ANALYSIS REPORT

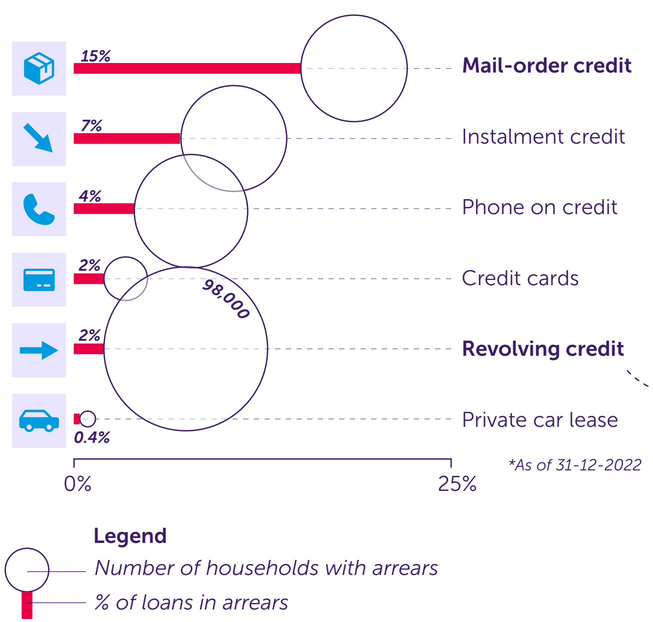
Consumer credit and financial vulnerability

In short This study provides new insights into the consumer credit market, borrowers and payment arrears in the years 2018-2022. Although the number of people with BKR registered credit arrears has been declining since 2019, there are still credit types where a large or increasing percentage of loans is in arrears. Payment arrears often occur over a long period of financial stress, in which payments are missed repeatedly. As a result, credit providers can prevent new payment arrears by being alert to wider payment problems among their clients in the management phase.

Six in ten Dutch households had consumer credit at the end of 2022. In most cases this was a revolving loan.

Where do payment arrears occur?

Mail-order loans are most often in arrears (**15%**)*. The number of households in arrears is highest for revolving loans (**98,000**)*.



How to read?
***2%** of the revolving loans is in arrears (). This concerns a relatively large number of households, namely **98,000** (the size of the bubble).*

What are the main predictors* of payment arrears?

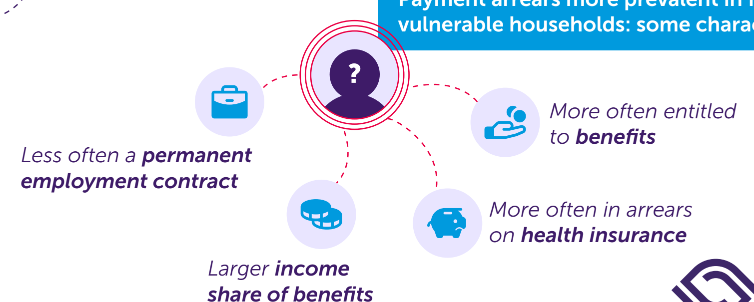
- Arrears on health insurance on 1 January (3 flags)
- Arrears on other credits on 1 January (2 flags)
- Young age (born in 1990 or later) (2 flags)
- Few financial assets (1 flag)
- Certain life events (relational break-up, work loss) (1 flag)

**Predictors in order of predictive power, where three flags is the highest.*

Recommendations

- Identify risks through the use of **detailed data**.
- Be alert to **wider payment problems**.
- Pay attention to **young borrowers**.
- Make it easy to **report life events**.

Payment arrears more prevalent in financially vulnerable households: some characteristics



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Summary

Problematic debts are a persistent problem with far-reaching consequences. When households are unable to meet a payment obligation for a longer period of time, we speak of a problematic debt. A problematic debt can arise with various parties, such as the mortgage lender, landlord, health insurer, government agencies or consumer credit providers. Despite policies to reduce problematic debt, the share of households with such debt remained almost unchanged between 2015 and 2023. Not being able to pay bills can have a major impact on a person's mental and physical well-being. In addition to personal problems, problematic debts lead to significant costs for society.

