

Over-Indebtedness in the Finnish Consumer Society

Anu Raijas · Anna-Riitta Lehtinen · Johanna Leskinen

Received: 19 November 2008 / Accepted: 22 March 2010 /
Published online: 14 April 2010
© Springer Science+Business Media, LLC. 2010

Abstract The incurring of debts continues to be a major problem in European economies despite the legislative and other preventive policies introduced over the past 10 years. This article discusses the problem of over-indebtedness in the Finnish consumer society. The article focuses on identifying the environmental and household factors promoting indebtedness and reviews the measurements of over-indebtedness. At the end of the article, a few policy instruments to tackle, or even prevent, over-indebtedness are provided. As debt problems are diverse and complex, the focus is to address the debt problem itself, identify its causes and search for tools for solving it. In addition, constructive talk about the indications of the problem and preventive mechanisms is also of essence.

Keywords Consumption · Credit use · Financial capability · Finland · Over-indebtedness

Today, consumption is playing an essential role in people's everyday life. A huge supply of commodities in the market satisfies consumer wants. The social environment "forces" one to acquire commodities, and governments repeatedly encourage citizens to consume because consumption has positive effects on the GDP. In 2006, the Finnish consumer spent an average of 20,000 euro on consumption, which was 14% more than 5 years earlier. At the same time, the structure of consumption has changed: Finns now spend more money, in both absolute and relative terms, on clothes, shoes, and transport, as well as culture and free time (Statistics Finland 2008a).

Money is needed for consumption. The increase in consumption has been possible because the real income and affluence of Finnish households increased every year in the twenty-first century. However, this growth has not been equal for all the consumer groups. Because of increasing uncertainty in the labour market, many households are uncertain about the continuation and regularity of their income.

The changed economic macro-environment has challenged consumers' financial capability. Consumers are expected to monitor the changes taking place in the national

A. Raijas (✉) · A.-R. Lehtinen · J. Leskinen
National Consumer Research Centre, P.O. Box 5, 00531 Helsinki, Finland
e-mail: anu.raijjas@ncrc.fi

economy and the financial market, but because of the increased opportunities to use money, it has become more demanding to manage personal finances. Cash has become almost obsolete, as almost everything can be paid for with a card or even virtually. This may obscure one's actual use of money and make it more difficult to realize how much is really being spent.

During the past 20 years, credit has become an ordinary, normal resource in household economies. In the twenty-first century in Finland, consumer attitudes towards credit have become even more positive, and at the same time, saving is not held in very high esteem. Furthermore, indebtedness has been promoted by positive development in the economy and employment. Taking out a loan is a common and constructive practice in that it opens new opportunities, such as concentrating on studies or buying a home.

Developments in the credit market, aggressive credit marketing, easy access to various credit products, and positive consumer attitudes towards credit-based consumption have all contributed to the growth of credit use. Besides deposit banks, it is possible today to get credit from other sources. The problem with these latter credits is their high interest rates. These credits mainly target consumers who are unable to get any credit from banks because of limited collaterals.

This article discusses the problem of over-indebtedness in Finland. We aim at identifying the factors that promote indebtedness in the Finnish economic environment and among Finnish households. We also review the measurements of over-indebtedness. In our article, we utilize recent Finnish studies and statistics in this area. In the final section, we provide a few policy instruments to tackle and prevent over-indebtedness. We examine the phenomenon in the Finnish context only, but the same problem concerns other Western countries as well. It is said that individuals' financial problems are mostly found in countries with a low GDP (see European Commission 2007). We are not denying this statement but want to encourage discussion about the severity of the problem in countries with a high GDP as well. People go into debt in order to acquire commodities, and this activity increases the GDP. The article has three main sections. We begin with a description of the development of indebtedness in Finland then discuss the causes and measurements of over-indebtedness. Finally, we draw some conclusions and take up some implications for preventive policies.

The Development of Indebtedness

In Finland, the history of indebtedness is rather short. At the beginning of the twentieth century, people lived in a self-sufficient economy, within the limits of what they themselves could produce. People's incomes were low but so were their expenditures. Loans became common only with the urbanization of the 1960s, when people moved to cities and bought flats. In those days, credits were strictly regulated, and high inflation rates sped up the repayment of credits. Financial markets began to be deregulated in the 1980s, and that increased the demand for housing loans in particular. This development culminated at the end of the 1980s and the beginning of the 1990s, when interest rates increased very rapidly. Then, the prices of flats plunged suddenly, and many households lost their wealth. The wealth of Finnish households is based on owner-occupied flats, which are often financed with credit.

The proportion of indebted households has been on the increase all through the early twenty-first century. Today, 58% of Finland's 2.5 million households are in debt. Ten percent of them have only a housing loan, 22% both a housing loan and some other loan, and 26% only some other loan, such as a study loan or consumer credit (Statistics Finland

2008c). During this century, debt volumes have grown at a fast pace. In 2005, the average housing loan was 44,900 euro and in 2009, as much as 76,500 euro (FFFS 2009, p. 20). Figure 1 shows that in April 2009, the total stock of household loans in Finland was over 90 billion euro. From 2003 to 2007, the housing loan stock grew over 40% and the consumer credit stock over 30% (Bank of Finland 2009). The demand for household loans has increased because of extensions of loan periods, historically low interest rates, and decreased interest risks on account of the common European currency.

The debt volumes of households vary greatly in different phases of life (Fig. 2). In 2007, consumers between ages 30 and 44 had more debt than other age groups: approximately 75% of them had some loan. They had also most housing loans: over half of them had some housing loan. Figure 2 shows that the total loan amount of 30–34-year-olds was more than 14,000 million euro in 2007 (Statistics Finland 2008c). Practitioners in the field have been deeply concerned about the enormous long-term housing loans taken by young adults in particular.

The debt-servicing burden of households is growing year by year in Finland. According to the survey conducted by the Federation of Finnish Financial Services in 2007, an average of 22% of Finnish debtors' take-home income is spent on the repayment of interest and principal of loans. For those with a housing loan, the debt-servicing costs were as high as 28%, and for those with only consumer credit, they are 12% on average. Roughly every other debtor spends no more than 20% of his or her net income on loan servicing, but one in ten spends more than 40% (FFFS 2007).

