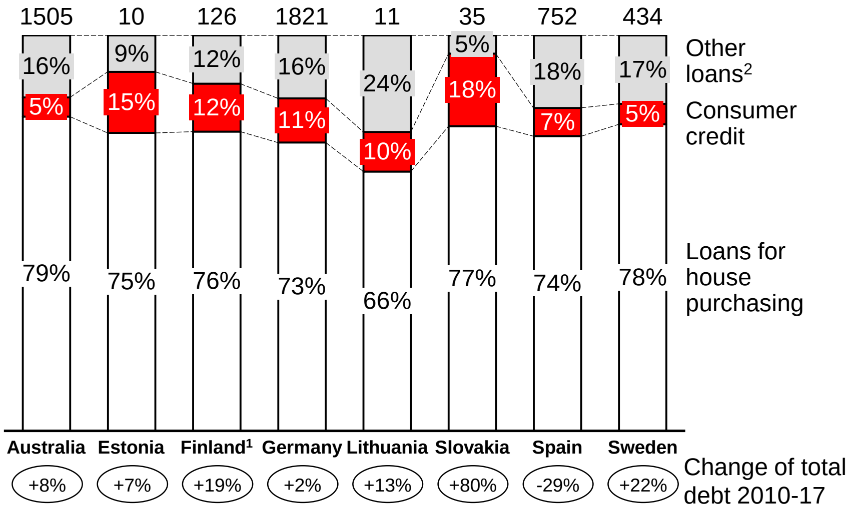
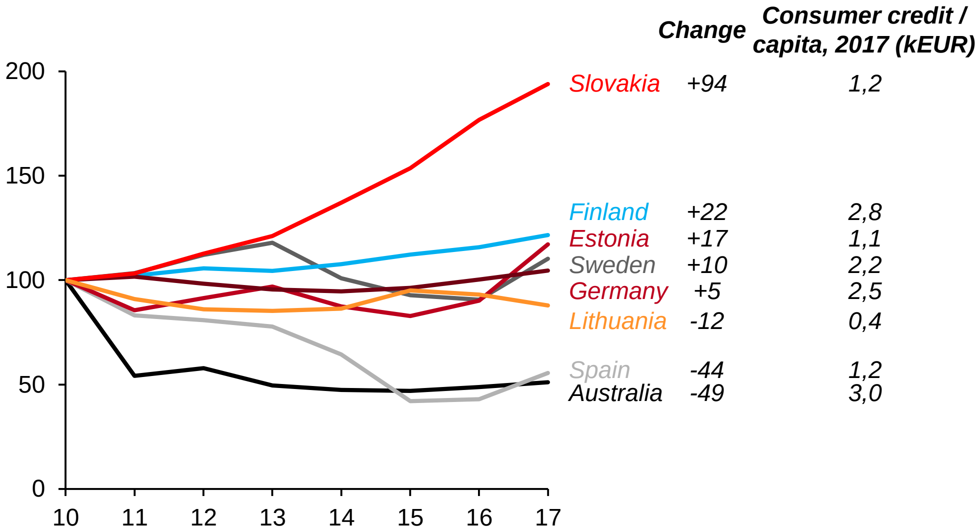
Mortgages account for the most of household debt, consumer credit shares vary between 5% and 18%

Household debt per category

Household debt per category (BEUR), 2017



Consumer credit development per country (indexed, 2010 = 100)



- Mortgages account for over 70% share of household debt in all other countries except in Lithuania
- The total outstanding amount of household debt has increased in all other countries except in Spain
- Consumer credit development in Slovakia has been mainly driven by significant increase in credit granted by banks[1]

Notes: 1) Finland data from BoF statistics, does not include housing company loans; 2) Mainly loans for stock and bond investing purposes, study loans and leisure residences

Sources: OECD (2019), "Households' financial assets and liabilities"; Bank of Finland, Loans of Finnish Households; European Mortgage Federation - Hypostat 2018, Statistical Tables; Bundesbank, Consumer loans to German households; National Bank of Slovakia; [1]: Mestan & al. (2018): Changes in Consumer Credit Market in Slovakia

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- Appendix

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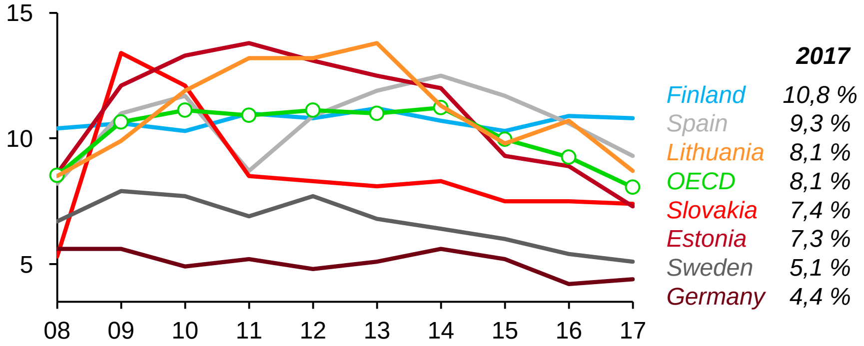
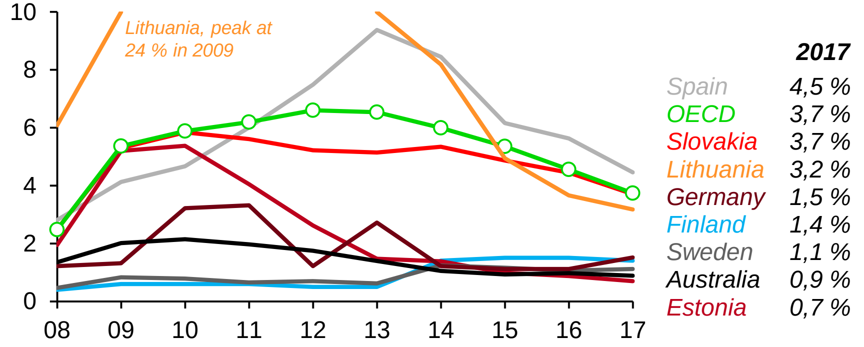
Current state and trend of payment problems in each country is analyzed through key metrics

Development of payment problem metrics

Share of people in arrears (%)[1]



Non-performing loans to total gross loans (%)[2],[3]



Other payment problem metrics

Australia	▪ Applications for property possessions 09-17: -44% ▪ Non-performing household loans, other loans 09-17: +50% ▪ Non-performing household loans, credit cards 09-17: +45%
Estonia	▪ Non-performing consumer credits to total 09-17: -7 p.p. ▪ Arrears on hire purchase or other loans 09-17: -1 p.p.
Finland	▪ People with payment default notices 09-17: +25% ▪ People with in enforcement 09-17: +11%
Germany	▪ Share of overindebted people 09-17: +0 p.p. ▪ Private insolvencies in Germany 09-17: -28%
Lithuania	▪ Value of consumer credits in arrears 13-18: -25% ▪ Number of >90d overdue consumer credits 13-18: -60%
Slovakia	▪ Non-performing consumer credits to total 09-17: -4 p.p. ▪ Arrears on hire purchase or other loans 09-17: -4 p.p.
Spain	▪ Number of foreclosures Q1/14-Q4/18: -62% ▪ Arrears on hire purchase or other loans 09-17: -56% ▪ Arrears on utility bills 14-17: -20%
Sweden	▪ Number of debtors in register >1 year 10-17: +7% ▪ Total number of debtors in register 10-17: -1%

Sources: [1] Eurostat, Income and Living conditions (2018); [2] World Bank, non-performing loans; [3] Financial Supervisory Authority in Finland; see country specific analyses in appendix for full list of sources

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Finland stands out from the peer group as the only country with increasing payment problems

Evaluation of overall current state and trend of payment problems

	Overall current state and trend of payment problems	Evaluation	
Estonia	▪ Share of people in arrears and non-performing loans to total loans both better than OECD average and decreasing ▪ Other payment problem metrics have also decreased in recent years	Green	Decreasing
Australia	▪ Non-performing loans to total loans better than OECD average and decreasing ▪ Variation between different payment problem metrics, some are decreasing and some are increasing	Green	Stagnant
Germany	▪ Share of people in arrears and non-performing loans to total loans better than OECD average and stagnant ▪ Stagnant or decreasing development in other payment problem metrics	Green	Stagnant
Sweden	▪ Share of people in arrears and non-performing loans to total loans better than OECD average. Share of people in arrears decreasing while non-performing loans increasing ▪ Other payment problem metrics also indicate stagnant development	Green	Stagnant
Lithuania	▪ Share of people in arrears is worse than OECD average and non-performing loans to total loans better, but both have decreased ▪ Other payment problem metrics also indicate decreasing trend	Yellow	Decreasing
Slovakia	▪ Both share of people in arrears and non-performing loans to total loans only slightly better than OECD average but having a decreasing trend ▪ Decreasing development in other payment problem metrics as well	Yellow	Decreasing
Finland	▪ Share of people in arrears is worse than OECD average and stagnant while non-performing loans to total loans is better but has increased ▪ Other payment problem metrics have been also increasing	Yellow	Increasing
Spain	▪ Share of people in arrears and non-performing loans to total loans worse than OECD average but the recent trend has been decreasing ▪ Other payment problem metrics have also significantly decreased	Red	Decreasing

Remarks

- Finland is the only country in the peer group where the payment problems have been increasing
- Other countries on yellow or red have had decreasing trend in payment problems
- Countries with better metrics than OECD average have had stagnant or decreasing trend in payment problems

Evaluation of metrics

- Green: Metrics better than OECD average
- Yellow: Metrics varying around OECD average
- Red: Metrics worse than OECD average
- ↘ Payment problems are decreasing
- → Stagnant trend in payment problems
- ↗ Payment problems are increasing

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Sources: See country specific analyses in appendix for full list of sources

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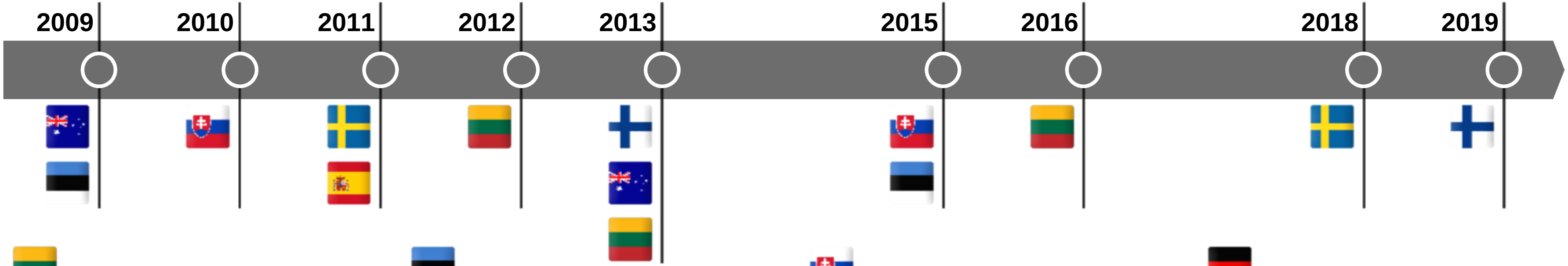
All the studied countries except Germany have amended their consumer credit laws in the recent years

