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EUROPEAN TRENDS IN CONSUMER FINANCIAL VULNERABILITY

European Credit Research Institute

and

Personal Finance Research Centre

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The **PERSONAL FINANCE RESEARCH CENTRE (PFRC)** at the **UNIVERSITY OF BRISTOL** was established in 1998 by Professor Elaine Kempson and has since gained a national and international reputation for policy-focused research encompassing all areas of personal finance. PFRC has considerable expertise in designing, undertaking and analysing both large-scale quantitative and in-depth qualitative research. It has conducted research for government departments, trade associations, regulatory bodies, charities and the private sector. The work of the centre has been influential in shaping policy, and several members of the centre act as technical and policy advisers to government departments. The research team at PFRC included Professor Elaine Kempson, Adele Atkinson and Andrea Finney.

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List of Abbreviations

AT	Austria
BE	Belgium
DE	Germany
ECRI	European Credit Research Institute
ES	Spain
EU	European Union
FI	Finland
FR	France
GDP	Gross domestic product
GR	Greece
IE	Ireland
INSEE	Institut National de la Statistique et des Études Économiques
IT	Italy
NL	Netherlands
NPISH	Non-profit institutions serving households
OEC	Observatório do Endividamento dos Consumidores
PFRC	Personal Finance Research Centre

I. INTRODUCTION

Consumer financial vulnerability – the personal feeling of being in a financially unstable situation – is one of early indicators of financial stress in households. This study presents the results of a European representative poll of households on this topic in 10 countries: Denmark, Germany, Great Britain, France, Italy, Ireland, Spain, Sweden, Norway and Portugal. The survey was conducted in the second half of 2007. With this information, the Personal Finance Research Centre (PFRC) and the European Credit Research Institute (ECRI) have developed the Consumer Financial Vulnerability Index (in the following referred to as the "Index"), which is to be published regularly in the future as the "Genworth Index" by Genworth Financial, an international financial security company.

The Index presents the share of survey respondents in a given country who feel financially vulnerable relative to the share who feel financially secure. The Index is sensitive to movements in and out of financial vulnerability or stability. Using an index scale of -100 to 100, the highest score (100) denotes the highest degree of consumer vulnerability. If the Index score is 0, a country has an equal proportion of consumers who feel secure and those who feel vulnerable.
In the survey, households were asked how well they managed their finances, whether they had financial difficulties, how they could keep up with their bills, their feelings about their levels of borrowing as well as their financial expectations, among other questions. From these queries, we used statistical analysis to identify those questions that could be used for building the Index.

The results of this survey show that households in Italy, Portugal and Germany are most insecure, whereas there is a high share of households that are financially secure in Sweden, Norway and Denmark. In general, data reveals that in higher age brackets, there is greater financial stability and individuals tend to be classified as more secure about their financial situation.

The analysis also shows that individuals in France are the most optimistic (more specifically, they are not experiencing difficulties and have the expectation that things are getting better for them), while in Portugal and Italy there are high shares of respondents who are already under financial strain and are pessimistic about their future. This latter finding is also reflected in the result that in Italy and Portugal (as well as in Spain), there is a high share of adults who report difficulties in paying their bills each month. According to some basic correlations undertaken in the study, the Index is highly and positively associated with the percentage of adults reporting repayment problems. Yet if Denmark is excluded, there appears to be no relation between the Index and the household-credit-to-income ratio (the latter is an extra data set and not part of the index).

The feeling of financial stability or vulnerability is influenced by many factors such as personal outlook on wage developments, employment prospects and the general economic conditions in a country. Therefore, this report also presents country synopses – an analysis of the individual countries and the distribution of financial vulnerability across a number of demographic factors. This analysis helps to identify the most vulnerable groups in each of the countries considered, against the overall economic context.

II. EUROPEAN TRENDS IN FINANCIAL VULNERABILITY

In this report, we present the results of the first survey for the Consumer Financial Vulnerability Index (subsequently referred to as "the Index" and in future published as the "Genworth Index"). The survey was conducted in the second half of 2007 by Ipsos MORI. This report is accompanied by an in-depth technical report, which explains in detail how the Index has been derived and constructed.[1] The main components are summarised below.

There are four cluster groups into which individuals fall with regard to their perceptions of financial vulnerability:

- **Group A** is composed of financially vulnerable persons who tend to have been in difficulties often in the past 12 months and who feel that their situation is unlikely to improve.
- **Group B** is a relatively small group of persons who tend to have experienced financial difficulties relatively frequently in the past 12 months but who now feel more confident (i.e. they are expecting their situation to improve). These individuals are neither financially vulnerable nor financially secure.
- **Group C** is a large group who have not often experienced difficulties, if at all, and who tend to expect their situation to remain the same. These individuals are again neither financially vulnerable nor secure.
- **Group D** is made up of financially secure persons who have rarely or never experienced financial difficulties in the past 12 months, and who expect their financial situation to improve.

The Index is not simply the percentage of those who fall into the financially vulnerable Group A (with regard to the overall number of consumers), but a ratio of the percentage of persons in Group A relative to the percentage in the financially secure Group D:

$$\frac{\text{\% Persons falling into Group A}}{\text{\% Persons falling into Group D}} \Rightarrow \text{Ratio rescaled to -100 to 100}$$

In this way, the Index is sensitive to movements in and out of financial vulnerability and in and out of financial security, that is, in/out of either Group B or Group C. Additionally, it is sensitive to individuals who move from Group A to Group D and vice versa. Moreover, it provides an indication of the overall situation of a country in terms of relative financial vulnerability, rather than simply reporting the proportion of the population falling into a single group of interest. This Index is an innovation insofar as we have conducted comparative research on existing indices (see the companion technical report) to determine whether such indices already exist, but that is not the case.

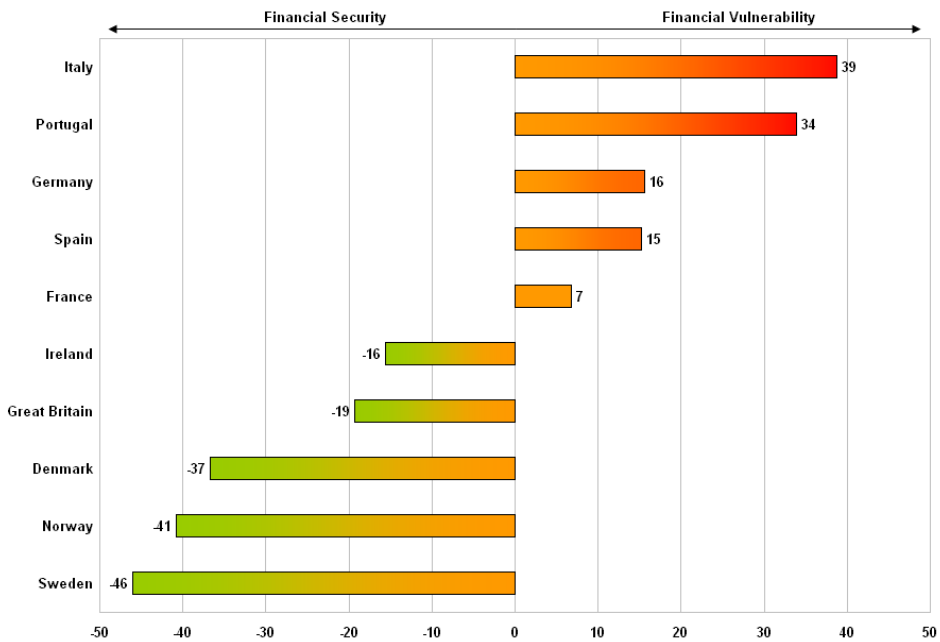
It is important to note that the index indicates vulnerability, and as such, large positive scores indicate high levels of relative vulnerability. An Index score of **100 denotes the maximum possible financial vulnerability**, while a score of **-100 signifies the minimum possible financial vulnerability**. A score of 0 indicates that a country has equal proportions of those who are vulnerable and secure.

[1] See European Credit Research Institute and Personal Finance Research Centre (forthcoming), Consumer Financial Vulnerability: Technical Report, PFRC and CEPS, Bristol and Brussels.

FROM NORTH TO SOUTH: INCREASING CONSUMER FINANCIAL VULNERABILITY

The Index reveals higher levels of financial vulnerability for southern Europe than for the north. Italy and Portugal are the most vulnerable (see **Figure 1**): with an Index score of 39, Italy spearheads the list. The lowest ranked country, Sweden, has a score of -46, indicating very low levels of relative vulnerability. Altogether, Sweden, Norway and Denmark show some very low Index scores, with the latter two scoring -41 and -37, respectively. The negative scores for the Scandinavian countries indicate a relatively high share of financially secure households in relation to financially vulnerable ones. In the middle, we find countries that make up the largest European economies in terms of GDP volume, namely Great Britain, France, Spain and Germany, together with the most rapidly growing of the mature economies, Ireland. These countries have scores that indicate similar proportions of vulnerable and secure consumers.

Figure 1
Index Scores of Sample Countries



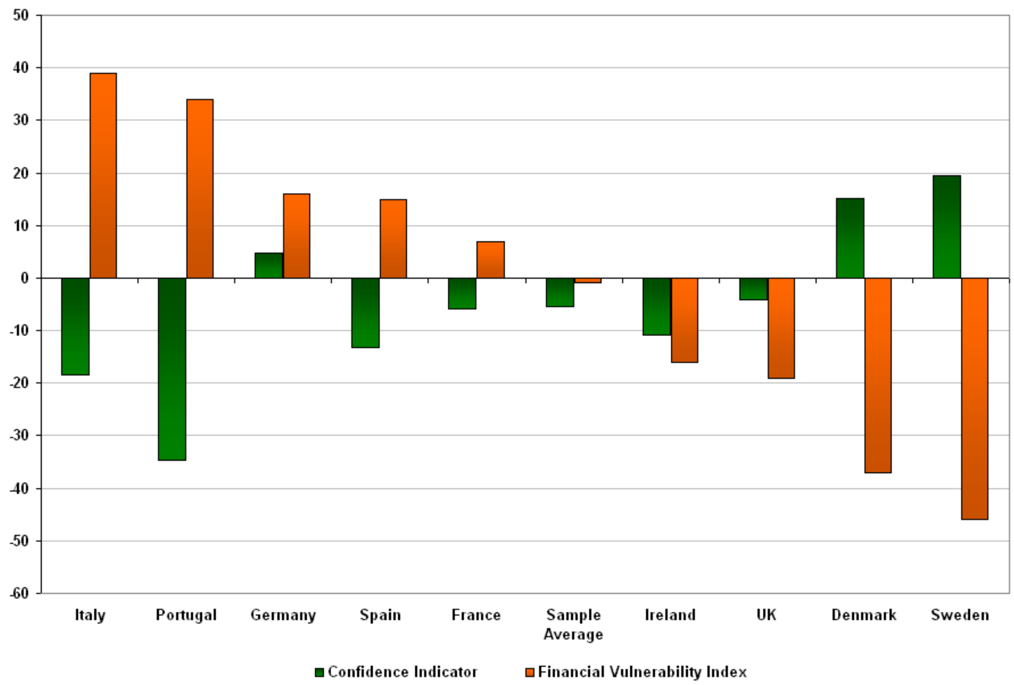
Source: Authors' calculations.

The Index is closely and inversely associated with the consumer confidence index as collected by the European Commission (DG for Economic and Financial Affairs). The measurement of consumer perceptions is conducted through consumer sentiment surveys with a comparable methodology across countries. These surveys include questions about perceptions of the economic situation in the country, personal financial situation (whether it will improve or not), big-ticket expenditures or savings plans. Households transmit their daily intake of news and personal experiences into the answers they give researchers.

Of special importance in this respect is the unemployment rate, as most households have members who are wage earners and the unemployment rate influences economic expectations. **Figure 2** shows the relationship between consumer confidence and the

Index. It shows, for instance that in Italy and Portugal, where there are high Index scores (meaning high levels of perceived financial vulnerability), the confidence measure is negative. Conversely, in countries with very low financial vulnerability scores (Sweden and Denmark), confidence is positive.