Consumer credit enables households to pay expenses that they cannot or do not want to pay from their financial assets, but borrowing can also cause problems. When households borrow too much or are unable to meet their payments, problematic debts can arise or worsen. That is why it is important that these loans are provided responsibly. The Dutch Authority for the Financial Markets (AFM) supervises this.

To be able to identify trends and payment risks in the consumer credit market, it is important that the AFM has a good overview of this market, the borrowers and their loan portfolios. This study provides a clearer picture of the consumer credit market and borrowers. We gain more insight into where payment problems arise and what signals there are for new payment problems. To do this, we use data on consumer loans outstanding in the years 2018-2022.

Six in ten Dutch households had consumer credit at the end of 2022. In most cases, this was a revolving loan, followed by an instalment loan. Since the credit amounts for instalment credit are often higher than those for revolving credit, the total value of all instalment loans was higher than that of all revolving loans.

The use of private car leases and phones on credit has increased in recent years, while the use of other BKR-registered consumer credit types has decreased. The decrease in instalment credit, mail-order credit, credit cards with an instalment plan and revolving credit was mainly due to a (sharply) declining inflow of new loans. Presumably, the coronavirus pandemic and a shift to new, unregulated (and in this study unobserved) types of consumer credit also play a role in this.

Although the number of Dutch people in arrears on BKR-registered consumer credit has been declining since 2019, there are types of credit for which a large or increasing percentage of loans are in arrears. For example, at the end of 2022, 16% of revolving loans greater than €2,500 were in arrears (approximately 68,000 loans), as were 15% of mail-order loans (approximately 47,000 loans). For phone on credit, the arrears rate is currently significantly lower at 4%, but the payment arrears at the end of 2022 are four to five times greater than at the end of 2018. On the other hand, the payment problems with mail-order credit and revolving credit in excess of €2,500 seem to be mainly a legacy from the past: fewer and fewer of these loans are taken out and the number of payment arrears is also decreasing.

Households with payment arrears are financially more vulnerable than households without payment arrears. For example, they have a lower income (which also consists of a larger proportion of benefits and allowances), have fewer financial assets and more often have wider payment problems than households with the same type of credit that are not in arrears. Households in arrears also have more consumer loans than households without payment arrears and their total indebtedness is higher, both in euros and relative to household income and financial assets.

The most important signs of the emergence of new consumer credit arrears are previous payment arrears. Borrowers who are in arrears on the basic health insurance premium on 1 January are more likely to fall behind on a consumer loan later in that year. Borrowers who start the year with arrears on another type of consumer credit, a mortgage loan or another financial obligation (such as a credit card without an instalment plan) are also more likely to fall into arrears on a consumer loan that year. The link between previous payment arrears and new payment arrears can be seen in all types of credit. This means that missed payments often occur repeatedly over a longer period of financial stress.

In addition, young people, borrowers with few financial assets, borrowers whose relationship has ended and borrowers who have lost their work have a higher chance of falling behind on payments. After existing payment arrears, these are the most important signs of the emergence of new payment arrears for all types of credit.

Detailed data are needed to detect payment problems. In the Netherlands, the Central Credit Registration Office (BKR) manages the credit register with the ultimate goal of preventing or slowing down financial problems. It is recommended that a more precise distinction be made between credit types in the registration and publication of payment arrears. This applies particularly to revolving credit, the majority of which consists of overdrafts on payment accounts with a low utilisation rate and a low rate of missed payments. If the published arrears percentage is for all types of revolving credit combined, the payment problems for mail-order credit and other revolving credit are invisible.

Credit providers can prevent new payment arrears by being alert to wider payment problems in the management phase. Credit providers can help prevent their customers' payment arrears from increasing further by means of early detection. To this end, BKR offers, for example, the *BKR Monitoring* service, which gives credit providers a signal when their customers fall behind on another BKR-registered credit. The AFM encourages the use of this service and expects credit providers to respond actively to these signals. In addition, BKR has developed the *Vindplaats van Schulden* (VPS) platform, which sends municipalities a signal when residents are in arrears with health insurers, landlords and utility companies. It is recommended that signals about arrears also be sent from the VPS to credit providers.