Overview of recent changes in regulation



Lithuania

- **2012** – Changes to the Law on Consumer Credit
- **2013** – New wording of responsible lending principles
- **2016** – Amendments to the Law on Consumer Credit

Estonia

- **2009** – Amendment to consumer credit regulation
- **2013 & 2014** – Amendments to Advertising Act
- **2015** – Package of legislative acts targeted at solving problems in consumer lending market

Slovakia

- **2010** – Act 129/2010 on consumer credits and loans for consumers
- **2015** Amendment to the Act 129/2010 on consumer credits

Germany

- Germany has had strong interest rate restrictions in place for several decades

Finland

- **2013** – Amendments to the Finnish Consumer Protection Act
- **2019** – Amendments to the Finnish Consumer Protection Act

Australia

- **2009** - The National Consumer Credit Protection Act
- **2013** – Further provisions for short-term credit

Sweden

- **2011** – Consumer Credit Act
- **2018** – Amendment to Consumer Credit Act due to growing instant loan market

Spain

- **2011** - Law 16/2011 on Consumer Credit Contracts

Sources: See country specific analyses in appendix for full list of sources

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Market entry requirements and sanctions for breaches

Comparison of regulatory measures

		Lithuania	Estonia	Australia	Slovakia	Germany	Sweden	Spain	Current Finland	9/2019 → Finland
License and market entry requirements	**Overall diversity of mechanisms**	●	●	●	●	●	◕	○	◔	◔
	License requirements: Comprehensive list of requirements to be fulfilled to get the license to operate in the market	X	X	X	X	X				
	List of licensed companies: Transparent and publicly managed list available of all companies who are allowed to operate in the market	X	X	X	X	X	X		X	X
	Active central monitoring: Market comprehensively and actively supervised by official Financial Authority or Central Bank	X	X	X	X	X	X			
Sanctions for breaches	**Overall diversity of mechanisms**	◕	●	●	●	◕	◕	◔	◔	◕
	Removal of license: Consumer loan licenses actively monitored and revoked in cases of breaches	X	X	X	X		X			
	Financial fines: Financial fines in the cases of breaches of legislation	X	X	X	X	X	X		X	X
	Loss of interest and fees: Possibility to lose all interest and fees in case of breaches of interest rate cap or breaches in creditworthiness check		X	X	X	X		X		X

Sources: See country specific analyses in appendix for full list of sources

◔ Light set of regulatory measures = 1 p.
◕ Moderate set of regulatory measures = 2 p.
● Diverse set of regulatory measures = 3 p.

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Consumer affordability

Comparison of regulatory measures

		Lithuania	Estonia	Australia	Slovakia	Germany	Sweden	Spain	Current Finland	9/2019 → Finland
Consumer affordability	**Overall diversity of mechanisms**	●	◕	◕	◕	◔	◔	◔	◔	◔
	Creditworthiness check: Obligation to evaluate creditworthiness from credit registers	X	X	X	X	X	X	X	X	X
	Debt-to-income calculations: Obligation to conduct affordability calculations	X	X	X	X		X		X	X
	Debt-to-income limit: Specific defined limit for affordability	X		X partly in use	X					
	Positive credit register: Central and publicly managed register for positive credit information	X			X partly in use					
	Income register: Central and publicly managed register for income information	X	X		X					
	Validation documents: Requirement to acquire validated documents from borrower, if information from registers is not available	X	X	X tax reports		X				
	Simultaneous contracts: Restriction on number of simultaneous credit/loan contracts			X						

Sources: See country specific analyses in appendix for full list of sources

◔ Light set of regulatory measures = 1 p.
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● Diverse set of regulatory measures = 3 p.

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Advertising, contractual terms and cap logic for cost of credit

Comparison of regulatory measures

		Lithuania	Estonia	Australia	Slovakia	Germany	Sweden	Spain	Current Finland	9/2019 → Finland
Advertising and contractual terms	**Overall diversity of mechanisms**	●	◑	◑	○	◑	◑	○	◑	◑
	Advertisement restrictions: Additional advertising requirements or restrictions compared to the EU directive	X	X	X		X	X			
	Money availability: Restrictions on when to provide and receive loans (e.g. availability time, cooling-off periods)	X							X	X
Cap logic for cost of credit	**Fixed nominal interest rate cap**	X		Several cap mechanisms depending on the loan amount and maturity			X			X
	Relative nominal interest rate cap (relative = based on average rate)					X				
	Fixed APR cap (annual percentage rate)								X	
	Relative APR cap		X		X					
	TCC cap (total cost of credit)	X					X			
	Fixed other fee cap	X				X Based on court decisions				X

Sources: See country specific analyses in appendix for full list of sources

◑ Moderate set of regulatory measures = 1 p.
● Diverse set of regulatory measures = 2 p.

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Different cost of credit cap logics are used in the peer group countries

Overview of different cost of credit cap logics and comparison of countries

	Nominal interest rate cap	Annual Percentage Rate (APR)	Total Cost of Credit (TCC)	Several mechanisms in use
Description of cap logic for cost of credit	▪ Only the maximum rate of nominal interest of credit is restricted ▪ Other fees are restricted separately	▪ Maximum annual percentage rate for all costs, includes both nominal interest and other fees	▪ Maximum for total cost of credit is limited. Therefore, APR depends on the maturity of the credit	▪ The price cap mechanism depends on the loan amount and maturity of the credit
Comparison of country specific logics	**Finland** ▪ Starting from 09/2019, maximum annual interest rate is 20%. Max daily amount of other fees is 0,01% of the credit and max 150 EUR annually ▪ Currently, the max is 50% APR for only loans less than 2000€ **Germany** ▪ Max nominal interest rate is double or max +12 p.p. above average market rate calculated by the Central Bank (in 2018, maximum interest rates were around 15-20%) ▪ In general, additional fees are not allowed (based on earlier court decisions)	**Estonia** ▪ Maximum cap of three times the average APR for consumer credits calculated by Bank of Estonia ▪ In 2018, the maximum APR for consumer credits was ~60% **Slovakia** ▪ Max cap of two times average APR (includes also voluntary costs and linked services) calculated by Bank of Slovakia based on banking sector rates ▪ In 2018, the maximum APRs for consumer loans were around 15-30% depending on the loan amount and maturity	**Lithuania** ▪ Total cost of credit can not exceed the total loan amount ▪ Max annual nominal interest rate is 75% ▪ Cap for other costs is 0,04% per day **Sweden** ▪ Total cost of credit can not exceed the total loan amount ▪ Max annual nominal interest rate is 40%	**Australia** ▪ For small amount credit (<$2k, <1y) − No interest can be charged − Establishment fee max 20% of credit amount and monthly fee max 4% of credit amount ▪ For medium amount credit ($2k-5k, <2y) − Max annual cost rate (ACR*) of 48 % and max establishment fee of $400 **) ACR is similar to the APR with some local differences, e.g. excluding establishment fee*

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Sources: See country specific analyses in appendix for full list of sources

Lithuania, Estonia and Australia are assessed to be countries with most diverse set of regulatory measures

Finland differs remarkably in regulation from the peer group countries

		Lithuania	Estonia	Australia	Slovakia	Germany	Sweden	Spain	Current Finland	9/2019 → Finland
Diversity of regulation measures	License and market entry requirements	●	●	●	●	●	◕	○	◔	◔
	Sanctions for breaches	◕	●	●	●	◕	◕	◔	◔	◕
	Consumer affordability	●	◕	◕	◕	◔	◔	◔	◔	◔
	Advertising and contractual terms	●	◑	◑	○	◑	◑	○	◑	◑
	Scoring summary	10 / 11	9 / 11	9 / 11	8 / 11	7 / 11	6 / 11	2 / 11	4 / 11	5 / 11
	Summary of regulation diversity	● Diverse	● Diverse	● Diverse	◕ Moderate	◕ Moderate	◕ Moderate	◔ Light	◕ Moderate	◕ Moderate
	Cap logic for cost of credit	TCC cap + fixed nominal interest rate cap + fixed other fee cap	Relative APR cap	Several mechanisms, depends on loan amount and maturity	Relative APR cap	Relative nominal interest cap	TCC cap + fixed nominal interest rate cap	None	Fixed APR cap for loans less than 2000€	Fixed nominal interest cap + fixed other fee cap

Sources: See country specific analyses in appendix for full list of sources

TCC = Total cost of credit; APR = Annual Percentage Rate; Nominal interest rate cap = The maximum rate of nominal interest of credit restricted, other fees restricted separately

◔ Light set of regulatory measures = 1 p.
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● Diverse set of regulatory measures = 3 p.

