

## **Household Over-Indebtedness in Malta**

**A Qualitative study on why there is the need to have public debt advisory services to address household over-indebtedness. The perspective of practitioners from Community-based Family Support Service Agencies**

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## **Abstract**

Understanding the financial capacity of a debtor and mediating between debtor and creditor is a critical aspect of the resolution of excessive financial debts. Various European countries have established debt settlement procedures to assist individuals to restructure their debt payments and avoid insolvency. Debt settlement support systems enable debtors to reintegrate into society. Regrettably, individual debt settlement procedures are non-existent in Malta. The current legal framework does not contain any legislation specifically regulating consumer insolvency procedures and the over-indebtedness of consumers. Thus, the need to set up debt settlement procedures for over-indebted persons is also needed to complement the debt advisory services. The Eurofound (2020) report stresses the importance of access to debt advisory services that enable over-indebted persons to move on to the next logical step - debt settlement.

The document starts with a background overview of household over-indebtedness and outlines the research aim and objectives. It continues with a literature review on over-indebtedness, followed by an overview of support services for over-indebted people. Subsequently, the intent of the research, how literature informed the research, how intent was focussed, how data was collected, how data was analysed, the role of the researcher and how data was validated is discussed. In addition, a section has been included to highlight the findings of the research and also an analysis which allowed the researcher to answer the research questions. The document concludes with a set of recommendations that could improve social support service provision to over-indebted households.

The literature search for the years 2004 to 2022, the Google Scholar search engine and the IDEA Academy ProQuest online library were used to find peer-reviewed articles on the subject. The research focuses on the over-indebtedness of households, excluding businesses, the self-employed and the government. The keywords used to retrieve the literature were "indebtedness", "over-indebtedness", "financial difficulties", "poverty strategy", "debt relief services", "debt settlement procedures", and "consumer insolvency".

## **Dedication**

To the over-indebted households, the social workers and social mentors who tirelessly work with them ~ this research study is dedicated to you.

To the tireless workers involved in the social welfare field who work with no debt advisory services to support their efforts ~ I admire your commitment to helping those in need despite limited resources. Your selflessness and dedication to your work is truly inspirational.

May this study shed light on the challenges faced by over-indebted households and bring attention to the invaluable work done by social workers and social mentors in the public and non-governmental sectors.

I hope that this study serves as a call to action for the government, financial institutions, and the wider community to provide better support for all those struggling with household debt.

## **Acknowledgments**

I would like to take this opportunity to express my sincere gratitude to everyone who contributed to this research on household over-indebtedness in Malta.

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I would also like to thank the participants of this study, without whom this research would not have been possible. Your willingness to share your experiences and insights has provided me with valuable data and enabled me to gain a deeper understanding of the complex issue of household over-indebtedness.

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Once again, I express my heartfelt appreciation to everyone who has contributed to this research on household over-indebtedness. I hope that my findings will contribute to a greater understanding of this issue and help pave the way towards meaningful solutions for those struggling with debt.

## **Declaration of authenticity**

I, the undersigned, Melanie Piscopo declare that all material presented to IDEA Academy is my own work, except where specifically indicated in text references. The study was carried out in accordance with IDEA Academy's requirements. This work has not been submitted for any other academic award.

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Signature

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Date

MELANIE PISCOPO

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## **Glossary**

At-Risk-of-Poverty (ARP)	Individuals whose household income falls below 60% of the national median household income.
Debt Advisors	Professionals who provide information, advice, and support to individuals and households who are struggling with debt.
Financial Literacy	A combination of awareness, knowledge, skill, attitude, and behaviour necessary to make sound financial decisions and ultimately achieve individual financial well-being.
Material and Social Deprivation (MSD)	A set of 13 indicators used to assess the extent to which individuals are unable to afford goods and services that are considered essential for an adequate standard of living, as well as their access to social activities and networks.
National Living Income	A quantification of the level of income that would be required for a household in Malta to afford a decent standard of living for its members.
Over-indebtedness	Where a household has insufficient income to meet its basic needs and repay its debts, resulting in a reduced standard of living. A lack of access to credit exacerbates over-indebtedness.
Practitioners	Social Workers or Social Mentors who work in non-profit organisations or state agencies that aim to promote the well-being of persons of all ages and families by providing a range of support services at community level.
Social Exclusion	The circumstances which drive people to the edge of society, limiting their access to resources, opportunities, services, and curtail their participation in normal social and cultural life, leaving them feeling marginalised, powerless, and discriminated against.

## List of Abbreviations

ACTS	Agency for Community and Therapeutic Services
ADHD	Attention-Deficit / Hyperactivity Disorder
APF	Anti-Poverty Forum Malta
ARP	At-Risk-of-Poverty
CAQDAS	Computer-Assisted Qualitative Data Analysis Software
CCD	Consumer Credit Directive
CEPS	Centre For European Policy Studies
CVO	Commissioner for Voluntary Organisations
DG JUST	European Commission's Directorate-General for Justice and Consumers
EAPN	European Anti-Poverty Network
ECDN	European Consumer Debt Network
EU	European Union
EU-SILC	European Statistics on Income and Living Conditions
FSWS	Foundation for Social Welfare Services
MFSA	Malta Financial Services Authority
MFSC	Ministry for Social Solidarity, Family and Children's Rights (currently Ministry for Social Policy and Children's Rights-MSPC)
MFSS	Ministry for The Family and Social Solidarity (now Ministry for Social Policy and Children's Rights)
MSD	Material And Social Deprivation
MSPC	Ministry for Social Policy and Children's Rights
NSO	National Statistics Office
OECD	Organisation for Economic Co-operation and Development
PEPPI	Provision of a European Platform for the Prevention of Over-Indebtedness
QDA	Qualitative Data Analysis (QDA)
SJAF	St Jeanne Antide Foundation
UDHR	Universal Declaration of Human Rights

## **CHAPTER 1 - INTRODUCTION**

## **1.1 Introduction**

Over-indebtedness is a worrying social reality that is both a cause and a repercussion of poverty, material deprivation and social exclusion. Across the European Union, member states address over-indebtedness through policies and measures ranging from those of a preventive nature to education and support services. Vulnerable individuals with complex needs require appropriate support and debt settlement procedures to have an adequate standard of living. Unfortunately, research shows that Malta lags behind in debt advisory services and debt settlement procedures (Eurofound, 2020).

This research aims to identify causes of household over-indebtedness in Malta and recommended support services from the experience of interviewed practitioners. The background and context are covered in the introduction to the first chapter, followed by an articulation of the research problem, the broad aim and objectives, the research questions, and the importance, delimitations, and limitations of the research study. A structural outline will also be presented.

## **1.2 Background**

Social care practitioners across family support services in Malta have long felt the need for additional public services that offer practical support to individuals and families struggling with insufficient income to meet basic needs (Anti-Poverty Forum Malta, 2020a) (Anti-Poverty Forum Malta, 2020a). Such families find it hard to make ends meet. They end up accumulating overdue bills and fines for rent, utilities and telephony and are unable to provide necessities such as medicines and clothing. Over-indebtedness for members of these families becomes so overwhelming that they fall into a depression due to a pervading and insidious sense of helplessness and hopelessness.

Even though there is no standard European operational definition of household over-indebtedness, in a study undertaken in 2013, households are considered over-indebted if they regularly have difficulties meeting (or falling behind with) their financial commitments (Gaetano, 2013). These families/individuals could be defaulting payments related to servicing secured or unsecured borrowing or payments associated with paying rent, utilities, or other household bills. In simpler terms, over-indebtedness can be determined by the mismatch between actual income and the level of debt. In the long run, even the ability to meet basic family needs can become unsustainable.

The Malta National Strategic Policy for Poverty Reduction and Social Inclusion 2014-2024 is a long-term strategic policy aiming to improve Maltese citizens' quality of life and well-being, especially of those belonging to vulnerable groups, by addressing poverty and social exclusion (Ministry for the Family and Social Solidarity, 2015). The measures outlined in the strategy have supported many persons at risk of poverty, social exclusion, material deprivation and severe material deprivation (Min Social Solidarity, Family&Children's Rights, 2020). However, even though the policy has indicators related to housing costs that are too much of a burden, there are no measures related to public debt advisory services which over-indebted households could access to improve their perilous financial situation. The gap in such a multifaceted approach to supporting over-indebted households is evident.

In Malta, debt advice services for over-indebted families are not fully developed. The Eurofound (2020) report indicated that the only identified long-term support service was provided by a non-governmental organisation, Caritas Malta. The Caritas Malta service mentioned – Usury Foundation - supports gamblers and persons involved in illegal money-lending practices. This service does not offer support to those experiencing over-indebtedness due to hardships encountered in life, such as severe mental health problems and domestic violence. Thus, this class of people end up with scarce or no venues to rely upon in terms of financial advice.

Most frequently, over-indebted persons seek support from unregulated financial advisors, money lenders operating illegally or their Social Workers. There are as yet no opportunities for social work practitioners to access specialised training and guidance on providing debt advice. However, it is worth noting that, although Social Workers are not trained in facilitating financial literacy, their social work degree prepares them to carry out family assessments and to develop care plans. This competence enables them to identify the underlying causes of over-indebtedness. From experience to date, the researcher is very conscious that the need to set up an infrastructure to provide debt advisory services is strongly felt across the agencies working at a community level to support the most vulnerable and already poor and those at risk of poverty.

The European Commission's Directorate-General for Justice and Consumers (DG JUST) has recently proposed a revision of the Consumer Credit Directive (CCD) to strengthen the function of debt advice. Article 36 of this directive states that, while all EU Member States are not obliged to provide debt advice, they have the responsibility to ensure that all citizens have access to it (European Commission, 2021).

In June 2022, the Ministry for Social Policy and Children's Rights launched a consultation document on The Social Vision for Malta up to 2035. This document defines upcoming strategies to pledge a decent and dignified life to all individuals by enhancing social inclusion and resilience at individual and societal levels (Ministry for Social Policy and Children's Rights, 2022). The vision is based on principles of social fairness and prosperity, and the objective is to leave no one behind by providing the necessary direction for the years to come. However, even though the document mentions that the government is aware that there are pockets of society that require support through social assistance for a decent living, there is no specific reference within it to household over-indebtedness or debt advisory services.

As early as 1994, an advisory report to the European Commission concluded that the best European response to over-indebtedness would be the combination of legislative change with measures that strengthen debt advice (Huls, 1994). In the local context, the question arises: what provisions should the Maltese government develop to introduce a range of preventive and curative measures?

### 1.3 Statement of the Problem

The 2020 Eurofound report was intended for policymakers at the national and EU levels seeking to improve policy responses to over-indebtedness. It emphasises how over-indebtedness is an ongoing concern in Europe (Eurofound, 2020). The report states that while debt services and settlement procedures can be improved in many European countries, Malta stood out by its glaring lack of measures to respond to this reality. Unfortunately for Malta and the poor among its citizens, the report highlights non-existent actions in this regard. In fact, Malta was flagged as a country lagging behind most other EU member states (Eurofound, 2020). The report illustrates (Table 1 - Extract from the list of debt advisory services in the EU28 and Norway, 2019) that non-governmental organisations were providing the only debt advice service identified in Malta (Eurofound, 2020)

Lithuania	-	State-Guaranteed Legal Aid Service (SGLAS), private lawyers and consultants
Luxembourg	Service d'information et de conseil en matière de surendettement (SICS) comprised of Ligue Médico-Sociale and Inter-Actions	Small NGOs and for-profit services
Malta	-	Caritas Malta
Netherlands	Municipalities provide or contract out to an NGO: ABC-West, Combiwel, Doras	SchuldHulpMaatje, Humanitas
Norway	Arbeids- og velferdsforvaltningen (Norwegian Labour and Welfare Administration) (NAV)	Gjeldsofferalliansen, Den Norske Advokatforening, Jussbuss
Poland	Citizens' advice bureaux	Stowarzyszenie Krzewienia Edukacji Finansowej (SKEF),

Table 1 - Extract from the list of debt advisory services in the EU28 and Norway, 2019

#### **1.4 Purpose of the Study**

As an employee of the St Jeanne Antide Foundation (SJAF) - a non-governmental organisation that supports families and individuals at community level who are at risk of falling further into poverty and social exclusion; the researcher has experienced a steady increase in the number of families and individuals who are at risk of falling in debt. During the course of this research, practitioners in the field of family support services identified many difficulties which these families face. These difficulties vary from food and material deprivation, difficulty with paying bills, stress and high anxiety re-traumatisation and worsening mental health problems, need for training and education, housing needs, and low interpersonal skills, amongst others. Co-working daily with social workers who endlessly support low-income families and survivors of domestic violence has led the researcher to study how household over-indebtedness can be effectively addressed through public services. Unfortunately, such services are still glaringly lacking in Malta (Eurofound, 2020). Regrettably, in 2021, Malta did not participate in a series of workshops organised for the capacity building of future debt advice. These workshops were intended for EU Member States where debt advice is currently only sporadically available through the DG JUST project 'Provision of actions to extend the availability and improve the quality of debt advice services for European households' (European Commission, 2021). This missed opportunity could have spearheaded the much-needed assistance to support over-indebted households.

Since 2021, SJAF has been steadily advocating with policymakers to create debt advisory services that offer tangible and practical advice on money management and budgeting to individuals and families struggling to ensure a decent living income to meet basic needs (St Jeanne Antide Foundation, 2021). A study on the risk of over-indebtedness and its behavioural factors indicates that not tackling this phenomenon can impact the welfare of society (Anderloni & Vandone, 2010). If household over-indebtedness is not addressed appropriately and swiftly, it might result in a severe and unnecessary increase in poverty in Malta.

Community-based services in Malta provide a range of generic support services but do not focus on a specific area of support. A study by Dunst (1995) highlighted key characteristics that differentiate family support services from traditional human services programmes, mainly:

- prevent crisis by meeting needs early as opposed to intervening after a crisis occurs,
- offer help in meeting basic needs by referring to specialised services as opposed to offering specialised services or treatment only,
- respond flexibly to family and community needs instead of providing services dictated by programme or funding sources.

A study on balancing the viewpoints of providers and users of therapeutic services in Scotland found that while there were apparent similar perspectives, the opinions of service users were not always in agreement with those of service providers. (Law, et al., 2010). This research described the main causes of household over-indebtedness from the perspective of community-based family support service practitioners operating in public and non-governmental entities. It explored what services should be adopted to prevent the risk of sliding into over-indebtedness.

## **1.5 Research Questions**

Based on the focus of this research, the study attempts to answer the following key questions:

What causes household over-indebtedness in Malta?

What do practitioners working in Community-based Family Support Service Agencies consider as lacking in the current public system to support those at risk of household over-indebtedness?

How could Public Debt Advisory Services alleviate the risk of households becoming over-indebted?

The answer to these questions will be presented and analysed in the discussion and concluding chapter.

## **1.6 Significance of the study**

The significance of this study lies in its potential to shed light on a critical issue many households are facing today - over-indebtedness. The burden of debt can be overwhelming, leading to financial stress, mental health problems, and social exclusion. By exploring the factors contributing to household over-indebtedness, this study aims to provide insights that can inform policies and interventions to prevent and mitigate the negative impacts of debt on households. The results of this study are expected to contribute to the development of practical plans for lowering the risk of excessive debt.

Furthermore, the study seeks to contribute to the existing body of knowledge on household over-indebtedness particularly in the context of Malta. Through its rigorous analysis of qualitative data, this study will offer a deeper understanding of the dynamics of household debt and over-indebtedness in Malta, which can be used to inform future research and policymaking.

Overall, this study has the dual potential of making a significant contribution to the fields of finance, social policy, and public health, by providing a better understanding of the factors contributing to household over-indebtedness and of identifying effective strategies that promote financial well-being and reduce the negative impacts of debt on households.

## **1.7 Aim of the study**

This research study gathered information on the phenomenon of over-indebtedness in Malta to enhance understanding of what

Maltese society needs and to identify solutions that effectively improve the well-being of those afflicted with over-indebtedness.

Based on the expressed opinions of practitioners experienced in working in close contact with over-indebted people, the research provides a better understanding of household over-indebtedness in Malta: its causes, possible consequences, and best measures to deal with this social issue of national concern. The study highlights obstacles that community-based family support service providers and their family support practitioners encounter due to the lack of a national strategy that specifically tackles household over-indebtedness.

The study confirms that current difficulties are compounded by the fact that Malta still lacks a legal framework for debt settlement procedures (Pisani Bencini, 2019). The research also provides recommendations to policymakers on what strategies need to be adopted to best respond to household over-indebtedness.

## **1.8 Research Objectives**

Based on the research aim, the study sets the following objectives:

Objective 1: To provide a literature overview on household over-indebtedness in Malta and its relation to the current situation of poverty.

Objective 2: To determine whether practitioners of Community-based Family Support Service Agencies have a shared understanding of what is meant by household over-indebtedness.

Objective 3: To identify the causes of household over-indebtedness in Malta.

Objective 4: To identify the difficulties over-indebted people encounter in understanding and accessing the current range of public social welfare services.

Objective 5: To identify what strategies that need to be adopted at a national level to prevent and manage household financial fragility.

### **1.9 Delimitations and Limitations of the study**

This study focuses on household over-indebtedness but does not delve into over-indebtedness caused by addictions, gambling, and usury. The research has been delimited to practitioners from Community-based Family Support Service Agencies. It does not reach other practitioners working in different areas of the social and humanitarian services continuum. It focuses on debt advisory services but does not delve deeply into debt settlement procedures due to word limitation.

Local research into over-indebtedness is, unfortunately, sparse. The findings of this study need to be interpreted within certain constraints. The limited population sample was a restricting factor, as was the time and access to the respondents. The lack of a standard definition of household over-indebtedness was another limiting factor since the respondents' biases could influence the study findings. The research used a qualitative methodology, which proved challenging when identifying the sample element. Given the limited size of the research population, the risk of not obtaining a sufficiently viable result was daunting.

Given the researcher's tight time constraints and limited research experience, the analysis and interpretation of the data collected in the form of audio interviews and text proved to be overwhelming and time consuming. Moreover, the subtle nuances of interactions, expressions and discussions during live interviews were difficult to portray and interpret.

## **1.10 Structural outline of the study**

The study's context is given in Chapter 1. The significance of this research has been argued, and the research's objectives and questions have been identified. The study's limitations have also been discussed.

The Literature Review undertaken in Chapter 2 is an account by scholars and academics who tackle over-indebtedness in the context of the provision of debt advisory services and debt settlement systems.

Chapter 3 outlines the Methodology used and explains the steps taken to collect the primary data. It addresses how the sampling type and size were identified. It presents a justification for the adoption of a qualitative, inductive research methodology, and discuss the wider research design and its shortcomings.

Chapter 4 details the findings from the collected data. A detailed account of the responses and outcome of the one-to-one interviews conducted with key study participants is provided. The results were collated and transcribed and documented using a thematic approach.

Chapter 5 features a comparative analysis of theories and practices highlighted in the literature review; these are corroborated or falsified within each thematic area.

Chapter 6 concludes with concrete recommendations for providing optimum service to over-indebted households.

## **CHAPTER 2 – Literature Review**

## **2.1 Introduction**

This chapter provides a detailed and critical review of the literature on over-indebtedness and poverty, and the social support services that combat and alleviate poverty. An overview of over-indebtedness is presented highlighting its consequences when not addressed. The chapter proceeds with a critical review of poverty, material and social deprivation and the reality of at-risk-of-poverty in the Maltese context. Moreover, the chapter focuses on current support services and recommends which new ones could be adopted to address over-indebtedness. The literature review gap is then identified.

## **2.2 Search Description**

The literature search for the period 2004 to 2022 was carried out between September 11, 2021, and October 10, 2022. The search period is linked to the accession of Malta to the European Union, as the Maltese government was obliged to align itself with the European Commission's priorities, policies, and prescribed measures. The Google Scholar search engine and the online library of IDEA Academy ProQuest were used to find peer-reviewed articles on the subject. Whilst reviewing relevant literature, the results of relevant theories before this period were noted and included whenever necessary. Reference was also made to a Eurofound European States report on addressing household over-indebtedness and other local literature regarding the inability of families to make ends meet.

The research focuses exclusively on the over-indebtedness of households. It excludes businesses, the self-employed and the government. The keywords used to retrieve the literature were "indebtedness", "over-indebtedness", "financial difficulties", "poverty strategy", "debt relief services", "debt settlement procedures", and "consumer insolvency".

### **2.3 Theoretical Framework**

Article 25(1) of the Universal Declaration of Human Rights (UDHR) states that everyone has the right to health and well-being, which ensures an adequate standard of living (United Nations, 1948). According to the declaration, everyone should have the right to access housing, food, clothing, healthcare, and other essential social services. It further states that all should have the right to security when livelihood events beyond a person's control, such as unemployment, sickness, disability, widowhood, and old age, occur.