Young borrowers deserve extra attention in the credit management phase. This study once again shows that young people have an above-average risk of payment problems. Moreover, their payment problems with regulated credit types make it plausible that their payment risks will be even greater with unregulated credit types, such as buy-now-pay-later (BNPL). We call on credit providers in both parts of the market to be particularly alert to payment problems among young people.

We encourage credit providers to enquire regularly about customers' life events and to make reporting life events as easy as possible for customers. Since relational break-up and work loss are in the top ten strongest predictors of new payment arrears, it is valuable that a credit provider is aware of this. Whether or not a borrower currently has to report a life event depends on the terms of the credit agreement.

1. Introduction

The Dutch debt problem is persistent and far-reaching. When households are unable to meet a payment obligation for a longer period of time, we speak of a *problematic debt* (Box 1). According to Statistics Netherlands (CBS), approximately 9% of Dutch households had problematic debts in 2015.[1] Despite policies to reduce problematic debt, the share of households with problematic debt was almost the same in 2023. In addition to problems on a personal level, problematic debts cause significant costs. The social costs of debt problems are estimated to be at least €8.5 billion per year.[2] This concerns both direct costs incurred in the debt chain – such as costs for debt collection or debt counselling – and indirect costs due to absenteeism and loss of productivity because of stress and illness due to money problems. By preventing problematic debts or resolving them in a timely manner, the total costs can be reduced.

Consumer credit helps households to meet needs that they cannot or do not want to pay for from their financial assets but can also lead to problematic debts. Thanks to consumer credit, for example, a household can buy a car or washing machine without having saved the total amount for it. Consumer credit thus allows consumption smoothing: the smoothing out of timing differences between income and expenses. However, when households borrow too much or are unable to meet payments, payment difficulties and problematic debts can arise or worsen. Households may also have payment problems with parties other than a consumer credit provider, for example with their mortgage lender, landlord, health insurer, government agencies or utility companies. Payment problems with consumer credit can therefore be part of wider payment problems.

This study provides an overview of the different consumer credit segments, the borrowers and their loan portfolio. It also provides insight into where the payment problems arise and detects signals of new payment problems. Among other things, the study provides insight into the number of people and households with distinct types of credit, the amounts of credit taken out, characteristics of people with and without credit, the frequency of payment problems and indicators of the occurrence of new payment arrears. This study has two important demarcations. First, it does not make any statements about lending standards for consumer credit or the appropriateness of those standards. Second, it does not include figures on unregulated credit, such as buy-now-pay-later (BNPL) and private leases of products other than passenger cars.

For the purposes of this survey, credit data are linked to household and personal data. For this study, the Central Credit Registration Office (BKR) has made pseudonymised credit data available through Statistics Netherlands (CBS) on the loans that were outstanding on 31 December of each of the years 2018-2022. With its registers and services in the Netherlands, BKR plays a vital role in preventing excessive lending and problematic debts. Box 2 contains an overview of the various types of credit and their characteristics. BKR only discloses the industry in which credit providers operate. That makes it possible to distinguish credit types more accurately, but it is not possible to differentiate between individual credit providers. The data were supplied to Statistics Netherlands, which then made the data linkable to Statistics Netherlands' data on individuals and households. The AFM conducted the analyses in Statistics Netherlands' enclosed and secured remote access environment and did not receive the data itself. More information about the data used and the study design can be found in the technical annex to this report, which has been published separately on the AFM website.[3]

1 'Schuldenproblematiek in beeld', CBS, May 2024.
2 'Interdepartementaal Beleidsonderzoek (IBO) Problematische schulden: Naar een beter werkende schuldenketen', Ministry of Social Affairs and Employment, June 2024.
3 'Consumer credit and financial vulnerability: Technical annex', AFM, November 2024.

Box 1 Explanation of the concepts of debt, problematic debt and arrears

A debt
A *debt* is a financial obligation to another party. Debt is not inherently bad or undesirable. For example, thanks to a mortgage debt, you can already live in the house that you are going to save up for in the future.