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Good macroeconomical development after financial crisis has impacted debt problems positively in several countries

Overview of regulation landscape and payment problem trend

	Lithuania	Estonia	Australia	Slovakia	Germany	Sweden	Spain	Finland
Diversity of regulation measures	Diverse	Diverse	Diverse	Moderate	Moderate	Moderate	Light	Moderate
Cap logic for cost of credit	TCC cap + fixed nominal interest rate cap + fixed other fee cap	Relative APR cap	Several mechanisms, depends on loan amount and maturity	Relative APR cap	Relative nominal interest cap	TCC cap + fixed nominal interest rate cap	None	Fixed APR cap for < 2k€ loans (9/19: Fixed nominal interest cap + fixed other fee cap)
Payment problems								
Overall market characteristics and development	▪ Restrictions especially in terms of credit-worthiness assessment had significant changes in the market: less new consumer credits, less overdue loans and lower interest rates	▪ Since 2010, payment problems have decreased significantly. This has been mainly driven by good macro-economical development after the financial crisis	▪ Good macro-economical situation has enabled households to meet their debt obligations, although rise in unemployment and further housing price declines can put them to risk	▪ Favorable economic trends, decreasing unemployment, low interest rates and banks' effort to maximize lending has contributed to strong growth of household indebtedness	▪ Public saving banks provide loans to low income people across Germany, which helps to keep amount of payment problems low and impactson number of other consumer credit providers	▪ Housing market characteristics is the biggest reason for high indebtedness ▪ Housing loans, car financing and small amount instant loans have been growing the most	▪ Over-indebtedness levels have been closely following housing market trends, unemployment rates, and other macro-economical factors	▪ ~10% of people have payment problems and the problems seem to be increasing ▪ Rapid growth in housing company loans has changed the debt structure and increased debt burden

Sources: See country specific analyses in appendix for full list of sources

Evaluation of metrics

- Light set of regulatory measures
- Moderate set of regulatory measures
- Diverse set of regulatory measures
- Metrics better than OECD average
- Metrics varying around OECD average
- Metrics worse than OECD average
- Payment problems are decreasing
- Stagnant development of payment problems
- Payment problems are increasing

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Lithuania has the most diverse set of regulatory measures in use

Overview of consumer loan regulation in Lithuania

Regulation mechanisms in use

- License requirements
  - Inadequate information → Removal of license
- Publicly available list of licensed companies, actively monitored by BoL
  - In case of breach → Removal of license; Financial fines
- Adverti-sement restrictions
- Centrally managed positive credit register
- Centrally managed income register
- 40% affordability rule
- 75% nominal interest rate cap and TCC max 100% of the loan amount
- Two day cooling-off period and restricted loan taking during 10pm-7am

In practice, affordability rule and TCC cap lead to over 1 year repayment times with lower annual interest rates. In 2018, the average loan maturity for consumer loans was ~32 months and annual nominal interest rate ~28%[1]

Comments from Bank of Lithuania[2]

Development of payment problems

- Restrictions especially in terms of creditworthiness assessment determined significant changes in the market: decreased provision of new consumer credits (most in smallest payday loans, <290 EUR), decreased amount of overdue loans and the interest rate dropped

Registers

- Publicly managed income register ("SODRA") does not always include full income information (e.g. some additional incomes), therefore in these cases companies are obligated to acquire needed validation documents from consumers
- In addition to publicly managed positive credit register (Loan Risk Database), there exists commercial solutions for credit information which might in some cases contain more information, e.g. information from telcos

Supervision of the market

- Focus of the supervision is in ensuring that companies are conducting proper affordability calculations. Some companies have lost their licenses to operate in the market due to breaches in conducting the calculations[3]
- Supervision follows annual plan, where companies to be evaluated are selected based on focus areas and specific models (based on different metrics e.g. risks, company size)
- Additionally companies are inspected based on customer complaints, e.g. due to inappropriate advertising

Advertising

- All loan provider companies (banks and non-banks) have similar rules for advertising and fines in case of breaches

Sources: [1] Bank of Lithuania, Statistics; [2] Expert interview with Bank of Lithuania, Credit and Payments Services Supervision Division; [3] Bank of Lithuania (2015): For multiple violations, UAB 4finance can no longer grant credit

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Diverse regulation mechanisms complement observations from the expert interviews to tackle debt problem issues

Different mechanisms from Lithuania and potential ways to decrease debt problems

Ways to decrease debt problems from the expert interviews mapped on the debt problem journey*

- Lack of financial skills
- Risk groups
- "Shock", such as life situation change or sudden expense
- Easier availability & increased advertising
- Continuous overconsumption & paying credit with credit
- Problematic loan providing
- Lack of information or threshold to get help
- Problems become evident

- Preventive work and education, and helping of risk groups
- Regulation changes and common rules, advertising restrictions and monitoring
- Positive credit register, income register and other registers and tools
- Easy access debt counselling, debt restructuring and social credit

Regulation mechanisms used in Lithuania

- License requirements
  - Inadequate information → Removal of license
- Publicly available list of licensed companies, actively monitored by BoL
  - In case of breach → Financial fines
  - In case of breach → Removal of license
- Adverti-sement restrictions
- Centrally managed positive credit register
- Centrally managed income register
- 40% affordability rule
- 75% nominal interest rate cap and TCC max 100% of the loan amount
  - In practice, affordability rule and TCC cap lead to substantially lower annual interest rates than 75%
- Two day cooling-off period and restricted loan taking during 10pm-7am

*) Non-exhaustive TCC = Total cost of credit; Nominal interest rate cap = The maximum rate of nominal interest of credit restricted, other fees restricted separately; BoL = Bank of Lithuania

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Australia: Deep dive on consumer credit legislation

Overview of consumer credit market

- Household loans in 2017 accounted for 1500 BEUR, of which 1200 BEUR (79%) for mortgages, 70 BEUR (5%) for consumer credit loans and 240 BEUR (16%) for other loans
- Total outstanding amount of consumer credit loans has increased 3% from 2013 to 2017
- 194 consumer credit providers in fiscal year 2017-18

Recent changes in regulation

- **2009 – The National Consumer Credit Protection Act**
  - Prohibits loans for up to AUS 2000 with a term of 15 days or less
  - Authorizes Small and Medium Amount Credit Contracts (SACC, MACC)
- **2013 – Further provisions for short-term credit**
  - Requirement to assess consumer's unsuitability
  - Lenders required to obtain and consider 90 days of bank statements
  - Repayment cap to consumer with 50% of income in government benefits

Current state of regulation*

License and market entry requirements

- There are a comprehensive set of requirements, e.g. personnel backgrounds, that needs to be met to get Australian Credit Licence issued by Australian Securities and Investments Commission (ASIC)
- ASIC maintains credit registers that contain details of credit licensees, credit representatives and banned persons. Registers are available on ASIC's website
- ASIC has the responsibility of supervision over the consumer credit market

Sanctions for breaches

- Max criminal penalty $36,000 for an individual and a max 2 years of jail for breaching provisions. Also, obligation to refund to customers is possible
- Court may reduce or revoke interests and charges if they are seen excessive
- The Credit Act enables ASIC to suspend or cancel a credit license in case of breaches

Cost of credit

- Small amount credit (<$2k, 16d - 1y):
  - Provider cannot charge interest
  - Max establishment fee of 20%
  - Max monthly fee of 4% (for 1 year contract max fee of 68%)
  - Amount required to repay, including default fees, cannot exceed twice the loan amount
- Medium amount credit ($2k-5k, 16d-2y):
  - Provider can charge interest and fees
  - Max charge (Annual Cost Rate, ACR) of 48% and a fee of $400 (not including default fees)
  - ACR is similar to the APR with some local differences, e.g. excluding establishment fee

Advertising and contract

- Prescribed information must be included in disclosure documents, contracts and account statements
- There must be a warning statement on the provider's website and reference to government's MoneySmart website

Consumer affordability

- Lenders need to make reasonable inquiries and take reasonable steps to verify consumer's financial situation as well as consumer's requirements and objectives
- Lenders use credit reports to assess consumers ability to repay the credit which includes e.g. debt agreements, defaults and other credit infringements and repayment history
- Lenders need to assess whether the proposed credit contract is unsuitable, e.g.
  - if consumer is in default payment in another credit contract or
  - if consumer was debtor under 2 or more contracts in 90-day period before
- Protection for Centrelink recipients (> 50% of their income): Repayments cannot exceed 20% of income

Light set of regulatory measures
Moderate set of regulatory measures
Diverse set of regulatory measures

Source: Extracted from OECD report "Short-Term Consumer Credit" (2019); ASIC, "Credit licensee offences" (2019); ASIC's report, "Cost of consumer leases" (2015); Australian Government, "National Consumer Credit Protection Act 2009"

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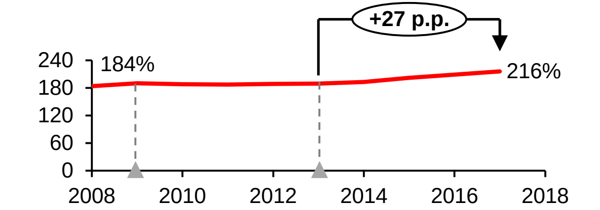
Australia: Key metrics and comments on indebtedness

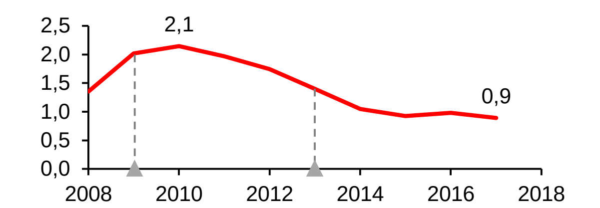
Overview of key metrics

▲ Regulation changes in 2009 and 2013

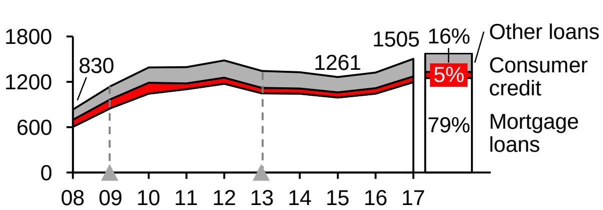
Debt / income (%)[1]



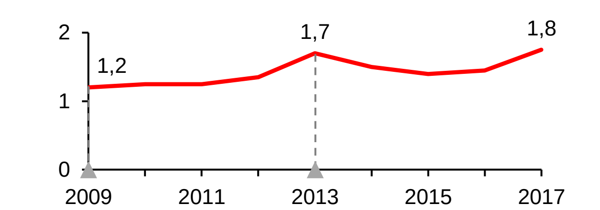
Non-performing loans to total gross loans (%)[3]



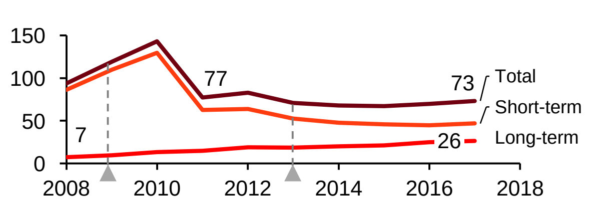
Loans per category (BEUR)[2]



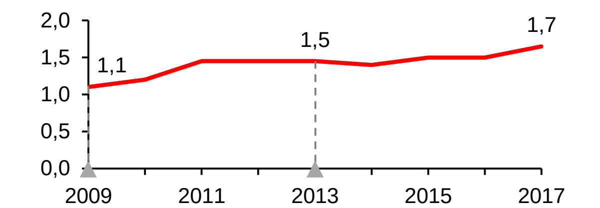
Non-performing household loans - credit cards (%)[5]



Consumer credit (BEUR)[2]



Non-performing household loans - other personal loans[5]



Remarks

- Debt / income and total amount of debt have increased after 2008. Notably, long-term consumer credit has increased by 260% in 2008-2017
- Total non-performing loans have decreased. However, in some areas, such as credit cards and other personal loans, NPLs have increased [3,4]
- Applications for property possessions have also decreased by -44 % between 2009-17[5]
- Due to good macro-economical situation, households are able to meet their debt obligations and even make voluntary repayments[6]
- However, rise in unemployment and housing price decline would put households with high mortgages to risk. Already now value of housing loans in arrears has increased from previous low levels[6]