In 2010, the EU developed an anti-poverty and social exclusion strategy to lift more than 20 million Europeans out of poverty by 2020 (European Commission, 2010a). Unfortunately, by March 2021, the aim had not been achieved. Targets had to be revised to reduce the number of people in poverty by at least 15 million by 2030 (Kennedy & Danesi, 2022).

Over-indebtedness is both a cause and a consequence of income poverty, material deprivation, and social exclusion - all forms of poverty. Hence, household over-indebtedness needs to be addressed explicitly through policy frameworks which, unfortunately, as highlighted by the Eurofound (2020) report, do not exist in Malta.

### **2.4 Over-Indebtedness**

Household over-indebtedness is a situation in which a household is unable to meet its financial obligations and has taken on debt that it cannot afford to repay, leading to a persistent and significant financial strain on the household's budget (Angel & Heitzmann, 2015). Having excessive debt hinders individuals and households from meeting their most basic needs. In their study on the risk of over-indebtedness and other behavioural factors, Anderloni and Vandone (2010) stated that this phenomenon occurs when an individual's level of debt cannot be reduced by their

current earnings, even if they have additional income from the sale – at fair conditions – of tangible or financial assets. Maslow's Hierarchy of Needs Theory states that, for a person to be motivated to move forward in life, the person first needs to meet a number of basic needs (Maslow, 1943; 1954). These were described by Maslow as Physiological Needs (food, water, warmth, rest) and Safety Needs (security and safety). Various risk factors can cause over-indebtedness. According to Boto Ferreria (2021), some of the main issues that could lead to over-indebtedness are the following:

#### Financial crises

The rising cost of living and the pressures of inflation continue to be major global issues brought about by the aftermath of the Covid-19 pandemic and higher prices attributed to the consequences of the war in Ukraine. Sudden shifts in socioeconomic situations put low-to middle-class families under more financial stress and raised the likelihood of debt (Boto Ferreira, et al., 2021). The Anti-Poverty Forum (Malta) has repeatedly expressed its concern about the sharp increase in the prices of basic necessities, including food and medicine, which are reducing citizens' purchasing power and increasing poverty (Anti-Poverty Forum Malta, 2022).

A recent research project by the General Workers Union, Moviment Graffiti, Alleanza kontra l-Faqar and Rethink Advisory found that the most conservative National Living Income estimated is almost 30% higher than the current minimum wage. Moreover, around 70% of pensioners and 40% of couples with children earn less than the National Living Income. These organisations state that a household needs at least €12,000 per annum to afford a decent standard of living, and around €16,000 annually if a couple has children. (Gravina, et al., 2022). The study clearly shows that those earning the national minimum wage of around €10,000 annually (Department for Industrial and Employment Relations, 2022) are at a higher risk of becoming over-indebted because they cannot make ends meet. The situation becomes worse for those who depend on social welfare benefits because rates vary depending on the outcome of means testing and eligible members

of the family. On average, the highest rate of welfare benefits is around €6,000 annually with the addition of other allowances, depending on eligible family members (European Commission, n.d.).

#### Impulsivity: lack of self-control

Overindebtedness may be both the cause and the result of poor self-control (Boto Ferreira, et al., 2021). A person is more susceptible than others to a social context that promotes impulsive consumption because lack of self-control typically depends on limited or already exhausted cognitive resources. According to research, excessive levels of accumulated debt are also linked to impulsive consumerism and a lack of self-control, with impulsive shoppers exhibiting more hyperbolic discounting and a poorer tolerance for delayed pleasure (Vohs & Faber, 2007; Vohs & Heatherton, 2000; Gathergood, 2012). According to research by Frigerio et al. (2020), maintaining excessive debt is highly linked to impulsivity.

#### Financial illiteracy

Various studies identify financial illiteracy and poor money management as drivers of over-indebtedness (Disney, et al., 2008; Agnew & Cameron-Agnew, 2015; Townley-Jones, et al., 2008). Theories show that financially literate individuals can distribute their income and limit their expenditure while foreseeing possibilities of a drop in income, thus saving funds for such eventualities. On the other hand, poorly financially informed persons are more prone to bad decision-taking leading to incurring debt beyond their means (Gutiérrez-Nieto, et al., 2016). According to Boto Ferreira, et al. (2021) there is a link between bad financial decision-making by households, innumeracy and financial illiteracy, which may be caused by inadequate formal education. However, other studies show mixed evidence on whether financial education programmes actually influence positive decision-making (Hung, et al., 2009).

## Intuitive heuristics and reasoning bias

Mental short cuts that help people solve problems and form judgments quickly and effectively are known as intuitive heuristics and reasoning bias. These are rule-of-thumb techniques that reduce the amount of time needed to make decisions and let people to carry on without continually pausing to consider their next move. According to research a person can make more correct decisions, if he/she has the ability to analyse, question, and ignore enticing but biased outputs (Toplak, et al., 2016). Unfortunately, when individuals are impulsive and lack financial literacy and budgeting skills, they could easily become over-indebted.

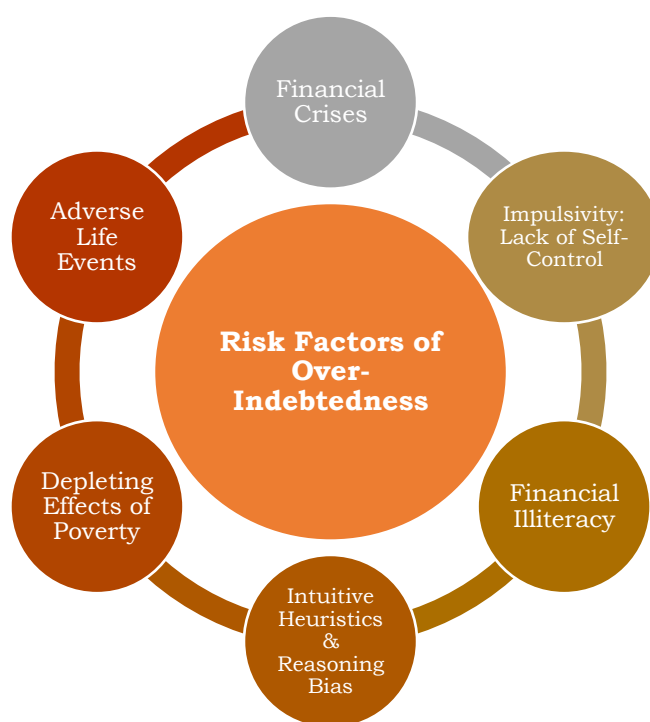
## Depleting effects of poverty

Banerjee's (2000) study shows that poverty might impact the behaviour of those experiencing it by rendering poor people desperate or vulnerable. Another study shows that poor people develop a "culture of poverty" by having a set of values that are adaptive to their poverty, limiting them to possibilities of improvement (Lewis, 1959). A study by Spears (2011) shows that poverty appears to cause depleted performance, while economic decision-making diminished behavioural control when participants were poorer. The depleting effects of poverty contributed to heightened stress levels, limited attention, limited willpower, and cognitive control.

## Adverse life events

The study by Disney et al. (2008) demonstrates that there is a class of families who experience more-or-less persistent difficulties in managing their finances for longer periods of time, primarily due to a lack of lifetime resources, which is associated with low education, poor employment prospects, and the absence of a reliable breadwinner. Moreover, households that experience negative life events like job loss (including business failure), marital breakup, and untimely illness run the danger of building up too much debt and other financial issues (Disney, et al., 2008). Rather than

having an immediate effect, such 'shocks' tend to have a cumulative one. Thus, they could lead to creeping household over-indebtedness. Such stress-inducing events have a long-term psychological impact resulting in loss of competence in household financial management.



*Figure 1 - Risk Factors of Over-Indebtedness (Boto Ferreira, 2021)*

Over-indebtedness has a far-reaching impact on the quality of life of those affected since, inevitably, the standard of living must be lowered to meet financial commitments. When the number of households constrained to do this increases significantly, social and policy implications must be considered. The reason is that the standard of living of many households is reduced beyond the minimum acceptable in the country concerned (European Commission, 2008). It is often not just one of the above factors, but a multitude of complex needs that cause over-indebtedness. Although different combinations of factors may result in distinct profiles of indebtedness, the financial health of a household is

likely to depend on the interaction of a number of endogenous and exogenous factors (Frigerio, et al., 2020). The web of elements creates a multi-faceted phenomenon where a household with low income, low credit control or experiencing a crisis ends up over-indebted.

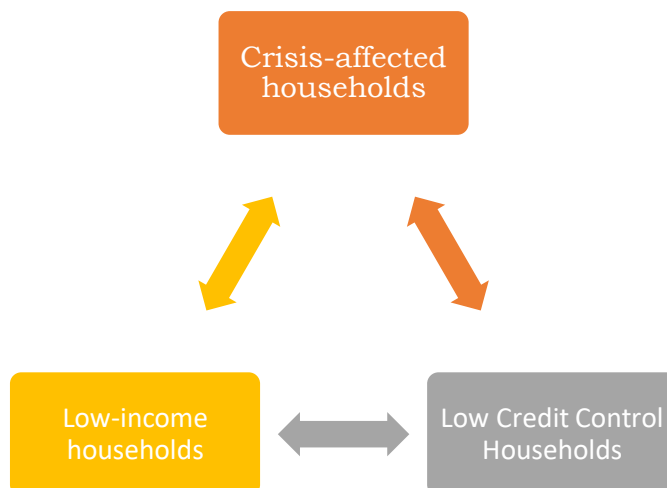


Figure 2 - Over-Indebtedness as a multi-faceted phenomenon

Another study states that access to credit can help access basic needs such as the physiological and safety needs specified in 'Maslow's theory (Greenspan, 2005). According to research on Ireland, as credit access increased, the number of people having trouble paying their expenses and making ends meet decreased (European Commission, 2010b). Therefore, lack of access to credit prevents indebted households from meeting essential human needs and pursuing higher fulfilment.

## 2.5 Household as the focus to measuring over-indebtedness.

A European Commission (2008) study suggests that a 'household' should be the unit for measuring over-indebtedness. Reasons for this include the following:

- it is believed that household members share in household revenue;

- a household's financial obligations, including loan repayment, utility bill payment, and other expenses, must be covered in order to be considered over-indebted;
- over-indebtedness is a persistent problem suggesting an inability to pay ongoing bills;
- the entire household must consider strategies to lower its expenses or find ways to increase its revenue.

Hence, a household with excessive debt is considered to be one unit whose entire income and resources are insufficient to cover the 'unit's' debt obligations.

Since there is no standard definition of over-indebtedness, no standardised and harmonised statistics can be found across the EU (European Commission, 2008). Such a lack of clearly defined elements gives rise to problems when it comes to measurement since empirical studies adopt practical and specific indicators when approaching a definition. Examples of indicators include households having difficulty repaying home loans or rent commitments or inability to pay utility bills (Betti, et al., 2007). Regrettably, such subjective measures depend on the interpretation of different researchers of certain phrases such as the word 'difficulty'. Moreover, cultural dimensions influencing a 'researcher's upbringing and mindset play a crucial role in shaping attitudes and norms, as described in Hofstede's cultural dimensions theory (Gleason, et al., 2000). On the other hand, objective indicators can still lead to misinterpretation of results as existing policies and procedures vary between countries (Niemi-Kiesiläinen & Henrickson, 2005).

Another way to assess whether a household can repay its debt is by using the debt-to-income ratio (Malta Financial Services Authority, n.d.). The ratio, which is calculated by dividing the total monthly debt payments by the gross monthly income, shows how well the household can budget their monthly debt payments. Unfortunately, as shown in the Gross debt-to-income ratios (Appendix A) across the European Union, Malta has no data for the period covered by the report, i.e. 2010-2021 (Eurostat, 2022).

According to studies, there is a strong correlation between households' likelihood of being heavily indebted and the debt-to-income ratio (Del Rio & Young, 2005).

As reported by the Centre for European Policy Studies (2021), one in twelve of European homes struggles to pay their bills, whether they are related to secured or unsecured borrowing, rent, utilities, or other household expenses. One must still assess the effects of the Covid-19 pandemic, which has left many people facing financial problems. Research undertaken in the United Kingdom between April 2020 and March 2021 showed that indebted households were more vulnerable to an income shock. For example, the drop in their income due to government restrictions in response to Covid-19 made it difficult for such households to manage regular bill payments while balancing their ongoing spending (Franklin, et al., 2022).

An expansion of credit facilities could assist households in managing their debts, especially in such exceptional circumstances as a temporary reduction in income. Nevertheless, one has to consider that any additional credit up-take will add to the debt that needs to be paid back. The adoption of new credit facilities can only contribute to reducing debt burden when there is a simultaneous increase in disposable income (the amount of money that an individual or household has to spend or save after income taxes have been deducted).

The European Union uses the European Statistics on Income and Living Conditions (EU-SILC) to create comparison data on the financial challenges of households from the majority of its Member States. The Malta data included in EU-SILC is gathered by the National Statistics Office (NSO). Standardised information grouped into 5-year clusters is collected via surveys and provides two types of data:

- 1) Cross-sectional data over a given time or a specific period with variables on income, poverty, social exclusion and other living conditions.

- 2) Longitudinal data on individual-level changes over time are observed periodically over four years (Eurostat, n.d.).

Various forms of debt were defined for the EU-SILC study to help determine whether a household is over-indebted (European Commission, 2010b). These types of debts defined by the EU-SILC 2008 were:

- determining whether a household has an overdrawn bank account because of financial issues, resulting in interest being charged on the amount outstanding and no set payment plan;
- having an uncleared credit card balance for at least three months specifically because there are no financial means to settle the outstanding debt;
- being in arrears on loans, taken out for uses other than housing, due to financial constraints;
- being behind on payments for housing loans, utilities, or other housing-related bills;
- unpaid bills in arrears that aren't related to housing.

A debt that represents a tiny percentage of the household income typically should not constitute a serious financial danger. However, households whose debt consistently exceeds 100 per cent of their disposable income are considered to be having significant problems managing their debt and are at high risk of becoming over-indebted (European Commission, 2010b).

Unfortunately, at this stage, it is not clear whether the EU-SILC accounts for:

- residents in institutions (such as the elderly and people with mental and physical challenges),
- persons in correctional facilities,
- children and young people in out-of-home-care,
- persons experiencing domestic violence living in shelters and the homeless,
- adults and children asylum seekers in detention and open centres, and asylum seekers who have not reached the six-month residency requirement.

## **2.6 Poverty – the situation in Malta**

People lacking adequate income, resources, and access to public and private services lack the fundamental right to a decent standard of living (European Anti-Poverty Network, 2020). Poverty hinders personal and family growth and development and inhibits active participation in social and community life. Poverty adversely impacts societal well-being. People blocked from accessing this human right experience shame, fear, self-stigma, and social stigma - rendering them prone to becoming socially excluded (European Anti-Poverty Network, 2020).

The European economic situation has been overshadowed by both the uncertainty of the aftermath of the Covid-19 pandemic and the current international crisis caused by the war in Ukraine. These modern-day crises adversely affect people's standard of living across the EU.

The Anti-Poverty Forum (Malta) states that adequate income is necessary for individuals to live decently, especially when having a family to maintain and protect (Anti-Poverty Forum Malta, 2020b). Studies have shown that low income significantly contributes to poverty as low income often results in over-indebtedness (European Commission, 2010b). When comparing the cost of living in August 2022 to that of the previous year, following the two major crises mentioned above, Malta started to experience an unprecedented increase in its inflation rate at an average of 11.54 per cent (Trading Economics, 2022). Apart from the current circumstances, in the past 25 years, there has been an increase in income inequality across EU member states (Bonesmo Fredriksen, 2012). Therefore, one questions whether income is sufficiently increasing to cover the additional cost of living. One has to keep in mind that in 2010, the European Commission warned member states that basic income should increase in parallel to the cost of living and that the authorities should ensure that income increases are evenly distributed across households to ensure that no one is left behind (European Commission, 2010b).

### 2.6.1 Looking at the notions of At-Risk-of-Poverty (ARP), Material and Social Deprivation (MSD) and Low-Work-Intensity

The 2021 NSO survey states that 19.9 per cent (equivalent to 100,712 persons) are either at-risk-of-poverty, reside in a low-work-intensity household, or are severely materially and socially deprived (National Statistics Office, 2021a). This is how these are calculated:

**At-Risk-of-Poverty (ARP)** is defined as the income that has to be below, or equal to, 60 per cent of the national equivalised income, which is €9,744 (National Statistics Office, 2021a).

**Material and Social Deprivations (MSD)**: when a household lacks at least five of the thirteen MSD indicators, it is considered to be materially and socially deprived. If it lacks seven, it is considered to be severely materially and socially deprived.

**Low work intensity** is measured by dividing the total number of months worked by all household members by the maximum number of months those same household members could have worked in the same time frame. If the result is under one-fifth of their work potential, it is considered a low-work-intensity household. Such an exercise covers household members aged between 18 and 64, excluding students.

ARP: The 2021 Malta data showed that 16.9 per cent of Malta's population (equivalent to 85,369 persons) was at-risk-of-poverty (ARP). Moreover, ARP demonstrates that households with three or more dependent children and single-parent ones are more likely to be at-risk of poverty. This brings the Malta ARP to 49.7 per cent and 35.8 per cent respectively (National Statistics Office, 2021a). These findings support the European Commission's 2010 report, which claimed that families with children are more prone to experience financial difficulties since, for the most part, a sizeable share of their income goes toward fixed expenses. At the same time, the possibility of holding full-time employment becomes more complex. Due to these factors, the revenue of such households tends to diminish (European Commission, 2010b).

MSD: The MSD indicators are based on thirteen items a person cannot afford. A severely materially and socially deprived household is one that is unable to afford the following 7 household items:

- unexpected expenses;
- paying for arrears (in mortgage, rent, utility bills and/or hire purchase instalments);
- affording a meal with meat, chicken or fish or vegetarian equivalent every second day;
- keeping the home appropriately warm;
- having access to a car/van for personal use;
- replacing worn-out furniture.
- being able to afford a one-week annual holiday away from home.

A person who is materially and socially deprived cannot afford the following 5 personal items:

- replacing worn-out clothes with new ones;
- having two pairs of properly-fitting shoes;
- spending a small amount of money each week on oneself;
- having regular leisure activities;
- getting together with friends/family for a drink/meal at least once a month;
- having an internet connection.

MSD indicators aim to capture the social dimension of poverty; its coverage goes beyond the materialistic element (National Statistics Office, 2021b).

Even if there is a strong correlation between the two factors, research reveals that the likelihood of being over-indebted is higher if the household is materially deprived than if it is at risk of poverty (European Commission, 2010b). This suggests that a low income is not always a prerequisite for being unable to afford basic necessities as it might be caused by high debt levels such as high home-loan repayments or expensive medical interventions and post-op costs. EU-SILC data also shows that in 2020, 6.3 per cent of Maltese households had experienced difficulties in paying their

utility bills (electricity, gas, water, etc.) on time due to financial problems during the previous 12 months (Eurostat, 2020).

Low-Work Intensity: The inadequacy of Malta's minimum wage, the soaring prices of property, and rising inflation contribute to in-work poverty in Malta (Borg, 2019). The EU-SILC 2020 data shows that a household's risk of facing financial difficulties decreases when at least one household member aged between 18 to 64 years is employed. On the other hand, the same survey reveals that 75.0% of people living in households with very low work intensity were at risk of poverty (National Statistics Office, 2021a).

Over-indebtedness is intrinsically related to a household's situation, thus it follows that, apart from examining the indebtedness of individuals in a household who are out of work, one needs to investigate the employment status of all the household members. However, when comparing the statistical data compiled by the EU, there seems to be no significant exploration of the link between over-indebtedness and unemployment (European Commission, 2010b). According to the survey, people with high work intensity had a higher rate of being over-indebted than people with low work intensity; this could be linked to the fact that those with a high work intensity have greater credit accessibility (European Commission, 2010b). Similarly, those who become unemployed after being used to a steady job income might end up with increased debt levels as they struggle to maintain the same standard of living.

### 2.6.2 The link between over-indebtedness and housing tenure

According to the EU-SILC survey, tenants have a higher likelihood of experiencing financial troubles than homeowners. A lower risk of being overly indebted appears to be associated with home ownership (European Commission, 2010a). As for Malta, the EU-SILC data shows that 78.6 per cent of Maltese considered to be severely materially deprived think that housing costs are a heavy burden. On the other hand, only 39.3 per cent of those at-risk-of-

poverty consider housing costs a heavy burden (National Statistics Office, 2021c). It is unclear whether those at risk of poverty do not consider housing a heavy burden because they occupy a low-rent social housing apartment or house or have a substantial rent subsidy on a private rental.