Figure 2
Consumer Confidence and Financial Vulnerability



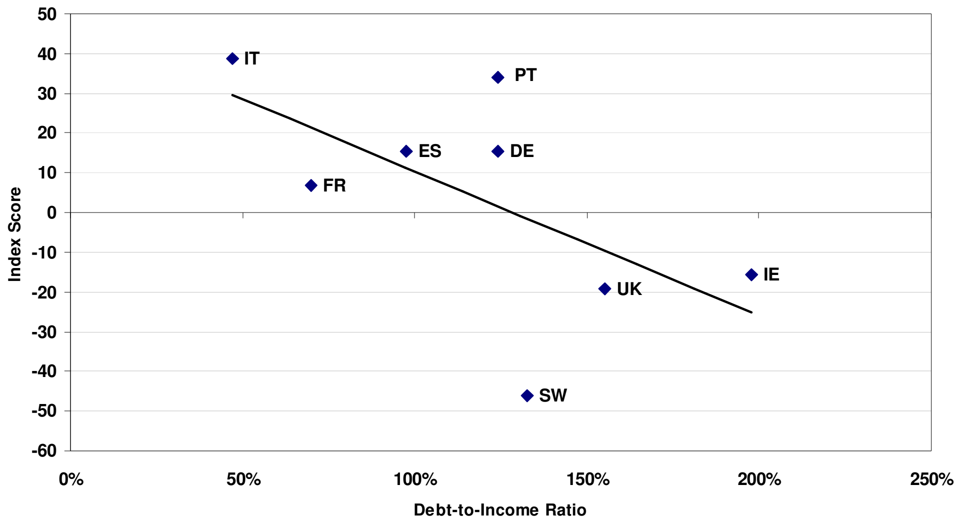
Source: Authors' calculations.
Note: Data does not include Norway.

Overall, the Indices show some interesting correlations. At the cross-country European level, we have only 10 countries under observation, thus regressions are not possible and the correlations do not imply any causality.

As discussed above, the Index takes as its starting point a combination of responses to one survey question about current financial difficulties and one about expectations of the future financial circumstances of the household. These responses are then underpinned by the totality of a person's financial situation, drawn from a number of measures based on self-assessment. Therefore, it is logical that it is associated with an index that also measures the consumer's outlook, although on a broader variety of topics (not only personal finances, but also future economic developments).

However, there is no real association with the aggregated debt-to-income ratio in the individual countries as displayed in **Figure 3**. The debt-to-income ratio is calculated from data provided by Eurostat. However, overall outstanding amount of credit says little about problems or how such problems are distributed across income brackets or age groups.

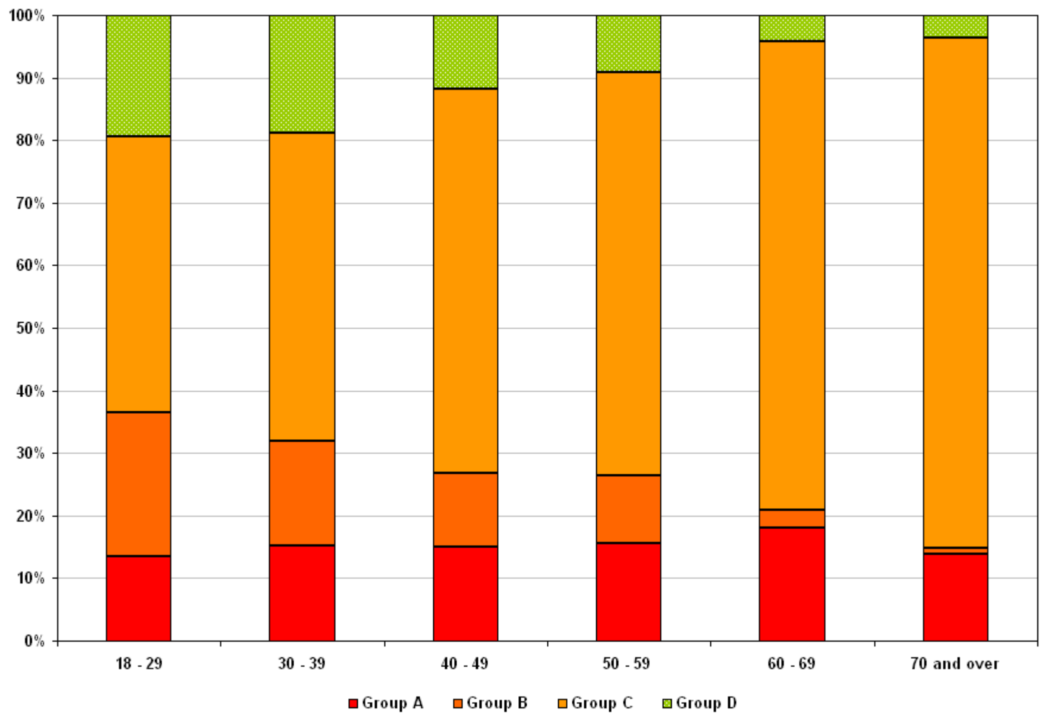
Figure 3
Financial Vulnerability Index and Debt-to-Income Ratios



HIGHER AGE BRACKETS: INCREASED STABILITY

Analysis of the socio-demographic subgroups across the 10 European countries provides some valuable insights.[2] The ratio of those being vulnerable to those being secure is lower for higher age brackets. **Figure 4** shows the distributions of interviewees falling into a certain Group for a given age bracket. A closer look at the cluster groups reveals that Group C (a large group of adults who have not experienced difficulties often, if at all, and who tend to expect their situation to stay the same) is greater for people that are in higher age brackets. In other words, higher age brackets tend to be more financially stable.

Figure 4
Shares of Households Falling into Specific Cluster Groups (by Age)



Source: Authors' calculations.

People in higher age brackets tend to experience less financial difficulties, but prospects about the future are less optimistic as further improvement is no longer expected. While for the 18-29 year olds and 30-39 year olds, cluster Group A contains a smaller share of households than Group D, and thus leads to an Index score below 0, that is not the case for all the age groups of 40 and older. For those older than 60 years, the score is significantly higher than for the remaining four age groups, which – because of largely similar shares for Group A – stems from a sharply decreasing percentage of Group D (financially secure households). From a level of 17% for the youngest age group, the share drops down to only 3% for those aged 70 and older.

[2] It should be stated, however, that the average Index scores and percentages that fall into cluster groups may disguise within-country-peculiarities, which need to be assessed (as is done in this report) in the respective country synopses.

III. TRENDS IN INDIVIDUAL COUNTRIES

3.1 POSITIVE OUTLOOK IN DENMARK

The Danish economy is relatively small in terms of GDP (roughly €220 billion in 2006[3]). Among the selection of countries presented herein, only Ireland and Portugal have lower levels of GDP volumes at current prices. After three years of witnessing real GDP growth rates of less than 1% from 2001 to 2003, the Danish economy picked up again in 2004 and had a growth rate of 3.9% in 2006 – a level last reached in 2000 (Eurostat). However, GDP growth slowed to 1.8% in 2007.

Known for its welfare approach, Denmark ranks among those countries with the lowest Gini coefficient (a measure of income inequality), with only Sweden delivering better results. After the 1993 reform introducing its famous and successful 'flexicurity' approach to remedy problems in the labour market, unemployment rates have steadily declined and reached a level of just 3.7% by the end of 2007 (Eurostat).

Moderate price increases since the year 2000 (with a range of 1.2 to 2.4% according to Statistics Denmark) have not had large effects on household consumption. Growth in the sector covering non-profit institutions serving households (NPISH) rose 3.1% in 2006 and has been growing with a yearly average rate of 3.25% since 2004. This level is about 1.3 percentage points above the EU-27 average for the same period (Eurostat). Rising interest rates, however, had a negative impact in the second half of 2006. Yet, the propensity to consume is generally seen as one of the drivers of the recent GDP growth and can itself be ascribed to favourable conditions such as low unemployment.

In fact, a higher level of employment led to increases in real disposable income among households, as reported in 2007 by the Danish central bank's annually published *Financial Stability Report*.[4] Ranking among those nations with the highest levels of consumer confidence, Danish consumers are in general confident about job prospects and their financial future in the country.

Although because of its size Denmark belongs to the smaller markets in Europe in terms of the outstanding stock of consumer credit to the household sector, the ratio of outstanding consumer credit as a percentage of GDP hovers at around 6-7%, thereby putting Denmark in the middle of the countries surveyed. This percentage declined from 2000 until 2002, but then moderately increased again. Still, the 2000 level of 7.20% has not yet been reached[5], despite the fact that in 2006 consumer credit to the household sector rose by 13.84% in nominal terms.

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[3] Mueller, W. and M. Rothemund (2007). Consumer Credit in Europe (1995-2006), ECRI Statistical Package 2007; from hereon referred to as ECRI Statistical Package 2007.

[4] See Danmarks Nationalbank (2007). Financial Stability Report 2007, Danmarks Nationalbank, Copenhagen.

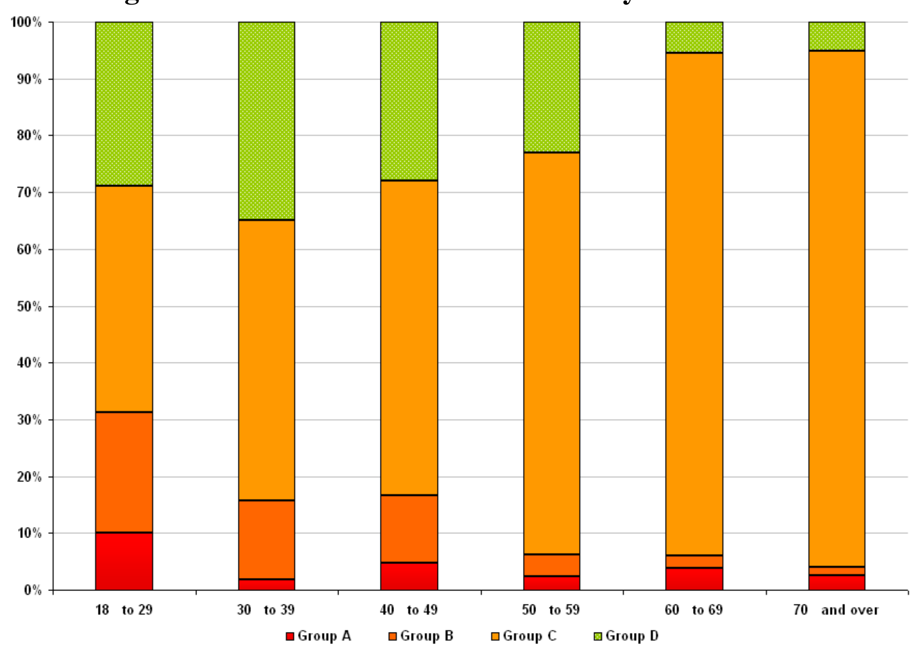
[5] This is simply owing to a relatively faster growing GDP rather than stagnating or falling levels of outstanding consumer credit.

POSITIVE FUNDAMENTALS AND FINANCIAL STABILITY

Current positive macroeconomic fundamentals and favourable prospects almost certainly contribute to Denmark ranking third lowest on the Consumer Financial Vulnerability Index, with a **score of -37**. Only the other two Scandinavian countries surveyed, Norway and Sweden, rank lower, with scores of -41 and -46 respectively.
The low ranking of Denmark on the Index indicates that relative financial vulnerability is low, but it does not rule out the fact that some groups may be financially more vulnerable (or secure) than others. A look at the statistics providing a socio-demographic breakdown provides further insights.

In Denmark, the number of persons reporting financial difficulties falls for higher age brackets. The extremes are Group A (financially vulnerable) and Group D (financially secure). The picture in **Figure 5** becomes less extreme for higher age brackets and indicates redistribution towards Group C. While 28% of 18-29 year-olds fall into Group D (financially secure), the same holds for only 5% of the age groups 60-69 and 70 and older. In higher age brackets, more individuals can be attributed to Group C – made up of those who have not experienced difficulties often and expect their situation to stay the same.

Figure 5
Age Brackets and Financial Vulnerability in Denmark



Source: Authors' calculations.

A look at the percentages that fall into Group A reveals that with roughly 10%, those aged 18-29 have by far the highest share of households that can be classified as financially vulnerable. Only an average of 3% of each of the remaining five age groups can be considered financially vulnerable. The fact that the oldest two age groups score worse on the Index (in other words, with results above 0) is thus the result of a relatively small percentage of households that can be deemed financially secure, in other words, as part of Group D. A staggering 90% of householders aged 70 and older fall into either Group C or D – both relatively secure groups – as opposed to only 67% of the youngest age group. In a similar vein, the share of households falling into either Group A or B decreases enormously with growing age.