In recent years, consumers' spending in relation to their income has been increasing at an alarming rate in Finland. The savings ratio of Finnish households has been on the decrease and actually turned negative in 2006. Consumption has increased more than income, and

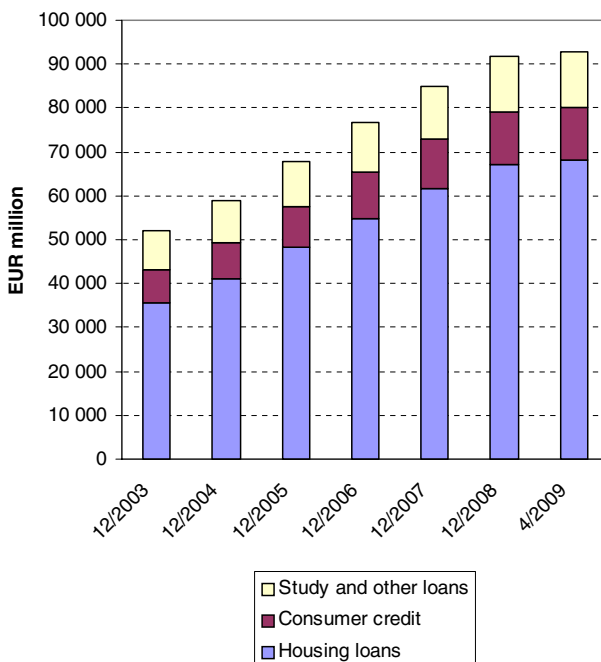


Fig. 1 The loan stock of Finnish households between 12/2003 and 4/2009 (Bank of Finland 2009)

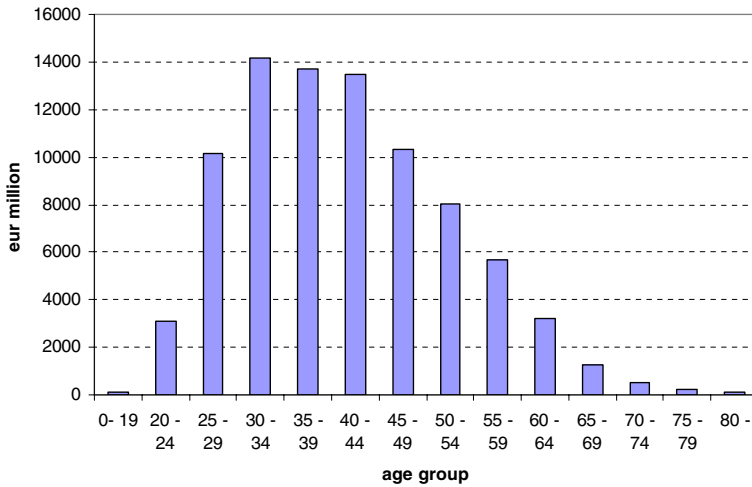


Fig. 2 The loan amounts of different age groups in Finland in 2007 (Statistics Finland 2008c)

the higher-than-income spending has generally been funded with credit. Such behaviour—consumption with credit—is untenable in the long run. In 1988, household debt in Finland amounted to 68% of annual income. The debt-to-income ratio has been growing since the late 1990s and is now over 100%, higher than ever in Finnish history, as shown in Figure 3. But it is still lower than in many other Western countries. The debt-to-income ratio rises in step with the loan amount, being the highest for families with children, first-time flat buyers, and the age group 25–39. The housing-debt burden is the heaviest among households of under 35-year-olds. Their debts average 250% of their annual income (Statistics Finland 2008b).

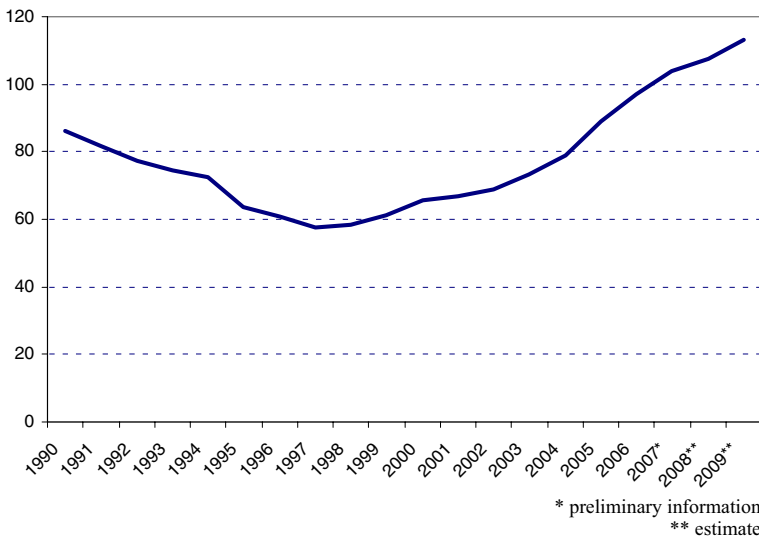


Fig. 3 Household debt-to-income ratio between 1990 and 2009 (Ministry of Finance 2008; Statistics Finland 2008b)

Increases in flat prices have promoted household indebtedness (Muttillainen and Reijo 2007). Between 2000 and 2008, the prices of old flats increased by as much as 50% (Statistics Finland 2008e). Should the prices drop dramatically, household wealth would diminish greatly, and households with huge housing loans might be in big financial trouble.

Consumers' ability to manage their economy has become one key issue in both Finnish and EU-level consumer policies. The introduction of the euro confused consumers' ability to understand their use of money. Raghbir and Srivastava (2002) found that people systematically spent less money when a foreign currency had a higher nominal value than their familiar currency and correspondingly more money in the case of lower nominal values. Gamble (2006, p. 532) notes that in the euro illusion, consumers systematically overestimate prices with high nominal values and underestimate prices with low nominal values. When nominal prices expressed in euros are lower than in the former national currency, prices look cheaper than they were. In Finland, nominal prices in euros are lower than they were in the former national currency. In a 2006 study, although nearly half of the Finnish informants related that the euro had had no influence on their purchasing behaviour, more than one in three said they bought more because they had difficulty in understanding how much they were actually spending. This concerned young consumers in particular (European Commission 2006, pp. 13–14).