### 2.6.3 Making ends meet

Many households, especially those with children, struggle to make ends meet because they have unpaid debts and other unique needs that require additional expenses (Ministry for the Family and Social Solidarity, 2015). Abela and Tabone's research (2008) highlighted a link between three types of household poverty: (a) households that are at-risk-of-poverty, (2) households experiencing material or social deprivation, and (3) households with a low-work-intensity. According to the authors, all three situations render households unable to make ends meet, especially in honouring back payments. The authors acknowledge that these three realities constitute life struggles that often lead to over-indebtedness. This research also shows that, despite having access to various support measures to improve their status, a sizeable number find themselves unable to cope independently without any support (Abela & Tabone, 2008). This might have been because support measures at the time adopted a one-size-fits-all approach.

As stated during the meeting of the Centre For European Policy Studies (CEPS) on Good Practices in Debt Advice (2021), over-indebtedness is a multi-causal issue that requires a case-by-case approach by trained debt advisors (Centre For European Policy Studies, 2021). Given that poverty is a sign of a lack of access to fundamental human rights, there is a moral and political obligation to address this reality (European Anti-Poverty Network, 2020). A key question arises: how can the Maltese public support system enable households at-risk-of-poverty and social exclusion to address their specific life challenges?

## **2.7 Support Services**

Malta's National Strategic Policy for Poverty Reduction and Social Inclusion 2014-2024 emphasises the importance of providing high-quality social welfare services that meet the needs of all vulnerable groups (Ministry for the Family and Social Solidarity, 2015). The policy states that services should be delivered holistically, with the family serving as the primary unit of care. It continues by stating that to maximize efficacy, services must be integrated and tailored. The Foundation for Social Welfare Services (FSWS) is Malta's primary public social welfare services agency. It combats social exclusion by providing a wide range of targeted social support provisions to children and families in need, persons with disability and persons living with addictions and behavioural difficulties (Foundation for Social Welfare Services, n.d.). FSWS has become an umbrella of different specialised state agencies. Apart from this public social welfare services organisation, in September 2021, there were over 620 non-governmental organisations (NGOs) registered with the Office of the Commissioner for Voluntary Organisations (CVO) working in the social and humanitarian sector (Commissioner for Voluntary Organisations, n.d.).

Even though social welfare services provided by the organisations mentioned above are extensive and provide myriad support services, as highlighted in the Eurofound report (2020), there is always much more to be done to help vulnerable persons and low-income families to achieve a decent quality of life.

### **2.7.1 Debt Advisory Services – the solution to combat over-indebtedness**

A key finding of the Debt Advice Stakeholders' Forum held in October 2018 is that over-indebtedness is a multi-faceted phenomenon that negatively impacts various stakeholders and society in general (European Commission, 2018). Despite ample evidence of myriad support services, it is becoming increasingly evident that if over-indebted persons are not actively supported to manage their debt, they will, in the long run, become a substantial economic strain leading to a rising public deficit According to a

longitudinal research done in Germany, almost half of all people who filed for consumer bankruptcy did so because of possible risks including job loss, failing self-employment, or the dissolution of a marriage or partnership. Only under the correct circumstances were they able to successfully restart from a position of sound finances (Micklitz, 2011).

The Forum clarified that debt advice services are a powerful tool to help over-indebted people facing an unsustainable debt burden and high economic distress (Korczak, 2019). Debt Advisory Services provide a combination of supports that may include: income and budget overview, financial crisis interventions, budget planning, psychosocial counselling, legal advice, and facilitating access to essential goods. The Eurofound (2020) groups services in three main categories: money and debt management, legal counselling, and brokering to link over-indebted persons to existing social services.

Reynders (2021) states that debt advisory services support households in difficulty on an emotional and psychological level as well as with access to suitable financial and legal solutions. These support solutions are identified or created according to the specific needs of the debtor. Such support ensures the provision of feasible debt payment terms allowing household members to maintain a decent quality of life, personal dignity, and household efficiency.

A minimum-living wage is calculated by accounting for fundamental factors such as necessary spending for goods and services for everyone, unavoidable expenditures such as rent and special medical costs and the transition period moving from high income to minimum spending. Apart from being a powerful tool to support over-indebted individuals, the support process of calculating a living wage also helps creditors as they end up being repaid.

## Good Practices in Debt Advice

The Good Practices in Debt Advice meetings identified various good practices in the field of debt advisory services (European Commission, 2021). The following are some examples:

Early detection of households needing debt advice: Some European countries proactively contact families who might need debt advice. These include persons who default on loan repayments, disconnect from utilities or have financial difficulties signalled by banks. Portugal, for example, has introduced machine learning techniques (analytical techniques that can be implemented using various programming languages and software libraries) to identify different profiles of over-indebtedness (Boto Ferreira, 2021). In the Netherlands, debt advisors are obliged to approach debtors proactively when debtors are in arrears on essential services such as rent, utilities and communal tax (Zwennis-Deekman, 2021). In Belgium, households that do not pay their electricity or gas bills must undergo an assessment by the Local Advisory Commission. This Commission comprises a social worker, council members and a utility company representative. They determine whether the household's payment problems are due to over-indebtedness or unwillingness to pay (Waelbers, 2021). After assessing the household situation, the Commission determines whether the water, gas or electricity should be disconnected. At the same time, the Commission refers the household needing debt advice to the most appropriate form of help. In France, early detection is required by law for all banks that need to detect financially fragile households – thus enabling banks to follow up with support to prevent over-indebtedness (Ehret, 2021).

Good Practices in providing debt advice: The debt advisor's professional development is key to high-quality and cost-effective debt advice. Debt advisors must develop various competencies, including financial, legal and social interventions (European Commission, 2021). Adopting a case-by-case approach might create more complexity for the debt advisor since standardisation

and protocols used in other support services might not be appropriate. For example, in Germany, debt advisors and education experts developed a financial literacy competence module that, on a basic educational level, helps those seeking advice on how to mitigate debt by understanding and managing everyday financial affairs (Tröster, 2021). An NGO in Denmark developed a standard methodology based on an ethics code for debt advisors (Madar, 2021).

In the light of the examples given above, regularised debt advisory services are crucial in providing professional advice to find the best solution to help households get out of debt. Debt advisory services must also be aware of embedded finance linked to digital purchasing, such as the buy-now-pay-later option on many e-commerce platforms. Such embedded financial platforms use tracking and tracing of consumers through cookies and use devious non-rational psychological stimuli to encourage consumer purchases. Research shows that this is an emergent reality where debtors overlook their expenditure since no physical exchange of money is incurred, thus increasing the probability of sliding into over-indebtedness (Korczak, 2021).

According to the European Consumer Debt Network (ECDN), debt advice and counselling help citizens manage their finances to improve their financial standing. No entity from Malta is registered as a provider of Debt Advice and Counselling Services with ECDN (European Consumer Debt Network, n.d.). This confirms the findings of the Eurofound (2020) report that Malta lacks such service providers.

Understanding the financial capacity of the debtor and mediating between debtor and creditor is a critical aspect of resolving excessive debts. Various European countries have established debt settlement procedures to assist individuals in restructuring their debt payments and avoid insolvency issues, which renders individuals to reach a position to reintegrate into society. Regrettably, as indicated in Table 2 – Extract from the listed Debt

Settlement procedures for over-indebted people, EU28 and Norway, 2019, individual debt settlement procedures are non-existent in Malta (Eurofound, 2020). Even the current legal framework does not contain any legislation specifically regulating consumer insolvency procedures and the over-indebtedness of consumers. Current legislation mainly covers company insolvency through the Companies Act 1995<sup>1</sup>, while the Civil Code<sup>2</sup> addresses bankruptcy in specific circumstances (Pisani Bencini, 2019). Thus, the need to set up debt settlement procedures for over-indebted persons is also needed to complement the debt advisory services.

Lithuania	Personal bankruptcy procedure – Asset sale followed by payment plan agreed by debtor and creditors	Personal bankruptcy procedure – Maximum 3 years
Luxembourg	Mediation Committee rules on admissibility of cases and mediates entire judicial process Conventional settlement procedure – Debtor, SICS and Mediation Committee propose settlement plan to creditors. If plan is not accepted, next step is judicial settlement procedure Judicial settlement procedure – Judge imposes a repayment plan on the debtor and creditor(s) Personal recovery procedure – Debtor's financial situation must be 'irremediably compromised'; debt discharge after asset liquidation	Conventional/judicial settlement procedure – Maximum 7 years (this can be extended if debtor desires to keep residence) Personal recovery procedure – Immediate if eligible (if the situation of the debtor improves in the next 7 years, the Commission reassesses)
Malta	Not available – Only for the self-employed	–

Table 2 – Extract from the listed Debt Settlement procedures for over-indebted people, EU28 and Norway, 2019

The Eurofound (2020) report stresses the importance of access to debt advisory services that enable over-indebted persons to move on to the next logical step - debt settlement.

## 2.7.2 Financial Literacy

Maltese families usually teach their children the fundamentals of money management, including spending and saving, understanding the value of money, and handling personal finances (Mallia, 2015). However, an issue might arise when caregivers themselves are financially illiterate and over-indebted. Research shows that, nowadays, having the ability to read and write is

<sup>1</sup> Chapter 386, Laws of Malta

<sup>2</sup> Chapter 16, Laws of Malta

insufficient to make further progress in life. One important educational pillar that helps people function efficiently and freely in society is financial literacy (Johnson & Sherraden, 2007). Individuals must be equipped through holistic education to manage their personal finances and comprehend corporate and public financial decisions and outcomes (Mallia, 2015). Without such a knowledge base, an individual is at risk of financial distress since a lack of financial education is associated with low levels of education and income (Organisation for Economic Cooperation & Development, 2012). Poor levels of financial education are linked to low levels of education, low fundamental skills, and low income, putting at-risk persons at risk of poverty and possibly escalating financial mismanagement (Mallia, 2015).

An individual needs a combination of financial awareness, knowledge, skills, attitudes, and behaviour to help them make wise financial decisions to achieve financial stability and well-being (Organisation for Economic Cooperation & Development, 2012; 2020a). Research shows that the less financially literate groups are more at risk of being economically vulnerable and less financially resilient (European Union/OECD, 2022). The ECDN states that it has been proven that Financial Literacy is one of the main contributors to the fight against over-indebtedness. Financial literacy enables citizens to overcome indebtedness and prevent exclusion since this educational tool equips them with the proper awareness, knowledge, understanding, and skills to function in, and navigate, challenging situations.

A financial literacy curriculum should be an integral part of a school's curriculum however this subject is not sufficiently addressed in the Maltese educational system. Education is a key national pillar accounting for over 869 million euro from the expenditure of the national 2022 budget financial estimate (Ministry for Finance and Employment, 2021). Malta's educational system lacks sorely in this aspect. Educating students in basic financial principles would equip them with the necessary tools to make informed decisions, avoid mismanagement of funds and overspending and would enable students to manage their current

and future finances effectively (Mallia, 2015). As for adults, financial literacy needs to be adapted to the educational needs of over-indebted persons. As Mallia (2015) noted, financial education is directly relevant to policymakers, educators, and the business community in Malta.

Currently, Malta provides financial education courses to school age students and adults through the Gemma initiative titled: Know, Plan, Act. Gemma is a joint initiative of the Ministry for Social Policy and Children's Rights and HSBC Bank Malta plc. Gemma offers informative workshops on how to save money for a safer, more stable life. It provides downloadable resources on financial capability, organises activities related to saving money for a rainy day or retirement and provides awareness of financial scams. Unfortunately, it does not offer targeted advice for over-indebted individuals who have nothing to save.

Despite these lacunae, one of the core approaches of the Agency for Community and Therapeutic Services (ACTS) within FSWS is to deliver financial literacy support to families accessing its service. The ACTS financial literacy programme is run by employed Social Mentors. It adopts a two-fold approach: (a) it seeks to build community capability by creating awareness about financial issues, and (b) it targets individuals who are interested in acquiring skills that would help them manage personal finances more effectively.

In April 2021, the European Commission and the Organisation for Economic Co-operation and Development (OECD) launched a joint framework tool focusing on adult digital and sustainable financial competencies for resiliency. The tool aims to equip adult citizens with skills in making sound financial decisions. It guides EU Members states on how to create public policies related to financial literacy and how to introduce educational materials needed to target the specific needs of participants (European Union/OECD, 2022).

## **2.9 Conclusion**

This literature review further convinced the researcher to look into the gap that exists in support services to vulnerable households who have become mired in financial debt. The viewpoint of practitioners who took part in the research was sought to determine whether first-hand experience of working with over-indebted households confirms the causes of over-indebtedness identified through the literature review. Likewise, the researcher sought to explore the degree to which practitioners provide financial education and financial literacy to over-indebted individuals, so as to highlight gaps that still need to be filled in the local context.

Following the review of the above theories, the study will now look in more detail the methodology used to investigate these theories.

## **CHAPTER 3 – Methodology**

### **3.1 Introduction**

This chapter outlines how the research was carried out and why the research method used was specifically chosen. It describes the type of research conducted, how data was collected and analysed, what tools were used to carry out the data analysis and why such processes were selected.

### **3.2 Purpose of the study**

This research study gathered information on the phenomenon of over-indebtedness in Malta through the verbally expressed perspective of practitioners from Community-based Family Support Service Agencies. The primary causes of household over-indebtedness and the difficulties that over-indebted people face when accessing the current public social welfare services were identified and discussed through one-to-one interviews with identified practitioners. A general understanding of what Maltese society needs and practical solutions to mitigate the problem of over-indebtedness and enhance the well-being of those afflicted with over-indebtedness have also been explored.

A literature review was carried out and used to provide the contemporary context for the study and to identify the characteristics of the underlying problem that needed to be addressed by the research (Soifman, 2010). The literature review provided an overview of the main themes. The researcher was careful to steer away from setting any limitations to the information provided by the research participants, as the intention was to learn as much as possible from them.

Based on the focus of this research, the study tried to answer the following key questions:

- a) What causes household over-indebtedness in Malta?

- b) What do practitioners working in Community-based Family Support Service Agencies consider as lacking from the current public support system for those at risk of household over-indebtedness?
- c) How could Public Debt Advisory Services alleviate the risk of households becoming over-indebted?

The answer to these questions was presented further on in the analysis chapter.

### **3.3 Research Approach**

Inductive approach used for a qualitative research study

Two broad approaches to reasoning for research studies have been defined; the inductive and deductive methods (Trochim, 2006). The difference between the two methods centre on how the nature of reality is viewed (Soifman, 2010). The main characteristic of an inductive approach is that it moves from a specific observation to a general conclusion. In contrast, a deductive approach starts with an existing idea and finishes with data that either supports or directly contradicts the theory (Trochim, 2006). Other studies have showed that deductive research has a top-down approach, while inductive research has a bottom-up one (Creswell & Plano Clark, 2007). To determine the best method for a particular research study, one needs to consider the research question pinpointing what one wants to understand, and how such knowledge will be extracted.

According to Trochim (2006), the setting, purpose, and type of research questions determine a study's methodological foundation. Since the inductive approach focuses on using the participants' perspectives to create larger themes and generate a theory connecting them, the researcher chose it to address the specific study issues.

The inductive and deductive approaches are associated with two main types of analysis: qualitative and quantitative. Researchers have shown that there are multiple distinctions between qualitative and quantitative research. Bryman (2016) states that qualitative research focuses more on the subjective, highlighting the individual's perspective on social phenomena. The qualitative research approach is inductive – from the particular one, one infers generalities (Bryman, 2016). Quantitative research uses numbers and statistics to compare variables and their relationships, whereas qualitative research emphasizes words, descriptions, concepts, and ideas. Qualitative data cannot be measured using a fixed scale or complicated statistics; such data sources come from transcripts of interviews, documents, or open-ended survey replies. In qualitative research it is the researcher's responsibility to collect the participants' words and to analyse them by searching for recurring themes, concentrating on the significance of the participants' responses, and describing a process using eloquent and convincing language (Creswell, 2005).

A qualitative research strategy was adopted for this study as household over-indebtedness observed from grounded practice showed that the term is still a vague concept in Malta, and that Debt Advisory Services are practically non-existent, except for gamblers in debt (Eurofound, 2020). The intention of using qualitative research was to learn about the research topic from participants' own perspective. To do this, the research required a sample element based on experience and expertise in supporting people sliding into poverty or who are already poor and are socially excluded. Such a sample ensured a subjective and holistic viewpoint since the sample element could detail their knowledge.

Finding a suitable sample element for qualitative analysis proved difficult. At the beginning of the study the researcher was not sure whether a sufficiently reliable result would be possible because it was limited to Community-based Family Support Service Agencies and hence had a small research population. However, as the research progressed, the daunting nature of the qualitative

approach became manageable. This was due to the rigorous approach used to finding answers to the set of questions derived from the literature review and to the subsequent analysis and interpretation of data gathered from interview transcripts. Transcripts were based on many hours of online audio interviews and painstaking transcription, analysis and interpretation work. Moreover, the researcher had to be extra careful to identify any subtle nuances arising out of interactions between interviewer and interviewee. Such nuances can prove challenging to interpret.

With reference to findings by Stebbins (2001), the researcher approached the research study using two special procedures to explore the effectiveness of a given phenomenon: flexibility when looking for data, and open-mindedness about where to find it. Giving that an exploratory research design was adopted, generalisations about the phenomenon under study were produced. Therefore, using such an approach helped to better understand the existing problem of household over-indebtedness.

### **3.4 Research Design**

The research design is the process of selecting what data is required and what methods must be applied to collect and analyse the information that will eventually answer the set questions. The Google Scholar search engine and the online library of IDEA Academy ProQuest were used to find peer-reviewed articles on the subject. Reference was also made to a Eurofound (2020) European States report on addressing household over-indebtedness and other local literature regarding the inability of families to make ends meet.

This research study focused exclusively on the over-indebtedness of households. It excluded businesses, the self-employed and government. Some keywords used to retrieve key literature were "indebtedness", with over 488,000 search results on Google Scholar. In order to narrow down the literature, the term "over-

indebtedness" was used, which amounted to 19,800 search results. To further refine the search, the term "household over-indebtedness" was used, resulting in 12,500 hits.

Since the researcher found little to no local research on household over-indebtedness and given the lack of local Debt Advisory Services, an exploratory method for the study was adopted. Exploratory research consists of discovering something new and interesting while working through the research topic (Swedberg, 2020). As the results of the entire research cannot be predicted in advance and one must wait until the study is well underway to obtain the research question's answers, this approach carries its own risks.

#### 3.4.1 Data-collection Methods

A systematic sampling approach to collect relevant data from specific sources was adopted. Such an approach helped the researcher solve the defined research problem. Depending on the problem statement, data collection methods are broadly classified into primary and secondary data collection. No local research on the research study topic was identified from informal preparatory queries with a selected number of persons familiar with prevention of household indebtedness. From the literature review, a primary data collection method was used. Using such a data collection method, the researcher gained first-hand knowledge, acquired original insights into the research problem and added new data to the existing store of social learning (Hox & Boeije, 2005). In order to ensure that the study is coherent and that the data acquired aids in the problem's resolution, it is crucial that the theoretical frameworks, research design, and data collection plan be all matched to the research questions (Hox & Boeije, 2005).

The researcher additionally considered whether to take an observative method or an interview approach. The observation method allows the researcher to collect unobstructed data by

observing characteristics, behaviours, or social interactions without self-reporting. On the other hand, a qualitative interview approach enables interviewees to freely talk about their experiences and views (Hox & Boeijs, 2005). To this end, an in-depth semi-structured interview approach with community-based family support service practitioners was adopted as a valid data collection method for this research. A set of questions were extracted after completing the literature review, a sample of which can be found in **Error! Reference source not found.** Since participants answered in their own words, different aspects of the research topic could be explored. Interview questions were all used but not in a specific order. This enabled the researcher to go with the flow of the interview. Bryman (2016) stated that adopting such an approach enabled the researcher to ask additional questions when needed, according to the interviewee's response. While holding the semi-structured interviews, the researcher kept an open mind about what needed to be understood so that the concepts and theories were developed from the data collected (Bryman, 2016).

### 3.4.2 Method of Assessment

According to a study by Hsu (2005), various fields favour various research methodologies and techniques for data analysis. All purposes of data-collection practices are distinctly different. Therefore, various methods of analysis could have been used to reach the study's aims and objectives. The researcher had clear goals of what was to be researched before deciding what analytical techniques were to be used. While keeping in mind the research aims and objectives, the researcher was able to decide on adopting a Qualitative Data Analysis (QDA) approach. No single method is perfect; each technique has its strengths, weaknesses, and limitations. The researcher considered whether a triangulation approach could have been adopted but believed that the best practice for this research exercise was using a thematic analysis. The process for the extraction of these and the analysis of data is discussed further down in this chapter.

### 3.4.3 Identified Sample

In research, different sampling techniques are used for different areas. However, most essential is the selection of an adequate method of sampling (Sharma, 2017).