In economics, "life-cycle hypothesis" explains developments in the financial situations of adults: Wealth increases up to retirement, smoothly declining after reaching the retirement age. [6] By old age, on average most individuals have achieved a considerable level of financial security due to retirement payments (although this situation, of course, does not apply to the elderly poor).

There is a clear gender difference at the positive end of the financial vulnerability spectrum. While 4% of both male and female respondents can be classified as financially vulnerable, 30% of males are financially secure as opposed to only 14% of females. As the difference is expressed in a larger Group C, a tentative conclusion is that Danish women tend to view their future less optimistically than men do.

Valuable insights can be gained by assessing subjective socio-demographic characteristics, such as savings attitudes (see Table 1). The results of the poll support the fact that in Denmark, those who tend to save encounter fewer financial problems than 'spenders': 6% of those who judge themselves as being a spender rather than a saver can be categorised into Group A, as opposed to only 2% of those who tend to save.

Table 1
Savings Attitudes in Denmark

	Group A (%)	Group B (%)	Group C (%)	Group D (%)
I am more of a saver than a spender				
Agree strongly	2	7	64	25
Tend to agree	3	7	69	20
Disagree	6	14	54	23
I prefer to buy things on credit than wait and save up				
Agree	10	18	50	20
Tend to agree	2	9	62	24
Disagree strongly	5	6	67	21

Note: Approximately 9% of the sample overall could not be allocated to a group because the respondents did not respond to one or both of the Index questions. These are not shown in the table. Consequently, percentages might not add up to 100. Source: Authors' calculations.

SAVERS IN DENMARK DO NOT FEEL FINANCIALLY MORE SECURE

A look at Group B provides evidence of the fact that savers tend to be financially less vulnerable, with 14% of the consumers who disagreed that they were more of a saver than a spender encountering financial difficulties compared with only 7% of each for the other two responses. The picture becomes even clearer when considering whether people prefer to buy things on credit rather than wait and save up: 28% of the 'impatient' fall into either Group A (10%) or B (18%), as opposed to 11% of those who tend to or certainly prefer to save rather than undertake financial commitments.

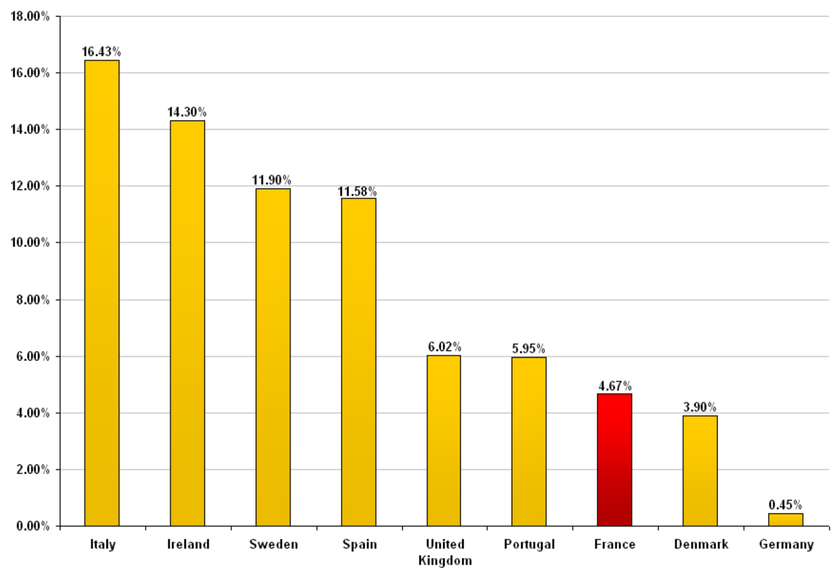
[6] Jappelli, T. (1999). The Age-Wealth Profile and The Life-Cycle Hypothesis: A Cohort Analysis with a Time Series of Cross-Sections of Italian Households, Centre for the Study of Economics and Finance (CSEF) Working Paper No. 14.

Yet interestingly enough, savers do not appear to be financially more secure (Group D). Instead, an enlarged Group C may suggest that savers perceive their savings as creating a buffer against possible financial problems in the future.

3.2 MIDDLE RANK IN FINANCIAL VULNERABILITY FOR FRANCE

The French economy has picked up speed recently, with an increase of its real GDP growth rate of 0.2 percentage points from 2005 to 2007 (Eurostat). However, both past and forecasted growth rates have been below the EU-27 average. The growth rates of 1999 and 2000, 3.3% and 3.9% respectively, have not been reached in the last seven years (Eurostat). The unemployment rate in France is relatively high, but has remained stable at around 9% since 2003, dropping down to 8.3% in 2007. At the same time, wages and salaries have been rising continually since 2000 (Eurostat).

Figure 6
Consumer Credit (Average Growth Rates), 2001–06



Note: No data available for Norway.
Source: ECRI Statistical Package 2007.

Outstanding credit to households (consumer credit, mortgage credit and other credit) stands at a level that is roughly €205 billion higher than it was in 2003, which is approximately 77% of household consumption expenditure (19% more than in 2003). This growth can largely be attributed to higher outstanding mortgage credits, whose 2003–06 nominal compound growth rate of roughly 48% far surpasses that of consumer credit (15.95%). **Figure 6,** however, which shows growth rates in consumer credit across selected European countries (2001–06), reveals that France is among those with the lowest growth rates (ECRI Statistical Package 2007).

The indebtedness has translated into high proportions of household expenditure being spent on both mortgage (55.79%) and consumer credit (14.95%) (ECRI Statistical Package 2007). Yet, the consumer credit market can be characterised as rather slow growing, as seen above. Of the countries surveyed in this study, only Denmark and

Germany have witnessed lower average annual growth rates. This outcome has been ascribed to high unemployment, the sluggish performance of the economy and some cultural resistance to borrowing, especially revolving credit.

RATIO OF THE VULNERABLE TO SECURE WORSENS WITH AGE

The overall Index score for France is 7, ranked in the midfield of the country sample. The data suggest that older groups are less optimistic about the future, rather than indicating increased levels of financial difficulties. Even so, the growing percentage of financially vulnerable households with higher age brackets should not be ignored, as the share of those aged 60-69 is more than twice that of those aged 18-29 (**Table 2**). Overall, however, the sum of the shares of Groups C and D (that is, among those who are financially secure or tend to be financially secure) is greater for higher age brackets.

Table 2
Shares of Financially Vulnerable Persons by Age Group

Age	Group A (%)	Group B (%)	Group C (%)	Group D (%)
18–29	10	32	31	21
30–39	12	29	36	17
40–49	16	19	47	9
50–59	18	14	52	5
60–69	22	3	64	4
70 and older	9	1	73	3

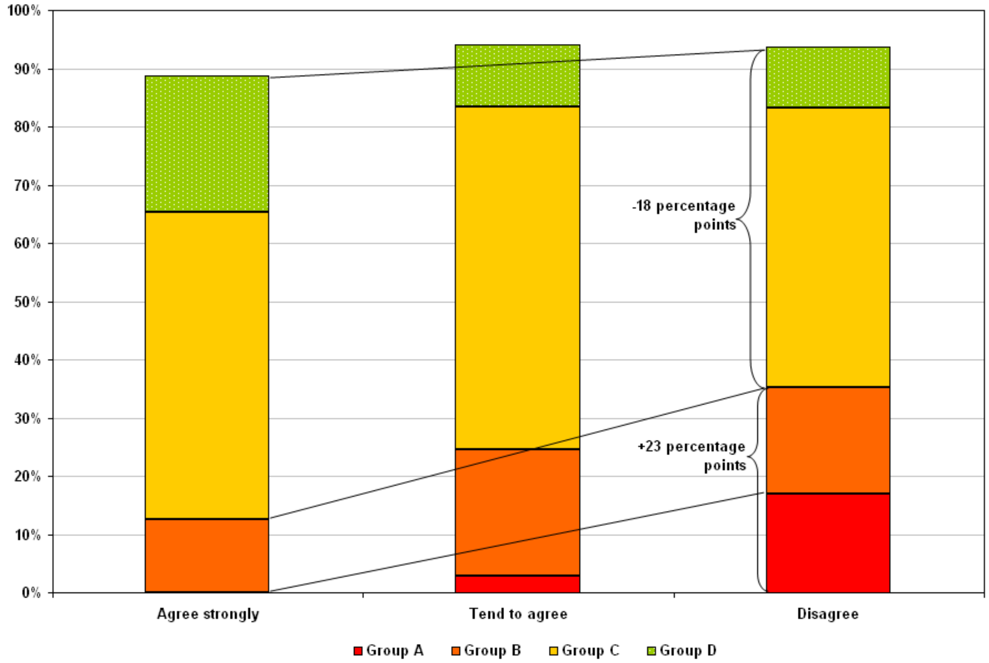
Source: Authors' calculations.

There is a small difference in scores by gender, which is due to the fact that fewer women than men are financially secure. The same seems to hold for the differentiation between those households with dependent children and those without. In fact, owing to a larger share of households being financially secure (Group D) in relation to the almost equal share of those who are classified as financially vulnerable, the Index reveals that households with children tend to be financially more secure than childless ones.

It is however advisable in this case to take a closer look at the distribution into the less extreme Groups B and C: as opposed to the differentiation between male and female, the statistics reveal that whilst 38% of the households with dependent children fall into Group C, the same is true of 56% of childless households. In turn, Group B is smaller for childless households (13%) than for those with children (26%).

Figure 7 shows that savers seem to be immune from financial vulnerability in France. Almost a quarter of those who agree with the statement that they tend more towards saving than spending are in Group D (23%). In addition, not only does this subgroup have less than 1% falling into Group A, but also only 13% are categorized as belonging to Group B. Analysis of the proportions in each group by socio-demographic characteristics reveals that no other subgroup has such a high share of financially secure households in France.

Figure 7
Savings Attitudes in France

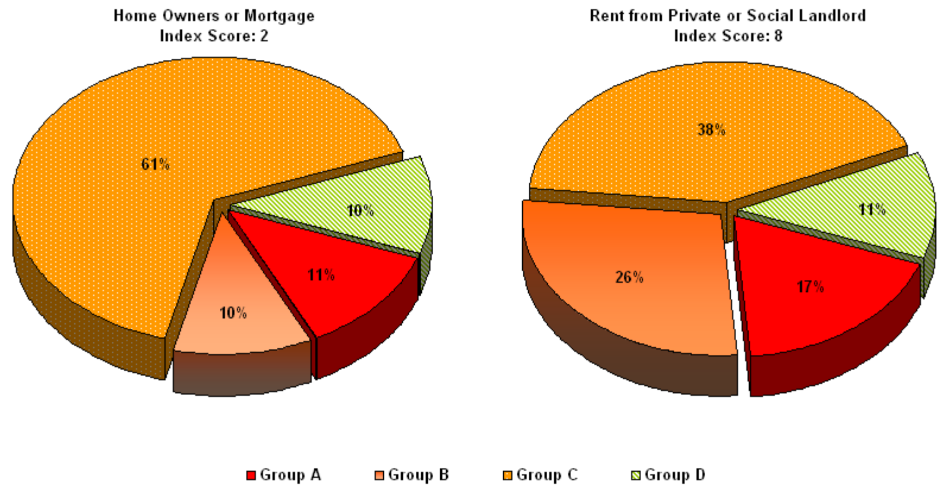


Source: Authors' calculations.
Note: The figure reflects answers to the statement "I am more a saver than a spender". The gaps in the graph are due to missing data for a small minority of respondents.

Householders who disagree with the description of being more a saver than a spender are more likely to be categorised as financially vulnerable. This is also confirmed by the proportions in Groups B and C, which grow larger when moving from the answers "agree strongly" to "tend to agree", indicating a shift from financial security to a state of neither vulnerability nor security.

In the last step, moving from "tend to agree" to "disagree", Group A (the financially vulnerable) grows enormously and seems to be fed by Groups B and C, whereas the share belonging to Group D remains equal. It is notable that when assessing the second question ("Do you prefer to buy things on credit or wait and save up?"), aimed at gathering information on attitudes towards savings, only small differences in the Index score can be detected. Regardless of whether the preference is to buy things on credit or to adopt a wait-and-save approach, the Index score is between 4 and 11 points. While the Index score itself indicates slight tendencies towards financial vulnerability for all of the possible answer categories, it should be noted that the share of financially vulnerable households decreases the more that households tend to wait and save instead of consuming on credit.