A problematic debt
A *problematic debt*, on the other hand, is undesirable. There are different definitions of problematic debt. The legal definition is based on the Bankruptcy Act and is used in debt counselling. In practice, a debt is considered problematic when a person is unable to pay off all due debts within 36 months.[4] In addition to this legal definition, there is a statistical definition from Statistics Netherlands. According to this definition, a household has a problematic debt if at least one of the following situations applies to at least one person in the household:

- payment arrears with DUO, SVB or UWV;
- registered payment arrears with the Central Credit Registration Office (BKR);
- a debt to the Tax and Customs Administration or CJIB;
- registration as a defaulter under the Healthcare Insurance Act ('Zvw');
- payment arrears for copayments under the Long-Term Care Act or Social Support Act;
- an ongoing voluntary debt restructuring (registered with BKR);
- an ongoing statutory debt restructuring ('Wsnp'); or
- registration in the Central Register of Guardianships and Fiduciary Administrations.[5]

Since the details of debts differ in each registration, the number of months after which the debt is considered problematic is determined separately for each registration.[6]

Arrears
We speak of *arrears*, or a *payment problem*, when a payment is missed.[7] Credit providers must report payment arrears to BKR, but precisely when this must be done differs depending on the credit type. For example, for a phone loan it is two months after a person should have paid, and for a mortgage loan on an owner-occupied home it is after three missed monthly instalments. Not every missed payment is registered. In this study, we define payment arrears on the basis of the registration rules of BKR. These payment arrears are referred to by Statistics Netherlands as problematic debts.

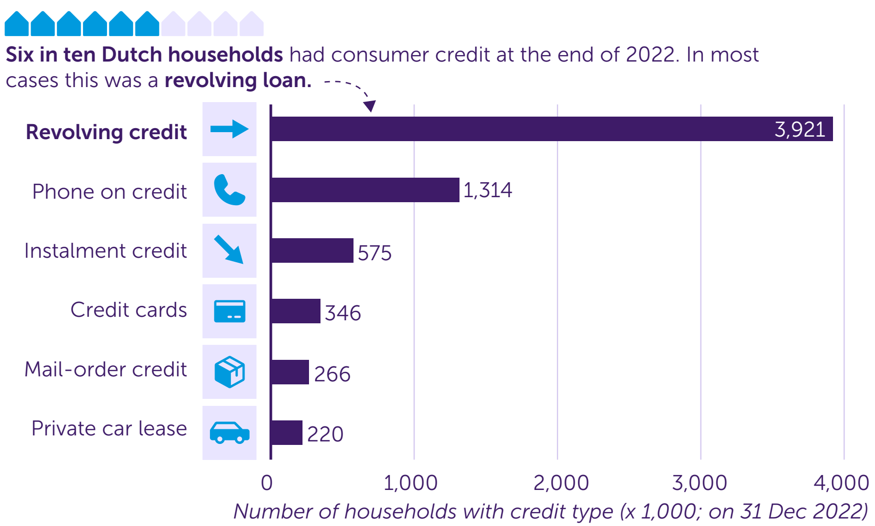
4 'Interdepartementaal Beleidsonderzoek (IBO) Problematische schulden: Naar een beter werkende schuldenketen', Ministry of Social Affairs and Employment, June 2024.
5 'Schuldenproblematiek in beeld', CBS, May 2024.
6 Due to a lack of systemic registration of all problematic debts, this picture is not complete. For example, payment arrears on fixed costs such as rent and gas, water and electricity are not included, nor are figures on arrears on buy-now-pay-later obligations or on loans from family and friends.
7 Except in situations where a deferral of payment has been agreed upon between the credit provider and the customer, for example in the case of a payment break.

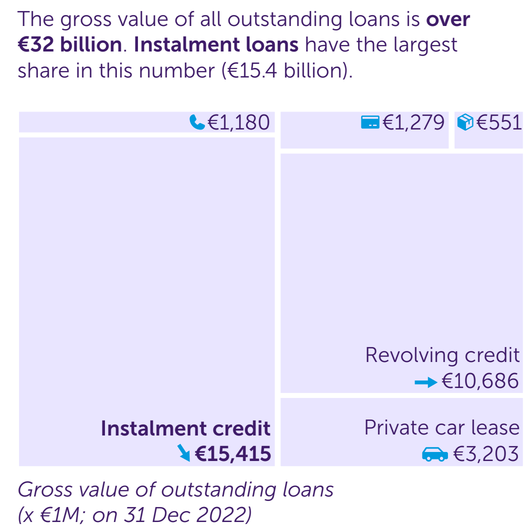
2. What does the consumer credit market look like?