#### Research Population

Being very familiar with the family support services field, the researcher opted to come up with a sample of practitioners from both public and non-governmental community-based family support service entities active in the social and humanitarian sector. The primary public body that provides community-based services in Malta is the Agency for Community and Therapeutic Services (ACTS) of the Foundation for Social Welfare Services (FSWS) which runs ten (10) Community Family Centres across Malta and Gozo. On the other hand, the Office of the Commissioner for Voluntary Organisations (CVO) had around 620 registered voluntary organisations registered in this sector as at the end of September 2021.

#### Sampling Strategy

Due to the small number of practitioners working in the social and humanitarian sectors who provide family support services, non-probability sampling was used.

#### Judgmental Sampling

Based on the researcher's assessment of who could provide the best information to achieve the study's objectives, a sampling plan was developed (Etikan & Bala, 2017). The researcher aimed to interview 10 to 12 family support service practitioners within entities that fall under the social and humanitarian sectors. Out of the 10 ACTS Community Family Centres, only 5 provided social work services. Therefore, the researcher sought to interview

at least one team member from each of the 5 centres based in the following localities: Birgu, Qawra, Mosta, Valletta and Msida.

Not all the above-mentioned 620 non-governmental organisations registered with the Commissioner of Voluntary Organisations (CVO) work directly in the field of poverty and social inclusion. Thus, the sample element had to be derived from different entities offering family support services at community level.

The selection of the sample of non-governmental organisations (NGOs) was based on three factors: (1) their experience in providing family support services to people in distress facing financial hardship, (2) their track record of professional engagement with poor persons and families, and (3) their proximity to the problem being studied. According to the researcher's own experience and pre-study planning findings, the sample element identified was a good representation of the population involved in poverty and social inclusion work. Such sample elements ensured that the research objectives were met. Due to the lack of a specialized directory of organisations that operate as Community-based Family Support Service Agencies, the selection process was especially difficult because the researcher needed to be familiar with the family services sector. Due consideration was also given to avoid bias.

A study on the pros and cons of different sampling techniques showed that statistically, judgmental sampling results are considered less reliable due to being highly prone to researcher bias. However, this is only considered a significant disadvantage when such judgement is ill-conceived or poorly assessed (Sharma, 2017). Therefore, the researcher made sure that decisions were based on clear criteria that the sample element has solid knowledge and experience in providing support to people who are either at-risk-of-poverty, materially or socially deprived or with a low-work-intensity.

## Sample Element

Practitioners, mainly Social Workers or Social Mentors, from Community-based Family Support Service Agencies from the following entities, were invited to take part in this research:

- Segretariat Azzjoni Soċjali (SAS) – Community Social Work (NGO)
- Parish Diaconia Unit (Social Worker from the St Julians Parish) – Community Social Work (Parish-based initiative)
- St Jeanne Antide Foundation – Community Social Work (NGO) having a catchment area of 5 localities.
- Fondazzjoni Sebħ – Community Prevention Team of Social Workers (NGO) having a catchment area of 2 localities.
- Paulo Freire Institute – Community Social Work (NGO) having a catchment area of predominantly 1 locality.
- Agency for Community Therapeutic Services (ACTS) of the Foundation For Social Welfare Services (FSWS) a state agency: (1) a Team Member from the Community Family Centre at Birgu having a catchment area of 7 localities; (2) a Team Member from the Community Family Centre at Qawra having a catchment area of 4 localities; (3) a Team Member from the Community Family Centre at Mosta having a catchment area of 3 localities; (4) a Team Member from the Community Family Centre at Valletta having a catchment area of 2 localities; and (5) a Team Member from the Community Family Centre at Msida having a catchment area of 2 localities.

### 3.4.4 Interview process

After identifying the sample element, initial contact was made to request an interview. The five selected NGOs were contacted directly via email. An application request to carry out the research with the members of the 5 ACTS teams was submitted to the Research Office of FSWS. Approval to hold the requested interviews with ACTS team members was granted (**Error!**

**Reference source not found.**) It was made clear to the researcher that the FSWS ACTS participants could not be directly contacted as this was the prerogative of the FSWS Research Office.

The email inviting prospective participants consisted of the following documents:

- a Participant's Information Sheet in which all ethical considerations were explained (**Error! Reference source not found.**),
- the interview questionnaire (**Error! Reference source not found.**), and
- a consent form in both English and Maltese (**Error! Reference source not found.**). Consent forms were signed before starting the interviews.

Nine out of ten semi-structured interviews were held online via Zoom and Teams platforms, whereas one was held in person. The first interview, which happened to be held in person, was conducted as a pilot interview to test the effectiveness of the question and responses. The response to the interview questions was deemed to be positive; a few minor tweaks were effected to one question for which a clarification was sought.

All ten (10) interviews were held between the 31<sup>st</sup> of October 2022 and the 6<sup>th</sup> of January 2023. Unfortunately, since the researcher was not in a position to directly contact the ACTS team members, the interview process took longer than expected as the last interviewee that agreed to participate from ACTS only contacted the researcher at the end of December 2022. The researcher noted that, in order to minimize needless delays and stay within the study schedule, a deadline for participant acceptance should be incorporated in future studies.

The interviews were all digitally recorded and saved via a password-protected application and transcribed using the Microsoft Word Dictate function.

#### 3.4.5 Preparation of Data

Each recorded interview was replayed to compare content with the transcribed files. The data was categorised according to the question number. Any colloquial data which did not focus on the interview subject was cleansed to provide better-centred information when narrowing down the thematic analysis.

### **3.5 Data Analysis**

Using a thematic analysis approach, the researcher looked for patterns of meaning in a data set - the interviews. The data collection method consisted of large bodies of data transcribed to a word document. Throughout the interview process and transcriptions, the research questions and objectives were always kept in mind. Thus, the researcher was able to identify the following main themes:

- a) Familiarity with the notion of 'Household Over-Indebtedness' – (Objective 2).
- b) Causes of Household over-indebtedness (Question 1, Objective 3).
- c) Support Services (Question 2, Objective 4).
- d) Preventive and curative Measures (Question 3, Objective 5).

Sub-themes were also generated. These will be discussed further on in Chapter 4.

Subsequently, the transcripts were introduced into a computer-assisted qualitative data analysis software (CAQDAS) - the NVivo. The program assisted the researcher in examining the information to identify significant themes and associated keywords both within

and between the transcripts. CAQDAS removed the clerical tasks associated with manual coding and data retrieving (Bryman, 2016). Substantive direct quotations from the participants' interviews were highlighted.

The validation of the responses was discussed with the supervisor to audit interpretations. Further cross-checking of thematic areas with the literature review outcomes was done, and the results discussed and verified with the supervisor. Following this, the actual writing of the final chapters was carried out. Finally, proof reading was completed and corrections inputted.

### **3.6 Role of the researcher**

It was the first-hand experience of working with an NGO activity involved in supporting individuals and families at risk of poverty or already poor that inspired the researcher to study the phenomenon of over-indebtedness. The researcher had been increasingly feeling concerned about the steady increase in individuals and families struggling to make ends meet and the widening gaps in support services provision. Thus the decision was made to study this phenomenon to understand better its underlying causes and to identify what's missing in terms of effective support.

Working with a non-governmental organisation – the St Jeanne Antide Foundation (SJAF) - that provides a range of community-based supports to families and individuals at risk of sliding further into poverty and social exclusion - allowed the researcher to regularly engage in a dialogue with social workers and peer mentors about what worked best to combat and alleviate poverty and the consequence of over-indebtedness. As no specialised debt advisory services are available in Malta, practitioners incessantly make appeals on social media for myriad in-kind supports, including debt relief assistance. Practitioners thus depend on the generosity of donors to solve pressing needs of poor families. Additionally, they also tend to become self-taught in teaching service users essential budgeting techniques. Such practices are

very time-consuming and take up a lot of the social workers' precious time; a problem which could best be avoided had there existed specialised services for over-indebted persons. Over-indebtedness is a complex issue which cannot be provided by social workers with large case-loads of families with complex needs.

The researcher thus started to wonder what could be the root causes that lead a household to become over-indebted and what services could help to address this social issue effectively. The researcher increasingly became motivated and invested time and energy in studying this issue with the hope of being in a better position to advocate with policymakers for the introduction of solutions which already existed in other EU member states.

Initially, the researcher considered whether individuals experiencing over-indebtedness should be interviewed. Upon further evaluation, it was decided that the best approach was to get the perspective of practitioners working with such individuals. Such an approach was considered to provide better insight into the actual causes of over-indebtedness, current support services and any gaps. This approach steered clear of the minefield of emotional biases of individuals experiencing poverty and over-indebtedness. Interviewing practitioners working in Community-based Family Support Service Agencies was viewed as an appropriate way to delimit the research bias and ensure a better focused dialogue with experienced family support practitioners. Thus, the comparative measure could be used when selecting the Thematic Analysis approach.

Setting the appointments for the interviews was a feat in itself. Having to go through the FSWS research department, the researcher was afforded no means of contacting the required sample of five participants from a state-run agency. This situation caused a delay in the interview timeline process and caused a considerable hindrance (See Gantt Chart **Error! Reference source not found.**). Sadly, as a result of the delay, the researcher was

forced to ask for an extension in order to diligently complete the study. The extension was granted on the 15th of February 2023 (see approval letter in **Error! Reference source not found.**). Besides this, it was challenging to hold semi-structured interviews as the method for data collection. Holding one-to-one interviews proved to be more time-consuming than anticipated, and the verbatim transcripts of the interviews resulted in a lengthy transcription and analysis process. Extra caution had to be taken when some interviewees used the Maltese language since the researcher had to ensure not to misinterpret participants' views when translating into English. The coding process to derive the themes used for the thematic analysis proved to be another intimidating process. However, since the sample element was relatively focused, the researcher was able to extract more focused and detailed information about the research topic.

To help keep the focus on which information was to be integrated in the dissertation chapters, the researcher formulated a mind map (See **Error! Reference source not found.**) which served as a reference point throughout the months the dissertation was being drafted. The dissertation supervisor's guidance and recommendations were other supportive measures that assisted in formulating the research design. Supervision meetings were held between the end of August 2022 and April 2023.

### **3.7 Research Ethics and Ethical Considerations**

Since qualitative research entails using human beings, ethical concerns are frequently raised (Dooly, et al., 2017). According to Bryman (2016), the key ethical issues are harm to participants, a lack of informed consent, privacy violation, and deception.

At the planning stage, the researcher evaluated any adverse effect the study might have on participants and tried to anticipate any potential ethical issues. No unexpected adverse outcomes were anticipated; the researcher made sure that no aspect of the

research could possibly jeopardise the participants' health or well-being, whether physiological or psychological.

When the interview questions were designed, the researcher was cautious to ensure that the designed questions could in no way be interpreted as personal or offensive. Sensitive questions that could have triggered negative emotions were avoided altogether. There was no attempt to collect information about racial or ethnic backgrounds, political views, or religious or philosophical ideas. Data on sexual orientation or health was not gathered either. The research was based on one-to-one interviews. Research questions enabled the researcher to understand the participants' experiences of working closely with over-indebted individuals and families. During the interview process, no data was disclosed with third parties apart from the supervisor. The hard-copy data collected was stored under lock and key. Moreover, in accordance with the General Data Protection Regulations (GDPR) and the Data Protection Act 2018, the interview recordings were preserved in an encrypted file on the researcher's password-protected computer.

Research participants' identities were pseudonymised; their identity was not noted on transcripts or notes, but a code assigned according to the interview sequence; for example, Participant#1, Participant#2 and so on. The codes used to identify each participant so as to link their data to their identity were kept secret and separate from the data, in an encrypted file on the researcher's password-protected computer. No personal information has been revealed in this report nor will any be revealed in any future publication or presentations arising from this research.

As indicated in section 3.4.4 above, an Information Sheet for practitioners was forwarded to each participant. The sheet comprised a letter detailing the purpose of the study, the reason why practitioners working in Community-based Family Support Service Agencies were chosen, the fact that research participation was on voluntary basis, what was required of the participants,

whether there were any benefits or risks, confidentiality measures taken, how the results would be used, and details about the researcher.

Research participants were asked to sign a detailed Consent Form (**Error! Reference source not found.**) which provided information on their participation and how the data collected would be used and discarded once the study was completed. A scanned signed copy of the consent form was collected before the interviews commenced. Participants agreed to participate in the research voluntarily through the signed consent. They acknowledged the fact that they had the right to refuse to take part or to halt participation without giving any reason and without any penalties involved. Participants also had the right to decline to answer any of the questions asked.

None of the participants withdrew their participation. Had any done so, they had been made aware that any data collected would have been erased subsequent to withdrawal.

All data collected will be destroyed within two (2) years from the study's completion and the publication of results.

### **3.8 Conclusion**

Throughout this chapter, several topics have been outlined: the research design, the sampling approach, the procedures used, the interview schedule, and how the data analysis was carried out. The information provided in this chapter on Research Methodology is essential and transparent giving a complete overview of the decisions arrived at when formulating the research design and describing all aspects of the implementation process. In line with Zhang & Shaw (2012), the researcher was faithful to transparency on how the research was carried out – thus giving credibility to the

study since the methodological decisions taken have been amply outlined and justified.

## **CHAPTER 4 – Findings**

## 4.1 Introduction

This chapter presents detailed responses of a qualitative nature gathered through one-to-one interviews with Social Workers and Social Mentors. It is structured under four thematic areas derived from the literature and responses to questions discussed during the interviews. The themes presented are intrinsically linked to the research objectives and the questions designed to gather data that fulfils them. The categorisation of the responses follows these thematic areas:

- a) Familiarity with the notion of 'Over-Indebtedness'.
- b) Causes of over-indebtedness.
- c) Support Services.
- d) Preventive and Curative Measures.

Interviewee responses quoted under each thematic area and its corresponding sub-themes will be discussed and explained. Using NVivo, a list of sub-themes was derived (**Error! Reference source not found.**). Direct quotations from participants are included to stress and support specific points that strengthen particular arguments and study outcomes. Due to word limitation of the research study, a limited number of direct quotations have been incorporated in this Chapter; other direct ones relevant to the findings can be found in Appendix B.

## 4.2 Overview of the Participants' Profile

Given the qualitative nature of the research interviews and the in-depth discussions that took place between the researcher and interviewees, the data gathered is substantial. Participants were highly experienced practitioners in their respective roles and functions within both public and non-governmental organisations active in the family support sector, they had much to say and anecdotes to narrate. Out of 10 participants:

- 90% were female, and 10% were male;

- 50% hold the role of a Senior Social Worker; 30% were Social Workers, and 20% were Social Mentors.

Out of all participants, 50% also assume the responsibility of a team leader. For ease of understanding, when quoting specific statements, the participants quoted in this chapter will be referred to as Participant #1, Participant #2, and so on.

### **4.3 Familiarity with the Notion of ‘Household Over-Indebtedness’**

One of the study's objectives was to determine whether practitioners of Community-based Family Support Services agencies commonly use the term, or are familiar with the notion of, ‘household over-indebtedness.’ To this end, participants were invited to share their understanding of the term within their field of practice. Out of the ten (10) participants, four (4) were able to give a substantive explanation, whereas two (2) participants provided a vague answer. The remaining four (4) participants did not define the term but instead listed examples of what, in their experience, causes and constitutes household over-indebtedness.

“...when they accumulate more debt from the income they have. It is when the family has more debts, and they have liquidity.” Participant#2

“When any income comes in, it goes back out immediately in bills payment.” Participant#8

“...cannot keep up with the basic day-to-day expenses and when the expenses are way over and above the amount of income that they receive by the end of the month.” Participant#10

“When they get into something beyond their means. Maybe they opt to get certain things which are not essential, but

when they need essential things, their income does not allow them to purchase them.” Participant#7

#### 4.4 Causes of Household Over-Indebtedness

The main research question to fulfil the objectives of this research was “What causes household over-indebtedness in Malta?”. All participants mentioned an array of causes with a total of 185 references throughout the coding process. The references were grouped under twelve (12) different labels (**Error! Reference source not found.**) and organised according to the most frequently mentioned. The following are the 12 labels:

- 1) Low Basic Skills
- 2) Mindsets
- 3) One-size-fits-all measures
- 4) Inherited vulnerabilities across generations
- 5) Economic factors
- 6) Lack of affordable housing
- 7) Mental ill-health
- 8) Lack of a support network
- 9) Falling victims of crime
- 10) Addictions
- 11) Complex family situations
- 12) Other causes, such as:
  - a. Crisis situations
  - b. Digital Divide
  - c. Health issues
  - d. Legal Status (Migrants).

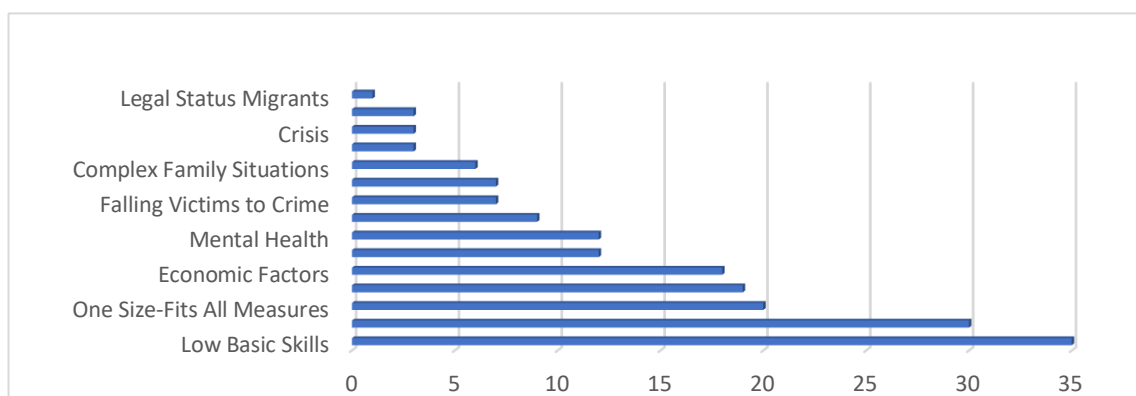


Figure 3 - Mentions of identified causes throughout the interviews.

These labels were further analysed (see **ERROR! REFERENCE SOURCE not found.**) and categorised according to the risk factors of over-indebtedness identified by Boto Ferreira (2021); these being:

- i. Financial Crises
- ii. Impulsivity: Lack of Self -Control
- iii. Financial Illiteracy
- iv. Intuitive Heuristics & Reasoning Bias
- v. Depleting Effects of Poverty.

All participants mentioned that it is often more than just one of the above-mentioned factors; a multitude of circumstances render a household to become over-indebted. However, all the participants mentioned that adverse life events are both the main cause as well as a consequence of household over-indebtedness. The current financial crises mainly caused by the rising cost-of-living, lack of affordable housing and low salaries were the second most mentioned factors. Seven participants also mentioned other issues that could not be directly categorised under any space of the risk factors mentioned by Boto Ferreira (2021) such as the one-size-fits-all measures adopted by the local utilities company.

Each risk factor will be analysed in further detail on its own merit further on in this chapter.

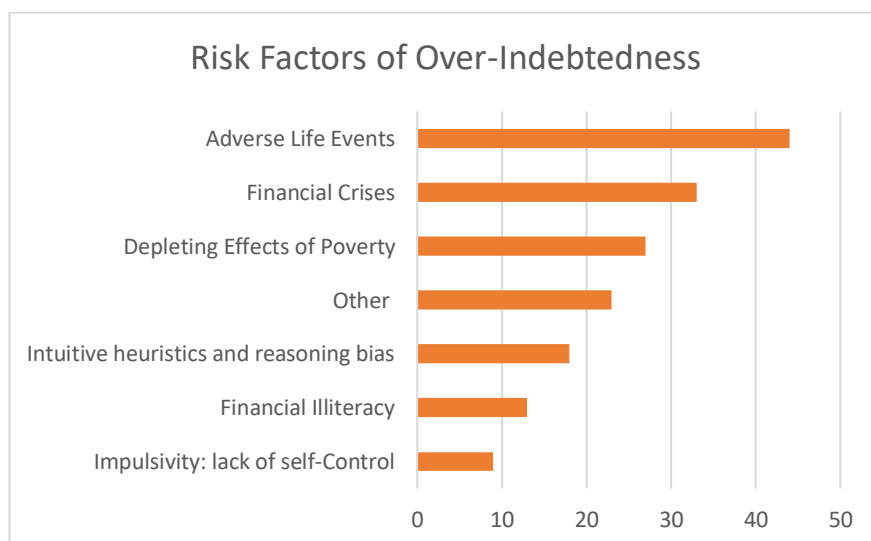


Figure 4 - Causes categorised under risk factor labels.

## Financial Crisis

All participants attributed low paying jobs, the inadequate minimum wage rate and low social benefits as major contributors to household over-indebtedness.

“...sometimes, no matter how much you educate the person, if his means of income is limited, it's limited. Our minimum wage isn't sufficient by far and even more than a minimum wage, some benefits are measly.”  
Participant#2

Eight (8) participants highlighted that the rise in prices of fundamentally needed items was becoming a significant contributor to household over-indebtedness. With limited access to credit, the practitioners are experiencing a new reality of the Working Poor.