Figure 8
Financial Vulnerability and Type of Housing Tenure



Source: Authors' calculations.

About the same percentage of homeowners (whether outright owners or mortgagors) and renters in France can be categorized as financially vulnerable (10% and 11%, respectively, **Figure 8**). In addition, the difference in Group A amounts also to only 6 percentage points with 11% and 17% of the same two groups being financially secure. Thus, the Index suggests a result which puts the two groups of households at about the same level of relative financial vulnerability (Index scores of 2 and 8).

Focusing on Groups B and C can reveal further insights. Almost two thirds of homeowners (61%) are in Group C (those tending to feel financially secure) in comparison with slightly over a third of renters (38%). In turn, Group B (tending to feel financially vulnerable) is relatively bigger for renters (26% as opposed to 10% for homeowners). This clearly indicates that homeowners in France can be categorized as being financially more secure than household living on rent.

3.3 GENERAL OUTLOOK IN GERMANY

The economic outlook for Germany reflects an essentially healthy economy. Nevertheless, GDP growth experienced a significant revival after the low rate of 0.8% in 2005, to 2.5% in 2007 (Eurostat). More importantly, leading research institutes forecast continued growth for 2007 and 2008, although slightly less than in 2006. Regarding the labour market, it is remarkable that the unemployment rate fell by almost 2 percentage points compared with the previous year as a result of the economic upturn: it stood at 9.1% in December 2007 compared with 10.7% in December 2006 (Statistics Germany). Even so, it remains at a higher level compared with other European countries, and on European comparisons of consumer confidence indicators, Germany is often in the lower half of the sample with more depressed confidence.

Outstanding consumer credit has been decreasing in nominal terms since 2004, which leads to the observation that a smaller percentage of consumption expenditure is being financed by credit. The rate fluctuates at around 17% (ECRI Statistical Package 2007). On the other hand, consumer insolvencies more than quadrupled from 2000 to 2006.[7] Long-term mortgage credit has been increasing (ECRI), showing that there is a solid level of confidence among some households in the future development of their finances.

FINANCIALLY VULNERABLE AND BLEAK JOB PROSPECTS

According to the *Second Poverty and Wealth Report* of the German government (2005),[8] unemployment remained the single most important reason for over-indebtedness in Germany, accounting for 46% of cases in 2002. In most of the years since 2000, consumer insolvencies have increased according to the numbers published regularly by the German credit bureau Creditreform. Job prospects are very important for consumers' financial expectations, which darken if there is a bleak outlook.

Unemployment can be seen as a reason for existing financial difficulties as well as pessimistic expectations about the future among German households. The country ranks third on the **Index**, with a **score of 16, indicating moderate relative financial vulnerability**. Only Portugal and Italy rank higher and therefore demonstrate greater tendencies towards financial vulnerability (as shown by Figure 1 in section II).

Our data indicates that financial vulnerability varies more by occupation in Germany than elsewhere. With only 4% in Group A (financially vulnerable) and 14% in Group D (financially secure), the category of senior managers, directors, professionals or technical workers achieve a low Index score of -27, indicating relative financial security.

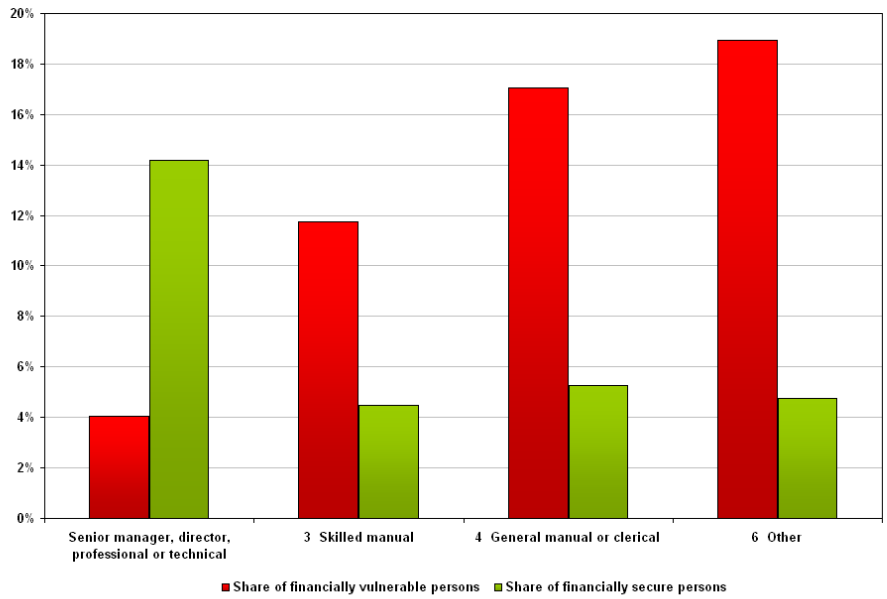
This score is diametrically opposed to the Index score for skilled manual, general manual, clerical and other workers, whose scores are 21, 25 and 30, respectively. Here, fears of job loss and globalisation might play a role. A closer look reveals that

[7] Creditreform publishes these numbers regularly on its website (www.creditreform.de).

[8] See Federal Ministry for Labour and Social Affairs (2005), „Lebenslagen in Deutschland – Der 2. Armuts- und Reichtumsbericht der Bundesregierung", Federal Ministry for Labour and Social Affairs, Berlin.

the differences among the various categories of wage earners emerge in Groups A and D. These differences are not only depicted in the variations in relative shares, but are also apparent in absolute terms, meaning that the group of senior managers has both a far lower share of financially vulnerable people as well as a higher share of financially secure people (**Figure 9**).

Figure 9
Shares of Financially Vulnerable and Secure Persons (by Occupation)



Source: Authors' calculations.

With regard to the socio-demographic characteristic of housing tenure, the data indicates a relatively higher share of financially vulnerable people for those who rent an apartment (19%) than for those owning a house outright or paying a mortgage (10%). However, due to a greater percentage of people being financially secure for those who live on a rent (9%, as opposed to 7% for those who own a home or pay a mortgage), the two categories rank almost equally on the Index.
Thus, housing tenure does not seem to influence a household's relative financial vulnerability in Germany. Yet, examination of Groups B and C suggests that renting causes households to feel slightly more vulnerable. The share of those who tend to feel more secure than vulnerable (Group C) is about 20 percentage points higher than that of those households owning a home.

Large differences in percentages as well as in the Index scores can be found in relation to whether respondents tend to prefer to buy things on credit or to wait and save (**Table 3**).

Table 3
Savings Attitudes, Shares of Financially Vulnerable Persons and Index Score for Germany

I prefer to buy things on credit than to wait and save up	Group A (%)	Group B (%)	Group C (%)	Group D (%)	Index score
Agree	28	5	51	2	55
Tend to disagree	12	15	56	7	14
Disagree strongly	10	3	71	8	6

Source: Authors' calculations.

In Germany, 28% of those who admit that they would rather buy things on credit than save up for the purchase of the product/service can be classified as financially vulnerable and only 2% occupy the other end of the spectrum. These findings result in a relatively high Index score of 55, which is above the overall average score (14) of the 10 countries surveyed. Despite the fact that the share of financially vulnerable persons still amounts to 10% even for those who disagree with the statement, 8% can be categorised as feeling financially secure while the rest of the 28% seems to move to Group C, with a constantly small Group B. The other question concerning agreement or disagreement with the description of being a saver rather than a spender did not generate interpretable results, in either percentages or an Index score. (This situation was exactly opposite in the case of France.)

3.4 BOOMING MARKET IN IRELAND

Ireland has seen fast economic growth for a mature economy. Since 2001, GDP has grown at an average rate of 5.5%; indeed growth of 5.7% in 2006 was 2.7 percentage points higher than that of the EU-27 – although the 2007 estimated figures forecast a drop to 5.3% (Eurostat). However, since 2004, the standardised unemployment rate has increased from 4.4% in 2005 to 5.1% in December 2007 (OECD statistics). The country ranks sixth on the **Index**, with a **low score of -16** putting it in the middle of the distribution, but indicating that there is a low level of financial vulnerability.

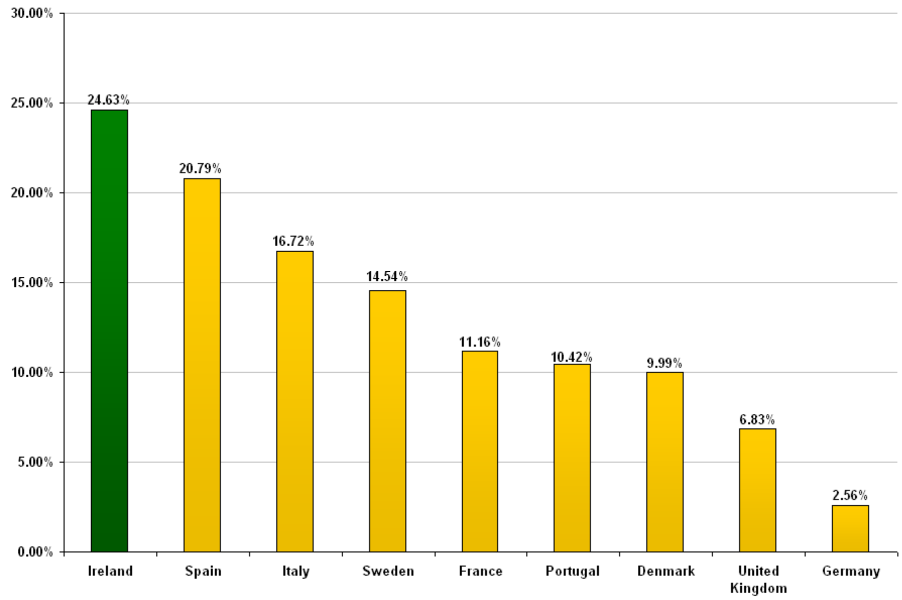
In its latest *Financial Stability Report*, the Irish Central Bank has stated that there is a slightly increasing financial risk in Irish households.[9] Specifically, heavily indebted households would be vulnerable to interest rate increases. This is especially the case because of the prevalence of mortgages with variable interest rates (83.5% of all mortgage loans to private households).

The growth rate of consumer credit (2001–2006 average) was 14.29%, with only Italy having a higher rate of 16.43% (ECRI Statistical Package 2007). With regard to mortgage credit, Ireland spearheads the list of the average 2001–2006 growth rates among the 10 countries examined in this study (see **Figure 10**). Also, overall indebtedness (financial liabilities as a percentage of household disposable income) has grown rapidly: it was estimated to stand at 201.12% for 2006 (103.28% in 2001), which will lead to an increase in the repayment burden of Irish households (IIB Bank/ESRI research)[10].

[9] See Central Bank and Financial Services Authority of Ireland (2007), Financial Stability Report, Dublin.
[10] See IIB Bank and ESRI (2007), "Irish Household Finances Survey 2007", Dublin.

One of the indicators used in Ireland is the percentage of persons reporting that their personal debt is a considerable strain. The IIB Bank/ESRI research found that in 2005, 15% of individuals reported that the repayment of their unsecured debt was "a heavy burden", which rose to 18% in 2006 and remained at that level in 2007.

Figure 10
Mortgage Credit (Average Growth Rate), 2001-2006



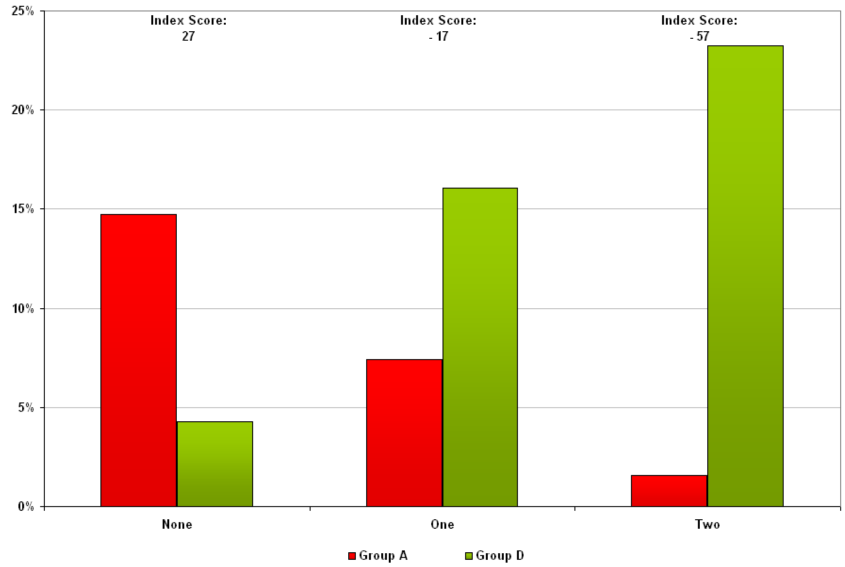
Note: No data available for Norway.
Source: ECRI Statistical Package 2007

THE NUMBER OF WAGE EARNERS IS IMPORTANT

An evaluation of the poll findings shows that the number of earners within households in Ireland has a great effect on the resulting Index score for the respective category. In fact, when taking account of all the different socio-demographic factors (age, gender, occupation, etc.) for which Index scores have been calculated, the two possible extremes (having no earner or two earners in the household) result in the worst and second-best Index scores, respectively.