Though indebtedness has increased, credits do not cause problems for most debtors. So, when is indebtedness transformed into over-indebtedness? In Finland, debt problems began to increase when consumer credit cards became common in the late 1980s. The problems grew further with high-interest housing loans and entrepreneurship loans in the economic recession of the first half of the 1990s. The twenty-first century brought back the problems with consumer credits and saw the introduction of new forms of loans, such as payday loans. Furthermore, high housing loans, especially among young families, are considered alarming.

Causes and Measurements of Over-Indebtedness

Most households are able to manage their financial obligations and to avoid credit risks. Huge loans are actually a problem for a few households only, but their number is on the increase (Taloussanommat 2008). Those who have little wealth or no safety net are vulnerable if anything unexpected occurs in the economical environment or their own economies.

In general, people are considered over-indebted if they have difficulty meeting their financial commitments related to loans or the payment of bills. Over-indebtedness refers, then, to a situation where a person or household does not have enough money to pay debt instalments and interests after other necessary expenditures have been paid. The definition of over-indebtedness presupposes that debt problems have continued for a fairly long time. According to a common European definition of over-indebtedness by the European Commission (2007), consumers are considered to be over-indebted if they have difficulty meeting their commitments related to servicing secured or unsecured debts or payments of rent, utility or other household bills (see also Kempson et al. 2008).

Over-indebtedness is considered a multi-dimensional phenomenon (Kempson et al. 2008). It is not only a financial but also a social and juridical as well as political problem (Iivari 2000; Muttillainen 2002; Niemi-Kiesiläinen et al. 1991; Wilhelmsson 1990). It concerns all the actors in a society. In order to illustrate the problem of Finnish over-indebtedness and propose some tools to manage the problem, the essential causes and ways of illustrating over-indebtedness are presented below.

Causes of Over-Indebtedness

The risks of an economic environment are materialized if, for instance, the economy takes a downturn, unemployment increases or interest rates go up. In Finland, the deep, dramatic recession of the 1990s was such a materialized risk. Since then, the changing labour market with its recent mass layoffs has brought further uncertainties to the job situation. Many consumers' economic situation is marked by short-term employment relationships providing an uncertain income (Lehtinen 1999; see also Autio and Heinonen 2002). Despite positive development in the national economy up until 2009, the number of low-income persons has increased remarkably since the 1990s (Statistics Finland 2006b, 2008d). Among the different consumer groups, it is students, pensioners, unemployed people, and single parents that most often have low incomes (Stakes 2008). An irregular, uncertain, or low income makes it difficult to plan personal economy and long-term use of money (Koljonen 2002). When a person's income is low or irregular, she/he is tempted to compensate for his/her scanty earnings by taking consumer credit, usually of the most expensive kind (Kaarinen and Lähteenmaa 2006).

An examination of the societal elements of credit use shows us that on the one hand, the preconditions for consumer activities involving credit use are created by the prevailing institutional conditions. On the other hand, the same institutional conditions also provide regulating mechanisms. Besides the society's values, its technological, economic, and juridical institutions can be included among the most essential factors affecting consumers' lifestyles and credit use—and payment problems. The technological and economic institutions offer opportunities for growing consumption and credit use—and for the emergence of credit problems. The juridical institutions provide regulating and protecting mechanisms for credit use (see Leskinen 1990).

The increased number of households in Finland has resulted in more individualized lifestyles, which has increased consumption (Statistics Finland 2008a). Previous studies found that problems arising from young people's credits were associated with uncontrolled use of money and excessive consumption (Koljonen 2002; Lehtinen and Leskinen 2005; Saarinen 2001). One remarkable step towards adulthood is setting up a home of one's own. Earlier research (e.g., Lehtinen and Leskinen 2005) indicates that young people under 30 years of age get entangled in debt for two basic reasons: setting up their own home and raising their social status through consumption. These efforts seldom succeed without credit, and it is not unusual for young adults to have several credit cards for home furnishing simultaneously. Wilska (2004) notes that even those young adults who live mainly on income transfers aim at a level of consumption similar to that of their employed counterparts.

In most cases, debt problems are consequences of unexpected changes jeopardizing one's subsistence rather than results of intentional action (Muttillainen 2002). The major factors leading to over-indebtedness are changes in people's personal lives. Inability to predict human life has been proposed as a major explanation for financial problems (e.g., Leskinen 1990). Remarkable changes in people's personal lives, e.g., job loss, divorce, illness, spouse's death or several problems simultaneously, may play havoc with household economy (e.g., Matikainen and Ranni 2007; Piskonen 2006). According to the statistics produced by the Guarantee Foundation¹ in 2006, the most common reasons for their clients' indebtedness were lack of control of consumption (18% of the cases), divorce

¹ The Guarantee Foundation is an institution that helps over-indebted people to manage their debts independently.

(17%), unemployment (14%) and another unexpected event (9%). In 2007, their clients' biggest problems were increasing expenses and liability for debts (49% of the cases), lack of control of consumption (22%), and decreasing income (19%) (GF 2007, 2008a, b).

As for personal factors that may cause financial problems in households, lack of care or skill in managing one's personal finances, optimism about the future and excessive consumption have been mentioned (e.g., Erola 2003; Valkama 2004). If managing his/her own finances causes an indebted person considerable inconvenience, the situation is brought to the attention of creditors and authorities. Especially the lack of control in money management and attempts to correct that lack by using credit cards easily result in a vicious circle of indebtedness leading to over-indebtedness (Lehtinen and Leskinen 2005; Matikainen and Ranni 2007; Piskonen 2006).