To be able to identify trends and payment risks in the consumer credit market, a good overview of the market is needed. This section first describes the several types of consumer credit and how they relate to each other in terms of market size and market penetration. We then look at the characteristics of borrowers for each type of credit, among other things to provide insight into how they are related to a specific credit need or spending goal. Finally, we look at which credit segments have grown and contracted in recent years, whether or not as a result of, for example, the coronavirus pandemic and the shift to unregulated credit.

Six in ten Dutch households had consumer credit at the end of 2022. In most cases (almost four million households), this is a revolving loan where money can continue to be drawn up to a certain maximum amount (the credit limit) with interest payable on the drawn amount. 1.3 million households have a phone on credit and about 600,000 households have (other) instalment credit (Figure 1, left). These are loans with a lump sum and a fixed term. Since the credit limit of revolving loans is usually lower than the credit amount of instalment loans, the total *value* of all outstanding revolving loans on 31 December 2022 was smaller than that of all instalment loans. The totals were €11 billion and €15 billion respectively (Figure 1, right).

Figure 1 Revolving credit, instalment credit and phone on credit are the largest credit segments





Source: Results based on calculations by AFM using non-public microdata from CBS and BKR.

Box 2 What types of consumer credit are there?
In this study, we draw a distinction within consumer credit between phone on credit, other instalment credit, credit cards with an instalment plan, mail-order credit, other revolving credit and operational/private car leases. For the sake of readability, we shorten other instalment credit to 'instalment credit', other revolving credit to 'revolving credit' and operational/private car lease to 'private car lease'.

Phone on credit is a form of instalment credit, and credit cards with an instalment plan and mail-order credit are forms of revolving credit. Within the 'other' instalment and revolving loans, there are also various types of credit. For example, personal loans and hire purchase are both instalment loans, and revolving loans consist of overdrafts and other loans with a credit limit. However, we cannot clearly distinguish between these subvariants.

For some types of credit, BKR registers all contracts ('positive' registration) and for other credit types only contracts for which problems/irregularities have arisen ('negative' registration). In this study, we focus primarily on the positively registered types of credit, partly because we can determine whether a person/household has these types of credit.

BKR registers the credit amount of instalment loans (including phone loans) and private car leases. In the case of instalment loans, this is equal to the principal amount plus all interest payments due over the term. In the case of private car leases, this is equal to the sum of the monthly instalments.[8] BKR registers the credit limit of the revolving loans (credit cards, mail-order loans and other revolving loans). This is equal to the line of credit within which the consumer can withdraw money, for example the maximum amount that can be overdrawn on a current account. In those cases, we look at the maximum amount of credit that a person *can* take out; the actual *use* of this credit line is not known. The highest credit amounts *can* be found with private car leases and instalment credit – both a median of (more than) €12,000. For revolving loans, the limits are between €1,000 and €2,500 on average, and for phones on credit the median credit amount is the lowest at €650.[9]

Consumer borrowers have a distinctive financial profile. First, borrowers differ from people without consumer credit because of their lower financial assets (bank, savings and investment balances).[10] This can be seen in all types of credit except revolving credit, although the difference is more pronounced with some types of credit than with others. Second, it appears that different credit types are taken out by different people, possibly for different reasons. For example, people with a mail-order or phone loan have a more vulnerable financial profile, which manifests itself in a lower income (often as a single-income earner), a greater dependence on benefits and allowances and fewer financial assets. More often, these loans appear to be taken out of necessity. Individuals with a private car lease or revolving loans, on the other hand, have a relatively favourable financial profile, which suggests that financial necessity plays no or less of a role here. A private car lease is probably taken out more for reasons of convenience/luxury, and the same applies to an overdraft facility, which makes up the bulk of all revolving loans. The relatively low utilisation rate of overdrafts suggests that such a facility is the result of convenience or habit rather than a specific credit need.