Among households with no earner, 15% are financially vulnerable and just 4% fall into the financially secure group. The resulting score of 27 indicates a strong tendency towards financial vulnerability. The result does not differ strongly from the average of the country sample, however, with an Index score of 29. At the other end of the spectrum, Irish households with two earners do not seem to have had difficulties in the past nor do they anticipate them. The very low score of -59 indicates strong financial security. Only 2% of the subgroup of two earners falls into Group A, while 23% falls into Group D (**Figure 11**).

Figure 11
Financial Vulnerability and Number of Wage Earners



Source: Authors' calculations.

The group with the lowest Index score (-68) in Ireland is that in which one earner of the household is active as a senior manager, director, professional or technical worker: the share of the financially secure among them stands at 27% against 1% who are financially vulnerable. In addition, 57% can be categorised as Group C, depicting tendencies towards security. While the other three categories (skilled manual, general manual, and clerical and other workers) present an equally sized Group D (12%) and almost equivalent Groups B and C, general manual and clerical workers have the highest score (with an Index score of 2), owing to the 13% share who are financially vulnerable.

While the variables of gender or dependent children in a household do not result in significant differences as regards the Index score (being between -11 and -20 for the four different groups), the housing tenure does seem to play a role in whether individuals are more or less financially secure.

Although, as previously mentioned, households could become vulnerable to interest rate increases, especially given the fact that 83.5% of all mortgages feature variable interest rates, owning a home or continuing to pay mortgage commitments produces lower shares of respondents who are categorised as financially vulnerable (4%), as opposed to renting an apartment (18%). The more individuals lack savings incentives (and admit to spending rather than saving) and the higher their propensity to consume on credit, the more vulnerable they are, according to the Index scores.

3.5 THE MOST FINANCIALLY VULNERABLE: ITALY

Since 2002, the Italian economy has been growing rather sluggishly, with GDP rates between 0.10% and 1.2% (Eurostat). In 2007, Italian GDP grew by 1.5%. Of the 36 countries presented in Eurostat (the EU-27 nations plus the US, Japan and Turkey among others) only Hungary ranked lower. The unemployment rate remains high in Italy, although there has been a decrease from 6.8% in 2006 to 6.1% in 2007, according to Eurostat numbers. The EU-27 average stood at 7.1% (2007). Nonetheless, large increases in terms of borrowing have been witnessed, demonstrated by rapidly rising outstanding balances (see **Table 4**). In fact, with a 2001–06 average annual growth rate of 16.43%, Italy leads the list of countries surveyed by this study in terms of consumer credit. Low interest rates have also contributed to growth in the mortgage segment, which even grew slightly faster than consumer credit.

Table 4
Outstanding Stock and Annual Growth Rate of Consumer Credit and Mortgage Credit in Italy

		2001	2002	2003	2004	2005	2006
Consumer credit							
	Stock outstanding (€ billion, current prices)	23.861	28.443	32.912	38.018	44.333	49.876
	Year on year percentage change	19.05	19.20	15.71	15.51	16.61	12.50
Mortgage credit							
	Stock outstanding (€ billion, current prices)	107.685	131.623	154.327	184.952	217.147	244.313
	Year on year percentage change	11.06	22.23	17.25	19.84	17.41	12.51

Source: ECRI Statistical Package 2007 and ECRI data.

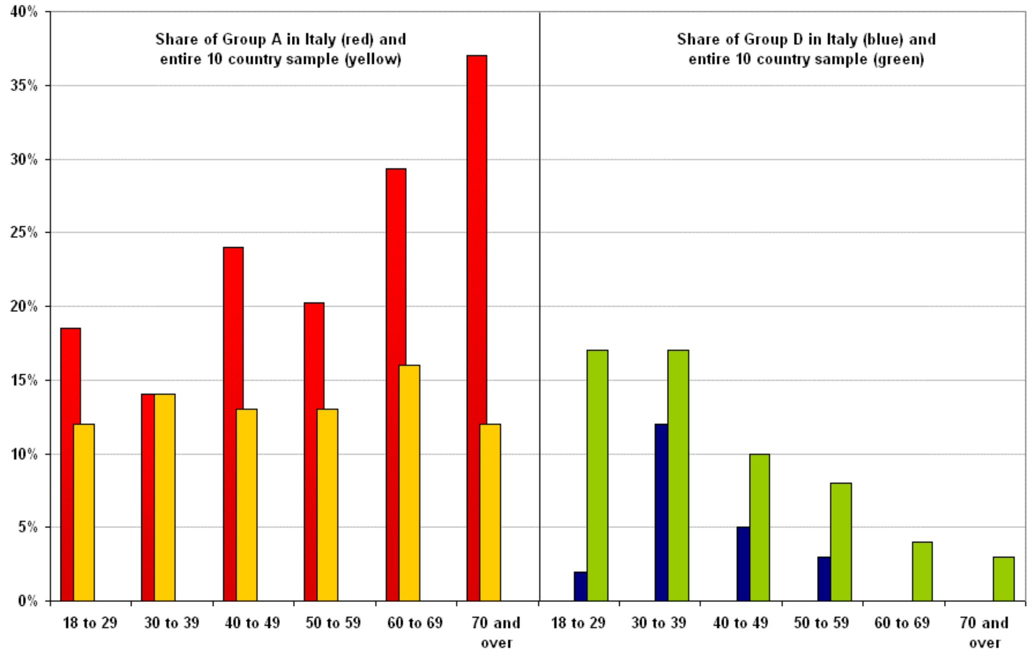
Italy and Portugal are among those countries that report the highest numbers of adults who "totally agree" with the statement that they have problems in paying their bills at the end of each month. The results from the observations of repayment problems are in line with the outcomes of the **Index** – with a **score of 39**, Italy ranks first.

ALL SUBGROUPS IN ITALY ARE FINANCIALLY VULNERABLE

There are some interesting peculiarities in the data. None of the socio-demographic subgroups (by age, gender, occupation, etc.) scores below 0 indicating that no group includes a greater proportion households that are secure than vulnerable (negative scores denote more financial security). For each group, there is a larger share of financially vulnerable households than households that are financially secure, and even when groups have scores relatively close to 0, this does not necessarily mean that the share of financially vulnerable households diminishes.

When ranking the subgroups in Italy, those aged 30-39 have by far the greatest tendencies towards financial security, next to those households whose highest earner can be classified as a senior manager, director, professional or technical worker, just as in the other countries reviewed so far. An evaluation of the different age groups shows that financial problems seem to exist at the older end of the spectrum, with 29% of those aged 60-69 and 37% of those aged 70 and older assessing their current financial situation and future prospects negatively. At the same time, 18% of the youngest age group – those aged 18-29 – falls into Group A, with just 2% feeling financially secure. **Figure 12** presents the share of financially vulnerable households in Italy and the 10 country sample average.

Figure 12
Shares of Financially Vulnerable and Secure Households in Italy



Source: Authors' calculations.

Outstandingly high shares of financially vulnerable households are recorded for those socio-demographic groups with no earners in the household (33%), those who can be classified as active in skilled manual labour (35%) and those who rent their home rather than own a home outright or pay a mortgage (38%). Given that in these groups, the shares of financially secure persons are simultaneously low, strikingly high Index scores are the result: 86, 67 and 63, respectively.

Looking at all of the Index scores of the socio-demographic groups in all of the countries, no other group appears more vulnerable than households with no earners in Italy.

3.6 STABILITY AND OPTIMISM IN NORWAY

The economic situation in Norway as well as the outlook can generally be described as positive. The upturn of 2003 is still holding on, leading to growth rates of 2.2% in 2006 and forecasts of real GDP growth of 3.5% for 2007 and decreasing to 2.5% for 2008 (Eurostat). According to number of the Norges Bank, quarterly national accounts have not recorded such a long period of growth as that experienced in recent years.

Wages are rising (4.8% compared with the previous year, according to Statistics Norway) and unemployment is at a very low level (2.7% in the second quarter of 2007, Statistics Norway). In fact, the number of unfilled vacancies is rising in almost all occupational categories. Thus, the number of households with financial problems is generally low.
There is, however, some concern about rising interest rates, and the fact that many younger households have a high debt burden. A recession in the Norwegian economy, especially in the housing market, could leave households with severe repayment problems. The positive economic situation for Norwegian households may also lead to more demand for credit and thus an increasing burden of repayment. **Figure 13** presents data reported by the Norwegian Central Bank on the overall household debt burden.

Figure 13
Household Debt Burden in Norway (%)

Note: Quarterly figures, loan debt as a percentage of liquid disposable income adjusted for estimated reinvested dividend payments
Source: Norges Bank.

The household debt burden is defined by the Norges Bank as loan debt as a percentage of liquid disposable income, adjusted for estimated reinvested dividend payments. As such, it does not account for aggregate debt payment data. It is nonetheless seen by the Norges Bank as a potential trigger, because the historically high debt burden of households has increased their vulnerability to economic turbulence.

The overall very positive situation in Norway is almost certainly responsible for the very low Index scores that rank the country second to last in terms of financial vulnerability, with a **Index score of -41** (only Sweden has a lower score).

SUBGROUPS IN NORWAY SCORE VERY WELL AND ABOVE THE SAMPLE AVERAGE

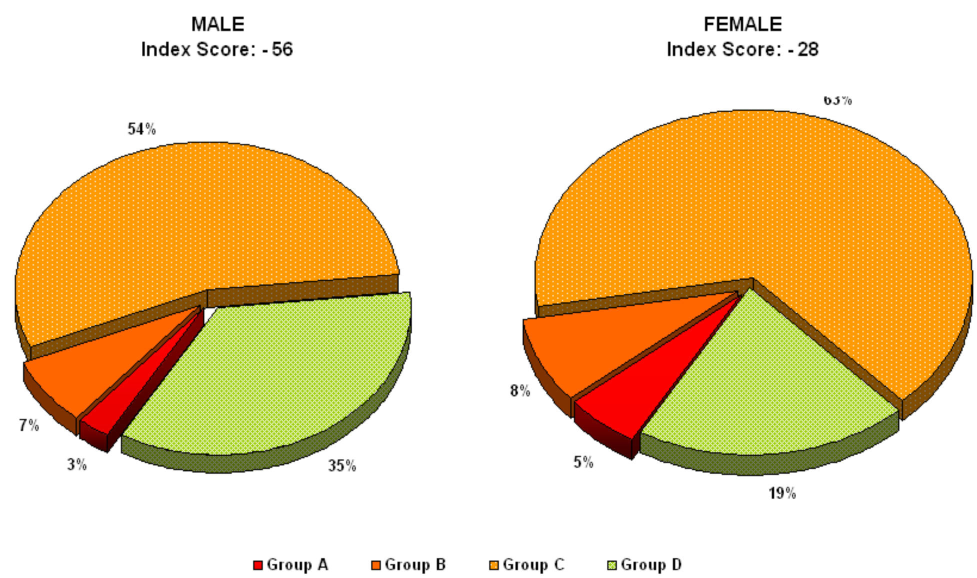
As opposed to the situation in Italy, none of the various socio-demographic subgroups can be attributed an Index score above 0 in Norway. In other words, the proportion of financially secure householders surpasses the percentage of those feeling financially vulnerable in every subgroup studied.

Therefore, when assessing the different extremes of the scale, it might be more appropriate to refer to the 'less financially secure' instead of the 'most financially vulnerable' in relation to those aged 18-29. On average, just 5 % of Norwegians fall into Group A (financially vulnerable). Together with those who tend to buy things on credit rather than wait and save, young persons are responsible for the only double-digit figure (13%) in Group A. Yet the Index score is calculated to be -16, owing to the relatively large presence of this age bracket in Group D (financially secure).