Sources: [1] OECD (2019), "Household debt" (indicator); [2] OECD (2019), "Households' financial assets and liabilities“; [3] World Bank, non-performing loans; [4] Reserve Bank of Australia “Recent Trends in Personal Credit”; [5] Reserve Bank of Australia “Household Indebtedness and Mortgage Stress”; [6] Reserve Bank of Australia, (2019), Financial Stability Review

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Estonia: Consumer credit legislation overview

Overview of consumer credit market

- Household loans in 2017 accounted for 9,5 BEUR, of which 7,2 BEUR (75%) for mortgages, 1,5 BEUR (15%) for consumer credit loans and 0,9 BEUR (9%) for other loans
- Total outstanding amount of consumer credit loans has increased 21% from 2013 to 2017
- Before the amendment to Creditors and Credit Intermediaries Act in 2015, there were approximately 123 firms in the high-cost credit market and, in June 2016, only 39 companies had the authority to operate as credit providers[UCC]. The current number of creditors in Estonia is 61

Recent changes in regulation

- **2009 – Amendment to consumer credit regulation including e.g.**
  - Relative interest rate cap (annual nominal interest rate cap) and rules for responsible lending
- **2013 & 2014 – Amendments to Advertising Act**
- **2015 – Package of legislative acts targeted at solving problems in consumer lending market including e.g.**
  - Amendment to Creditors and Credit Intermediaries Act: all creditors need to have the license from Financial Supervision Authority
  - Cost rate restriction for consumer loans (Annual Percentage Rate cap)

Current state of regulation*

License and market entry requirements (Diverse set of regulatory measures)

- All consumer credit providers should apply for a license from the Financial Supervision Authority (FSA) of Estonia. The application should include, amongst others, business plan and extensive information about the management team members. Detailed requirements stated in Creditors and Credit Intermediaries Act
- FSA is holding a list of all registered credit providers and publishes a report about the market size, market shares, and average cost rates twice a year
- FSA has the responsibility of supervision over the consumer credit market

Sanctions for breaches (Diverse set of regulatory measures)

- FSA may impose sanctions for credit providers in case of breach of regulations. These can include:
  - maximum 32 kEUR of penalty or
  - revoking the license of the credit provider

Cost of credit

- The total annual percentage rate cannot exceed the average of cost rates of bank-offered consumer credits multiplied by three.
- The Bank of Estonia update the average rate twice a year (maximum APR rate in 2018 was ~60%)

Advertising and contract (Moderate set of regulatory measures)

- Advertisement requirements for consumer credits are strict: e.g. advertisements cannot include suggestions that consumer credit is a risk-free opportunity to solve personal financial problems and all the required information should be written in noticeable font. Detailed requirements are stated in Advertising Act
- Basic information about the contract, e.g. the annual percentage rate of charge, duration and sum of repayments, should be informed before the customer enters into the contract
- Consumer has the right to do an early repayment in all consumer credits

Consumer affordability (Moderate set of regulatory measures)

- All creditors are required to acquire information on customer and assess the creditworthiness before doing the contract. This is strictly enforced by the FSA
- Creditor is obligated to calculate the ratio of the principal amount of the credit and the interest payment to the consumer's income
- Creditors acquire income data from centrally managed register or directly from consumers
- However, the credit providers' desire, ability and capacity of doing comprehensive check of customer backgrounds is noted as being a risk for consumer credit market in Estonia[FSA, quarterly overview of creditors sector]

Source: Extracted from UCC, "Interest Rate Restrictions on Credit for Low-income Borrowers" (2017); Riigiteataja, regulations in Estonia (2019); Eestipank Statistics (2019); Juridica International, "Legal Problems and Regulations related to Easy-access Non-secured Consumer Loans in Estonia" (2014); Financial Supervisory Authority of Estonia (2019); OECD (2019), Short-Term Consumer Credit: provision, regulatory coverage and policy responses;

- ◔ Light set of regulatory measures
- ◑ Moderate set of regulatory measures
- ● Diverse set of regulatory measures

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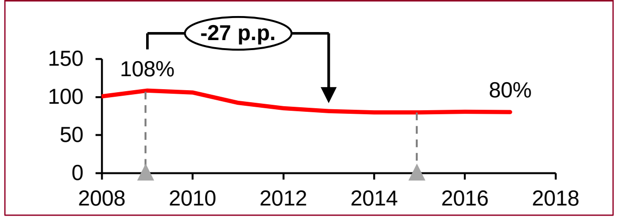
Estonia: Key metrics and comments on indebtedness

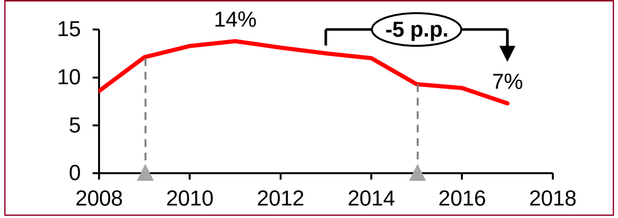
Overview of key metrics

▲ Regulation changes in 2009 and 2015

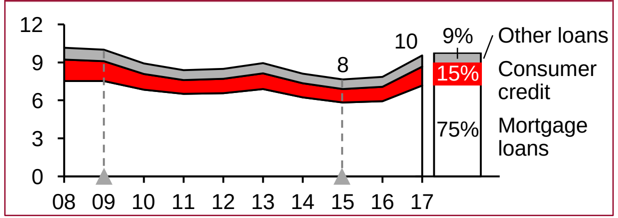
Debt / income (%)[1]



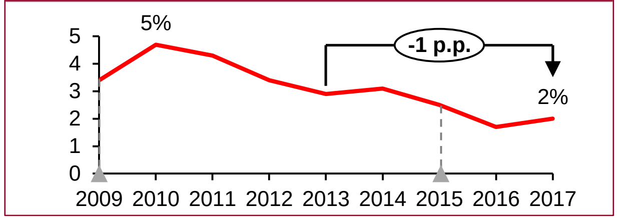
Share of population in arrears (%)[3]



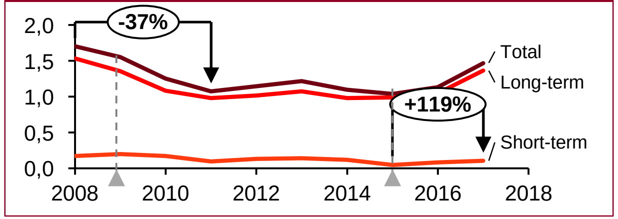
Loans per category (BEUR)[2]



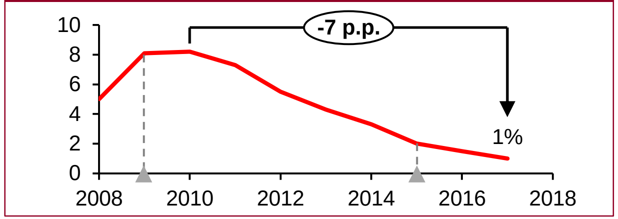
Arrears on hire purchase or other loans (%)[3]



Consumer credit (BEUR)[2]



Non-performing (>90d) consumer credit to total (%)[4]



Remarks

- Debt / income has stayed stagnant since 2013, as both total debt and income has growth steadily[5]
- Payment problems have significantly decreased after 2010, e.g. share of population in arrears and share of NPL, mainly driven by good macroeconomical development[5]
- The macroeconomic financial crisis before 2011 affected the quality of loan portfolio negatively, i.e. increased the share of non-performing loans[6]
- After the financial crisis, households have had more cautious attitude towards loan taking and credit providers have done credit analyses more comprehensively, decreasing the amount of loans[7]

Sources: [1] OECD (2019), "Household debt" (indicator); [2] OECD (2019), "Households' financial assets and liabilities“; [3] Eurostat, Income and Living Conditions (2018); [4] Estipank Statistics; [5] Expert interview with Eestibank, Financial Stability Department; [6] Eestipank, (2012), “The Volume of Overdue Loans Contracted Faster than Earlier in October“; [7] Civic Consulting, (2012), “The over-indebtedness of European households: updated mapping of the situation, nature and causes, effects and initiatives for alleviating its impact”

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Finland: Deep dive on consumer credit legislation

Overview of consumer credit market

- Household loans in 2017 accounted for 126 BEUR, of which 95 BEUR (76%) for mortgages, 15 BEUR (12%) for consumer credit loans and 15 BEUR (12%) for other loans
- Total outstanding amount of consumer credit loans has increased 16% from 2013 to 2017
- After the amendment to Consumer Protection Act in 2013, the number of small loans provided in Finland decreased significantly but the average amount of one loan increased (in 2012: 1,2 M loans, average ~200 EUR; in 2015: 0,5 M loans, average ~500 EUR)[UCC]

Recent changes in regulation

- **2013 – Amendment to Consumer Protection Act including e.g.**
  - Interest rate cap on consumer credits under 2 kEUR
  - More requirements for checking consumer information
- **2019 – Amendment to Consumer Protection Act including e.g.**
  - Tightened interest rate cap for all consumer credits

Current state of regulation*

License and market entry requirements

- The consumer credit provider are listed in the register of credit providers maintained by Regional State Administrative Agency of Southern Finland. There are couple of requirements that credit provider need to fulfill before being able to listed to the register. Details of these are listed in Act on Registration of some Credit Providers and Intermediaries, and include e.g. that the person applied the registration has not been in prison in last 5 years

Sanctions for breaches

- There are not centralized supervision over the credit providers but it is distributed in many players for different matters. These players include e.g. Finance Supervision Authority and Competition and Consumer Authority
- In case of breach in regulation, the credit provider might be punished by a penalty or enforced to do corrective actions
- ***From 9/2019 onwards: In case of breach of the interest rate cap, the consumer does not need to pay any interest or fees***

Cost of credit

- Interest rate ceiling for cash credits under 2 kEUR. The maximum annual percentage rate cannot exceed the current reference rate by more than 50%. This rate includes both interest and other fees
- ***From 9/2019 onwards: The maximum annual credit interest rate is 20%. Maximum daily amount of other fees is 0,01% of the credit amount while the annual amount of costs cannot exceed 150 EUR***

Advertising and contract

- Before the customer enter into the contract, the credit provider need to provide consumer with the information stated in the Standard European Consumer Credit Information form in permanent way. The information include, e.g. cost of credit and the payback time
- When credit is both applied for and granted between 11pm and 7am Finnish time, the amount of credit is not permitted to be dispensed to the consumer until 7am following the loan's approval
- Standard EU directive advertisement rules such as advertisement must clearly state the actual APR, amount of credit and fees and other prerequisites for getting loan (e.g. insurance).The advertisement should not be such that they can decrease the consumer's ability to judge whether he or she should take the credit or not