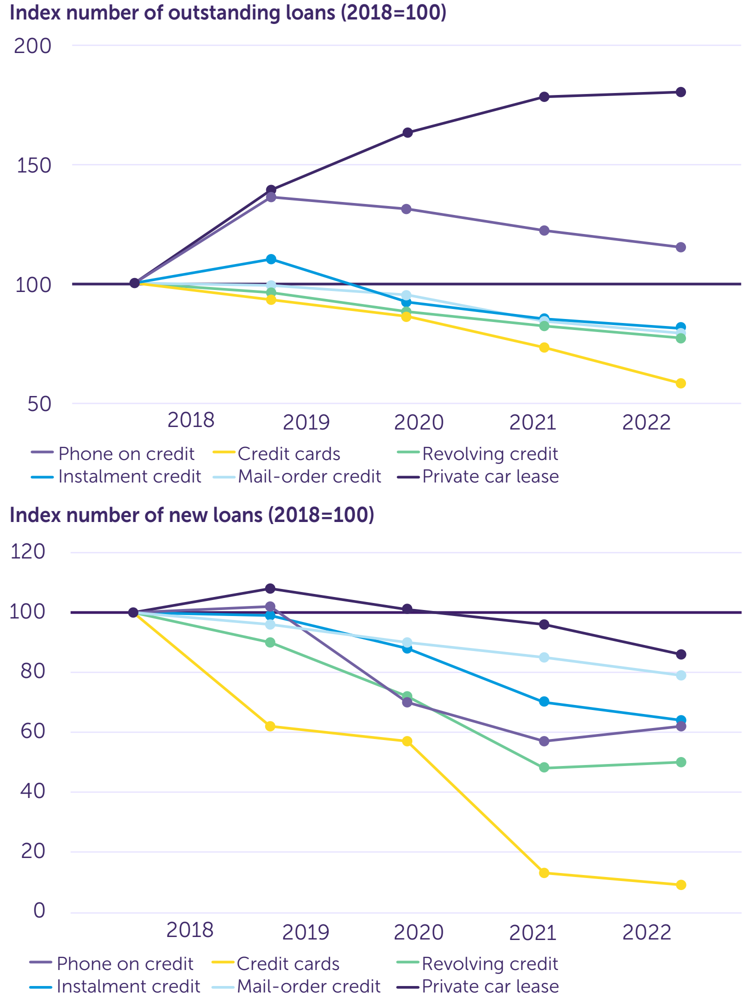
8 From the credit amount of private car leases, 35% is deducted upon registration as an approximation of the service costs.

9 This is partly due to the code of conduct used by phone loan providers, the *Telecomkredietcode*. This code of conduct applies to phone loans up to a maximum of €1,000, where the credit provider does not have to verify the financial amounts declared by the consumer (for example, by requiring and assessing supporting documents). See figure 4 (left) in the technical annex.

10 See table 4 in the technical annex.

The consumer credit market is in a state of flux. The fastest-growing credit segment is private car leases, where the number of unique contracts almost doubled between 2018 and 2022 (Figure 2, top panel).[11] The number of phone loans initially also rose sharply in this period – by more than a third in 2019 – after which this growth levelled off. This is partly due to the fairly recent registration obligation: phone loans have only been registered since 1 May 2017, so people who had purchased a device on instalments (just) before that date only appear in the BKR register when they purchase a new device on instalments. It is therefore questionable to what extent the growth in 2019 is a real increase in the number of phone loans. The other types of credit have shrunk in recent years. The number of outstanding instalment loans, mail-order loans and revolving loans has fallen by about 20% in five years, and the stock of credit cards with an instalment plan by as much as 40%.

Figure 2 Growth in private car lease and phone on credit, contraction in other BKR-registered credit types



Source: Results based on calculations by AFM using non-public microdata from CBS and BKR.

11 A credit agreement can be in multiple names. In that case, all contractors are registered separately and each with the full amount of credit with BKR (see Figure 3 of the Technical Annex). When we talk about 'loans' or 'unique contracts', we have deduplicated the contracts that are in multiple names so that they are only counted once. This creates a more realistic picture of, for example, market conditions and trends (Figure 1 and Figure 2) and the ratio of consumer debt to a household's financial capacity (see Paragraph 3.2).