As regards the Index score of the other age groups, no significant differences can be detected. With values of between -40 and -58, all groups present above-average results (in comparison with the sample average), especially when taking into consideration that – in general – financial vulnerability increases with age.

The Index score does not vary family type. However, there is a noticeable difference by gender: Men tend to be more financially secure than women, with scores of -56 and -28, respectively. This outcome may be related to a slightly more pessimistic evaluation of the future among women. While the difference in Group A amounts to only 2 percentage points, women more commonly find themselves as belonging to Group C rather than to Group D, while 35% of men are financially secure, as opposed to only 19% of women (see **Figure 14**).

Figure 14
Shares of Men and Women among Different Vulnerability Groups in Norway



Source: Authors' calculations.

3.7 HIGH CONSUMER VULNERABILITY IN PORTUGAL: SECOND RANK

Portugal shows only moderate economic growth and projections for 2008 in this respect have been cut back. In 2006, the country ranked last of the 36 countries presented by Eurostat (the EU-27 plus the US, Japan, Turkey, etc.) with a real GDP growth rate of only 1.2%. The country does not seem to have fully recovered from the recession that started in 2002 with the drop in growth from 2% to only 0.8%, followed by negative growth in 2003 (-0.8%). Levels from around the turn of the century, depicting an average growth rate of 3.65% from 1998–2001 are far from being reached with forecasts of an average of 1.7% for 2008 (Eurostat). In 2007 (second quarter), the unemployment rate stood at 7.9%, which was less than the unemployment rate in Germany for that year, after employment growth in 2006 of 0.7% (Eurostat). This increase is in line with the modest economic recovery of the country.

Portugal witnessed moderate growth rates in consumer credit (2001–2006) of around 5.95% (ECRI Statistical Package 2007), but a relatively high number of consumers with debt repayment problems (see Figure 3 in section II). Consumer prices remained stable at around 2% according to data from the National Statistical Institute (Instituto Nacional de Estatistica). There have been significant increases in indebtedness in Portugal (in parallel with only moderate increases in wealth). The central bank considers the situation of households to be rather sound, but this does not seem to be reflected in the attitudes measured by the Index.

STRONG INCREASES IN INDEBTEDNESS: OVER-INDEBTEDNESS IS A CONCERN

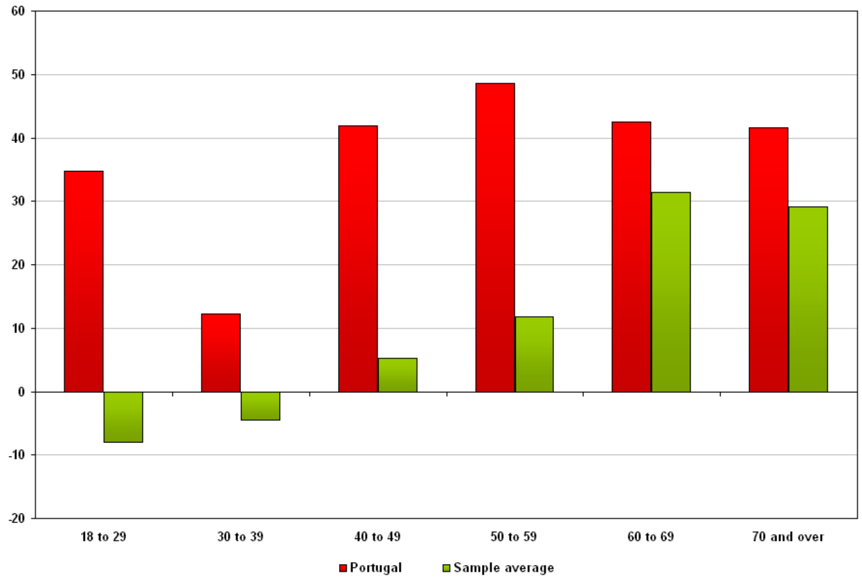
Household indebtedness has been growing steadily since 1990: it rose from 18% of household disposable income in 1990 to 117% in 2005 and 124% in 2006, according to the Banco de Portugal, becoming one of the highest rates in Europe. With an **Index score of 34**, Portugal is in second place, with only Italy scoring highest. This ratio of more households that are categorized as more vulnerable than secure can partly be attributed to higher unemployment and rising interest rates. Over-indebtedness is considered a serious problem in Portugal, and the issue is widely covered by the media.

Despite scoring slightly better than Italy on the Index, the average share of financially vulnerable households over the various socio-demographic subgroups is 4 percentage points higher than in Italy. This result, in turn, means that on average a slightly greater share of the interviewees can be categorised as being financially secure (6%). No subgroup scores below 0. Thus, the share of financially vulnerable persons is constantly higher than that of persons classified as financially secure.

IN PORTUGAL, A GREATER NUMBER FEEL VULNERABLE, REGARDLESS OF AGE

In contrast with other countries, no clear differences among the various age groups are recorded. Those aged 30-39, who, with an Index result of 12 have the lowest scores, make up second the largest share of financially secure persons (13%) of all the subgroups assessed in this poll. The remaining five age groups have Index scores ranging from 35 to 49 points. Thus, the Portuguese population is financially vulnerable, regardless of age. A comparison with the sample average shows large differences in terms of financial (in-)security within the age groups spanning 18 to 59 (see **Figure 15** and **Table 5**).

Figure 15
Comparison of Financial Vulnerability: Portugal and the Sample Average



Source: Authors' calculations.

One of the most interesting results of the poll stems from an evaluation of the savings attitudes of the Portuguese. According to the Index score, saving rather than spending and consuming on credit seems to have a negative impact on financial security.

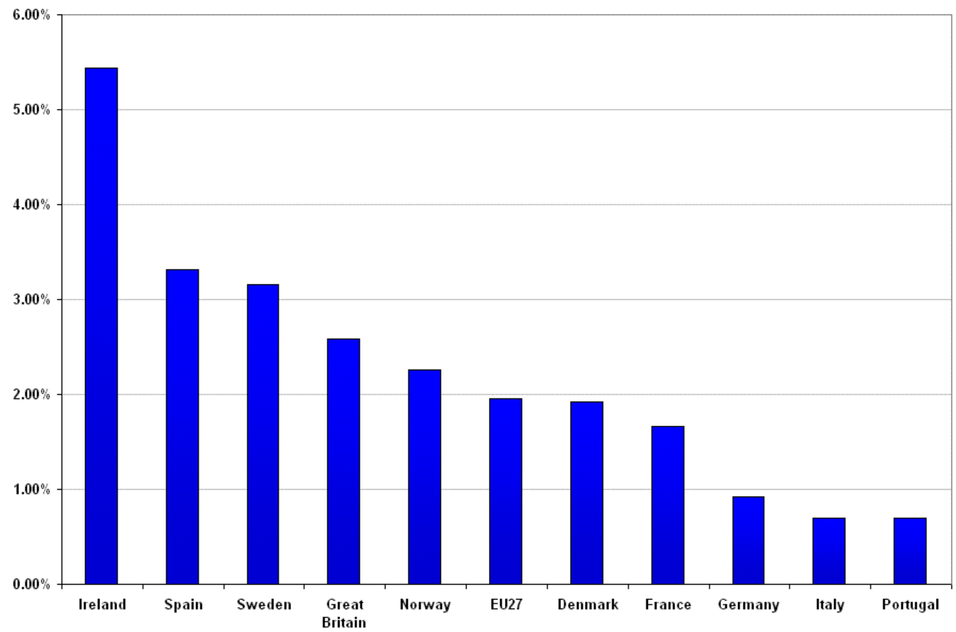
The subgroup with the largest share of persons being financially secure is composed of those who "prefer to buy things on credit than wait and save up" (14%). (It is also interesting that Index results indicating low levels of financial vulnerability are only stated by senior managers and directors, in addition to those aged 30-39.) Even more intriguingly, this subgroup (of people preferring to buy things on credit rather than waiting and saving up) has the lowest percentage of financially vulnerable persons (20%), leading to the best Index score for all subgroups in Portugal with a score of 8.

In fact, the share of those who adopt a wait-and-save approach in Group A is 14 percentage points higher than that of those who prefer to consume on credit. As regards the statement that the interviewee is "more of a saver than a spender", both those agreeing (the savers) and those disagreeing (the spenders) score almost equally (with 28 and 29, respectively). Those tending to agree with this statement score even worse (a score of 52), with only 2% belonging to Group D (the financially secure).

3.8 FOURTH MOST VULNERABLE: THE RANKING OF SPAIN

Up to 2007, the economic situation in Spain could be described as positive in general when valued according to its fundamentals. Growth had been constantly picking up since 2002 and among the countries studied, Spain and the UK were the only two countries that did not witness a drop in annual growth rate from 2002 to 2003 (Eurostat). A look at the average annual growth rate from 2002–2006 shows that only Ireland recorded greater economic growth than Spain (see **Figure 16**).

Figure 16
Average Annual Real GDP Growth Rates, 2002–06



Source: Eurostat.

This result is mirrored in the unemployment rate, which fell from 9.2% to 8.3% (Eurostat) from 2005 to 2007. While these numbers indicate still relatively high levels of unemployment, the labour market has been performing strongly over the past few years, especially considering that as of 1996 the unemployment rate was as high as 17.8%. But since then, annual average employment growth has stood at 3.45% and in the last two years, only Ireland (among the western European countries) has surpassed the annual employment growth rates of Spain, which have stood at 3.6% (2005) and 2.36% (2006) and 1.23 in 2007 for the Iberian country (Eurostat).

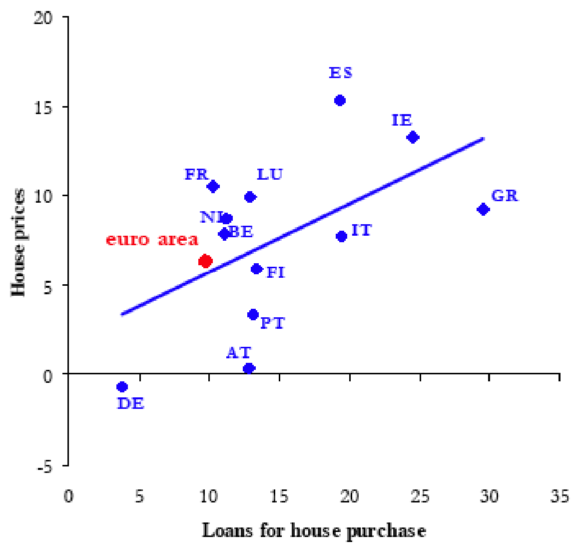
SOME RISK IS LOOMING IN THE INCREASED INDEBTEDNESS

Together with increasing net earnings (Eurostat), these circumstances may be the reason for the rise in the outstanding amount of consumer and mortgage credit since 2003 (according to ECRI Statistical Package 2007 and ECRI data). The ratio of total household credit to the gross disposable income of households stood at roughly 119% in 2006, about 50% higher than it was in 2003 (ECRI data).

The ratio of total household credit to the final consumption expenditure of households was at 132%, which also means an increase of about 46% compared with 2003 (ECRI data). These high ratios should be monitored cautiously; should a recession occur, the indebtedness of Spanish households could become a heavy burden and potentially amplify a cutback in consumer spending, and in turn exacerbate economic fluctuations. The well-documented, large increases in house prices and mortgage lending in Spain are depicted in **Figure 17**.

The data shown are the average annual percentage changes for the period 1999–2005. Spain is exceptional in terms of the rise in house prices, with only Italy, Ireland and Greece having had stronger increases in loans for house purchases. This country must be watched carefully in the event of a cooling in the house market.

Figure 17
Growth in House Prices and Mortgage Lending



Source: ECB, average annual percentage changes for the period 1999–2005.