For the clients of the Guarantee Foundation, the lack of skills to manage household economy has been the main problem, which has remained a challenge after their paying the debts back. Nearly 80% of the clients of the Guarantee Foundation reported that they were trying to plan their economy and save money for future purchases (GF 2007). Especially young people, who often have scarce financial resources, are inexperienced in managing their household economies and financial issues (Lehtinen 1999; Lehtinen and Leskinen 2005). They may pursue their parents' living standard, to which they had become accustomed before moving out. There is also evidence that compulsory gambling and mental problems play a central role in debt problems (GF 2007, 2008a; Koljonen and Römer-Pakkanen 2000; Lehtinen and Leskinen 2005).

To sum up, we believe that over-indebtedness comes about as a sum or interaction of different reasons. The problems often simply accumulate to result in insolvency (Suomen Asiakastieto Oy Ltd. 2007b). Both decreasing income and increasing expenses can cause indebtedness. Over-indebtedness does not pertain to any one age or life situation, either. The young are the most vulnerable because of their little experience and scanty recourses. Older people and families with children have the most financial commitments. Commercial enterprises today offer credit with aggressive and appealing marketing campaigns. They have made it very easy to obtain credit without collateral or guarantees (Saarinen 2001). Also, more young people and females are now getting caught in the debt trap (Asikainen 2001). This suggests a cultural change in our society: first, independent financial management is now possible for young consumers, and second, because of high employment, women have become accustomed to managing their economy on their own.

Different Measurements and Indicators of Over-Indebtedness

In this section, we consider what the different measurements of over-indebtedness actually measure. We also consider whether some measurements or indicators could be used to prevent consumers' tendency to become over-indebted. As an example, we point out that people who end up on the Payment Defaulters' List have already had economic problems for a long time but that only the List entry makes the problem public and visible. A person is entered onto the Payment Defaulters' List if her/his payment is delayed by 6–8 months and she/he has been sent several letters of demand. The cases consist mostly of public court decisions and decisions by an execution authority. What indicators or signs could be found to reveal increasing indebtedness before it turns into a big problem?

Besides juridical and other institutional means, the use of statistics and measurements and the reporting of credit problems are increasingly important tools in managing and preventing them (e.g., Mutttilainen 2002). The proper functioning of the EU Single Market presupposes up-to-date, reliable data on the development of credit use, credit problems and

over-indebtedness. Effective credit-risk monitoring is also needed because of the increasing mobility of the EU population. Unfortunately, the variability among the different credit registers and in the type and quality of information collected by national European institutions prevents the development of comparative registers.

In this article, we consider both objective and subjective indicators. We also illustrate the applicability of different economic, legal or administrative and subjective indicators to Finland's debt problems in the light of the common European definition of over-indebtedness (European Commission 2007).

Economic Indicators

In Finland, consumers are generally regarded as over-indebted when their income and assets are permanently insufficient for their loan repayments (Leskinen et al. 2007). According to the Finnish business and credit information company Suomen Asiakastieto,² a payment default of a consumer-credit debt is the first public sign for creditors that the debtor has financial difficulties. It is regarded as a very serious signal of the consumers' inability to repay a loan. For a consumer, defaulting on a consumer-credit debt involves an even higher risk of ending up on the Payment Defaulters' List than a debt recovery procedure would (Suomen Asiakastieto Oy Ltd. 2007a).

The number of payment defaults shows a slight increase from the year 2004 on. In 2007, the number of consumers who had payment defaults was about 310,000 (Suomen Asiakastieto Oy Ltd. 2007a), which is 8% of Finland's adult population. Figure 4 presents the development of new payment defaults in the twenty-first century in Finland.

A comparison of Figure 4 with the above information reveals that many people have several payment defaults. Although the number of payment defaults has risen, the number of defaulted consumers has not. This means that several financial problems accumulate to the same persons. This is true for payday loans and consumer credits in particular, for people do a better job of managing their bank loans than their loans from financing companies (Suomen Asiakastieto Oy Ltd. 2007b).

The most common court judgments against private debtors concern receivables of financing companies, which are mostly credit-card debts. Those receivables rose from 18% in 2005 to nearly 40% of court judgments in 2007. Besides "other unclassified receivables," which was the second largest category in the judgments, people have also had difficulty in handling their rents and condominium payments (Suomen Asiakastieto Oy Ltd. 2007a). A district court judgment is sufficient grounds for the enforcement of a private-judicial claim. Public payments, taxes and obligatory insurance payments are directly distrainable without a separate decision. Amongst the receivables of Finnish creditors, phone bills comprised the largest item in the late 1990s, but their share has diminished as a result of the efforts of the telecom firms (e.g., Koljonen 2002).

Credit losses pertaining to credit cards amounted to 32 million euro in 2008 (Statistics Finland 2009), which is more than ever before in Finnish history. The number of credit-card accounts cancelled because of payment defaults has increased during this century. In 2006, over 44,000 accounts were cancelled, and in 2008, the figure was over 50,000, which was the highest number since 1990, when over 57,000 accounts were cancelled (Statistics Finland 2006a, 2009).

² Suomen Asiakastieto Oy Ltd is the leading business and credit-information company in Finland and the only actor responsible for maintaining a register of consumers' credit information and gathering data on registered payment defaults from authorities and creditors in Finland.