“Some people think persons slide into poverty because of their fault, as they make wrong decisions, but in actual fact, when you see the rising cost of living we've been experiencing, especially these last two years, those with a limited income cannot make ends meet. Nowadays nothing catches up with the cost of living.” Participant#1

Nearly all the participants mentioned how the lack of affordable housing affects their service users. They listed several different scenarios showing that the lack of affordable housing is a reality for a large spectrum of those accessing the services of Community-based Family Support Service Agencies. Exacerbating factors mentioned by interviewees include skyrocketing cost of rent, lack of collateral to qualify for a home-loan, the issue of migrants who end up affording only a shared rental or shared room, the issue of local citizens who cannot, or do not want to, share rental accommodation, rental abuse by landlords, the processing obstacles and delays of rent subsidy schemes.

“You would have a rent for which you might get the rent subsidy. But still, it's not enough, especially if you are on low-income. But at the same time, you are not in a position to take a home loan. Obviously, there are schemes, but those on social benefits are not eligible.

There is capping for the schemes at around €100,000, when in reality, what are you going to buy with €100,000? It's impossible. So what do you do? You have to rent and obviously the money that you earn is going right there to pay rent, food and what's left!?!.” Participant#5

### Impulsivity: Lack of Self-Control

Four (4) participants mentioned impulsivity and lack of prioritisation as the cause of over-indebtedness. They also pointed out that their service users’ mindset for instant gratification might be due to an overwhelming feeling of helplessness which is assuaged by impulsive spending – a poor money-management characteristic.

“They have an understanding of budgeting and they know that their social benefits, or maybe their wage, will not suffice for the entirety of the month. But because they are living in such a difficult situation, instant gratification is one of the most things that they rely on.” Participant#9

Three (3) out of these participants also linked certain mental health conditions that limit the individual from prioritising and making sound budgeting decisions when it comes to differentiating between needs and wants. Others have compulsions that would not help them make the right decisions when it comes to spending, even when they are on a limited budget. These are some of the complexities faced by those suffering from mental ill-health conditions.

“...when people have mental health issues, they can't make a decision, whether they need it (i.e. something) or not.” Participant#1

### Financially Illiteracy

The responses of research participants highlight a number of troubling mindsets that exacerbate service users’ difficulties. In thirteen (13) instances, three (3) participants mentioned the issue of poor money management skills and inability to prioritise purchases.

“...having no budgeting skills ... overspending. Sometimes people don't know how to budget the small amount of money they have.” Participant#4

Two (2) participants highlighted how technological advancement and corporate cost-effective measures widened the gap for vulnerable people who are becoming financially illiterate as they cannot adapt to these fast-changing trends, thus leading to a digital divide.

“...bank branches are closing and with no intention of opening again and a lot of things are being paid online. That's an issue especially with those who do not know how to access internet.” Participant#1

One (1) participant stated that financial illiteracy could be a consequence of a health issue.

“We see a good number of children who have ADHD disorder or autism. So, obviously, that does not help in their academic acquisition. So basically, they will not have a good prospect of a good paying job in their future.” Participant #10

### Intuitive Heuristics and Reasoning Bias

The inability to foresee that certain quick decisions could lead to financial difficulties was mentioned by seven (7) of the participants. For practitioners, such behaviour is linked to poor budgeting skills or impulsivity. One of the interviewees stated that one of her service users fell victim to an internet con man who drained all her savings. She was emotionally manipulated into financially supporting his needs with the prospect of being able to meet him in the future; she was thus not in a state of mind to make sound financial decisions.

“I've had one case of a lady who, through the internet, she thought she had found a lover. She used to send him her full pay, leaving her children with no food. It was then that her parents, who had to pay for everything, they had to borrow from her friends, from other family members.

Her parents had to sell practically everything and they're still trying to solve the issue.” Participant#4

The same practitioner mentioned that, given the limited access to credit, some service users ended up having to make quick decisions and opt to purchase items with hire-purchase facilities, which sometimes complicated their financial situation.

“They buy something and pay by instalments. So, they would have various instalments, even though each individual payment is a small amount, when you sum them up you will notice that is a chunk of their income.” Participant#4

A participant stated that vulnerable individuals are often enticed by tailor-made telephony offers meant to trigger consumer’s heuristic judgements and decisions. In such situations, these persons do not read the small print in the contract terms and conditions. It is a well-known fact among practitioners that such contracts often lead to financial complications as vulnerable persons do not keep up with the contractual terms. Fines pile up unreasonably, especially when contracts are halted before the expiry date.

“...telephony companies, obviously, because they want to make money, encourage people to go into contracts easily. I think they should make a background check, communicate with one company to another and see if they have other overdue accounts.” Participant#6

Another practitioner mentioned that sometimes corporate bodies consciously tailor their advertisements to turn consumer’s heuristic-based judgements to their favour thus leading individuals to make bad financial decisions.

“...sometimes, companies advertise something which might be deceiving; like promising something for free which in the long run there will be other costs, or else instil a feeling that one has to obtain that item as, if not, they are missing out.” Participant#1

## Depleting Effects of Poverty

Service users' mindsets when accessing the support of practitioners at Community-based Family Support Service Agencies play a crucial role in helping them to grapple with the challenge of household over-indebtedness. A common factor mentioned by all participants was the inherited inter-generational nature of one's vulnerability. Children from certain social classes unfortunately assimilate unhelpful and harmful attitudes, behaviours, mindsets, and tendencies from their family. Practitioners mentioned a cycle of intergenerational social attitudes, mindsets, and behaviours.

"If you're coming from a culture which lacks budgeting skills, where there's overspending, where there are no priorities, you end up not prioritizing certain things like food over technology. The skill we have acquired from parents or guardians, unfortunately, we do not see a lot in our line of work, so the lack of skills is quite common in such situations". Participants#5

Intergenerational issues naturally interlink with the mindset aspect; this reality was highlighted by eight (8) out of the ten (10) participants. Social media influences and the desire to provide for their children like their peers, even when it meant incurring an additional expense the family could not afford, was a recurrent topic.

"We tend to see (i.e. help) persons that rely on social-benefits who do not have enough money to buy food. However, they buy a PlayStation for their children. Unfortunately, social media and Facebook, are not being of a benefit for these people because the social image they portray is very important." Participant#3

Two (2) participants further stated that, sometimes, they feel that their service users believe that they are entitled to social welfare benefits and, thus, are over-dependant on government financial support.

"Sometimes, there is a sense of entitlement. They end up in this situation because they feel that they are entitled to certain things for free. And even though you provide one-to-

one support and advice, and even though they would be aware that they are in poverty or under the poverty line, et cetera, they would not want to receive any help because they say, I want this and that for free, and you have to provide it for me.” Participant#6

Four (4) participants also highlighted that sometimes they encounter service users lacking the responsibility and willingness to improve their current situation.

“...people aren’t forthcoming. You try to help them and make them aware but (they) cannot be bothered or they are not intellectually capable to know the consequences.”  
Participant#1

On the other hand, practitioners observed that their service users’ predominant mindset could also be influenced by shame and stigma; for these, talking about precarious financial situations is still considered a taboo subject.

“...they are even shy to expose their financial situation to their own relatives. I think there is this stigma about financial difficulties.” Participant#7

#### Adverse Life Events

All the participants provided an array of examples of how adverse life-events impact all their service users’ lives, some of whom end up struggling with over-indebtedness. There were over 44 mentions of complex situations that propel service users to perilous financial situations.

LOW BASIC SKILLS: Five (5) participants said that having limited to low basic skills could lead a person to become unemployed and thus having no income. Another three (3) stated that low educational levels are a primary contributor to the possibility of becoming over-indebted. At the same time, one (1) participant stated that persons who encounter the most difficulties with over-indebtedness are migrants, this was due to the communication barriers.

“Over-indebtedness goes hand-in-hand with unemployment due to several circumstances. One of the main causes of unemployment, is because most of our service users have not completed a very high level of education.” Participant#10

“...the majority of my case load are immigrants which are experiencing this lack of finances basically on a monthly basis due to limited skills especially communication skills.” Participant#9

MENTAL ILL-HEALTH was also highlighted as a major cause of over-indebtedness by eight (8) interviewees.

“For the majority of my caseload, it is mental (ill) health which leads them to not being able to work and then obviously the person or the household doesn't have enough income.” Participant#9

Another participant mentioned how the mental ill-health of one family member has repercussions on the whole family.

“One of the issues has to be mental health. When one member of the family has mental ill-health, this person incurs debts that his parents need to cover. However, many times these debts are over and above the income of the family.” Participant#2

Other participants mentioned that over-indebtedness itself leads to mental ill-health.

“Sometimes, mental ill-health evolves due to financial situation as well, I mean they are at their wits' end and they don't know what to do.” Participant#1

SINGLE MOTHERS LACKING A SUPPORT NETWORK: Some practitioners stated that mothers with young children who do not have a support network to help them with their children's upbringing encounter more difficulties in sustaining employment. Lacking a support network decreases their chances of improving their financial situation. It was also emphasised that the current support services are not enough to cater to single parents' needs.

“I'm following a person that is a single 19-year-old mother, has a child but she does not have the support of her family. So, it is being very difficult for her to find an employment because to benefit from free childcare you have to be employed.” Participant#3.

LIMITED ACCESS TO CREDIT: Four (4) participants mentioned that having limited access to credit and living from one paycheque to the next without the safety of any savings to bank on in case of a rainy day, made their service users seek credit from loan sharks. The money would be needed for such specific basic needs as paying a utility bill, or even sustain an addiction. As a general rule, under Malta's Article 1852 of the Civil Code (Chapter 16, Laws of Malta), interest rates can only be charged up to 8% per year. Still, unofficial moneylenders, or usurers, charge higher rates. Debtors end up on a dizzying spiral of indebtedness with no means of ending it.

“This is a person who's on disability pension. One time he had to pay his electricity and water bill and as he wasn't able to pay it, he took a loan from a loan shark. The following month he had to pay the loan shark a bigger amount from his disability cheque, and it escalated to an extent that literally by the start of the following month all his disability pension had to be paid to the loan shark.” Participant#2

“When you have an addiction, you must get the money from somewhere to be able to suffice (sic) your addiction. So, they get into usuary. And that is something which they cannot get out of. It is a situation where and there is no hard and fast rule. You get all types. I have people who have only borrowed for a specific thing which they needed. They couldn't do otherwise, like a loan of €2000. The agreement was that they had to pay them back as a lump sum, which was going to take ages. In the meantime, they must pay €500 every month. They have already paid €20,000! And these people (the loan sharks), they knock on their house door, they go to the place of work and threaten them.” Participant#8

ADDICTIONS: Three (3) practitioners highlighted addictions as another cause of household over-indebtedness: alcohol abuse, drug

abuse and gambling. One (1) interviewee stated that such habits financially drain and impact not just the life of the person with the addictive behaviour, but of all the family.

“Addictions - habits like alcohol, drugs, gaming. They're always in debt, even if they work and have a good income, they would still end up paying more.” Participant#4

“People with drug problems, people with alcohol problems, people with gambling problems. I remember a woman whom I was supporting, she was over-indebted by thousands of pounds at the time. She had about three children and the problem was that her husband was gambling.” Participant#1

DIFFICULT FAMILY CIRCUMSTANCES: Five (5) participants linked difficult family circumstances to over-indebtedness. Examples given included the family size, separations and its consequential financial obligations, and the lack of household budget contributions by children in employment living with their parents. Another example given was when a member of the family responsible for the household budget succumbs to pressures and makes hasty bad decisions.

“I think it does depend on how many persons there are in the household. If you have one child, it's going to make a huge difference than having five children.” Participant#5

“When there is a family and the parents get separated, normally the man moves out and rents. Basically, even if he has a good wage, he is not making ends meet due to rent and child alimony payments.” Participant#3

“The couple separated. The children who are now adults are still living in the matrimonial house with the father. The mother had to leave. Now, the situation is that the house is in the name of both parents. If they sell, the father doesn't want to accommodate the children. So, she cannot sell or else her children will be in the street. Therefore, she is living at the verge of poverty even though she owns a property.” Participant#7

“We have cases where the parents are not affording to buy food and paying the bills, but they don't ask their adult

employed children still living with them to contribute.”  
Participant#3

“Someone else in the family is in debt and they try to help but end up having debts themselves. I have a service user who cannot find employment because her husband made about €6,000, in debts with telephony companies setting accounts in her name. Now she has a garnishee on her account, and she can't find work where they don't pay through the bank.” Participant#4

CRISES: Two (2) interviewees mentioned that some households face crisis situations, live on a paycheque to paycheque mode, and do not have any savings to make up for unexpected expenses. Sometimes, even if they have some finances to back on, unexpected loss of income or illness might lead the household to become over-indebted.

“Unexpected expenses, or sudden loss of income. I'm working with a family; the husband got injured at work and had to stop working. So, what was before, a suitable income to cover all the basic needs of a family of five, now, with just one income, it's impossible to cover those expenses. These are families who are quite financially literate. However, then something might happen which causes them to fall into over-indebtedness.” Participant#2

Only one (1) participant mentioned that at their community-based Family Support Services Agency, they encounter several migrants who experience financial problems mostly caused by bureaucratic systems that delay allowing them to regularise their status to legally seek employment.

“We have migrants who are regularised and that helps them to find a legal job, apply for some benefits, especially if they have children. But I also have cases of clients who don't have a status. It's either rejected or else they're not even recognized. They end up working illegally. They don't have any job security, they cannot apply for in-work benefit or children's allowance, especially if they have children. So, they don't have any financial stability as they don't have any job security.”  
Participant#9

## Other Causes of Over-Indebtedness

ONE-SIZE-FITS-ALL MEASURES: Throughout the interviews, seven (7) practitioners identified a common factor that is a leading cause to over-indebtedness in Malta. This is the one size-fits-all measures approach. These participants frequently mentioned the issues encountered with such key services providers as:

- a) the utility billing agency – ARMS Ltd.,
- b) the Housing Authority, and
- c) telecommunications service providers.

Such inflexible measures, participants lamented, result in households becoming over-indebted.

LACK OF PREVENTIVE MEASURES: The lack of any preventive measures is evident by the fact that households with overdue payments are not flagged. It is only when overdue bills run high that action is taken to recoup debts. To make things worse, there is a prevailing lack of flexibility when it comes to recouping overdue bills through repayment agreements. Overdue bills having run high, the most vulnerable households become totally overwhelmed when faced with the dilemma on how best to use current income – whether to pay for basic needs or use their income to pay overdue bills.

“Why do ARMS keep sending bills and they don't follow up closely with the family when they see that the bills are not being paid? Why keep on sending bills without inquiring what is the issue with payment? Some of our clients do not know how to read the utility bill, let alone know how to read a notice. With regards flexibility, when I went to accompany a service user at ARMS to do an agreement, they told her that she had to pay around €1500 upfront, and then would they be able to do an agreement. So, we have to pay their lump sum and then we'll be able to do an agreement? I wonder if Arms really wants to assist people.” Participant#3

“Sometimes I used to argue with the Housing Authority as they would know that the person has a lot of unpaid rent and they wouldn't do anything about it. These are social cases with social problems. Those who are not on

social benefits won't apply for a social housing; so if they have complex needs, why not follow them?" Participant#6

#### **4.5 Support Services**

It was crucial for the researcher to accurately pinpoint the difficulties and barriers vulnerable over-indebted households must face when trying to access the right public welfare support services. In doing so, the researcher was able to put forward realistic policy recommendations. Thus, throughout the interviews process, the researcher was able to obtain practitioners' perspectives on whether the current public support services for over-indebted households are sufficient or lacking. Questions asked focused on identifying flaws in the existing support services and gaps that exist.

##### Flawed Support Services due to the lack of Debt Advisory Services

The 13 Material and Social Deprivation (MSD) Indicators were used as a reference point to the type of support services the practitioners were able to provide to over-indebted households. Practitioners were asked to specify what type of advice and support they were offering to such households. Most participants pinpointed how they are enabling vulnerable households to tackle particular MSD conditions. They mentioned providing or replacing (1) furniture, (2) clothing, and (3) two pairs of properly fitting shoes. As to the remaining MSD indicators, all expressed difficulties in helping over-indebted households access such items.

"We don't really have a place to refer people who are over-indebted." Participant#8

One participant's comments:

"I believe that there is lack of awareness of what support services are available". Participant#1

Most participants gave examples of existing support services that enable their service users to tap into: Foodbanks, charity shops, obtaining donations of second-hand clothing and furniture, advocating for debt repayment agreements with the Housing

Authority and ARMS Ltd, pre-cooked meals, Soup Kitchen services, Children's Dreams Fund of FSWS, and mentoring sessions on financial literacy. Notwithstanding these myriad services, participants agree that what is on offer is insufficient to support over-indebted households.

“After I saw the 13 indicators, we have cases that don't meet such indicators. A lot of people probably need one-to-one support, especially now that we are experiencing an increase of people asking for help because they cannot just make it till the end of the month. They are living from one wage cheque to another. Even though our service users work, we have to refer them to food banks because they are not able to make ends meet during the month.” Participant#6

Some participants stated that even though some services do exist, they are inefficient and too bureaucratic to support over-indebted households. Examples of this include the lengthy process to obtain rent subsidy; the unrealistic repayment goals set by ARMS Ltd. – the water and electricity billing company; and the length of time needed to access childcare services. Moreover, practitioners agreed that the process of developing new much-needed services are too slow – thus leading to a status quo.

“I think that it might be due to the bureaucracy that we face, like when a person is private renting, we refer for rent subsidy as they need the support to sustain the rent. This takes a very lot of time to be worked out. So, from my experience, what I see is that a person is already starting to incur debts on a house that they have just moved into, as they start to qualify from the rent subsidy about after three months after they applied. So for the first three months they have to pay basically the full amount and they do not cope.

“With regards to water and electricity bills we try to help the service users to make a payment agreement. They calculate that they have to do an upfront payment before they start paying the monthly agreement depending on the amount of debt, irrelevant of the amount of income or money the service user has. I have a service user who was asked to pay beforehand €1,000 when they don't

even have means to afford their €30 monthly bill. These are unreasonable terms of payment.

“So, we always try to instil the idea of getting into employment when it is possible. We try to have other services that can help a family get to employment, for example utilizing childcare services or breakfast clubs or the club 3 to 16. But then again, those services also have their own bureaucracy.” Participant#10

It is interesting to note that some participants state that they feel there is a lack of awareness regarding money matters and the actual poverty situation in Malta. The lack of sensitivity about the nature and causes of poverty varies – from society's faulty perceptions to practitioners' own attitudes, to government recognition of the lacunae that exist in this area.

“As a society we still don't talk enough about money; we still think that debt and over-indebtedness are sort of taboos, and people don't like sharing information. There might be lack of awareness of how widespread the issue is. Our lawmakers don't want to address the issue with regards to creating the laws that protect individuals because it might actually expose how much the problem is widespread.” Participant#2

Another participant believes that the government is shielding its citizens from the actual state of the current economic situation, leading to a lack of awareness of actual financial issues.

“It's only because the government is always trying to protect us, like the capping of water and electricity bills. What am I saying? Am I saying they shouldn't be? I'm saying there should be means testing because otherwise we're never going to sort of realise what hit us until yes, the government says I cannot make it and that's it.” Participant#5

Participants that work within the NGO sector emphasised the dire need for debt relief support by paying overdue bills. “I have come across people having to sell some of their assets as they have no other means to get funds,

and still, they end up paying more. So we help them financially to cover some bills and even other foundations are helping them to get back at least to the road where they have no more payments to pay.” Participant#4

It is important to note these participants stated that no cash is given directly or handled by the service users. Rather, it is the organisation itself that pays the service users’ bills – thus wisely gathering documentation for a proper audit trail.

“After assessing successive situations, we get situations where if you don't pay the water and electricity bill, it's going to be terminated and the situation is that they can't pay. So, we pay Arms directly and then we move from there. Another example: should they come and ask for money to buy food, we don't give them money but we supply food.” Participant#2

On the other hand, participants from ACTS do not have the facility to provide such financial support as their organisation does not offer this resource to practitioners working with poor households.

“Basically, even how we operate, we cannot give financial assistance. We can link people to services, we can help them budget.” Participant#10

Training, Tools and Resources in relation to Debt Advisory services

Participants were asked whether they had accessed any training to be in a position to provide money and budgeting advice and support to over-indebted households. Interestingly, only the Social Mentors of ACTS attended specific training related to Financial Literacy.

“I went for a course at MCAST about financial literacy. It was a good course. I learned about having an emergency fund, which I had never explored with my clients before.”

The remaining participants stated that they never accessed specific training courses regarding financial matters, but only a one-off session.