Consumer affordability

- Before making the contract or increase in credit line, credit provider need do an evaluation of the creditworthiness of the customer based on adequate information about customer's income and economical situation, based on e.g. debt-to-income calculations
- Credit providers need to provide the customer with information about whether the credit product fit into the needs and economic situation of the customer

Light set of regulatory measures
Moderate set of regulatory measures
Diverse set of regulatory measures

Sources: Extracted from UCC (2017): Interest Rate Restrictions on Credit for Low-income Borrowers; Finnish Legislation, Consumer Protection Act, Act on Registration of some Credit Providers and Intermediaries

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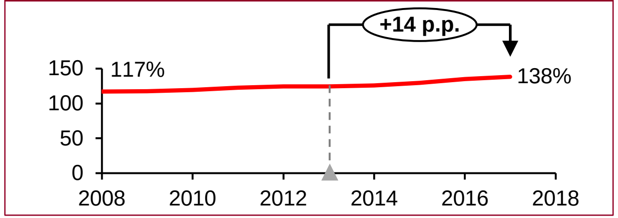
Finland: Key metrics and comments on indebtedness

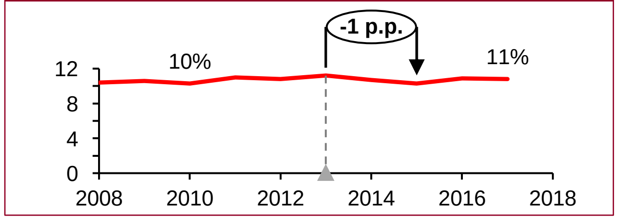
Overview of key metrics

▲ Regulation changes in 2013

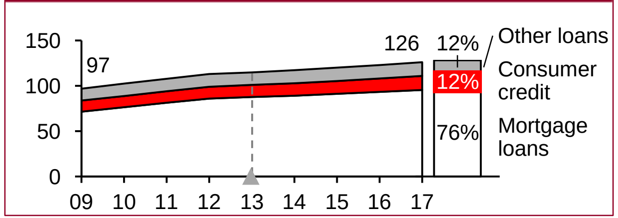
Debt / income (%)[1]



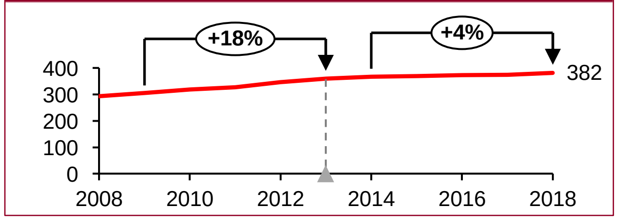
Share of population in arrears (%)[3]



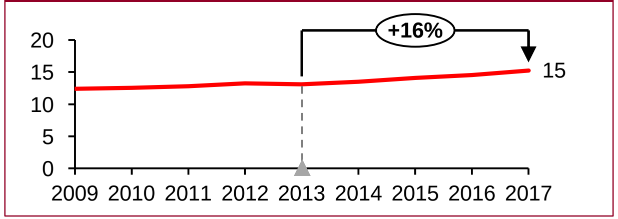
Loans per category (BEUR)[2]



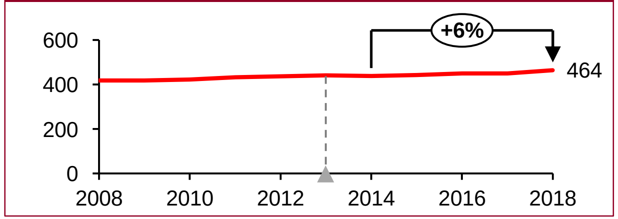
People with payment default notices (thousand)[4]



Consumer credit (BEUR)[2]



People in enforcement (thousand)[5]



Remarks

- Debt / income, total outstanding debt as well as consumer credit have grown in recent years, e.g. debt / income has grown from 124% to 138% in last 5 years
- About every tenth people have payment problems and the problems seems to be increasing, e.g. people with payment default notices increased from 300k to 380k in last 10 years
- Rapid growth in housing company loans and in consumer credits have changed the debt structure and increased debt burden in Finnish households[6]
- Macroprudential measures have previously focused mainly on housing loans. Because of recent changes, the focus should be expanded on all credit types and credit providers[6]

Sources: [1] OECD (2019), "Household debt" (indicator); [2] Bank of Finland, Loans of Finnish Households; [3] Eurostat, Income and Living Conditions (2018); [4] Suomen Asiakastieto – Statistics of payment default notices; [5] Statistics Finland – Statistics on enforcement; [6] Bank of Finland, (2019), “Debt must be measured against repayment capacity”

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Germany: Deep dive on consumer credit legislation

Overview of consumer credit market

- Credit offered by banks dominates the credit market in Germany. Banks in Germany can be divided into three groups: private banks, cooperative banks and public savings banks. Financial exclusion is mitigated through the role of the public savings banks
- Household loans in 2017 accounted for 1800 BEUR, of which 1300 BEUR (73%) for mortgages, 200 BEUR (11%) for consumer credit loans and 290 BEUR (16%) for other loans
- Total outstanding amount of consumer credit loans has increased 9% from 2013 to 2017

Recent changes in regulation

- Germany has had strong interest rate restrictions in place for several decades[UCC]
- Regulation for consumer credit is covered in Banking Act and Bilingual Civil Code

Current state of regulation*

License and market entry requirements (Diverse set of regulatory measures)

- A written license from the Federal Banking Supervisory Office (BaFin) is required for all companies conducting banking business or to providing financial services, including providing loans. Comprehensive requirements for the license are described in the German Banking Act
- Once licensed, company is registered in the BaFin company database
- The Federal Banking Supervisory Office exercises supervision over institutions in accordance with the provisions of the Banking Act

Sanctions for breaches (Moderate set of regulatory measures)

- In a case of lender having higher interest rates than legally permitted, lender loses all the interest
- According to Banking Act, anyone who conducts prohibited business or provides financial services without the license can be punished by a fine or by a term of imprisonment not exceeding three years

Cost of credit

- A relative interest rate ceilings based on an average market rate calculated each month by the Central Bank (in 2018, ~6%): 1) Maximum of double the average market rate or 2) Maximum of 12 percentage points over the average market rate
- In general, additional handling or administrative fees are not allowed to be charged. The German Federal Court of Justice (the BGH) has decided that standard clauses in consumer loan agreements which stipulate an administration fee to be paid by the customer are invalid under German law

Advertising and contract (Moderate set of regulatory measures)

- The consumer credit agreement must show all the fees and other expenses payable by the debtor and related to the receipt of the loan. The borrower is not liable for payment of any charges about which the requisite information is not properly provided
- Additional provisions in law to the EU directive regarding consumer loan advertisement: 1) Every communication concerning advertisement shall be fair, clear and not misleading 2) Formulations which lead to wrong expectations regarding costs of the credit are not allowed 3) The APR must be at least as stressed as any other rate 4) The advertisement has to include an example for the APR for which the lender expects that 2/3 of the contracts concluded on the basis of this advertising should have the advertised rate or a better one

Consumer affordability (Light set of regulatory measures)

- Loan provider must evaluate the credit worthiness of the consumer prior to conclusion of a contract.
- The basis for the evaluation may be information from the consumer and where necessary information from agencies which commercially collect and store or alter personal data which may be used to evaluate consumers' credit worthiness for the purpose of transmission

Sources: German Law Archive: Banking Act; German Law Archive Bilingual Civil Code; Federal Financial Supervisory Authority; Deutsche Bundesbank; OECD; Detu iff/ZEW (2010): Study on interest rate restrictions in the EU; UCC (2017): Interest Rate Restrictions on Credit for Low-income Borrowers; OECD (2019), Short-Term Consumer Credit: provision, regulatory coverage and policy responses; German Economic Team Moldova (2018): Increasing consumer loan transparency. The role of the annual percentage rate of charge; European Finance Litigation Review (2014): Federal Court of Justice finds administrative fee clauses in consumer loan agreements to be invalid

Light set of regulatory measures
Moderate set of regulatory measures
Diverse set of regulatory measures

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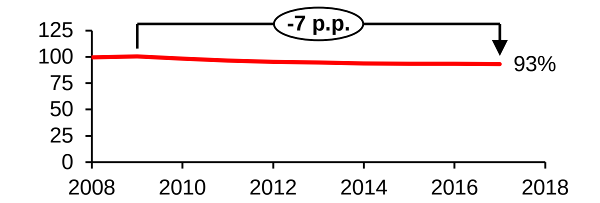
Germany: Key metrics and comments on indebtedness

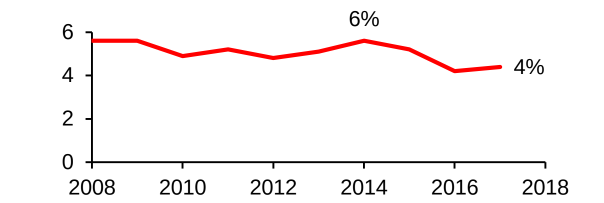
Overview of key metrics

No recent regulation changes in Germany

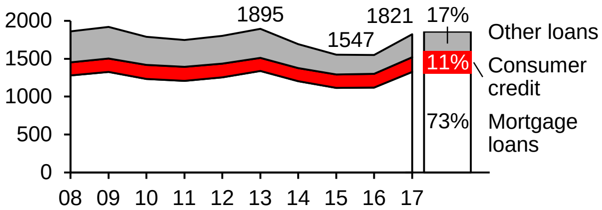
Debt / income (%)[1]



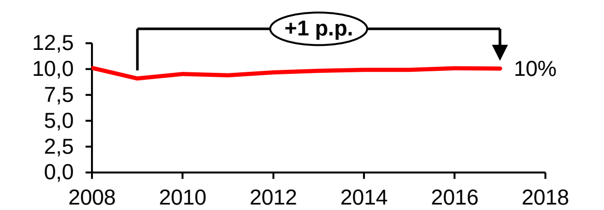
Share of population in arrears (%)[4]



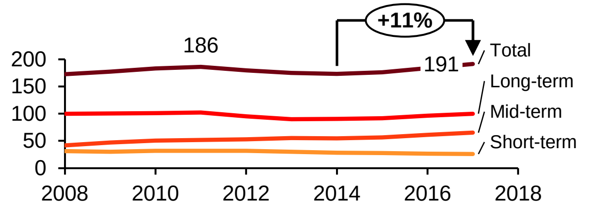
Loans per category (BEUR)[2,3]