The inflow of new contracts is declining for all BKR-registered credit types. In the case of private car lease and phone on credit, new production fell by 15-20% between 2018 and 2022. With instalment credit, mail-order credit and revolving credit, credit production has even (almost) halved compared to 2018 (Figure 2, bottom panel). Credit cards with an instalment plan are no longer issued and are therefore being phased out.[12] All in all, fewer and fewer households have BKR-registered consumer credit: from around 5.3 million households at the end of 2018, the figure fell to 4.8 million at the end of 2022.[13] To what extent this is actually a decrease in credit use is unclear. This is because unregulated credit can influence trends. When households use buy-now-pay-later (BNPL), subscriptions, private leases of products other than passenger cars or other unregistered loans such as payday loans/mini-loans and informal debt, and *therefore* use less BKR-registered credit, there is no decrease in credit consumption but rather a *displacement* of credit consumption.[14] This may explain, for example, why the number of outstanding and new mail-order loans has decreased; after all, the spending purpose (and therefore the target group) of mail-order credit is very similar to that of BNPL, which makes it plausible that there is substitution between both types of credit. In addition, it is likely that the coronavirus pandemic has had an impact on some of these market developments, particularly in the case of instalment credit. We elaborate on this in Box 3.

12 'Met welke creditcard kun je nog gespreid betalen?', Creditcard Blog, April 2024. Credit cards without an instalment plan (lump-sum payment) are only registered by BKR if there are problems/irregularities ('negative' registration, see Box 2). These credit cards remain out of scope in Chapters 2 and 3.

13 See table 5 in the technical annex.

14 Informal debts are loans that are not on paper but must be repaid, for example money borrowed from family, friends or acquaintances.

Box 3 What is the impact of the coronavirus pandemic on these figures?

For a research period that covers 2018-2022, the question arises to what extent developments reflect a long-term trend and to what extent they are coloured by the coronavirus pandemic. Indeed, due to the various lockdowns, consumer spending fell sharply in 2020 and 2021, which may have had consequences for the consumer credit market.[15] It is possible that households took out less consumer credit or used their 'avoided' spending to make extra repayments.

It seems that due to the coronavirus pandemic fewer instalment loans have been taken out. For most types of credit, the number of new loans taken out was already declining before 2020 (Figure 2, bottom panel) but not with instalment credit, where the decline only started in 2020 and came to a halt in 2022 and there was even a slight rebound. A similar levelling off of the downward trend seems to be visible in revolving credit. The decrease in production of credit cards with instalment plans is understandable because they are no longer offered in the Netherlands (footnote 12) and the decline in production in mail-order credit also appears to be the result of substitution rather than related to the coronavirus pandemic. No clear coronavirus effect can be seen in the case of private car leases.

There are no strong indications that the profile of households taking out new loans during the coronavirus years differed from that of previous years. However, we do see that relatively few new instalment loans were taken out by the self-employed: their share of new production in 2020-2021 was three times smaller than in 2018-2019. A plausible explanation for this is substitution with the coronavirus support packages: the self-employed may have had less need for new instalment credit because many of them could rely on, for example, the *Tijdelijke overbruggingsregeling zelfstandig ondernemers* (Tozo) and the *Tegemoetkoming Vaste Lasten* (TVL).

Finally, it appears that during the coronavirus years extra repayments were made on instalment credit, especially by the self-employed. Since we do not have insight into (the decrease in) the outstanding credit amount (Box 2), we looked at performing contracts that disappear from the data before their end date, as an approximation of the number of contracts that were repaid early *in full*.[16] We can check this for phone on credit, instalment credit and private car lease.[17] As with the new production and the characteristics of households that took out new credit during the coronavirus pandemic, instalment credit is also an outlier here.[18] Almost 30% of the performing instalment loans flowed out early in 2020, while in 2019 this was only 15% and the percentage of 'early outflow' decreased again after 2020.[19] If we look at the characteristics of the 'early leavers', it is striking that they are often self-employed: the percentage of self-employed among the early leavers is twice as large as the percentage of self-employed among the 'stayers'.[20] The aforementioned coronavirus support packages may be related to this, namely if some of the self-employed used the coronavirus support to repay their instalment loans early in order to avoid interest charges. The low interest rate on savings also made it financially attractive to repay loans rather than save.