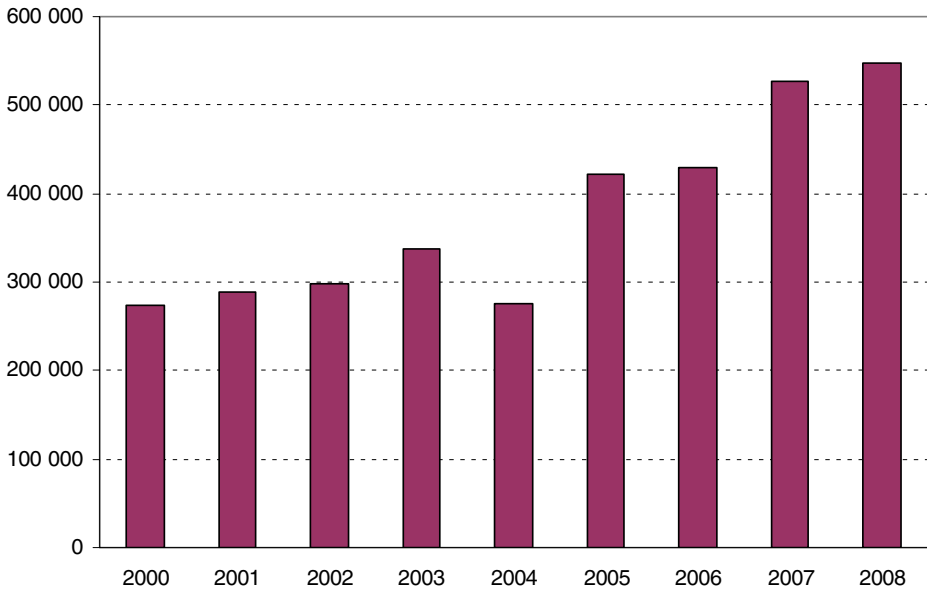


Fig. 4 Consumers' new payment defaults between 2000 and 2008 in Finland (Suomen Asiakastieto Oy Ltd. 2009)

Legal or Administrative Indicators of Over-Indebtedness

Insolvency is a term used for a situation where a debtor is more than temporarily unable to pay his/her debts on schedule. For private individuals in Finland, there are proceedings of debt adjustment based on the Act Concerning the Adjustment of Debts of Private Individuals (MJ 1993, 57/1993). The number of petitions for private debt restructuring received by district courts decreased from about 5,200 cases in 1997 to 2,800 cases in 2002. Between 2003 and 2005, the number of petitions rose to 4,300 and dropped again to 3,000 cases in 2008 (Statistics Finland 2008c). The reason for the growth in 2004 was a debt-settlement programme, initiated by banks and collection companies, in which the government helped those who had run into debt as a consequence of the recession in 1990s and had been passed over in the proceedings of debt adjustment and the voluntary debt settlement procedure (FFFS 2008). It remains to be seen whether the decreasing trend is permanent or whether the wave motion continues. At any rate, it has been estimated that there are still thousands of outstanding debts from the recession period (Eduskunta 2008; MJ 2005).

The number of guarantees granted to over-indebted persons decreased from 727 in 2000 to 327 in 2006. In euros, the volume of guarantees granted was 9.2 million in 2000 but only 5.6 million in 2006 (GF 2007). This favourable development is very unlikely to continue, however. The latest statistics from the Guarantee Foundation indicate that the number of guarantee applications doubled during the first half of 2008, mostly due to families with big, over 150,000 euro, housing loans (GF 2008a; Taloussanommat 2008).

Subjective Views of Over-Indebtedness

When is a person indebted and when over-indebted? The subjective view of the person in question would seem the best indicator, but subjective views may be inconsistent and

contingent upon one's life situation and the kind of debt in question, which makes the situation contradictory. In subjective indicators, the critical question is whether the respondent feels that she/he is coping with her/his debts, but this could be understood in different ways by different persons. A person may perceive him/herself as over-indebted because of an incidental, short-term default just as much as if it were a long-term, serious debt problem. This conceptual discrepancy impedes the investigation of over-indebtedness (Reijo 2000).

Besides official statistics, subjective indicators provide useful information on problems of over-indebtedness. For that purpose, the Ministry of Justice initiated a follow-up survey of payment problems. Consequently, the Statistics Finland surveys on Income Distribution from 2002 to 2005 included a few questions measuring subjective over-indebtedness. A total of 11,000 households were interviewed annually, data on debts were obtained from tax registers, and the micro-data collected for EU-SILC (the Statistics on Income and Living conditions) were utilized. All the data obtained on households' payment problems between 2002 and 2005 were analysed and reported on by the National Research Institute of Legal Policy in 2007 (Muttillainen and Reijo 2007).

Table 1 presents the categories distinguished concerning payment problems. According to these indicators, the percentage of households facing payment problems has slightly decreased from 2002 to 2005. It can be inferred from these data that slightly more than 2% of all households, or 59,000 households, were estimated to be over-indebted in Finland in 2005 (Muttillainen and Reijo 2007).

In 2006, the Eurobarometer survey (European Commission 2008) measured the level of over-indebtedness across all EU member states by asking a sample of respondents in each state whether they had had difficulty paying all their bills at the end of the month that year. A significant minority of the respondents, 13% on average, admitted to having had difficulties with their payments, but there was great variation amongst the countries. In this survey, the Finns' financial situation seemed fairly good, for only 5% of the Finnish respondents reported payment problems at the end of the month.

Since 2003, the Finnish Consumer Agency has kept a record of the number of new clients who contact a municipal debt-advice unit for the first time. The record shows a clear decrease from 21,500 cases in 2003 to about 15,000 in 2006. However, the number of free debt-line calls answered by the Guarantee Foundation annually has remained quite stable at around 3,000 contacts during the twenty-first century. In 2006, for example, 3,099 clients received initial guidance for over-indebtedness (GF 2007).

Table 1 The percentages of Finnish households facing payment problems in 2002 and 2005 according to the selected indicators (Muttillainen and Reijo 2007)

Indicator	2002	2005
Bills overdue at least once	20.2	18.9
Loan payments overdue at least once or bills overdue more frequently	8.2	6.9
Debt settlement procedures with creditor	5.0	4.5
Loan payments overdue at least once	4.7	4.2
Debts exceeding coping level	3.8	2.4

The percentages indicate subjective payment problems, for each indicator was formed out of the informants' responses to direct questions such as "Has your household faced a situation in 2002/2005 where you were unable to cope with your debts?" The answering alternatives were "yes" and "no", and the figures give the percentages of those who answered "yes"

Towards a Better Management of Credit through Better Indicators?

Looking at credit use and debt problems from different perspectives makes for a challenging picture. On the one hand, economic indicators show obvious increases in household credit use and debt-service burden. Today, many households' debts exceed their income. At the same time, households' debt-service burden continues to grow, exceeding on average one third of their disposable income already. Accordingly, it is not surprising that the number of registered payment defaults is also slightly increasing.