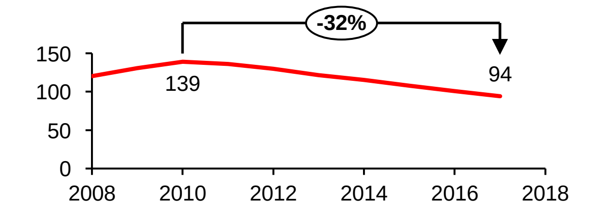
Share of overindebted people (%)[5]



Consumer credit (BEUR)[3]



Private insolvencies in Germany (thousand)[6]



Remarks

- Debt / income has decreased while total debt and consumer credit have turned to increase in last couple of years, e.g. consumer credit has increased from 170 to 190 BEUR in 2014-2017
- Payment problems have remained in approximately same level except the private insolvencies, which have decreased by 32% in 2010-2017
- Public saving banks give an easy access account and loan. This arrangement has been a major driver keeping the amount of payment problems and number of external consumer credit providers low[7]
- Increase in consumer credit is partly explained by automotive industry's transformation to new car financing solutions[7]

Sources: [1] OECD (2019), "Household debt" (indicator); [2] OECD (2019), "Households' financial assets and liabilities"; [3] Deutsche Bundesbank, Assets and liabilities of banks; [4] Eurostat, Income and Living Conditions (2018); [5] Creditreform, (2018), DebtAtlas Germany; [6] CRIF Bürgel, Debt Barometer 2017; [7] Accenture internal expert interviews

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Lithuania: Deep dive on consumer credit legislation

Overview of consumer credit market

- Household loans in 2017 accounted for 11 BEUR, of which 7 BEUR (66%) for mortgages, 1 BEUR (10%) for consumer credit loans and 3 BEUR (24%) for other loans. Payday loan portfolio account for ~250 MEUR
- Total outstanding amount of consumer credit loans has increased 3% from 2013 to 2017
- In total, there has been three major amendments to the regulation regarding consumer credit loans
- There are around ~55 companies providing payday loans

Current state of regulation*

License and market entry requirements

- The Bank of Lithuania is responsible for public supervision of the consumer-credit market
- BoL keeps a public list of Consumer Credit providers
- Requirements of good reputation for the management and major shareholders for the license

Sanctions for breaches

- Fines up to 5 percent of total annual income
  - Since the BoL took over the supervision, over 45 penalties on payday lenders were imposed, mainly due to incorrect creditworthiness assessment and advertisement [OECD 2019]
- Consumer credit provider can be also removed from the public list
  - One of the largest payday lender in the country were suspended due to multiple gross violations of consumers' solvency assessment[OECD 2019]

Cost of credit

- Fixed cap of 75% on annual interest rate, and cap of 0,04% of the credit on other costs
- The total cost of credit can not be more than the total amount of the credit

Advertising and contractual terms

- Additional advertising restrictions, e.g. prohibit advertising lenders or indicating them as sponsors at specific places and events
- Consumer credit cannot be concluded from 10 pm to 7 am
- Cooling-off period of two calendar days

Consumer affordability

- Obligation to inspect databases and available registers whenever assessing customer creditworthiness
- Publically managed register for income
- Central positive register for outstanding obligations
- 40% affordability rule
- Before every significant increase in the total amount of consumer credit the lender must update available financial information about the consumer and reassess their creditworthiness

Recent changes in regulation

- **Changes to the Law on Consumer Credit, January 2012**
  - Public administration of the consumer-credit market assigned to the Bank of Lithuania
  - Maximum APR was reduced from 250% to 200%
- **New wording of the principles for responsible lending and evaluation of a consumer's creditworthiness, July 2013**
  - Obligation to assess the creditworthiness of the consumer on the basis of sufficient information provided by the consumer and available to the lender
  - Lending shall be based on the debt-to-income principle, not exceeding 40%
  - Lender shall assess to some extent whether the financial product in question in any given case corresponds to the consumer's needs and interests
- **Amendments to the Law on Consumer Credit, February 2016**
  - Total cost of the credit: 75% + 0.04% total credit amount; 100% max cost of credit
  - Amendments to creditworthiness assessment
  - Advertising restrictions e.g. in specific events and places
  - Restrictions of credit agreements
  - Consumer cooling-off period, two calendar days
  - Registering of natural persons that cannot receive credits
  - Sanctions

Sources: Bank of Lithuania; Lexology "Changes in consumer lending"; Infolex; OECD (2019), Short-Term Consumer Credit: provision, regulatory coverage and policy responses; Juridica International (2014)

Light set of regulatory measures
Moderate set of regulatory measures
Diverse set of regulatory measures

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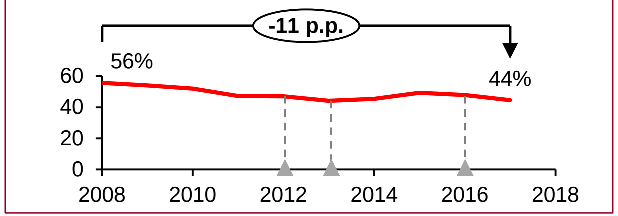
Lithuania: Key metrics and comments on indebtedness

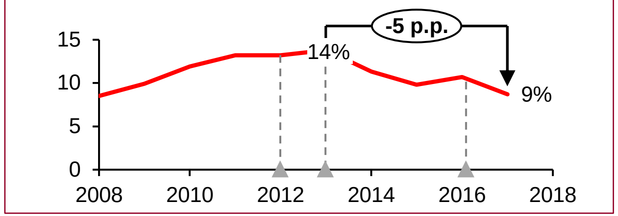
Overview of key metrics

▲ Regulation changes in 2012, 2013 and 2016

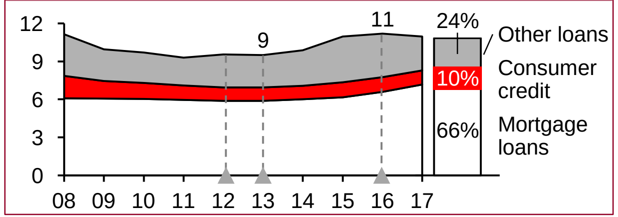
Debt / income (%)[1]



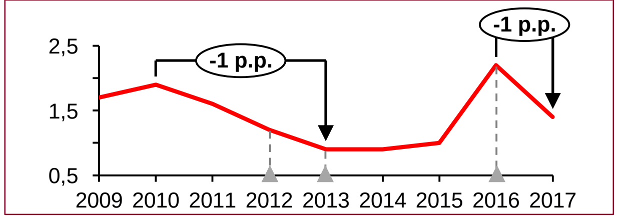
Share of population in arrears (%)[3]



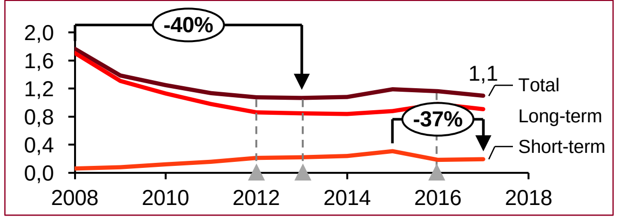
Loans per category (BEUR)[2]



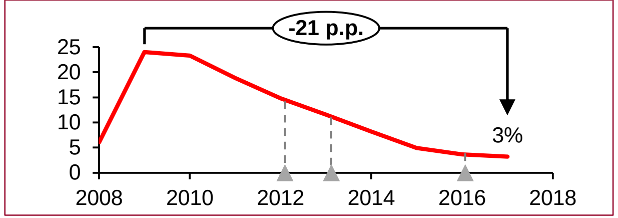
Arrears on hire purchase or other loans (%)[3]



Consumer credit (BEUR)[2]



Non-performing (>90d) loans to total gross loans (%)[4]



Remarks

- Tightening of the Law on Consumer Credit as well as the active supervision enforced more responsible lending by putting the credit providers to check the customer solvency more cautiously. This has led to the decrease in number of short-term consumer credits[5]
- Restrictions especially in terms of creditworthiness assessment determined significant changes in the market: decreased provision of new consumer credits (most in smallest payday loans, <290 EUR), decreased amount of overdue loans and the interest rate dropped[6]

Sources: [1] OECD (2019), "Household debt" (indicator); [2] Bank of Lithuania, Financial assets and liabilities of households; [3] Eurostat, Income and Living Conditions (2018); [4] World Bank, non-performing loans; [5] Bank of Lithuania, (2016), “Changes in payday loan market — more responsible lending, fewer indebted”; [6] Expert interview with Bank of Lithuania, Credit and Payments Services Supervision Division

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Slovakia: Deep dive on consumer credit legislation

Overview of consumer credit market

- Household loans in 2017 accounted for 35 BEUR, of which 27 BEUR (77%) for mortgages, 6 BEUR (18%) for consumer credit loans and 2 BEUR (5%) for other loans
- Total outstanding amount of consumer credit loans has increased 60% from 2013 to 2017
- Before the amendment to the act on consumer credits and loans for consumers in 2015, there were 279 non-bank lenders in Slovakia. This number had decreased to 34 by 2017[UCC]

Recent changes in regulation

- **2010 – Act 129/2010 on consumer credits and loans for consumers**
- **2015 Amendment to the Act 129/2010, key changes include e.g.**
  - Range of supervisory tools and powers available to the NBS extended
  - Introduced a rate cap which equals double of an average annual percentage rate of bank loans
  - License requirement from the NBS

Current state of regulation*

License and market entry requirements

- Short term lenders categorized to specialized lenders who are supervised by the National Bank of Slovakia
- Non-banking companies require a license from NBS, must fulfil multiple conditions, e.g. minimum capital of EUR 500k and branch office in Slovakia
- List of creditors who acquired the license for provision of consumer loans published on NBS website

Sanctions for breaches

- If credit providers are found to be in breach of the legislation
  - penalties include a fine of up to €140k
  - possibility to have license revoked
- Consumer credit is considered interest-free and free of charges in case of breaches of obligations

Cost of credit

- In 2015, a vote in the Slovak Parliament to change consumer legislation was passed, legislating for a cap of twice the average rate of bank loans
- In 2018, the maximum APRs for consumer loans were around 15-30% depending on the loan amount and maturity

Advertising and contract

- An obligation to directly state, in the consumer loan agreement, that agreement is in fact a consumer loan
- As stated in EU directive, Prescribed information must be included in advertising in a clear way, e.g. borrowing rate, details of fees and total amount of consumer credit