“No, I think I never had specific training on financial matters, what I usually do is from my own experience.”  
Participant#4

When asked if they have access to any resources to help them support over-indebted households, the referral to other organisations for in-kind support was the most frequently mentioned.

“We refer to services that are outside of our agency. So, as I said, like Diaconia, the Food Bank, Malta Community Chest Fund, and others.” Participant#9

Practitioners mentioned other support resources which they helped service users to tap into. These included child-care facilities, rent subsidy schemes, and access to training and employment schemes.

“I would contact other entities who give specific training, for example, with jobs, education...” Participant#4

Having liaison persons within service providers was also mentioned as one of the measures that could help practitioners provide support to over-indebted households.

“What we found very useful is to have contacts with the banks, by having a particular person who helps us.”  
Participant#2

It is worth mentioning that social workers within ACTS see the social mentors as one of their resources when working on financial matters with families in need.

“I don't work directly with these clients since we do have the resource of the Community Social Mentor and we can refer to them to specifically work on financial literacy.”  
Participant#5

The participants were asked whether they use any specific tools to help over-indebted households. Participants from ACTS mentioned

three manuals designed by their FSWS agency to support interventions with vulnerable service users.

“Our agency prepared three manuals: one on employment, one on financial matters and the other on household management. These manuals were created by us professionals, so that any team that works in the community can use them and follow up.” Participant#3

On the other hand, the NGO sector participants stated that they do not have access to any specific tools.

“I don't think we use specific tools. Budgeting, and maybe with service users who are more computer savvy, we use Excel sheets to show them their income, their expenses and they can see it in one sheet.” Participant#2

#### **4.6 Suggested Preventive and Curative Measures**

Practitioners were asked to identify any preventive and curative measures that could be introduced at a national level to prevent household financial fragility and to enable overindebted persons to learn how to manage their financial difficulties.

Early intervention

Financial literacy, introduced at an early age, was the most frequently mentioned measure.

“I believe very much in prevention and early intervention. I think that people at a very young age need to be trained to understand more what costs less money, what choices they could make. So financial literacy should be introduced as early as possible in a subtle way not focusing on financial matters but good lifestyle decisions. I think prevention should start from a very early age incorporated with other activities in the primary schools and secondary schools. The idea of responsibility – responsible spending and sustainable lifestyle, that people should not try to live the beyond their means.” Participant#1

One of the participants highlighted that financial literacy courses should also be provided to couples who are starting to live together.

“It's very complex but we found that there is no training for couples who are starting to live together, no knowledge about keeping independent finances and sharing what will be commonly paid.” Participant#4

Apart from financial literacy at an early age, sexual education and contraception accessible to all were also suggested as preventive measures.

“Young women tend to get pregnant. Then, whenever we explore the idea of maybe some sort of contraception, they tell us that the Mirena (Intrauterine device) is quite expensive to buy. So maybe such contraceptive devices, could be given for free. If not for free, maybe at a subsidized rate. Whenever a client gets pregnant, basically, if there is no support from relatives, if the father is not around, we already know that the mother will be facing very challenging situations because a new baby affects many different aspects of the life of a family, especially if she doesn't have a lot of support.” Participant#10

The need for a proactive approach by corporate bodies providing services - such as the water and electricity billing company, the Housing Authority, and telephony companies - was also mentioned to prevent household indebtedness.

“It is also preventive when companies or agencies notify the service users about outstanding bills before they get too high.” Participant#1

### Improvement in Legislation

The lack of debt settlement systems that protect vulnerable individuals were also highlighted. The lack of insolvency procedures for individuals, reviewing the system of debt inheritance, capping on interests and fines, and introducing

standard rental rates were mentioned as possible curative measures that the government could introduce.

“There should be laws that protect families from debt-collection methods, like the agreements with utility companies should be tailor-made, not on a one-size fits all system, to ensure a sustainable living. This will give a reassurance to the company that they will collect their money but at the same time not cripple the family. There should also be the possibility for debt forgiveness for families and individuals, some insolvency procedures. (As things stand), when someone dies, his debts are not sort of absolved, but they have to be paid by his family. There should be a system that regularises how the accumulated debts are passed or not passed on to those that inherit.” Participant#2

#### Review of Minimum Wage and Social Welfare Benefits

Some participants also recommend an increase in the minimum wage rate. Unfortunately, from their experience in the field, the minimal difference between social welfare benefits and the minimum wage rate de-motivates low-skilled individuals from entering or re-entering the job market knowing that they have to abandon the safety-net of social welfare benefits. Moreover, the minimum wage has long been considered too low to meet the current cost-of-living.

“When you compare the minimum wage with the amount of relief (i.e. social welfare benefits) that families receive, it's ridiculous. So what we experience is many service users telling us that, for them, ‘it is not worth it to work for a minimum wage while if I don't work, I receive only €100 less’. Another thing which needs to be revised is the amount of the minimum wage, because if you compare the minimum wage to the expenses and the cost-of-living, it does not make sense, as basically you cannot live without buying the necessary basic needs.” Participant#10

#### Debt Advisory Services

Some participants believe there should be a more specialised

service to which they can refer over-indebted households; they feel that at times they are at their wits' end on how to support further their service users. Practitioners acknowledge that these households need support over an extended period of time. They also recommend that a monitoring system of vulnerable persons on social welfare benefits to gauge whether they are becoming over-indebted.

“So, if the government was to provide a service specifically tailormade for people who have overdue bills (incurred) over a long period of time, I think that would be something that will help even us, to plan for long term goals. Through Social Security, the government can really gauge, if they don't pay back. I think, should there be such a system, a holistic system for the island, I think it will really help.” Participant#8

Participants were asked whether someone who provides advisory sessions should have a social work background or be trained experts by experience, competent persons who have experienced poverty themselves and managed to move ahead in life. To this question, all participants agreed that such advice could be provided by both types of advisors, as long as they work well together, and as long as specific training has been provided.

“I think it is a very good idea, if not even better if you have an expert-by-experience because they would be people who sort of know what it means to get out of the problem and they would know more than me, but obviously they would need to be vetted and trained.” Participant#1

### Improve Access to Credit

One (1) participant mentioned that while working abroad, she had encountered the concept of community banking, which should be adopted locally to help support over-indebted households.

“I think Community Banking could help. It is something that I learned about in Ireland. There was the idea of saving for a rainy day, where one would go and they help you save money so that when they need money for something they know they have the money there. There

were community banks but there were also these advisors who would give advice on interests and other budgetary service.” Participant#1

### Service with a Humanistic Approach

The characteristics of persons selected and trained to provide money advice and budgeting services as well as the strategies they use were stressed by most of the interviewed practitioners. They consider the attributes of the persons operating such services a fundamental element that needs to be deeply considered from the outset. Practitioners stressed the need for a more humanistic approach to working with vulnerable persons. Support workers, they state, need to steer away from computer-based systems in the name of improving efficiency.

“We are ending in a machine-based approach when this should be more humane. I mean, that's one of the reasons even customer care services are something difficult to reach. Even for us social workers to get hold of a professional, we would have to send various emails. We don't have a contact base even for us, let alone vulnerable people.” Participant#4

### Financial Literacy

Participants stated that practical ways to teach financial literacy needed to be developed so that people become more aware of and adept at making wise decisions when it comes to living within one's means. Moving away from spending money which one does not have needs a commitment – a readiness to change one's mindset and decision-making. Participants were asked to rate from 1 to 5, where 1 represented a low capability and 5 a high capability in financial literacy and management of their vulnerable service users. Five (5) participants could not give a rating as they see that a lack of financial literacy is linked to low basic skills. The remaining five (5) have an average rating of 3. Practitioners' responses present a mix of how their service users end up over-indebted. The reality they present indicates there are those service users who become over-indebted because they lack awareness of, and skills in, prioritising needs over wants, whereas others who do their utmost to make ends meet but, due to their limited income, cannot make it.

“We do have some other clients who have excellent, sterling budgeting skills. And still the little money they have, it's like an elastic band. They pull it, they put it, they pull it but it is never enough.” Participant#8

Participants were also asked whether financial literacy and debt advisory services need to be provided only to the individual seeking support or should be provided to all the person's household members. All participants agreed that in an ideal situation, this support should be provided to all the household, especially the adult members, since the action of one household member could affect the other members. They believe that it is essential to target the whole family to break the cycle of dependency, bad habits or poor money management. At the same time, most practitioners were sceptical about how viable such an approach could be. Most participants stated that there might be resistance from other family members, or at times the person seeking support would not want the family to become aware that they are seeking help.

“I think it makes a lot of sense to include all the household because most of the time, even though over-indebtedness might have been caused by the actions of one individual, however, the effects are usually felt by everyone.” Participant#2

#### **4.8 Conclusion**

Throughout this chapter, qualitative research findings addressing the research objectives and related questions have been presented. The following chapter - Chapter 5 - presents a discussion of these findings.

## **CHAPTER 5 - Analysis**

## **5.1 Introduction**

This chapter presents an analysis of the research findings. Research shows that debt advice is a primary policy tool for addressing over-indebtedness primarily to support low-income households (Stamp, 2011). ECDN concurs and states that 'debt advice' has become a widely used policy tool for dealing with over-indebtedness in many European countries (European Consumer Debt Network, 2007). Debt advice is aligned with the European Commission's (2010) strategy to lift people out of poverty. Regrettably, as the Eurofound (2020) report highlighted about Malta, no actions were being taken by the state to address over-indebtedness via debt advisory practices.

## **5.2 Over-Indebtedness**

The European Commission does not provide a specific definition of over-indebtedness (European Commission, 2008). Instead, it refers to various definitions and approaches used by national authorities to measure and identify levels of household over-indebtedness. Several national authorities have developed methods to measure and determine levels of household over-indebtedness in their respective countries. When it comes to indicators and thresholds, methods to measure over-indebtedness vary significantly. Evidently, norms need to be standardised to make datasets from each country comparable, thus giving a more clear picture of the number of people at risk of poverty.

Assessing whether practitioners of Community-based Family Support Service Agencies have a common understanding of what is meant by household over-indebtedness was one of the research's goals. The results indicate that less than half of the respondents could provide a common definition. Participants broadly described household over-indebtedness as the recurrent incapability to repay credits when they are due. This signals the need for a specific definition to be adopted at European level to enable countries to effectively compare datasets comprising risk factors of people falling below the poverty line. Practitioners could then be trained to ably identify red flags and step-up support measures.

### 5.2.1 Household as the focus to measuring over-indebtedness

Given the complexities involved in the dynamics of a household, where the actions of one member affect the rest, the interviewed practitioners agreed that it is the household that should be the 'unit' for measuring over-indebtedness. In their paper on consumer protection and household indebtedness, the Association for Consumer Rights Malta (2019) also recommended the adoption of this measurement.

The target category of vulnerable and indebted households is thought to be financially precarious, already poor or at risk of falling into poverty as a result of things like unemployment, struggling single parents, excessive reliance on government payments, and difficulties in making ends meet. The findings of this study expand on prior studies supported by statistics from the 2020 EU-SILC (National Statistics Office, 2021a). Since the EU-SILC addresses the financial difficulties of households, a request for further clarification was submitted to the Malta National Statistics Office (NSO) to specify whether individuals in shelters for homeless persons and those in prisons or other institutions were included in the survey. The request remained unanswered until the publication of this research. The same goes for another request submitted to the same office on whether any past surveys assess these individuals' poverty risk. If one were to assume that these categories of individuals have not been included in the EU-SILC statistics, then the 19.9% derived from the latest survey showing the percentage of the at-risk-of-poverty population and materially and socially deprived (National Statistics Office, 2021a) could increase substantially. A study on homelessness, poverty and social exclusion mentioned that individuals in shelters, prisons or institutions are at significant risk of falling into this bracket (Shinn, 2010).

## 5.3 Causes of Household Over-indebtedness

The study demonstrates that the needs of indebted families vary depending on their situation. Each one presents different complexities and hence different configurations of risk factors. Additionally, these households often face difficulty accessing credit and financial advice and have limited access to suitable debt advice and support services. Moreover, the in-depth interviews reflected common complexities that fall within the risk factors identified by Boto Ferreira (2021).

## Financial crises

Being a small island, Malta is highly dependent on imports, including energy, goods and services. Such dependency impacts directly the prices of basic necessities, including essential food items and medication. In 2022, Malta registered an average inflation rate of 6.15% - a considerable increase from the 1.50% reported in December of the previous year (National Statistics Office, 2023a). Moreover, the economic forecast for Malta for 2023 shows that inflation is set to remain elevated due to continuing pressures on food, transport, and prices of imported goods (European Commission, 2023). Unfortunately, the minimum wage and social benefits have not proportionately increased in line with the cost-of-living increase (Galea, 2023). When one considers that all participants attributed the difficulties to make ends meet to low-paying jobs, inadequate minimum wage and low social benefits, one acknowledges the urgent need for action to prevent households from further sliding into over-indebtedness. A poverty expert from the United Nations expressed the concern that lives will be lost unless governments increase benefits and wages in line with inflation (De Schutter, 2022). In line with the National Living Income study (Gravina, et al., 2022), Malta is being urged to ensure a living wage - and not just a minimum wage - to ensure a decent standard of living.

Furthermore, the research highlights the lack of affordable housing as leading to over-indebtedness. Those who need to rent or buy property face impossible prices unless they share the costs with other people who may share the respective dwelling with them. Of course, this is not an option for many people with families of their own (Briguglio, 2022).

### Impulsivity: lack of self-control

In financial decision-making, impulsive behaviour can lead to overspending, taking on debt without considering the ability to repay, and making other decisions that can result in financial crises. On the other hand, the inability to crucially weigh wants against needs and obligations leads to an inability to prioritise. When individuals fail to prioritise their financial needs and obligations, they may overspend on non-essential items, neglect important bills or payments, and fail to save for emergencies.

Research shows that behavioural factors are determinants of the demand for debt (Anderloni & Vandone, 2010). These authors also state that impulsivity in consumption may induce individuals to make 'non-rational' financial choices that would contribute to an unsustainable debt level compared to their income. Combined, impulsivity and lack of prioritisation can create a cycle of debt that is difficult to break.

Impulsive spending and the accumulation of debt often give people the illusion of being in control. Instant gratification can be highly addictive (LaRose, 2001). A study in Portugal suggests that interventions with people having limited internal resources for self-control should be focused teaching them on techniques tailored to help curb such behaviours by focusing on developing self-regulation skills (Vanneschi & Pinto, 2021). As participants highlight, when people feel powerless in certain areas of their life, they may seek ways to gain control and happiness in other areas, even if it's only temporary. So over-indebted individuals may incur expenses to get a sense of instant gratification.

Research shows that outstanding debts are strongly associated with mental disorders (Hämmig & Herzig, 2022). Research participants have emphasised that lack of self-control could result from a mental health problem. Addressing household over-indebtedness arising from mental ill health conditions requires a multi-faceted approach that addresses the root causes of the problem. In addition, impulsivity and lack of prioritisation can be exacerbated by a lack of financial literacy and education.

### Financial Illiteracy

According to the OECD/INFE 2020 international survey on adult financial literacy, about half of the EU adult population does not have a sufficiently good understanding of basic financial concepts (Organisation for Economic Cooperation & Development, 2020b). This fact was corroborated by the research participants' responses which emphasised how the majority of over-indebted persons accessing the services of Community-based Family Support Service Agencies do not have a robust understanding of basic financial concepts, such as budgeting, savings, and investing. Without an understanding of basic financial concepts and tools, individuals are apt to struggle to make informed financial decisions and

adequately manage their finances. In turn, this leads to an inability to prioritise spending and to poor money management. Individuals should improve their financial literacy and develop better money management habits to avoid these problems. These recommendations match those in a study that stressed the importance of improving financial literacy and reducing the risks of becoming over-indebted (Gutiérrez-Nieto, et al., 2016).

The OECD/INFE 2020 international survey also showed that respondents who used digital devices or services have consistently and significantly higher financial literacy, knowledge, positive behaviour and well-being scores (Organisation for Economic Cooperation & Development, 2020b). As stated by some participants, technological advancement can be overwhelming for some people, especially those unfamiliar with the latest gadgets and software which cannot adapt to fast-changing trends. For these, the digital divide is widening. As a result, one needs to rethink a course of action to tackle such issues as soon as possible.

There is evidence to suggest that certain health-related conditions, such as Attention-Deficit / Hyperactivity Disorder (ADHD), can contribute to financial illiteracy (Chadd, n.d.). It is important to note that the research participants noted that while certain health-related conditions can contribute to financial illiteracy, they are not the only factors. A lack of access to financial education, cultural and societal factors, and individual financial experiences and upbringing can also play a role.

### Intuitive Heuristics and Reasoning Bias

Intuitive heuristics are mental shortcuts or rules of thumb that people use to make decisions quickly and efficiently, often without consciously thinking about them. These heuristics are based on experience, common sense, and intuition and can be helpful in many situations. However, they can also lead to biases and errors in judgment. A study by Anderloni & Vandone (2010) showed how individuals tend, on the one hand, to overestimate their capacity to manage domestic financial resources and, on the other hand, to underestimate the possibility of being affected by adverse events. As a result, these individuals systematically underestimate the risk of being unable to meet their financial commitments. The research

examines how people make decisions about money and how cognitive biases and heuristics can influence them. Intuitive heuristics can be helpful in many situations, especially when people do not have the time or resources to analyse all available information carefully. However, awareness of the potential biases and errors resulting from relying too heavily on these mental shortcuts is essential. By being conscious of these biases and actively working to counteract them, people can make better decisions and avoid common errors in judgment.

Most participants encounter people who prioritise immediate rewards over long-term goals, which can lead to impulsive spending. They also mentioned that when people rely on credit and loans to support their impulsive spending habits, they can quickly find themselves drowning in debt. This can lead to financial instability, stress, and a lack of control over one's life.

#### Depleting Effects of Poverty

Most participants referred to the intergenerational nature of a household's vulnerability as the idea that poverty and other forms of social disadvantage can be passed down from generation to generation. This occurs through a cycle of intergenerational social attitudes, mindsets, and behaviours that can work against the motivation for change and self-empowerment. These findings align with studies that show that families living in poverty may face various challenges, such as limited access to education and training, healthcare, job opportunities, as well as social and economic exclusion (Shucksmith, et al., 2023). These findings are in line with evidence showing a link between relative poverty as a child and low educational attainment and low income as an adult (Brea-Martinez, et al., 2023). These challenges contribute to a sense of hopelessness and despair which can be transmitted from parents to their children. It constitutes a cycle of inter-generational vulnerability.

Families living in poverty may also develop specific behaviours and habits that work against self-empowerment. These manifest themselves in an over-reliance on government welfare benefits and other forms of aid as opposed to self-determination to seek to improve one's situation through education and training and employment. As stated by Spears (2011), a dependency mindset

reinforces the poverty cycle. Research participants provided narratives to prove this point.

According to interviewed practitioners, over the last couple of months they were experiencing a new reality within their community-based Family Support Service Agencies - that of the Working Poor. Those who accessed these services had to overcome shame and embarrassment about their situation. Stigma coupled with self-stigma triggered by people's harsh judgementalism and intolerance of others facing financial difficulties – viewed as 'failures' - prevented service users from seeking support immediately to address their financial problems before their situation became dire (StepChange Debt Charity, 2013). People who experience repeated failures or setbacks are apt to feel helpless and powerless. This could lead to a sense of hopelessness and a lack of motivation to consider lifestyle change, contributing to impulsive behaviour. Another vicious cycle.

#### Adverse Life Events

Adverse life events can have a devastating impact on a household's financial situation. Events such as job loss, separation, illness, and death of a family member can all lead to a significant decrease in income and an increase in expenses. Debts mount and quickly lead to over-indebtedness, especially following unplanned changes in life circumstances, particularly such critical life events as unemployment, severe illness or divorce (Hämmig & Herzig, 2022). As demonstrated in Chapter 4, the participants identified myriad situations which could lead a household to become overindebted.

LOW BASIC SKILLS: The results show that low basic skills such as illiteracy and lack of numeracy skills can lead to poor financial decision-making and over-indebtedness as households struggle to understand their financial commitments and how to manage them effectively. There is research to confirm this (Financial Conduct Authority, 2021). Furthermore, individuals with low literacy and numeracy are more likely to struggle to understand the terms and conditions and risks associated with their credit. As a result, they are more likely to take on debts that they cannot afford to pay back, leading to household over-indebtedness.

MENTAL ILL-HEALTH: Research shows that persons with a low 'socio-economic status' (SES) have been found to have an increased risk of poor mental health (Amone-P'Olak, et al., 2009). Certain mental health conditions can affect a person's cognitive abilities, decision-making, and problem-solving skills. As a result, individuals with these conditions may struggle to sustain employment and manage their finances effectively (Richardson, et al., 2013). As identified by most participants, the mental ill-health of one family member can have financial repercussions on the whole family. Cost burdens include increased medical expenses, lost income, caregiving expenses, legal expenses, and decreased productivity. These financial challenges can cause significant stress and strain on the family which, in turn, exacerbates the mental health condition of the affected family member and create a cycle of economic and mental health issues (Ratcliffe, et al., 2015).