On the other hand, legal indicators point in the opposite direction. The number of private debt restructuring petitions received by district courts, and the number of bankruptcy proceedings have been decreasing in the twenty-first century. Subjective indicators, too, show a slight decrease in debt problems. The number of clients contacting the Finnish Consumer Agency and the Guarantee Foundation has also gone down in the twenty-first century. Still, especially those with big housing loans are finding it challenging to manage their financial obligations. Household economies are integrated with and dependent on national and global economies. There is no doubt about the implications of this interconnection to household economies: maintaining a credit-based household economy is risky today.

One has to keep in mind that indicators have been developed for certain purposes. New measurements and indicators of over-indebtedness are needed. More emphasis should be especially laid on the development of preventive "early-warning" indicators. Because over-indebtedness is a complex and multi-dimensional issue, behind which there are often many causes, it should be examined through a variety of indicators (see European Commission 2008, p. 5). Furthermore, longitudinal studies of different indicators are needed.

Discussion and Conclusions

Debt problems are difficult and multidimensional, and the reasons for them are diverse. Recent statistics and research in Finland show that more problems have been caused by consumer credit debts than by housing loans and that younger consumers are more vulnerable than older ones. There is a connection between payment problems and life situations, but the relationship is not a clear cause-and-effect one. It is more a question of entangled situations and events (e.g., Leskinen 1990). It is very difficult for a consumer to evaluate her/his own economic situation; it takes alert and observant consumers and careful evaluation. Life per se is unpredictable, and in most cases, it is unexpected life situations that cause debt problems.

The description of the phenomenon in Finland indicated that the web of over-indebtedness is complex. It is easier to get into debt than to pull out of it. Up to now, it has been mostly consumer credits that have caused the problems of over-indebtedness in Finland, but recently, consumers have turned to debt counselling with the problems of housing loans. This tells us that the problem of over-indebtedness extends to households with higher incomes.

Our review from Finland raises some crucial questions. How can we increase consumers' awareness of their financial situation? Do we need more research, more education or more information and enlightenment? How is relevant knowledge transformed into appropriate behaviour? What is needed to enable consumers to distinguish among different types of loans, between a housing loan and consumer credit, for instance, and their respective obligations? The borderline between indebtedness and over-indebtedness is

unclear. We need the objective alerts of indebtedness, for a lot of damage can occur before any subjective indicator has alarmed the consumer to the hazard.

Alongside the enlargement of the European Union, the financial market expands. Consumer protection will be harmonized and improved. From the Finnish perspective, the financial market today is under much better control than it was in the 1990s. Therefore, the finances of the Finnish households are better protected. Is the Finnish economy prepared for the challenges of the expansion of the EU, the liberalisation of the market, the increasing on-line activities, and coping with the oncoming recession? Do the political actions reach the market and the consumers?

It is possible to avoid over-indebtedness even in the current credit-based society. If the people in poor financial situations are dependent on different credits to survive, we need to take a look at the structural and societal causes of indebtedness, as Muttilainen (2002) suggests. The ways to prevent over-indebtedness can be learned from the practices of those creditors who pay attention to the debtor's ability to pay and the value of his/her collaterals. Today, the main concern is the indebtedness of young people. The prevention policies have run into problems because the consumers' debt situations have changed so rapidly. For instance, when a debtor has several loans at the same time, it is extremely difficult to manage them all.

For keeping out of debt problems, financial capability is of the essence. The lack of it shows up, at its worse, as excessive indebtedness and overextended credit use. In particular, consumers' subjective views of their financial capability show up in their attitudes to money matters and, even more importantly, in their behaviour. To prevent over-indebtedness, consumers' financial capability should be strengthened. It has three dimensions, all of which are essential in practice: (1) financial knowledge and understanding; (2) skills and competence and (3) responsibility (e.g., FSA 2005, p. 7). We believe that improving consumers' financial capability might be a good way to alleviate their debt problems. In the following, we make some suggestions for strengthening consumers' financial capability in Finland.

Consumers need to be provided with financial information that is concrete, easy to understand, and directly connected to their lives. The style of the language and choice of concepts should fit their ways of thinking and talking. Such information on financial management should serve an increasingly diverse public of consumers in different phases of life (see also Sandlin 2000). In real life, consumers do not always act rationally. Therefore, we suggest that our consumer policy has to discard the picture of the rational consumer and start taking different consumer groups into account.

Lastly, the actors and institutions concerned with consumers' financial capability need to interact closely. It is important to keep in mind that payment problems are a market-related risk phenomenon, where the consumers' exposure to such difficulties varies according to the positions they occupy in the system of interrelated markets (e.g., Muttilainen 2002). Active discussion on the debt problem itself, the identification of its causes and a search for tools for solving the problem are needed. In addition, constructive discussion about the indications and preventive mechanisms of the problem is also important.

References

- Asikainen, P. (2001). *Maksuhäiriöiden kertymisen ominaispiirteitä [The characteristics of the accrual of payment defaults]*. Velkakierre: Suomen Asiakastieto. Heinäkuu 2001.
- Autio, M., & Heinonen, V. (2002). Nuorten kulutuksen moraali ja moraalityö [The moral of juvenile consumption and the economics of moral]. In M. Autio, I. Eresmaa, V. Heinonen, V. Koljonen, P. Paju, & T. A. Wilska (Eds.), *Pakko riittää. Näkökulmia nuorten maksuhäiriöihin ja kulutukseen [It has to be*