Consumer affordability

- Creditor must assess the borrower's ability to repay the consumer credit using their professional skills
- Creditors shall verify electronically information concerning the income of borrowers
- Creditors set, observe and regularly review the limit on the indicator of the borrower's ability to repay the consumer credit with debt service-to-income (DSTI) and total debt-to-income (DTI) ratios
- DSTI ratio limit is calculated on basis of the borrower's income, total expenditure, amount of consumer credit instalments and income-reducing financial obligations
- Creditors must check at least one electronic register of consumer loans data before issuing a loan to assess ability to repay

Sources: Extracted from OECD report "Short-Term Consumer Credit" (2019); UCC, "Interest Rate Restrictions on Credit for Low-income Borrowers" (2017); Lexology, "Slovakia: licensing of entities providing consumer loans"; National Bank of Slovakia, (2018), "Statistical Bulletin"; Slovakia "Act No 129/2010 Coll. "

Light set of regulatory measures
Moderate set of regulatory measures
Diverse set of regulatory measures

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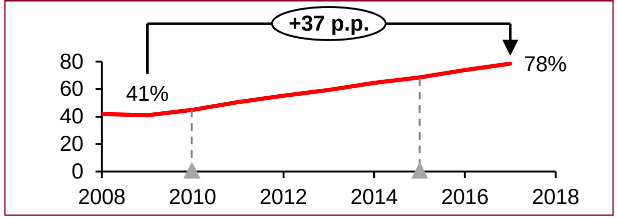
Slovakia: Key metrics and comments on indebtedness

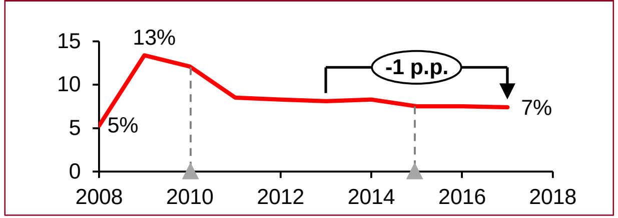
Overview of key metrics

▲ Regulation changes in 2010 and 2015

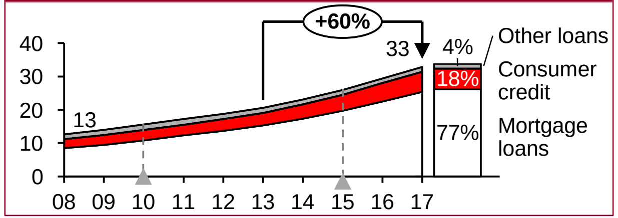
Debt / income (%)[1]



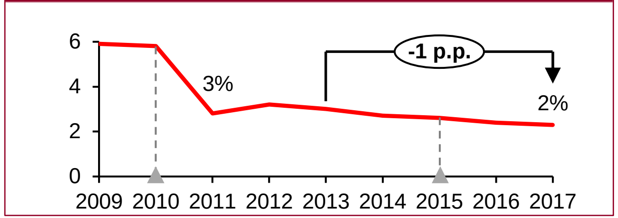
Share of population in arrears (%)[3]



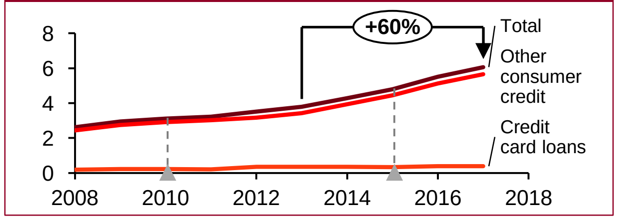
Loans per category (BEUR)[2]



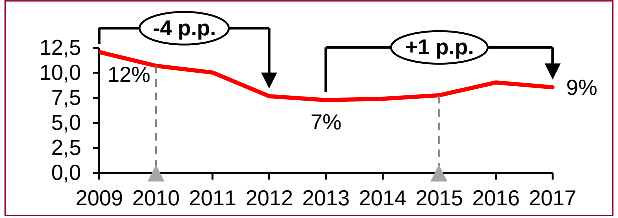
Arrears on hire purchase or other loans (%)[3]



Consumer credit (BEUR)[2]



Non-performing (>90d) consumer credit to total (%)[2]



Remarks

- Debt / income, total loan amount and consumer credit have significantly increased throughout the observation period, e.g. consumer credit increased from 3 to 6 BEUR
- Consumer credit development in Slovakia has been mainly driven by significant increase in credit granted by banks[4]
- Payment problems have decreased in recent years, except a slight increase in non-performing consumer credit share in 2014-2016
- Factors contributing to the strong growth in household indebtedness include favorable economic trends, decreasing unemployment, low interest rates and the fact that banks have tried to maximize their lending[5]

Sources: [1] OECD (2019), "Household debt" (indicator); [2] National Bank of Slovakia, (2018), “Statistical Bulletin”; [3] Eurostat, Income and Living Conditions (2018); [4] Mestan & al. (2018): Changes in Consumer Credit Market in Slovakia; [5] National Bank of Slovakia, (2017), “Financial stability report”

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Spain: Deep dive on consumer credit legislation

Overview of consumer credit market

- Household loans in 2017 accounted for 750 BEUR, of which 560 BEUR (74%) for mortgages, 54 BEUR (7%) for consumer credit loans and 138 BEUR (18%) for other loans
- Total outstanding amount of consumer credit loans has decreased 29% from 2013 to 2017
- There are interest rate restrictions on overdrafts, default charges and mortgage loans in Spain, but there are no limits set by the Regulator on high-cost credit providers [UCC]

Recent changes in regulation

- **Law 16/2011 on Consumer Credit Contracts, key changes**
  - Creditor must assess the solvency of the relevant consumer
  - New rules on the basic content of the publicity and the marketing materials
  - New consumer termination and withdrawal rights

Current state of regulation*

License and market entry requirements

- Short term lenders categorized to specialized lenders who fall under the supervision of a national consumer agency
- Such short-term lenders will solely have to be registered within the relevant Commercial Registry

Sanctions for breaches

- No specific sanctions identified
- Possibility of submitting disputes between the parties to the Consumer Arbitration System which can lead to lender's loss of all interest and fees

Cost of credit

- In 2018, Spain did not limit the maximum price of a loan [ECRI]
- In 2015, there was a ruling in the Supreme Court that an interest rate of 24% was excessive and thus in breach of the 1908 legislation on usury, but it would seem that this is often exceeded in practice [UCC]
- Creditors are allowed to charge compensation in the event that the consumer voluntarily repays all or part of the principal before due (fair and objective cost that is max 1 % of the repaid amount)

Advertising and contract

- Obligation of creditors to provide an informational document that allows the consumer to assess the different offers and take an informed decision
- Consumers will be entitled to unilaterally terminate consumer credit agreements of an indefinite term at no cost for them
- The consumer is entitled to withdraw from the credit agreement within 14 days at no cost (except for the interest accrued)

Consumer affordability

- Creditor must assess the solvency of the relevant consumer based on the
  - information provided by the customer and the review of the solvency
  - credit record of the consumer in accordance with the Spanish personal data protection regulations

Sources: Extracted from OECD report "Short-Term Consumer Credit" (2019); UCC, "Interest Rate Restrictions on Credit for Low-income Borrowers" (2017); Uria Menendez; Legal Knowledge Portal

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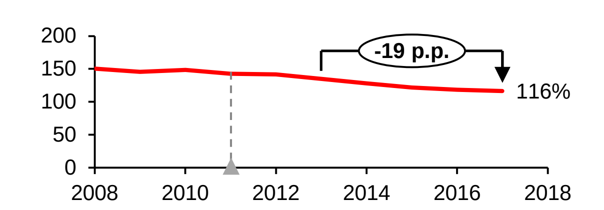
Light set of regulatory measures
Moderate set of regulatory measures
Diverse set of regulatory measures

Spain: Key metrics and comments on indebtedness

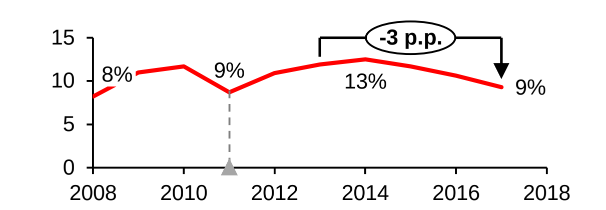
Overview of key metrics

▲ Regulation changes in 2011

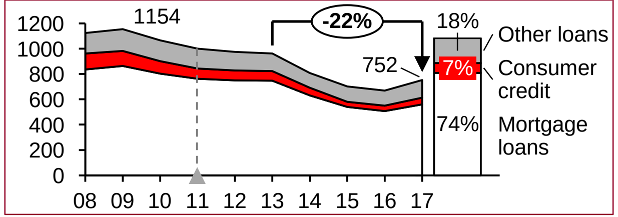
Debt / income (%)[1]



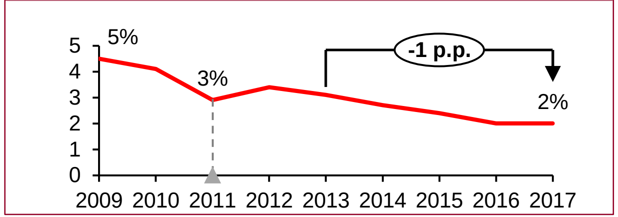
Share of population in arrears (%)[3]



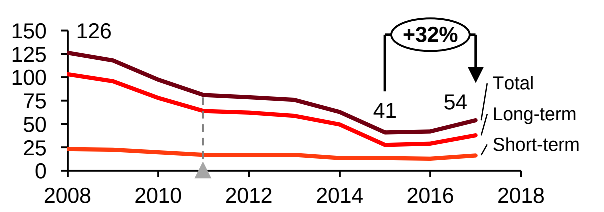
Loans per category (BEUR)[2]



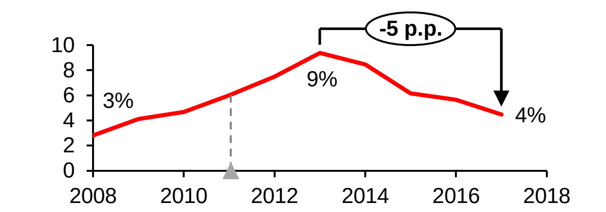
Arrears on hire purchase or other loans (%)[3]



Consumer credit (BEUR)[2]



Non-performing (>90d) loans to total gross loans (%)[4]



Remarks

- Debt / income, total loan amount and consumer credit have all decreased. However, both total loans and consumer credit have turned to grow again in last years
- Payment problems have decreased. Addition to the metrics in the graphs, number of foreclosures has decreased -62% in 2014-2018[5] and arrears on utility bills -20% in 2014-2017[3]
- Over-indebtedness levels have been closely following housing market trends, unemployment rates, and other macroeconomical factors[6]
- Changes in lending practices, such as additional creditworthiness requirements, have reduced the accessibility to credit for some groups[6]