SINGLE MOTHERS LACKING A SUPPORT NETWORK: As emphasised by the research participants, financial issues can be a significant challenge for single mothers without a support network, primarily when the current support services do not cater enough for single parents' needs. Having no support network or financial advice can lead to households being unable to make informed financial decisions, leading to over-indebtedness. On the other hand, having a support network helps to prevent and mitigate the effects of over-indebtedness. A support network can provide the necessary guidance, assistance and resources to help individuals and households manage their debt and access resources to help them out of a difficult financial situation. Single-parent families may be more likely to become over-indebted without support networks since they lack the necessary guidance, assistance and resources to manage their life and avoid debt (Disney, et al., 2008).

LIMITED ACCESS TO CREDIT: Access to credit is essential for personal financial stability as it enables individuals and households to invest in assets, make purchases, and manage cash flows. However, the lack of access to credit can lead to financial difficulties, including household over-indebtedness, especially so for low-income households. As described by the research participants, families with limited access to credit may borrow from informal lenders with higher interest rates and fees. This can lead to a cycle of debt as the household struggles to repay the loan and must borrow again to meet its financial obligations. As a result, the family may become trapped in a debt cycle, making it difficult

to get out of debt. A study in Zimbabwe showed that providing micro-credit to the poor was essential for poverty reduction (Chikwira, et al., 2022). A solution to this requirement is to offer social banking. One may emulate the Dutch phenomena of social banks, which are "regular" banks that always prioritize serving the public interest over commercial banks' need for profit. Social banks in the Netherlands provide tens of thousands of so-called restructuring credits annually to homes with excessive debt to help debtors meet their obligations (European Consumer Debt Network, 2020).

ADDICTIONS: Addictions can lead to various financial problems, including over-indebtedness. People with addiction issues may be more likely to take out loans, make impulsive purchases, or not budget adequately. They may also be more likely to engage in risky behaviour, such as gambling, which can lead to significant debt. Valins (2004) noted that factors such as gambling, alcoholism and drug addiction could also be considered causes of over-indebtedness, although they are barely considered in the mainstream debt literature.

DIFFICULT FAMILY CIRCUMSTANCES: As described by some research participants, complex family situations can significantly contribute to household over-indebtedness. This is due to increased financial pressures and instability arising from such conditions. A study by Barnett (2008) highlights the difficulties faced by families with complex family situations, such as single-parent households, blended families, and households with multiple generations living together. The report notes that such families often struggle to access the resources they need due to social stigma, low income, marital conflicts, lack of parenting skills and access to available services. As a result, they are more likely to experience financial hardship and over-indebtedness. Difficult family situations may lead to lower incomes due to the reduced earning capacity of family members and the need to support multiple family members. Over-indebtedness follows as families cannot make ends meet and fail to repay their debts.

CRISES: As mentioned by the research participants, some households live from pay-cheque to pay-cheque, which can be challenging and stressful, especially if unexpected expenses crop up. When a household relies solely on its monthly income to cover

living expenses and has little to no savings to fall back on, any unforeseen expense, such as a medical emergency or car breakdown, can quickly derail their finances. Without savings or a financial safety net, one can be forced to take on debt, use credit cards or borrow money from friends or family. They may also turn to loan sharks to cover the expense. A debt cycle is created – stretching a household to breaking point.

### One-Size fits all Measures and the Lack of Preventative Measures

The British Financial Conduct Authority (FCA) defines a vulnerable consumer as someone who, due to their circumstances, is especially susceptible to harm, mainly when a firm does not act with appropriate levels of care (Financial Conduct Authority, 2020). The results show that the one-size-fits-all measures adopted by some of the local key service providers indicate that they do not understand the experiences of clients with vulnerability characteristics. This lack of understanding could derive from a lack of knowledge or the belief that the system cannot or should not have to feel constrained to cope with the complexities of tailor-made solutions. Whether a company understands the sector or not, the presence of a social worker can convince the company to adopt a different approach for fair treatment of the household. The research highlighted the need for such firms to commit to proper treatment of vulnerable households in their culture.

## **5.4 Support Services**

Even though many support services were mentioned during the interviews, the responses clearly showed that the absence of debt advisory services is creating a void in the continuum of holistic support services provision to over-indebted households. Such a gap does not align with Malta's National Strategic Policy for Poverty Reduction and Social Inclusion 2014-2024, which states that holistic services should be provided to meet the needs of all vulnerable groups (Ministry for the Family and Social Solidarity, 2015). This also confirms the Eurofound report (2020) that there is a lack of Debt Advisory services in Malta. One can only hope that these services will be included in the Social Vision for Malta 2035 - a plan that aims to address the diverse and shifting demands of Maltese society. (Ministry for Social Policy and Children's Rights, 2022).

Other specific flaws in the current public support systems for those at risk of poverty or already poor were mentioned during the interviews. The data gathered revealed various causes that lead to household over-indebtedness in Malta. However, most support services usually treat causes independently from each other rather than looking at the broad picture holistically. Apart from this, one of the main highlighted flaws in these support services is that they focus on short-term solutions rather than addressing the root causes of over-indebtedness and planning support strategically. Additionally, current services may not consider individual households' unique needs and circumstances. For example, a one-size-fits-all approach is being used by ARMS Ltd. when it comes to debt repayment plans, which may not be suitable for households with different income levels, family situations, or debt types.

The data also shows that over-indebted individuals in Malta may face difficulties understanding and accessing public social welfare services. Some potential challenges they may encounter were identified:

Lack of awareness: Many over-indebted people may not have heard about certain social welfare services that might fit their needs. This can be due to a lack of information or education about the services, or simply because they are overwhelmed by their financial situation and not thinking about other resources that may be available. It may also be due to the fact that certain persons may not follow radio or TV programmes that feature regular public education slots on social services.

Stigma: There may be a stigma attached to accessing social welfare services, making it difficult for over-indebted individuals to seek help. They may feel ashamed or embarrassed about their financial situation and worry about what others will think and say if they ask for assistance.

The system's complexity: Accessing social welfare services in Malta can be complex, confusing and sometimes too bureaucratic. Over-indebted individuals may not understand the eligibility requirements or the application process, making accessing the support they need challenging.

Language barriers: For individuals who are not fluent in Maltese or English, language barriers make it difficult to understand crucial information that enables them to access social welfare services. This is a significant obstacle for over-indebted individuals who may already be struggling to communicate about their dire financial situation.

Debt Advisory Services – the solution to combat over-indebtedness

Over-indebtedness causes significant stress, anxiety, insecurity and financial strain on households, negatively impacting their health and mental health, relationships, and overall quality of life. Effective support services are essential to help over-indebted households to regain their financial stability and improve their overall well-being. By providing financial guidance and education, debt restructuring and negotiation, counselling and emotional support, referrals to other services, and advocacy within the context of policy reform, support services can help households to overcome their debt problems and build a more secure financial future.

Research participants all mentioned that, in order to address over-indebtedness effectively, support services must address the root causes of debt, provide education and resources to improve financial literacy and financial decision-making, consider the unique needs of individual households, and ensure accessibility for all. Their response aligns with the key findings of Reynders (2021), who stated that support solutions need to be created according to the specific needs of the debtor.

According to the Eurofound (2020) report, over-indebted households can benefit significantly from debt advisory services since these provide a package of education, support, and guidance to help households regain control of their finances and work towards a more secure financial future. A study in Germany showed that a debt advice agency should have at least two (2) full-time debt advisors for every 50,000 inhabitants (European Consumer Debt Network, 2016/17). Given that the Maltese population registered during 2021 was over 510,000 (National Statistics Office, 2023b), the German study indicates that in Malta, there is a need for a minimum of 10 (ten) full-time debt advisors.

ECDN also recommends that Debt Advisors be trained. In fact ECDN has been organising webinars to spread awareness of the type of training debt advisors receive across member states and shall be launching an Academy to train debt advisors in the coming months (European Consumer Debt Network, 2023a). It is also crucial to emphasize that a debt advisor should be knowledgeable on how to assist families that are having a hard time paying off their debt, rather than just offering financial competence skills. This corresponds with one of the research practitioners' frequently made valid comment that current training available to them in Malta on how to tackle cases of over-indebted households is inadequate. They further state that training opportunities in this field are unfortunately lacking. The experience in other countries shows that such training could be provided by organisations working in the financial sector. An example is the corporate social responsibility practice of the Banque de France through which over 700 sessions annually are provided to people working in the social sector to improve the quality of support available for those in debt (Banque de France, 2018).

Debt advisory services can play an essential role in helping over-indebted households manage their debt obligations effectively. Given the fact that debt is a source of stress and anxiety impacting an individual's mental and emotional well-being, it is essential for debt advisory services to adopt a humanistic and compassionate approach to ensure that clients receive the best possible support and guidance. A humanistic approach to debt advisory services means focusing on the individual rather than just their financial situation. Most of the interviewed participants stressed this point. Adopting a humanistic approach in debt advisory services is essential for providing clients with the support, guidance, and understanding they need to manage their debt effectively and achieve financial stability and emotional and psychological well-being.

## **5.5 Preventive and Curative Measures**

Participants stated that any prospective Debt Advisory Services should be person-centred. This corresponds to the result of a study by Stamp (2011) that suggests that having 'person-centred' debt advice plays a major role in alleviating personal over-indebtedness. Research shows that debt advice involves advisers

working with people, on a one-to-one basis, to undertake several actions, namely to: identify the causes and extent of the debt problem, maximising income, minimising expenditure, prioritising debts, exercising consumer rights and making realistic and sustainable arrangements with creditors (Hinton & Berthoud, 1988; Mannion, 1992; Kempson, 1995; European Commission, 2008). Most of the research participants moreover agreed that all household members should be involved in accessing debt advisory services since the debt problems of one individual will affect all the other household members.

### Early Intervention

Financial education aimed at the general public can help individuals and families understand the importance of preventing debt from accruing, learning about debt management and staying aware of the potential risks of both not paying bills promptly and of excessive borrowing. Early detection of households needing debt advice is critical to prevent financial difficulties from escalating. Incorporating financial education into the educational curriculum was frequently mentioned by all research participants as an essential preventative measure against future over-indebtedness. Giving children the information and competencies, they need to manage their money wisely can assist to encourage financial stability and lessen economic inequality.

Additionally, the need for proactive measures by corporate companies has been recommended by practitioners. This would involve an early identification of families that are at risk of falling into debt. Early detection such as those imposed by French legislation (Ehret, 2021) can help identify households with missed payments and other red flags, thus ensuring prompt action before the debt amount accumulates.

### Improvement in Legislation

Debt settlement systems are essential since they enable individuals and businesses to manage and repay their debts. Debt settlement legislation should include consumer protection measures to prevent and tackle abusive or unfair practices by debt collectors or creditors. Any prospective debt settlement system legislation in Malta should clearly define the role and responsibilities of any private financial and debt advisor, including any requirements for

licensing or registration. The UK has adopted a licensing system after concerns about the practices adopted by such companies, which led to many of them having to be de-licensed or cease trading (Office of Fair Trading, 2011). It should also oblige private debt settlement companies to disclose upfront all fees associated with their services. This can help consumers to make informed decisions about whether or not to use these services. Additionally, there should be transparency around the outcomes of debt settlement agreements so that consumers can understand the potential benefits and risks. This protects consumers from fraudulent practices.

Research participants moreover expressed the urgent need for the introduction of personal insolvency legislation. Personal insolvency is when an individual cannot pay their debts when they become due. Such legislation provides a legal framework for individuals struggling with debt to seek relief and protection from their creditors. Without this framework, creditors could take legal action against debtors without any restrictions, potentially leading to financial ruin for the individual. Participants mentioned the example of the Garnishee Orders system imposed by telephony companies. Personal insolvency legislation also provides a fair and equitable process for the distribution of assets and payments to creditors. This ensures that, on the one hand, creditors are treated equally while on the other hand they do not unfairly target individual debtors.

Unfortunately, individuals in Malta cannot access such systems as legislation that governs personal insolvency measures is non-existent. Such legislation will provide a safety net for individuals unable to repay their debts. Without such a safety net, individuals default on their obligations, causing a chain reaction of financial instability that could affect the wider economy.

#### Review of Minimum Wage and Social Welfare Benefit

In line with the findings of the National Living Income study (Gravina, et al., 2022), research participants agree that the current national minimum wage range and social welfare benefits are inadequate for a household to afford a decent standard of living. Considering the recent increase in the cost of living, the participants suggested a revision of it and the introduction of a

national minimum living wage that considers the cost of living and the worker's basic needs, such as food, housing, and healthcare. A minimum-living salary is crucial because it helps ensure workers can afford to live decently and meet their basic needs, positively impacting their health, well-being, and productivity. It also helps reduce poverty and income inequality and promotes economic stability.

## **Conclusion**

This chapter highlighted the potential benefits of Debt Advisory Services in addressing the social and economic issue of over-indebtedness. The analysis amply reveals that many households struggle to manage their debt and that the current inflation is exacerbating the problem. By introducing proven measures still unavailable in Malta, over-indebted households will have the opportunity to learn to manage their debts effectively. In turn, financial stability and well-being can become a reality.

## **Chapter 6 - Conclusions and Recommendations**

This research provides insight into the experiences of a small percentage of social care practitioners working in Community-based Family Support Service Agencies. They have direct experience of working closely with over-indebted households. Practitioners' experiences cover their day-to-day engagements and support interventions and the setbacks they face due to the lack of debt advisory services for their service users. Practitioners agree about the importance of having recourse to debt advisory services so that households at risk of sliding into poverty and social exclusion can be referred as and when needed. Practitioners recognise that much more can be done to improve well-being outcomes for vulnerable households.

Household over-indebtedness is a growing concern in many countries worldwide, affecting millions of families and individuals. Unfortunately, many households are struggling to manage their debt and find themselves in financial difficulty, with severe consequences such as bankruptcy, foreclosure, mental ill health and homelessness. In response to this growing issue, Debt Advisory Services have emerged as an effective measure to support and guide those struggling with debt. Such services enable individuals and families to manage their debt more effectively, to negotiate with creditors, and to achieve financial and mental stability. Regrettably, such services are unavailable in Malta, resulting in many households struggling with over-indebtedness and ultimately floundering.

The generalisability of the results is limited because no similar studies on debt advisory services locally have been conducted. Therefore, comparability of data was not possible. Moreover, the lack of response by NSO to the researcher's request for statistical information as to whether individuals living in shelters, prisons or other institutions were included in the 2020 EU-SILC statistics rendered statistical data-comparison inaccurate. The timeframe and the word limit were two other limiting factors, as the researcher could not delve deeper into more aspects than presented here.

The limitations mentioned above re-enforce the need for further research especially about the perspective of over-indebted households themselves. Root causes of their over-indebted status can then be identified with them, and comparisons made with

practitioners' perspectives. Another research exercise being recommended is one that focuses on how family support practitioners can work with whole households, rather than just individuals, to address their over-indebtedness.

Based on the research findings, analysis, and interpretation, and considering its aims and objectives, it was established that the causes that lead to household over-indebtedness are a combination of factors which are complex to address. Still, the practitioners working in Community-based Family Support Service Agencies stress the importance of further delving into these complexities. They agree they need debt advisory services for households to access financial education and to seek advice to help them manage their finances effectively and avoid over-indebtedness. Abela and Tabone (2008) indicated the need for prevention programmes and early interventions addressing economic hardships, unemployment, low education, and related ill health as critical to combating poverty and social exclusion. Their 2008 recommendation is still valid in 2023. The literature review clarifies that there is still a long way to go before afflicted persons in Europe can access debt counselling. This applies even more strongly to Malta since no national legal and social support structures in this area are yet in place.

The study shows that short-term and long-term strategies are needed to tackle the issue of household over-indebtedness. The most important recommendations are listed below.

- Advocate in favour of a European Union-wide definition of household over-indebtedness in order to establish parameters that would make it easier to compare comparable datasets among member states.
- All local key corporate service providers need to revise the methods they use to recoup over-due bills; these need to collectively commit to take immediate action by contacting households with a second unpaid bill to avoid the further accumulation of debts exacerbated by hefty fines.
- Establish standards for any future private-fee-paying debt management companies to acquire a license to operate such a service.

- Changing the national minimum wage to a national minimum living-wage to further reduce poverty; such a measure ensures workers can afford to meet their basic needs. This, in turn, will reduce the strain on government assistance programmes, welfare benefits and poverty reduction services by charities.
- Introduce legislation concerning personal insolvency and debt settlement procedures to ensure a safety net for individuals unable to repay their debts.
- Develop and deliver training for Debt Advisors in accordance with the framework established by the European Consumer Debt Network. There must be a clear distinction between this training and financial literacy instruction.
- Establish Debt Advisory Services to provide families with assistance and advice on how to manage and reduce their debt.
- Sustain the services provided by Community-based Family Support Service Agencies to continue providing families with emotional, psychological and socio-educational support to help them cope with the stress and insecurity associated with debt and to more ably help them plan their finances for the longer-term. Assist these agencies to adopt a household approach as all members in a family unit need to be on board if equitable solutions for over-indebtedness are to be found and implemented.
- Improve financial advice services so that families at risk of over-indebtedness become better equipped with the information and tools to make informed financial decisions.
- Establish ways and means to improve access to credit through reputable sources, such as social banks, thus steering away from loan sharks and other predatory lenders.
- Introduce in the national curriculum of the educational system financial literacy within the syllabus throughout all academic years. From an early age and beyond, students will learn to avoid making costly mistakes in the future and make them aware of the importance of financial independence. Students grounded in financial literacy will influence their household's practices – thus nurturing from the ground up a household-focused support strategy.

Undoubtedly, it is imperative and urgent that the legal and social policy framework be revised to improve the situation of over-indebted vulnerable households. Stamp (2011) argues that for debt counselling to be useful, there must be complementary institutional and legal answers to debt issues. As a result, government must act to amend the current laws, particularly those that pertain to personal insolvency.

One needs to evaluate such macroeconomic factors as changes in the labour market, low wages, high unemployment, and low levels of social protection. Consideration of individual characteristics, such as inadequate financial literacy and skills, limited access to financial services, and poor budgeting and decision-making is also necessary. In this regard, the researcher is appreciative of the swift action taken by the Ministry for Social Policy and Children's Rights (MSPC) when the negative findings of the Eurofound (2020) study was brought to its attention. Following advocacy undertaken by an NGO, the Ministry took steps by joining the Provision of a European Platform for the Prevention of over-Indebtedness (PEPPI) coordinated by the ECDN and invited various Maltese stakeholders to participate in multiple inter-agency meetings and webinars on how Debt Advisory Services operate (European Consumer Debt Network, 2023b). Having been involved in the advocacy, the researcher had the opportunity to attend the first Convincing National Network Meeting for Malta (European Consumer Debt Network, 2023c) and the subsequent series of webinars on the Legal Framework for Debt Advice (European Consumer Debt Network, 2023d) and the Professional Qualification of Debt Counsellor (European Consumer Debt Network, 2023e). The MSPC also hosted the ECDN General Assembly and European Conference (European Consumer Debt Network, 2023a), for which the researcher was invited to attend. During this event, the state, progress and experiences of developing debt advice services were discussed.

One cannot but stress the importance of enabling over-indebted persons to access debt advice as soon as initial signs of financial difficulties are red-flagged by someone or by an organisation. Acting in a swift and timely manner to offer support to an over-indebted person to accept the fact of their situation and to accept support is crucial in preventing more hardship and slipping into poverty. Helping over-indebted persons prioritise their needs and wants and deciding on actions that need to be taken to address

their debt is an important goal of any debt advisory service. Debt advisors facilitate negotiations between over-indebted individuals and their creditors (European Commission, 2018). Regulated debt advisory services ensure that debtors are treated respectfully and do not resort to devious and unethical credit management. The report on good practices also highlights that the Covid-19 pandemic has amplified the need for high-quality, independent debt advice services in all EU member states. Debt advisors could set covenants with creditors and ensure that debtors have a minimum living wage after the repayment terms are set (European Commission, 2021).

By addressing the root causes of the problem, governments can promote financial stability and well-being for their citizens. Debt Advisory Services can play a crucial role in helping these households by providing them with tailored advice, support and mediated negotiating with creditors. The results suggest a significant demand for these services, particularly among low-income households and those with multiple debts. However, it is also essential to recognise the challenges associated with providing Debt Advisory services, including funding constraints and limited outreach to specific groups of debtors. Therefore, policymakers and other stakeholders must work to address these challenges and ensure that Debt Advisory services can be equitably accessed by all those who need them.