UPPER MIDDLE FIELD FOR SPAIN: MORE VULNERABLE THAN MOST

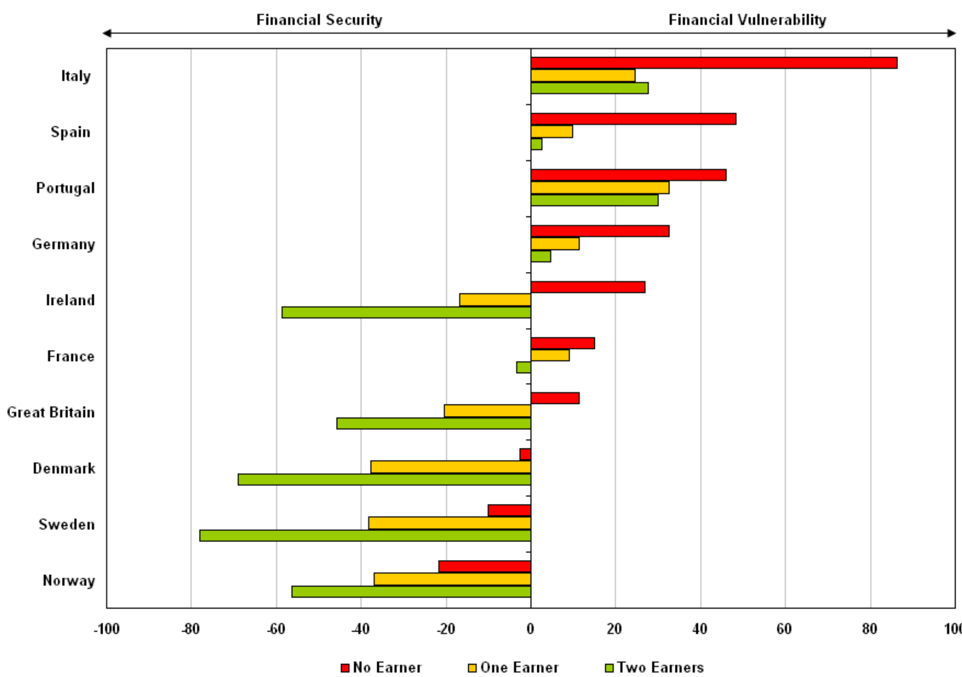
Spain, has an **Index score is 15**. This makes it slightly less financially vulnerable than Germany, Portugal and Italy but more vulnerable than the other six countries studied.

The Index score is worse for older householders in Spain. With a score of -6, the age group 18-29 thus ranks last. And that is the case not only when comparing it with other age groups but also with the various other socio-demographic subgroups.

Closer examination is needed, however, to determine whether the 19% share of 18-29 year-olds in Group B (those not classified as being financially vulnerable but tending towards it) is relatively high in comparison with the range of 2% to 7% for the other age groups. A move towards Group A (financially vulnerable) would thus change the picture completely. This is supported by adding up the percentages of Groups A and B (those who are already financially vulnerable along with those who tend to be classified that way) and of Groups C and D (those who are more financially secure and those who tend to be financially secure) for the respective age groups. The first sum (i.e. of Groups A and B) is highest for the youngest age group and the second sum (i.e. Group C and D) is the largest.

As opposed to the other countries reviewed, there is a difference in Index score by gender. Men are less financially vulnerable and more financially secure. This outcome is reflected in a rather robust Index score, as it does not stem solely from one of the two groups. The same holds when considering the variable number of earners within the household.
In Group A, with a share of 20% of financially vulnerable households having no earners, this subgroup is 7 percentage points higher than households with one or two earners. Conversely, only 2% of those without a wage earner feel financially secure. These findings combine in an Index score of 48, which is 19 Index points above the sample average; no other country, except Italy, records such a negative result for households without a wage earner (see **Figure 18**).

Figure 18
Index Scores Depending on the Number of Earners in the Household

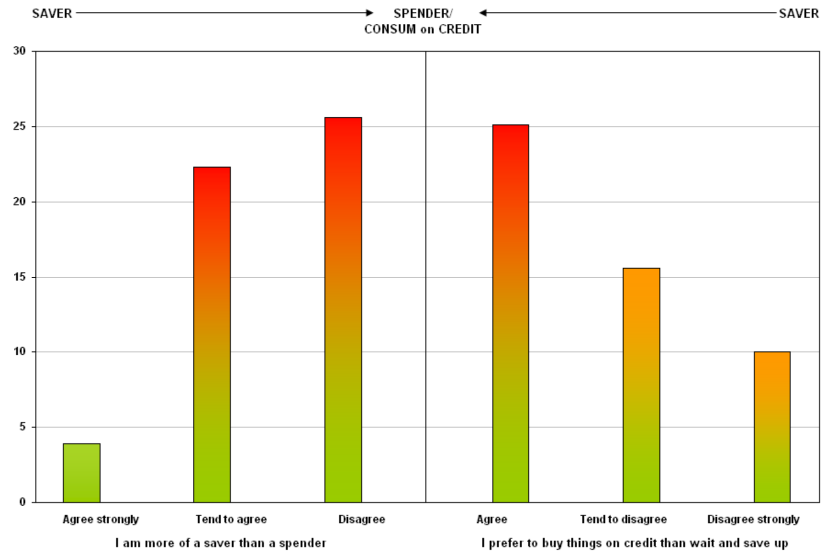


Source: Authors' calculations.

The results of analysis by attitude to savings indicates that savers in Spain – as opposed to spenders and those who consume on credit – tend to be more financially secure, a result that would not come as a great surprise.

12 % of those who state to be more savers than spenders fall into the group of the financially vulnerable and 10% into the financially secure group. The numbers increase (and decrease, respectively) the more that respondents disagree with the statement (**Figure 19**).

Figure 19
Index Score and Savings Attitudes in Spain



Source: Authors' calculations.

For householders in Spain, financial security is higher amongst renters than homeowners. This is counter to findings in the other countries studied. Renters achieve a low Index score of 8, while the latter have a higher score of 17, indicating increased relative financial vulnerability. This outcome is largely owing to a smaller group of financially secure households among the homeowners, as the size of the financially vulnerable group differs by just 1 percentage point.

3.9 THE BEST SCORE: SWEDEN

The Swedish economy has been growing at rates above those of many other western European countries, with average annual real GDP growth of 3.16% since 2002 (Eurostat). In 2006, growth was recorded at 4.10% – the second highest among the countries studied – although the growth rate fell to 2.6% in 2007. Thus, Sweden's economy has strongly recovered in the past few years after the slump between 2001 and 2003, when it dropped down from its previously high levels of around 4% (Eurostat). Yet the last major recession dates back to the beginning of the 1990s, with negative GDP growth rates of -1.1% in 1991 and -1.2% in 1992 (Statistics Sweden).

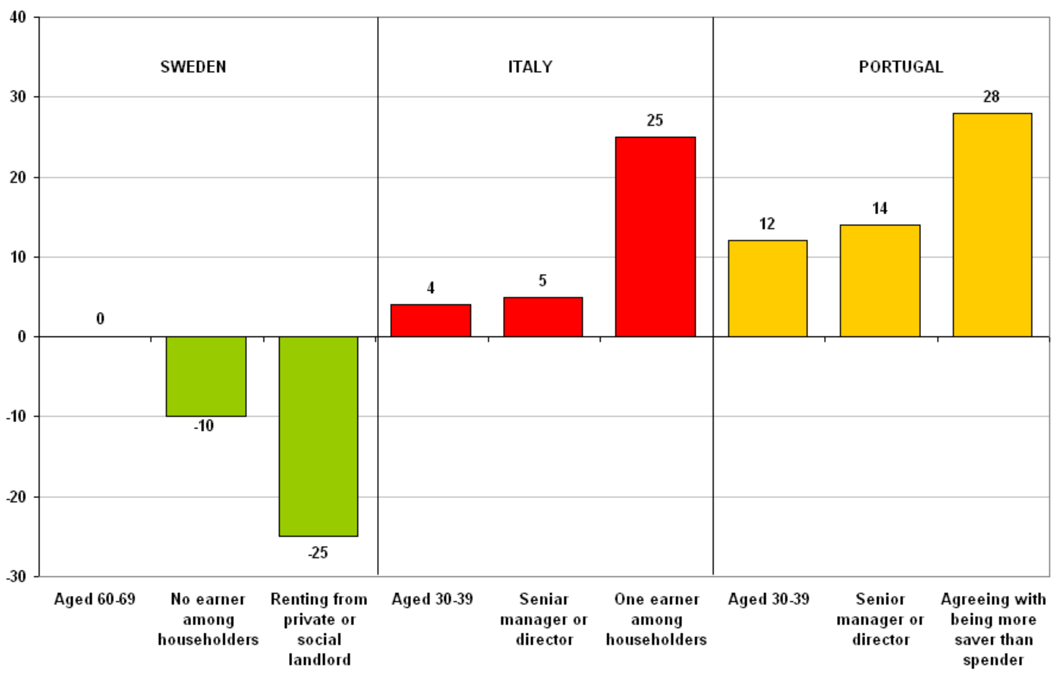
The revival of the economy brought real wage increases for the employed. Also, productivity growth has been strong in Sweden, which ranks among the top 10 of 35 countries (the EU-27 plus Switzerland, Japan, etc.) in terms of labour productivity per person employed (2007, Eurostat). After two years of negative employment growth (2003 and 2004, Eurostat), numbers have picked up again, leading to an unemployment rate of 6.1% in 2007 (Eurostat). According to the OECD, Sweden has recorded one of the lowest average inflation rates among European countries since the mid-1990s, with stable expectations for the future. One of the reasons is wages, which – despite growth – lag behind increasing labour productivity. All these factors have led the OECD to conclude in its *Economic Survey of Sweden* (2007)[11] that Sweden enjoys "excellent macroeconomic performance".

EXCELLENT MACROECONOMIC PERFORMANCE AND FINANCIAL STABILITY

This excellent macroeconomic performance contributes to the predominant tendency of the Swedish population towards financial security, which is illustrated by the fact that **the country ranks last on the Index of consumer financial vulnerability with a score of -46**. Even the financially most vulnerable groups in Sweden have better Index scores than the financially most secure in other countries, as shown in **Figure 20**. The only exception is the oldest age group of this Scandinavian country, who, despite a staggering share of 81% households tending towards financial security (Group C), have the same percentage of financially vulnerable and financially secure persons (7% each), thus resulting in an Index score of 0.

The results of the poll show that among all the countries studied, no other age group is as secure as the 30-39 year-olds in Sweden. In view of the above descriptions of findings relating to Norway and Denmark, it is clear that in all the Scandinavian countries, this age group consistently delivers the lowest score, followed by those aged 50-59 and 40-49.

Figure 20
Comparison of the Worst (Sweden) and Best (Italy and Portugal) Index Results



Source: Authors' calculations.

[11] OECD (2007). OECD Economic Surveys – Sweden, OECD, Paris.

Table 6
Savings Attitudes, Shares of Financially Vulnerable Persons and Index Scores for Sweden

	Group A (%)	Group B (%)	Group C (%)	Group D (%)	Index score
I am more of a saver than a spender					
Agree strongly	2	6	63	26	-55
Tend to agree	3	5	58	31	-49
Disagree	4	13	56	25	-42
I prefer to buy things on credit than wait and save up					
Agree	4	14	55	26	-39
Tend to agree	5	11	46	32	-39
Disagree strongly	3	6	62	26	-49

Source: Authors' calculations.

The result of the evaluation of the second question ("Do you prefer to buy things on credit or wait and save up?") indicates that those leaning towards saving are less financially vulnerable than those who consume on credit.

3.10 RANK IN THE LOWER MIDDLE FIELD FOR GREAT BRITAIN

The real GDP annual average growth rate in Great Britain has been rather strong and stable since 2002, recorded to stand at 2.65% over the period from 2002 to 2007 (Eurostat). The unemployment rate has been stable at around 5.1% since then, dropping from levels as high as 10.2% at the beginning of the 1990s. With the end of the last British economic recession in the early to mid-1990s, levels of financial difficulty have fallen and have remained at a fairly low level. It is perhaps surprising that financial difficulties have remained low despite the fact that consumer borrowing – both unsecured and through mortgages – continues to rise steadily. Increasing from an already very high base, the average annual growth rate of consumer credit from 2001 to 2006 stood at 6.02% for consumer credit and at 6.83% for mortgage credit, according to ECRI data. Moreover, while interest rates were historically low and stable for several years, in the past year (2006), the Bank of England base rate has increased from 4.5% to 5.25% and recently dropped back to 5%. As a large proportion of mortgages in Great Britain have variable interest rates, this means that a substantial number of households have seen their mortgage repayments increase significantly.

Consequently, attention has been focused on whether these three trends are leading to an increase in the number of households in financial difficulty. There are some signs that the number of households under financial strain is rising – albeit slowly. There has been a small increase in the proportion of mortgage arrears; banks have increased their bad debt provisions and debt advice agencies are reporting an increase in the number of persons they help.