Sources: [1] OECD (2019), "Household debt" (indicator); [2] OECD (2019), "Households' financial assets and liabilities"; [3] Eurostat, Income and Living Conditions (2018); [4] World Bank, non-performing loans; [5] Instituto Nacional de Estadística "Registration of certifications of foreclosures"; [6] Civic Consulting, (2012), "The over-indebtedness of European households: updated mapping of the situation, nature and causes, effects and initiatives for alleviating its impact"

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Sweden: Deep dive on consumer credit legislation

Overview of consumer credit market

- Household loans in 2017 accounted for 430 BEUR, of which 340 BEUR (78%) for mortgages, 22 BEUR (5%) for consumer credit loans and 75 BEUR (17%) for other loans
- Total outstanding amount of consumer credit loans has decreased by 9% from 2013 to 2017, turning to growth again in 2016
- 20 banks and other credit companies account for 80% of the unsecured loans in 2017

Recent changes in regulation

- **January 2011 – Consumer Credit Act**
  - New consumer credit act replacing the old one
- **September 2018 – Amendment to Consumer Credit Act because of growing instant loan market**
  - Interest rate and cost rate restriction for high-cost credits
  - Restricting how the marketing of these loans can be done

Current state of regulation*

License and market entry requirements

- All consumer credit companies needs an approval from Financial Supervisory Authority for being able to operate in Sweden.
- Financial Supervisory Authority also keeps a register of all credit providers
- Consumer credit providers are supervised by Financial Supervisory Authority and Swedish Consumer Agency

Sanctions for breaches

- Breaches in the regulation might lead to sanctions of 5k – 10M SEK, still being maximum 10% of the credit company's revenues
- Also, Swedish Consumer Agency can revoke the permission to provide loans if the credit provider has already received a warning or fines and breaches the regulation again

Cost of credit

- Interest rate cap for high-cost credits[1]: neither the credit interest rate nor the penalty interest rate can at any point be higher than the reference interest rate plus 40%
- Cost restriction for high-cost credits: Maximum amount of all costs (interests, fees, etc.) is 100% of the original loan amount

Advertising and contract

- Credit provider should give the consumer specified information about the credit in permanent form and in good time before the contract is made. This information is in detail specified in the Consumer Credit Act and include e.g. type of credit, credit amount and interest rate
- There are also requirements for information that should be included in the advertisement of consumer credits, e.g. interest rate on credit, other fees and maturity time. Additionally, following things have to be included in the marketing of high-cost credits:
  - Clearly indicate that the advertisement is about a high-cost credit
  - Present the risks that comes when taking high-cost credit
  - Information about where to get help if problems occur
- Right of withdrawal in 14 days after the credit approval (principal + accrued interest)
- Consumer has the possibility to do early repayments for each consumer credits

Consumer affordability

- Required credit solvency checks for each credit – for example, calculating debt-to-income ratio and risk level for customers[Financial Supervisory Authority]
- High-cost credits can be extended only once (also new credits from the same provider are seen as extensions)

Soures: Extracted from Parliament of Sweden, Consumer Credit Act, Act on Certain Consumer Credit Operations (2019); Financial Supervisory Authority in Sweden, Swedish Consumption Loans (2018)

Light set of regulatory measures
Moderate set of regulatory measures
Diverse set of regulatory measures

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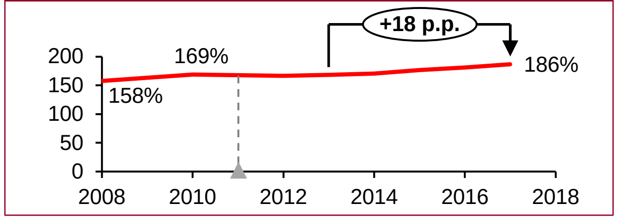
Sweden: Key metrics and comments on indebtedness

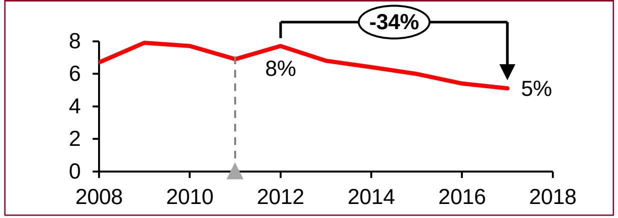
Overview of key metrics

▲ Regulation changes in 2011

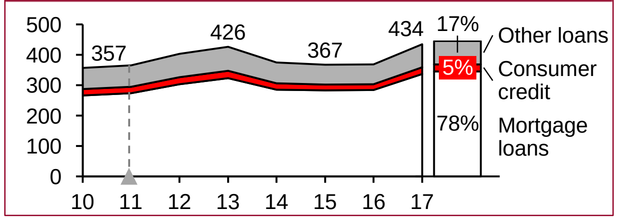
Debt / income (%)[1]



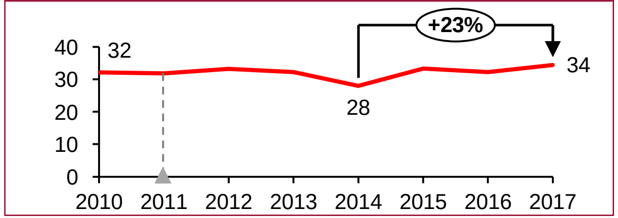
Share of population in arrears (%)[3]



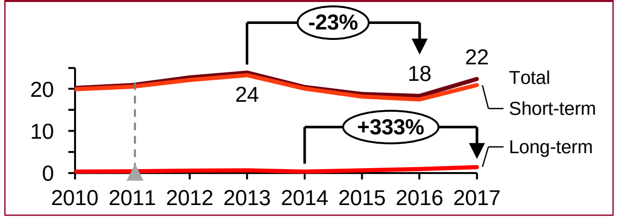
Loans per category (BEUR)[2]



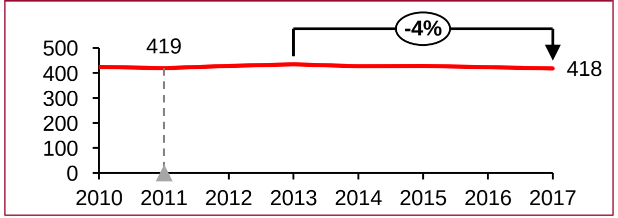
Number of new debtors in register >1 year (thousand)[4]



Consumer credit (BEUR)[2]



Total number of debtors in register (thousand)[4]



Remarks

- Debt / income and total debt have increased, but total debt had a decreasing period in 2013-2015
- Short-term credit accounts majority of consumer credit. Short-term consumer credit growth has varied while long-term consumer credit has grown rapidly
- The development of payment problems varies between the metrics, but seems to be quite stagnant
- Currently, the debt of households are growing at around the same rate as the households' income. In Sweden, housing market mechanism is the biggest reason for high indebtedness[5]
- Three types of loans are especially growing: housing loans, car financing and small amount instant loans[6]

Sources: [1] OECD (2019), "Household debt" (indicator); [2] OECD (2019), "Households' financial assets and liabilities"; [3] Eurostat, Income and Living Conditions (2018); [4] Kronofogden, Statistics of debtors; [5] Bank of Sweden, (2019), "High household indebtedness remains greatest risk in Swedish economy"; [6] Accenture expert interview

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Agenda

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Appendix: Expert interviewees

- Total of 14 experts from Finland were interviewed for the study
- The experts were from companies across the industry and from selected organizations and authorities
  - Authorities, such as Finanssivalvonta, Suomen Pankki, Kilpailu- ja kuluttajavirasto, Helsingin talous- ja velkaneuvonta
  - Loan provider and debt collection companies
  - Organizations, such as Takuusäätiö
  - Suomen Asiakastieto
- **Note: Findings from the interviews presented in this study represent common observations from the interview discussions. They do not represent statements of individual companies, organizations or authorities, unless otherwise stated and referred in the text**

- Additionally, selected country specific experts were interviewed
  - Bank of Lithuania, Credit and Payments Services Supervision Division
  - Bank of Estonia, Financial Stability Department
  - Sweden & Germany: Accenture Financial Services experts

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Appendix: Interview questionnaire

- Background information of the interviewee
  - Description of the company / organization (Business model overview / organization purpose)
  - Role in the company / organization and key responsibilities
- Your view on the current state of Finnish retail lending market, and past and upcoming changes?
  - E.g. new players, products and services on the market, expansion of the ecosystem, changes in consumer behavior and demand
- Debt / income ratio of Finnish households has grown 16 p.p. during the last 10 year, what is your view on the reasons why Finnish people are taking more and more debt?
  - What are the main reasons and changes in reasons for taking more debt?
- Already around half million Finnish people are in enforcement and the number keeps growing, how do you see the debt problem within consumers?
  - How serious is the problem?
  - What do you think are the main reasons / mechanisms behind consumers' debt problems?
  - Do you see that there are certain groups of people who have more serious debt problems?
- What are these groups and why are they in debt problems?
  - What differences are there between the groups?
- What is your view on how well consumers can solve their debt problems?
  - What is impacting the solving of debt problems?
  - What should be done to decrease debt problems?

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Key terms and their descriptions

Term in English	Term in Finnish	Description
Debt / income	Velkaantumisaste	Debt / income is a metric showing how much debt households are having relative to their income. It is calculated as follows: *total amount of household debt* / *total amount of annual disposable income*
Payment default notice	Maksuhäiriömerkintä	Payment default notice given to a private person due to judgement debt or enforcement. For more details, see page 30
Judgement debt	Velkomustuomio	Judgement debt is a decision made by court including a statement that the debtor has to pay the open debt to the credit provider
Enforcement	Ulosotto	Enforcement is a matter of collecting non-paid debt. This can be done by e.g. collecting income or realizing property of the person in enforcement
Lack of means	Varattomuus	In enforcement, lack of means regards to a situation where the debtor has not income or properties to be collected or realized
Debt counselling	Velkaneuvonta	Debt counselling activities aim at helping individuals in their financial or debt problems. These include both state-owned (state legal aid offices in Finland) and private organizations (e.g. Takuusäätiö)
Debt restructuring	Velkajärjestely	Process of restructuring private debts. Often the person does not need to pay all the debts back if accepted to debt restructuring. The permission is applied from district court
Arrears	Maksamattomat velat	Arrears mean debt that is not paid in the original due date
Non-performing loans	Järjestämättömät lainat	Amount of loans overdue more than 90 days from the original due date
Price cap / Cost of credit cap	Hintakatto	Maximum for the price, interest or total cost that credit provider can charge from the customer regarding the credit

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