### Personal reflection

In conclusion, this research has been a profoundly personal and enlightening journey into understanding the complex nature of over-indebtedness and the urgent need for public debt advisory services to address household over-indebtedness. For practitioners too, the research dialogue stimulated reflections which crystallised into recommendations. As the researcher, I have been able to draw from my own experiences and those of the practitioners I have interviewed to gain many insights into the challenges faced by individuals and families struggling with debt.

Through this research, I have come to appreciate the critical role of Community-based Family Support Service Agencies even more. They provide invaluable support and guidance to those experiencing financial hardship. I have also learned that public

debt advisory services can play an essential role in helping individuals and families manage their debt and avoid falling into over-indebtedness. As I reflect on the experiences shared by the practitioners I have interviewed, I am struck by their dedication and commitment to helping those in need. I have also come to appreciate their challenges in providing practical support and guidance to individuals and families experiencing financial hardship.

Overall, this research has been a meaningful and rewarding experience for me. It has reinforced my belief in the importance of public debt advisory services and the critical role of Community-based Family Support Service Agencies in addressing household over-indebtedness. I hope that this study will help readers better grasp how important these services are and join forces to usher in measures to effectively tackle this urgent problem. I augur that this research will stimulate more research to be undertaken in the same field.

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## Appendix A

### Gross debt-to-oncome rate of households

Gross debt-to-income ratio of households (online data code: TEC00104)  
Source of data: Eurostat

Settings: Default presentation

Table | Line | Bar | Map

	TIME	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
GEO												
Estonia		82.07	77.64	72.01	70.00	69.35	69.59	69.00	67.68	67.62	70.26	:
Ireland		203.72	190.29	187.21	173.52	156.54	143.01	130.78	126.11	118.37	107.03	:
Greece		93.56	98.63	100.87	96.52	93.79	91.72	88.79	89.98 (p)	84.24 (p)	83.26 (p)	:
Spain		126.78	128.09	121.45	115.83	107.96	103.00	98.77	95.00	90.95	94.81	:
France		84.43	85.37	87.56	87.86	89.52	90.89	93.33	96.31	98.85 (p)	102.18 (p)	:
Croatia		61.00	62.15	60.35	61.15	58.30	53.83	52.37	51.97	52.00	54.12 (p)	:
Italy		63.60	64.63	63.24	62.30	61.60	61.23	60.00	60.87	61.82	64.19	:
Cyprus		175.50	186.49	197.37	196.22	190.29	174.39	157.12	144.02	128.16	131.31 (p)	:
Latvia		64.77	54.04	48.64	42.56	39.07	36.47	34.85	33.09	31.64	30.84	:
Lithuania		39.50	36.94	35.06	34.59	35.57	35.16	35.94	36.75	36.85	36.34	:
Luxembourg		145.28	149.75	146.66	153.21	159.12	165.01	165.40	172.73	174.16	175.33	:
Hungary		62.46	52.88	47.62	44.74	37.81	35.35	32.46	30.44	31.78	35.32 (p)	:
Malta		:	:	:	:	:	:	:	:	:	:	:
Netherlands		223.76	220.65	215.03	209.78	208.38	205.98	205.21	198.35	189.35	187.24 (p)	184.03 (p)
Austria		86.52	83.53	83.33	83.22	84.59	84.00	83.49	83.11	82.75	85.28	:
Poland		56.02	54.45	55.99	57.76	59.73	59.67	57.83	58.98	58.02	55.90	:
Portugal		125.45	122.84	119.34	115.45	109.37	103.20	100.07	95.00	91.97	94.55 (p)	94.55 (p)
Romania		:	:	:	:	:	:	:	:	:	:	:
Slovenia		46.89	48.59	46.86	45.62	45.12	44.58	44.90	44.68	44.26	42.87	:
Slovakia		43.36	46.69	50.24	55.00	58.20	63.44	67.33	67.49	69.49	72.24	:
Finland		102.22	104.31	104.19	106.04	108.04	110.56	112.78	114.01	114.52	118.06	:
Sweden		142.38	142.43	145.05	146.00	152.90	156.98	162.16	161.49	161.21	171.16	172.39
Iceland		176.53	173.60	173.54	175.96	:	:	:	:	:	:	:
Liechtenstein		:	:	:	:	:	:	:	:	:	:	:
Norway		179.29	183.19	186.47	188.82	186.47	195.43	199.82	204.39	204.64	208.37	201.03
Switzerland		161.05	166.46	170.71	174.40	170.26	180.82	186.08	180.64	188.70 (p)	180.00 (p)	:

Special value:  
(:) not available

Available flags:  
(b) break in time series

(p) provisional

Disclaimer

Table 3 Gross debt-to-income rate of households (Eurofound, 2020)

## **Appendix B**

### **Additional direct quotations extracted from interviews with 10 research participants**

#### **Definition**

“...a specific person or a household is currently buying things on loan and not being able to pay them. It's like a vicious cycle basically because every single month they cannot keep up with their payments.” Participant#9

“...people get into so many kind of financial commitments let's say that, and they don't foresee the future and they kind of rush into things. So, they get caught up at the end of the month with all these bills; commitments that they need to pay and would not be able to manage to do so. At the end of the day, they would not be able to buy their basic needs or pay rent, pay for water, electricity, etc because those become secondary.” Participant#6

#### **Causes of over-indebtedness**

##### **Low Basic Skills and Low Income**

“One of the major reasons is low-income. So the families that we deal with are all families who experience low-income either because the kind of employment that they have does not pay enough, or because they subsist on some form of social security benefits (relief), unemployment benefits, or perhaps invalidity pensions for those persons who cannot get employment either because of disability or else because of mental ill health.” Participant#10

“There are certain situations, like we were saying, that unfortunately if you rely on social-benefits, or if you have a low-income minimum wage, there are certain situations that actually you can't do like pay huge bills because that's the

income. So you can't manage that much, unfortunately.”  
Participant#3

“Most of the type of people that I meet are mostly overindebted because of lack of income combined with lack of skills.” Participant#5

“She had a good wage and still she couldn't financially manage well throughout the month. And this is so because of the high rent she had to pay, the bills, telecommunication bills, food and other basic needs. ”  
Participant#3

### **Mindsets of over-indebted persons**

#### *Lack of prioritisation*

“I would say there are people who have no sense of how to manage the money or they haven't learned how to manage the money. Very basic. You cannot spend more than your income. You have €500 a month. You cannot spend €700 a month because you're going immediately to debt. There are those people who obviously cannot control what they want and what they need.” Participant#1

#### *Sense of Entitlement*

“There is a sense of entitlement where one would think that since I am a vulnerable person and rely on social benefit, I don't want to do anything because I have children. It's like the fact that you are a mother or a father and you have people who are dependent on you, so it gives you the right not to pay, basically, which is not the case. For example, we are seeing that many people are being asked to leave Housing Authority buildings as they do not pay because they say it's a government property. Same goes to electricity bills which are being cut off as they think it's a government entity so nothing will happen. So there's priority, there's lack of

skill, there's a sense of entitlement in it and then obviously the debts accumulate.” Participant#5

*Lack of responsibility and willingness to improve current situation.*

“There are also persons who told me that when they receive the bills, they just don't care about them and throw them away.” Participant#3

“So they are jobless either because of health issues - medical problems - or it could be that they just don't want to work.” Participant#4

“Unfortunately, it's something that we see with some people that we work with. It's like they would rather keep living off welfare benefits and living paycheck-to-paycheck rather than actually going to work or try to do something about the situation. And I'm not saying this with regards to clients that cannot work who are genuinely suffering from a physical or mental health deficiency and they cannot work, but fully capable, 100% physically healthy and mentally healthy and they still decide not to go to work.” Participant#9

*Sense of Shame*

“When we did the financial sessions the people that participated knew each other and if they had any debts, they did not mention it. In this locality they know each other very well. So it was due to shame.” Participant#3

### **One Size-fits-all Measures**

*Water and Electricity Billing Company- payment terms for unpaid utility bills*

“But again I stress, why do they let bills accumulate and go up to thousands before taking action? You are telling

these families there is no hope and that there is nothing they can do. I think that is a shame and lack of sensitivity from the company side. I am aware that businesses need to make money but I am sure that they can make money without exploiting people. Sending unpaid bills notifications by mail is not enough, one needs to change the approach and be more customer oriented.” Participant#1

“We even see the way they set the monthly repayment terms is a cause of over-indebtedness. Since they use the same time frame for repayment terms, a family with €600 might get an €80 monthly payment which is quite manageable but if someone has €4000 in due bills they will get a €200 monthly repayment term makes it much harder to keep. I think it is a big cause that leads to household over-indebtedness.” Participant#2

### *Telephony companies*

“In my opinion, going into these mobile contracts for two or three years for something which you can do without (like a top of the range mobile), mobile companies must be more cautious on what agreements they are leading vulnerable individuals into.” Participant#8

## **Inherited Vulnerabilities**

### *Intergenerational social issues.*

“There's this intergeneration issue. If you know, from the mother to the child to their child to their child and it keeps on going. And I think that if by raising awareness and education from a young age we managed to break that cycle, I think that we've won half or maybe a quarter of the battle.” Participant#9

“Unfortunately, service users who have suffered trauma when they were still young, maybe they did not have

enough energy or the right environment to continue with their education. And I see it, it's like a cycle. So I have a young illiterate mother that I am now following, and I already know that the children are having literacy difficulties, a child who is in year three does not know how to write and read. So basically, it's like a vicious cycle. Those parents either do not encourage their children or do not have the amount of energy to give the relevant importance to the children's educational will lead the children to difficulties in their academic acquisition".  
Participant#10

#### *Social Media influence*

"We tend to see a person that relies on social-benefits and does not have enough money to buy food. However, they buy for his or her children a PlayStation or an Xbox or a branded item. We tend to see it very much and unfortunately with the social media and Facebook, are not being of a benefit for these people because social image they portray is very important." Participant#3

### **Economic Factors**

#### *Working Poor*

"So I think there are a lot of contributors, but now that we are also experiencing the increase of prices, the inflation, it is contributing to excessive debts. The cost of living in these cases where they earn around €800 or €900 a month and they need to pay around €700 for rent cannot be sustained. The prices of the products are skyrocketing at the moment and it's very difficult to get by with an average wage let alone how someone with a minimum wage or social benefit can make it."  
Participant#6

#### *Lack of Affordable Housing*

“People who are living in rented apartments, not social housing ones, although they do have their challenges as well, but especially people who are living in private rented apartments, it’s a nightmare, missing stability because you don't know whether it's (rent) going to increase.

“And then you have those living on a low-income. So even if they consider buying a house, the bank won't lend them money. So they are constantly struggling with rent and we all know the situation, how it is with rent.”

Participant#8

“I think there are a lot of contributors but now that we are also experiencing the increase of prices, the inflation, it contributes to this as well. The cost of living in these cases where they earn around €800 or €900 a month and they need to pay around €700 of rent.” Participant#6

Seeing rent skyrocketing, we have to help especially when it comes to third country nationals. We support them and counsel them, tell them - is this rent appropriate for you? Do you think that maybe you should try to find a cheaper rent? Do you think you might benefit if you share accommodation with others? They have to find alternative accommodation, we help them explore different rental options.” Participant#2

“However, now rents have gone up and if you go and check the rents, you won't find anything within the €500 range if not a very small studio apartment or a studio flat. If there is a family with two children so they are looking for a two bedroom, it's €700 to €800 per month So I don't know how they will manage to pay the bills for food. If they have children, you have to cater for the children’s expenses as well.” Participant#3

### **Mental Ill-Health**

“Other causes I think maybe there is mental health, high rents is a cause as well.” Participant#3

“Sometimes there is poverty, mental health issues, no work.” Participant#4

“Most of the people that end up in these situations they would have lack of support or mental health issues, most of them, or intergenerational problems that keep on coming one after the other.” Participant#6

“Mental health issues, medical issues. They are all linked to one another.” Participant#7

“We do work with a lot of clients who have mental health issues. A person whom I work with is Bi-Polar. One day she's depressed, she doesn't want to get out of bed. Then we take her to access medical support, she takes the medication, something happens, she goes on a mania and bang goes all the savings.” Participant#8

### **No Support Network**

“For mothers with young children is too difficult to find a job. We do see that a lot. It is even more difficult if you don't have a support network. If you don't have a support network, forget to find employment. For a single parent household it's difficult to hold full-time employment.” Participant#5

## **Falling Victims to Crime**

### *Loan Sharks*

“One of the worst consequences is getting involved with loan sharks because once you get into that it is very difficult to get out.” Participant#1

“When there are loan sharks, it's a never ending story because you find that for the €1,000 that you borrowed you're going to pay 100%+ which is impossible; it adds up to outrageous amounts.” Participants#4

## **Addictions**

“Well, you can have addictions, definitely. You can have the addiction which could lead to usuary, as you have to get the money from somewhere to be able to suffice (sic) your addiction.” Participant#8

## **Complex Family situations**

### *Family pressures*

“What I have noticed as well is when people have children, it's best not to take their children with them when they go shopping for food as they could add to pressure to buy things that are not needed. The children might start crying because they want this, they want that, and the parent wouldn't know how to manage the crying so they just give them what they need. I see that a lot of this responsibility is on the women having to manage all these things with such a low-income.” Participant#1

## **Other Causes**

### *Crises*

“Unexpected expenses, when they try to leave some money for the rainy day, but they could never do it because the rainy day was every day.” Participant#8

### *Digital Divide*

“Although now Covid is not like what it was two years ago, however, the difficulties elderly persons encounter to use ATMs is very real.” Participant#3

## **Flawed Support Services**

### *Not enough services*

“I don't think that counselling and budgeting are enough. Sometimes there is (need for) more than that. Sometimes you need to cater first for the immediate need and then you plan for a sustainable future.” Participant#2

“I think we try, as practitioners working with a family; we try but our role is not enough.” Participant#5

“Our aim was also to be the first port of call. We refer them to the appropriate agencies, if necessary.” Participant#7

### *Slow development of new services*

“Support services are slow to develop and there is not enough awareness about the real problems leading to poverty.” Participant#1

### *Lack of awareness of, and sensitivity to, poverty*

“In modern days, people are not sensitive enough to the problems of the poor.” Participant#1

“I think that first of all is about the perspective us Maltese have on poverty. I think that we were always brought up to think that we are an excellent nation when it comes to saving money, that we're self-sufficient. We don't need others to help us when it comes to money matters because, as we say, Maltese families are home owners. We've got a very high rate. And so we think that we're good at it. But then when I started working as a social worker, especially with vulnerable families, I realized that it's almost like living on another planet.” Participant#4

“I still believe that there are some professionals that associate poverty with a certain type of clients. But in reality, there are other people that are suffering and there are different situations that result in poverty”. Participant#9

*An NGO providing Debt Relief and financial aid*

“But all this would have been useless if we were not able to provide financial support and that is not, from my experience, something that the government is willing to do, over and above the social-benefits. Other NGOs don't have the financial means to do that. So that's one of the main issues why our local services are not sufficiently equipped to deal with the issue of over-indebtedness. As I said, sometimes you just need to actually support the families financially, and not just providing advice. Yes, it's nice to teach someone something. The saying goes: don't give someone a fish, but the rod to fish themselves, as if you give them a fish they will eat for one day but teach them how to fish and they will eat everyday. However, on the other hand, if someone is hungry today, it's useless to give them the rod today as they need to eat

today. Therefore we believe to give them the fish while teaching them how to fish for the future.” Participant#2

“At the moment, I'm making use of the Archdiocese of Malta Fund for Needy Families, and that helps a lot.” Participant#7

### **Training, Tools and Resources**

#### *Lack of training opportunities*

“No I haven't except that one session organized by Gemma where I think it was completely out of context.” Participant#1

“I think it was last year or the year before, and there was a training organized by HSBC for professionals who encounter people who have debt issues and financial problems. And this training has helped professionals understand better the issue of over-indebtedness , the issue of credit cards. Also, there were workshops on how to help people budget and things like how interests are accrued with regards to debts and how to read specific bills. So that was very useful and it was not groundbreaking training; it was nothing out of the ordinary. It was a one-off training. Unfortunately, it is not provided regularly. In 17 years of experience, it was the only training that I ever attended.” Participant#2

#### *Tapping into existing services as a form of resource*

“We try to find services that can help a family get to employment, like utilizing child care services or breakfast clubs or the club 3 to 16. But then again, those services also have their own bureaucracy.” Participant#10

### *Social Support Mentors as a resource*

“...tools and resources, the budgeting skills mainly that are being used. And we've got the toolkit for financial literacy which the social mentors use.” Participant#6

### **Preventive and curative Measures**

#### **Early intervention**

“Introduce budgeting in schools to be a part of the curriculum so that, from an early age, they could learn about correct priorities. I think if children are being taught this at school, they can influence even their parents.” Participant#3

“It would also be interesting to introduce some sort of budgeting sessions in early education because I think that some children are already with the mindset that everything comes for free. You have to wait to earn, you have to be careful to save and it should be embedded in the curriculum throughout.” Participant#10

“From a young age you teach them that you have to work for whatever you're earning. It doesn't come from the government because of the social-benefits. You have to work if you really want something which is of good quality, which is something that you like.”Participant#5

“One thing I could think of right now is awareness from a young age of the importance of taking care of your money.” Participant#9

### *Proactive approach by service-providing companies*

“If there was a way for the companies that provide the same services to check between them if a client already has accumulated bills, it would help to reduce the risks

of over-indebtedness. Even though at first the clients might be angry that they are checking on them, in the long run, that could help the person because he doesn't incur extra debt.” Participant#2

## **Improvement of Legislation**

### *Debt Settlement Procedures*

“If I were the government, I would set certain control measures on private entities that provide an essential service, like set limits on fines and interests that need to be paid, or find ways how an entity providing a particular service would be able to know if that client has unpaid bills with other companies providing the same service.” Participant#1

“Government should be able to pass a legislation where, not just banks, but for companies that provide essential services like ARMS, the Housing Authority, mobile phone companies or companies providing payments by instalments, need to follow up within a missed payment or two to see the reason why payments are not being effected.” Participant#5

“If the utility service providers in Malta kind of highlight those cases which are actually accumulating bills before it escalates, that would be better because we deal with the cases when they are not just escalated, but over-escalated. If the situation would have been taken care of before such escalation was reached, it would have been better. So if we could have someone to indicate or highlight these cases that are accumulating bills before they get too high, it would be much better.” Participant#6

“...maybe introduce a capping on rent, guidelines for renting rate for private property or shared rooms.” Participant#6

“Another thing which I would personally suggest is that the monthly agreement (on payment of unpaid bill) has to depend not on how much ARMS Ltd wants, but on what they can afford if their income is €500.” Participant#7

### **Review Minimum Wage and Social Benefits**

“Sometimes no matter how much you educate the person, if his means of income is limited, it's limited. So I always say that our minimum wage isn't sufficient by far and even more than a minimum wage, some benefits are measly. So a revision of these needs to be done as soon as possible. For example, the disability pension is too low to ensure that the person can have a good standard of living, even if they are without debts it is very difficult for a person to have a decent quality of life.” Participant#2

### **Debt Advisors**

“A combination of someone who had the first hand experience and someone who has a social work background would be ideal. They can really share what they know.” Participant#8.

“It would be interesting maybe to have a mixture of both. So maybe from a social work aspect because the social worker maybe has experience and the theoretical background and trust, which is a very important aspect in the relationship that a social worker has built with the service user. But maybe also to have some first hand experience from a person who has experienced actual poverty would be very fruitful.” Participant#10

### **Service with a Humanistic Approach**

“We have to create dialogue with vulnerable persons so that they feel comfortable talking about these things and

they understand and they won't be feeling judged by these people. The context of being personal, friendly, non-judgmental, the one-to-one based and not group based and all this stuff.” Participant#1

### **Financial Literacy**

*Financial Capability – (participants were invited to rate from a scale of 1 to 5, where 1 represents a low capability and 5 represents a high capability, on their service users financial literacy and capabilities)*

“Although we tend to encounter persons that have incorrect priorities and don’t care about their utility bills and how they’re going to pay them and settle them, I gave a rating of 3. This is because we do also encounter persons who are very worried about their utility bills and how they are going to pay them and settle them.”  
Participant#3

“I would give a rating of 3, because I have in mind some who have no idea about prioritizing or doing assessments and saying I should get this instead of that or cook this and not that because it’s less expensive. And then there are people who really try hard to see the best solution and who really are on track as I would say in Maltese ‘bil-ghaqal’ but due to their limited income they do not manage.” Participant#4

### *Household financial literacy*

“Ideally it should be offered to all members of the household and it would be fantastic to do that. But really and truly, in practice, could it happen or not?”  
Participant#1

“If there are more adults in the family, I think that they all should be involved because each member affects the other one. A service user is part of a system. So if you

want to see it from a holistic point of view, I think that all the adults in the household should be involved. It is a waste of time if I am providing the service to you and I am trying to assist you to manage finances. And on the other hand, your partner, your husband your adult children, don't care less, it could be a waste of time, I believe. So all the adults in the family should be involved." Participant#10

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