OVER-INDEBTEDNESS IS A MAJOR CONCERN IN GREAT BRITAIN

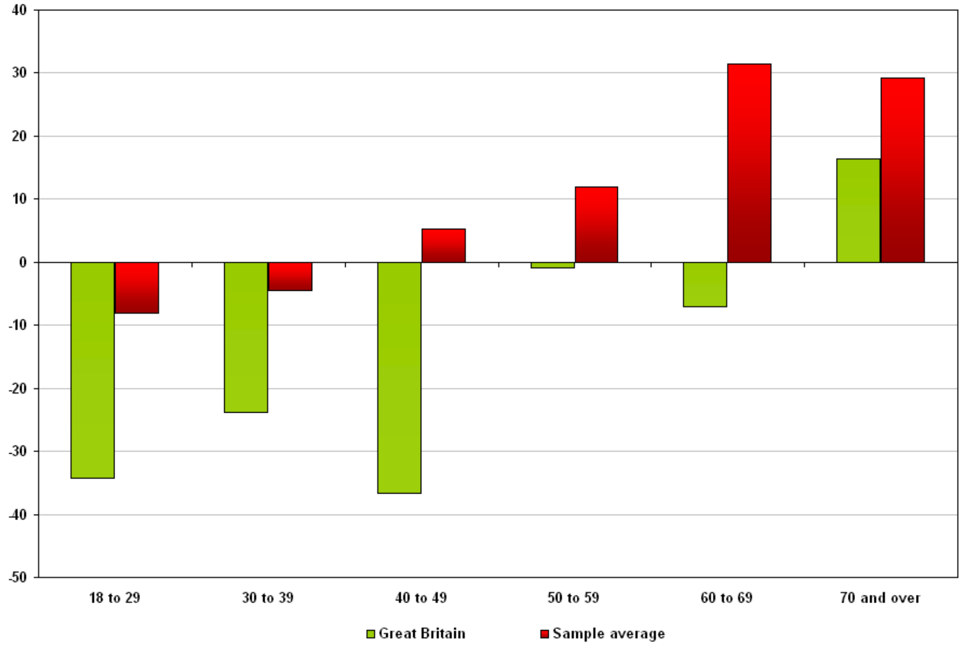
Over-indebtedness has been a particular policy concern in Great Britain since the early 1990s, which may explain the low levels of financial difficulty. The first study to measure the financial problems faced by households was published in 1992. At that time, creditors and the government began to look at ways of tackling the problems identified. This was followed by a deep economic recession in the early to mid-1990s, and it was during this period that a large body of research was commissioned; detailed statistics began to be compiled and collated and a range of policy initiatives were introduced to prevent individuals from falling into financial difficulties. In 2000, the government set up a task force to look into the issue of over-indebtedness and to report to the minister for consumer affairs. This task force evolved into a ministerial group on over-indebtedness that continues today. Great Britain has a low **Index score of -19**, putting the country in the seventh place.

When asked to explain in their own words why they had fallen into arrears, the most common reasons interviewees gave related to a drop in income – through job loss, sickness or disability, and relationship breakdown. In many cases, these circumstances can even surface at around the same time, which increases their negative impact on the individual.

The Index shows that the age groups 18-29, 30-39 and 40-49 have rather strong tendencies towards financial security with Index scores such as -34, -24 and -37, respectively (see **Figure 21**). A comparison with the Index scores of the sample average reveals that these scores are below average, indicating greater financial security for British households in these age groups.

In fact, the Index scores for the three age groups between 40 and 69 (40-49, 50-59 and 60-69) are not just lower than the average but even show the opposite sign. In other words, the Index delivers results indicating tendencies towards financial security (scores below 0) for the aforementioned three age groups in Great Britain, while the respective scores for the overall average are greater than 0. Additionally, even the age group of those 70 years and above score 13 points better on the Index than the sample average.

Figure 21
Index Scores for British Households (by Age)



Source: Authors' calculations.

Both households with and without children make up almost equally sized shares of financially vulnerable households (7% and 6%, respectively). Their respective Index scores vary slightly because of the difference in percentages of households in Group D. The scores indicate that households with dependent children are more financially secure: this subgroup has an Index score of -22 (because of 19% being attributable to Group D) as opposed to -17 for those without children (because of just 12% being categorized in Group D) However, the share of households with dependent children belonging to Group B is twice as large as that for those households with children (16% with children as opposed to 7% without children).

Noticeable differences can be detected among those households with no earner, one earner and two earners. While this is no big surprise and in line with expectations, the following is well worth mentioning: with exception of those households in the three Scandinavian countries in the sample (Denmark, Norway, Sweden), households with no earner tend to be financially more vulnerable than secure (i.e. scoring above 0 on the Index).

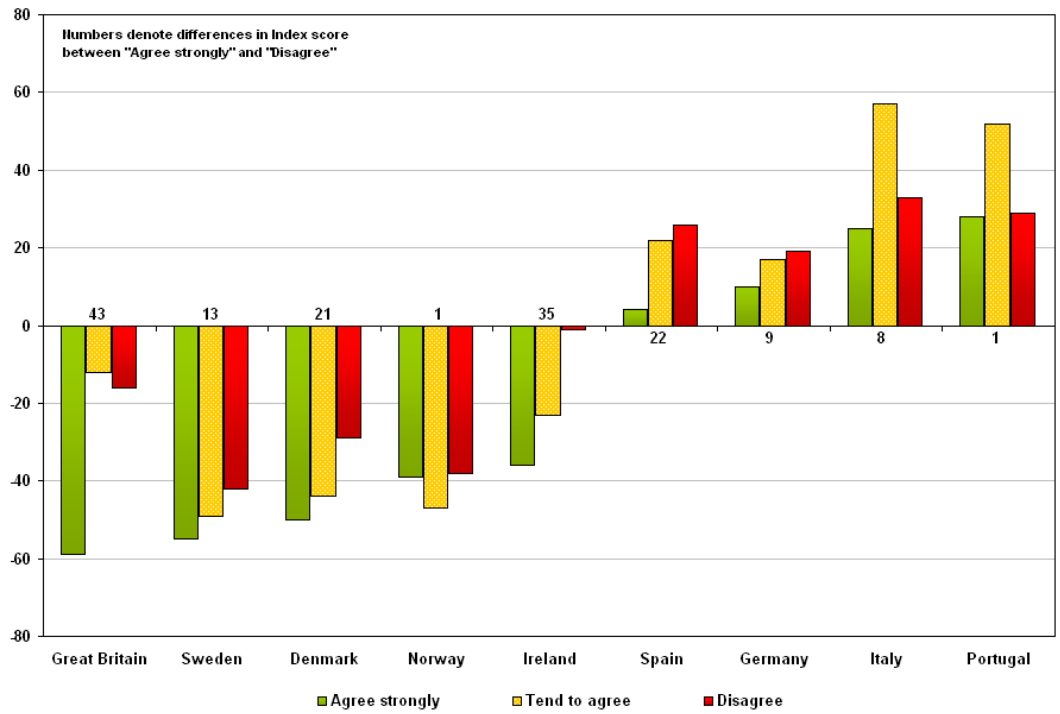
Of these countries, however, no other country only Ireland and Britain have index scores that range from negative to positive values depending on the number of earners in a household. This is reflected in a differential of 57 Index points between the two possible extremes in this category.[12] The share of financially vulnerable persons decreases the more earners there are in the household (from 8% to 6% to 3% for the

[12] Italy, with a difference in the Index score of 58 points, denotes a slightly higher fall of the Index. This, however, is due to the largest level of financial vulnerability within the sample for the households with no earner.

three different categories), and the share of financially secure households rises. In fact, among financially secure households, the proportion of those with two earners is five times that of those with no earner at all, with 25% of the households with two earners falling into the financially secure group as opposed to only 5% of the households with no earner. These proportions result in Index scores of 11 for households with no earner and -46 for households with two earners.

Great Britain similarly spearheads the 10 countries in this survey in terms of the relationship between "savings attitudes" and Index scores: in virtually no other country have we identified such large differences in the Index score (and thus in financial vulnerability) between those households who fully agree with being "more of a saver than a spender" and those who admit to more easily loosening the saving belt a bit. The only exception is France, where no savers fell into the financially vulnerable group.[13] **Figure 22** graphically demonstrates the result.

Figure 22
Index Scores and Index Score Differences for European Households (by Saving Attitudes)



Source: Authors' calculations.

For Britain, the aforementioned differential amounts to 43 points on the Index, followed by Ireland (35 point differential) and Spain (22 point differential). This means that the adoption of a savings attitude (ceteris paribus) in Great Britain seems to be associated with greater relative financial security than in any other country in the sample. Confirming expectations, it can be witnessed that in all of the countries,

[13] If Group A for households agreeing to "being more of a saver than a spender" in France was assumed to be 1%, France would lead the list of countries, with Great Britain coming into second place. As this is not the case, the country is left out of the subsequent analysis.

households agreeing with “being more of a saver than a spender” are financially more secure than those disagreeing with the statement.

The graph also illustrates another interesting observation: according to the results of the Index, even “savers” in the Scandinavian countries – where least financially vulnerable results are witnessed on average – do not achieve a lower score than savers in Britain. Those countries do, however, occupy ranks two to four, as can be seen in **Figure 22**.

IV. CONCLUSIONS

In this report, we have presented evidence from the newly developed Consumer Financial Vulnerability Index – which will be published in future by Genworth Financial as the 'Genworth Index.' The Index depicts the level of perceived financial vulnerability in a population, representing the proportion of persons who are currently financially strained compared with those who are financially secure. The result is then rescaled on an Index ranging from -100 (secure) to 100 (vulnerable).
For the construction of the Index, we have taken as a starting point the combinations of responses to two survey questions, one gauging current financial difficulties and another one assessing expectations about the future financial circumstances of the household. This information has been underpinned by the totality of the individual's financial situation, drawn from a number of self-assessed measures. The survey, which took place in mid-2007, was conducted in 10 different European countries and was representative.
The Index provides a number of interesting results. It shows that Italy and Portugal rank very highly on levels of perceived financial vulnerability, occupying the first and second places, respectively. There are far more individuals in these two countries reporting financial difficulties in relation to those who are more secure than in other countries in the middle of the distribution field (Spain, France and Ireland). The Index is based on four identified groups (varying by the degree of financial vulnerability), and will in future pick up movements in and out of these groups. Sweden and Norway show the best results according to the Index.

This study has also analysed the results with regard to the individual age groups in the countries covered. Some considerable differences have been found, which are reflected in the overall Index results. For instance, one of the starkest contrasts is that no age group in Sweden actually scores higher than 0, whereas no group in Italy scores lower than 0. According to the representative results of the survey, among all the countries studied, no other age group feels as secure as those aged 30-39 in Sweden. Further information and results can be derived by combining the results for Groups A and B, as well as Groups C and D. Here again, the Index provides some interesting findings for the individual age groups, and other demographic characteristics such as gender and occupation. Thus, in the future there may be scope for the Index to assist in the tailoring of preventive measures more specifically to the needs of particular socio-demographic groups.

Consumer financial vulnerability is certainly influenced by a number of factors – areas in which the research must be expanded in future. The economic environment along with movements in interest rates and inflation play a role in consumer perceptions. The Index not only captures the current financial situation, but also future expectations, which are not stable over time. Additional research should also devote some resources to the relationship between consumer financial vulnerability and over-indebtedness. If the Index is in fact a leading indicator, policy measures to prevent over-indebtedness could be introduced, before the number of cases of over-committed households increases. Although the European Credit Research Institute and the Personal Finance Research Centre have provided the basic research for this Index, it is to published regularly in future by Genworth Financial.

E C R I

The **European Credit Research Institute (ECRI)** is an independent research institution devoted to the study of banking and credit. It focuses on institutional, economic and political aspects related to retail finance and credit reporting in Europe but also in non-European countries. ECRI provides expert analysis and academic research for a better understanding of the economic and social impact of credit. We monitor markets and regulatory changes as well as their impact on the national and international level. ECRI was founded in 1999. The institute is a legal entity of the **Centre for European Policy Studies (CEPS)**.

The **Personal Finance Research Centre (PFRC)** at the **University of Bristol** was established in 1998 by Professor Elaine Kempson and has since gained a national and international reputation for policy-focused research encompassing all areas of personal finance. PFRC has considerable expertise in designing, undertaking and analysing both large-scale quantitative and in-depth qualitative research. It has conducted research for government departments, trade associations, regulatory bodies, charities and the private sector.

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