- enough. *The viewpoints of juvenile payment defaults and consumption*] (pp. 204–231). Helsinki: Nuorisotutkimusverkosto, Nuorisotutkimusseura.
- Bank of Finland. (2009). *MFI balance sheets and interest rates*. Available at: http://www.bof.fi/en/tilastot/tase_ja_korko/taulukot.htm.
- Eduskunta. (2008). *Lakialoite 39/2008. Laki ulosottoaaren 2 luvun 27§:n 1 momentin muuttamisesta [The bill. The change of the law of debt recovery procedure]*. Available at: [http://www.eduskunta.fi/triphome/bin/thw/trip?\\${APPL}=utpla&\\${BASE}=faktautpla&\\${THWIDS}=0.27/1269423387_514772&\\${TRIPPIFE}=PDF.pdf](http://www.eduskunta.fi/triphome/bin/thw/trip?${APPL}=utpla&${BASE}=faktautpla&${THWIDS}=0.27/1269423387_514772&${TRIPPIFE}=PDF.pdf).
- Erola, J. (2003). *Velkaongelmat ja myytti aktiivisesta ylivelkaantumisesta [Debt problems and the myth of active over-indebtedness]*. In O. Kangas (Ed.), *Laman varjo ja nousun huuma [The shadow of depression and the euphoria of upturn]* (pp. 177–220). Helsinki: Kela. Sosiaali- ja terveysturvan katsauksia 72.
- European Commission. (2006). *The Euro zone, 5 years after the introduction of euro coins and banknotes. Analytical report*. Flash Euro barometer 193. The Gallup Organization.
- European Commission. (2007). *Common operational European definition of over-indebtedness*: Directorate-General for Employment, Social Affairs and Equal Opportunities. Unit E2.
- European Commission. (2008). *Towards a common operational European definition of over-indebtedness*. Directorate-General for Employment, Social Affairs and Equal Opportunities. Inclusion, Social Policy Aspects of Migration, Streaming of Social Policies.
- FFFS. (2007). *Saving and borrowing in Finland. Spring 2007*. Helsinki: Federation of Finnish Financial Services. Survey report.
- FFFS. (2008). *Kotitalouksien varat ja velat [The assets and debts of households]*. Helsinki: Federation of Finnish Financial Services. Survey report.
- FFFS. (2009). *Saving and use of credit. Spring 2009*. Helsinki: Federation of Finnish Financial Services. Survey report.
- FSA. (2005). *Financial capability: developing the role of generic financial advice*. London: Financial Services Authority.
- Gamble, A. (2006). Euro illusion or reverse? Effects of currency and income on evaluations of prices of consumer products. *Journal of Economic Psychology*, 27(4), 531–542.
- GF. (2007). *The annual report*. Helsinki: The Guarantee Foundation.
- GF. (2008a). *Asuntovelkaongelmaisten määrä lisääntynyt huomattavasti velkalinjalla [The number of those having problems with mortgages has considerably increased in debt line]*. Retrieved 9.10.2008 from Guarantee Foundation's Communications and Training. Helsinki: The Guarantee Foundation.
- GF. (2008b). *The annual report*. Helsinki: The Guarantee Foundation.
- Iivari, J. (2000). Ylivelkaisuus ja köyhyys: erottamattomat kaksoiset [Over-indebtedness and poverty: inextricable twins]. In M. Heikkilä & J. Karjalainen (Eds.), *Köyhyys ja hyvinvointivaltion murros [Poverty and the turning point of welfare state]* (pp. 118–134). Helsinki: Gaudeamus.
- Kaartinen, R., & Lähteenmaa, J. (2006). *Miten ja mihin nuoret käyttävät pikavippejä ja muita kulutusluottoja [How and where do young people use payday loans and consumer credits]*. Helsinki: Kauppa- ja teollisuusministeriö. Rahoitetut tutkimukset 10/2006.
- Kempson, E., Atkinson, A., Finney, A., & Collard, S. (2008). *Policy responses to over-indebtedness: a review across Europe*. In European Commission (Eds.), *Towards a common operational European definition of over-indebtedness*. Directorate-General for Employment, Social Affairs and Equal Opportunities. Inclusion, Social Policy Aspects of Migration, Streaming of Social Policies.
- Koljonen, V. (2002). Nuorten velkaantuminen ja maksuhäiriöt [Juvenile indebtedness and payment problems]. In M. Autio, I. Eresmaa, V. Heinonen, V. Koljonen, P. Paju, & T. A. Wilska (Eds.), *Pakko riittää. Näkökulmia nuorten maksuhäiriöihin ja kulutukseen* (pp. 12–118). Helsinki: Nuorisotutkimusverkosto. Nuorisotutkimusseura.
- Koljonen, V., & Römer-Pakkanen, T. (2000). "...Silloin ei olisi pitänyt hölmöillä..." *Ylivelkaantuminen nuorena velkaantuneiden näkökulmasta ["...I should not have behaved foolishly..." Juvenile over-indebtedness from the viewpoint of the indebted]*. Helsinki: Etelä-Suomen lääninhallituksen julkaisuja.
- Lehtinen, A. R. (1999). *Ongelmana opintolainat: tutkimus opintolainan maksamatta jättämiseen johtaneista syistä [Study loans as a problem: The study of the reasons defaulting study loans]*. Helsinki: Kela, Sosiaali- ja terveysturvan katsauksia 34.
- Lehtinen, A. R., & Leskinen, J. (2005). *Young consumers' credit based lifestyles and payment problems*. Copenhagen: Nordic Council of Ministers. TemaNord 2005:512.
- Leskinen, J. (1990). *Use of consumer credit in the context of consumers' way of life and personal situations* (Doctoral Dissertation, University of Helsinki).
- Leskinen, J., Raijas, A., & Lehtinen, A. R. (2007). *Common European definition for over indebtedness. EU country questionnaire – additional information from Finland*. Helsinki: National Consumer Research Centre.

- Matikainen, T., & Ranni, M. (2007). *Kulutustuotoilla velkakierteeseen. Jyväskylän seudun talous- ja velkaneuvonnan asiakkaiden kokemuksia ylivelkaantumisesta* [From consumer credits to dept spiral. The experinces of over-ideptedness amon the clients of financial and debt counselling in Jyväskylä region]. Jyväskylän ammattikorkeakoulu, Jyväskylä. Unpublished Thesis.
- Ministry of Finance. (2008). *Taloudellinen katsaus, syyskuu 2007* [Economic review, September]. Helsinki. Taloudelliset ja talouspoliittiset katsaukset 2a/2007.
- MJ (1993). *Act on the adjustment of the debts of a private individual*. 57/1993. Helsinki: Ministry of Justice. Available at: <http://www.finlex.fi/en/laki/kaannokset/1993/en19930058.pdf>.
- MJ. (2005). *Vapaaehtoinen velkasovinto-ohjelma. Loppuraportti* [Voluntary debt settlement program. Final report]. Helsinki: Ministry of Justice. Lausuntoja ja selvityksiä 2005:5.
- Muttilainen, V. (2002). *Credit Society – changing governance of debt problems facing Finnish households in the 1980s and 1990s – from regulated credits to debt adjustment*. Helsinki: National Research Institute of Legal Policy. Publication no 189.
- Muttilainen, V., & Reijo, M. (2007). *Households' payment problems 2002–2005*. Helsinki: National Research Institute of Legal Policy. Research Communications 81.
- Niemi-Kiesiläinen, J., Tala, J., & Wilhelmsson, T. (1991). *Kuluttajien velkasaneeraus: tarve ja mahdollisuudet* [Consumer debt reorganization: need and opportunities]. Helsinki: National Research Institute of Legal Policy. Research Communications 106.
- Piskonen, E. (2006). *Helppoilla luotoilla umpikujaan – tutkimus kulutusluotoilla ylivelkaantuneista Takuu-Säätiön asiakkaista* [With easy loans to death alley – the study of the over-indebted clients in Guarantee Foundation]. Helsinki: Helsingin Yliopisto, Taloustieteen laitos. Selvityksiä 45.
- Raghubir, P., & Srivastava, J. (2002). Effect of face value on product valuation in foreign currencies. *Journal of Consumer Research*, 29(3), 335–347.
- Reijo, M. (2000). Kotitalouksien ylivelkaantuneisuuden kasvu taitumassa? [The growth of household over-indebtedness folding?] *Hyvinvointikatsaus – spesiaali- 2000*. Tilastokeskus.
- Saarinén, H. (2001). *Nuoruus ja hulluus, vanhuus ja viisaus? Tutkimus nuorten kulutuskäyttäytymisestä ja velkaantumisesta* [Youth and madness, old age and wisdom? The study of juvenile consumption behaviour and indeptedness]. Helsinki: National Research and Development Centre for Welfare and Health (Stakes).
- Sandlin, J. (2000). The politics of consumer education materials used in adult literacy classrooms. *Adult Education Quarterly*, 50(4), 289–307.
- Stakes. (2008). *Social Assistance 2006. Statistical Summary 5/2008. Sosiaaliturva 2008*. Helsinki: National Research and Development Centre for Welfare and Health.
- Statistics Finland. (2006a). *Credit cards 2005. Financing and Insurance*. Helsinki: Official Statistics of Finland.
- Statistics Finland. (2006b). *The income distribution statistics 2006*. Available at: http://www.stat.fi/til/tjt/2006/tjt_2006_2008-05-16_kat_003.html.
- Statistics Finland. (2008a). *Households' consumption 2001–2006*. Available at: <http://www.tilastokeskus.fi/til/ktutk/index.html>.
- Statistics Finland. (2008b). *Gross domestic product grew by 4.5 per cent in 2007*. Available at: http://www.tilastokeskus.fi/til/vtp/2007/vtp_2007_2008-07-10_kat_001_en.html.
- Statistics Finland. (2008c). *Indebtedness*. Available at: http://www.tilastokeskus.fi/til/velk/index_en.html.
- Statistics Finland. (2008d). *Työvoimaan kuulumattomien pienituloisuus yhä yleisempää* [The low income of those outside work force is more common]. Available at: http://www.stat.fi/til/tjt/2006/tjt_2006_2008-05-16_tie_001.html.
- Statistics Finland. (2008e). *Prices of dwellings 2008. Housing*. Helsinki: Official Statistics of Finland.
- Statistics Finland. (2009). *Credit cards 2008. Financing and Insurance*. Helsinki: Official Statistics of Finland.
- Suomen Asiakastieto Oy Ltd. (2007a). *Suppean ulosoton estemerkinnyt nopeassa kasvussa* [The challenge of constricted debt recovery procedure is rapidly growing]. Luottolista 15/2007. Available at: <http://www.asiakastieto.fi/luottoriski>.
- Suomen Asiakastieto Oy Ltd. (2007b). *Kulutustuottohäiriöt ennakoivat lisääntyviä maksuvaikeuksia* [The consumer credits disorders predict more payment problems]. Luottolista 2007/3. Available at: <http://www.asiakastieto.fi/luottoriski>.
- Suomen Asiakastieto Oy Ltd. (2009). *Uudet maksuhäiriömerkinnät* [New payment defaults]. Helsinki. Available at: http://www.asiakastieto.fi/asiakastieto/tn_uudetmaksuhairiot_2008.jsp?11=6
- Taloussanommat. (2008). *Velkalinjan puhelimet jo nyt kuumina* [The phone in debt line now hot]. Available at: <http://www.taloussanommat.fi/omatalous/2008/10/11/velkalinjan-puhelimet-jo-nyt-kuumina>.
- Valkama, E. (2004). *Velkaneuvonta 2000-luvun alussa: talous- ja velkaneuvontalain vaikutukset asiakaskäytelyn ja tilastotietojen valossa* [Debt counselling at the beginning of 2000's: the influence of financial

- and debt counselling in client survey and statistics*]. Helsinki: National Research Institute of Legal Policy. Publication 208.
- Wilhelmsson, T. (1990). Social force majeure – a new concept in Nordic consumer law. *Journal of Consumer Policy*, 13(1), 1–14.
- Wilska, T. A. (2004). Yksilöllisyyttä vai pakkovalintaa?: sosiaaliturvasta riippuvaisten nuorten aikuisten asema kuluttajina vuosituhannen vaihteessa [Individuality or constraint choice? The position of young adults dependent on social security as consumers in the turn of the century]. In K. Ahlqvist & A. Raijas (Eds.), *Erilaisia kulutusuria Suomessa [Various consumption trails in Finland]* (pp. 67–89). Helsinki: Tilastokeskus.