15 'Consumptieve bestedingen van huishoudens', CBS *Statline*, July 2024.

16 We leave non-performing contracts out of the equation because extra repayment is not obvious or is less obvious there: if someone cannot pay the interest and regular repayment, it is unlikely that this person will be able to make extra repayments. Moreover, other explanations for 'early outflow' are conceivable, for example if someone ends up in debt relief and the loan disappears from the data prematurely as a result.

17 Revolving loans do not have an end date, so we cannot determine whether a loan has flowed out prematurely.

18 See figure 6 (left) in the technical annex.

19 In the case of phone loans and private car leases, the percentage of premature outflow is stable and there are therefore no indications of extra repayment during the coronavirus years.

20 See table 6 in the technical annex.

3. Where do payment problems occur?

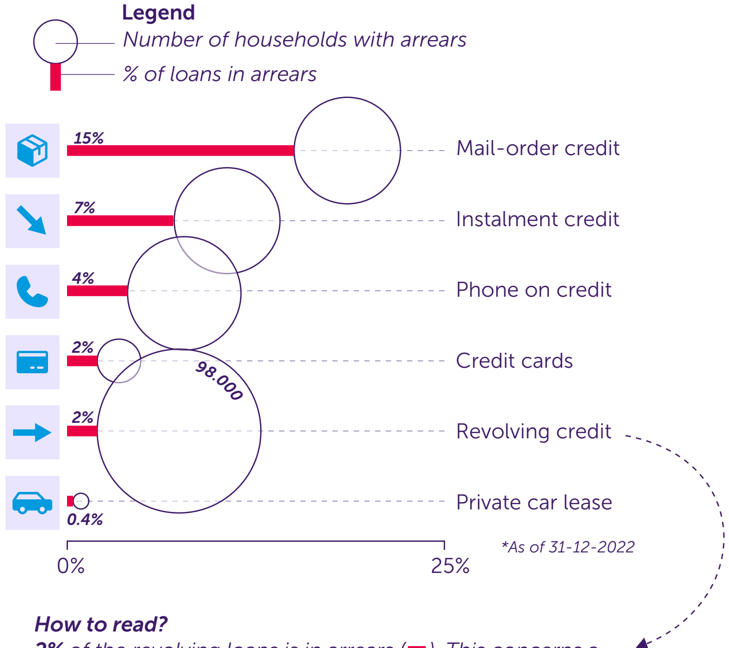
3.1 Where in the market do payment problems occur?

If households' consumer debts do not (or no longer) match their financial position, payment problems may arise. Now that we have formed a picture of the market conditions, growth and contraction segments and the characteristics of borrowers, the question is where in the consumer credit market payment problems occur and for which households. We define payment problems as payment arrears, i.e. when a borrower has missed a number of payments and the credit provider reports payment arrears to BKR (Box 1). We look at the percentage of arrears per credit type, the number of households with payment problems and their characteristics and loan portfolios.

Mail-order credit and instalment credit have the highest arrears rates; in absolute numbers the most arrears occur with revolving credit. Of the six types of credit that we can distinguish in the data, mail-order loans are most often in arrears. As at 31 December 2022, one in six mail-order loans was in arrears (Figure 3, bar). The arrears rate for instalment credit was also relatively high, namely 7% compared to 2-4% for the other types of credit and even less than 0.5% for private car lease. Given the high number of households with revolving credit (Figure 1, left), it follows that arrears are highest in absolute numbers for this credit type (Figure 3, bubble). The number of households in arrears on phone on credit, instalment credit and mail-order credit is also relatively high.

Figure 3 Highest arrears rates for mail-order credit and instalment credit, highest arrears numbers for revolving credit

Where do payment arrears occur most often?
Mail-order loans are most often in arrears (**15%**)*. The number of households in arrears is highest for revolving loans (**98,000**)*.



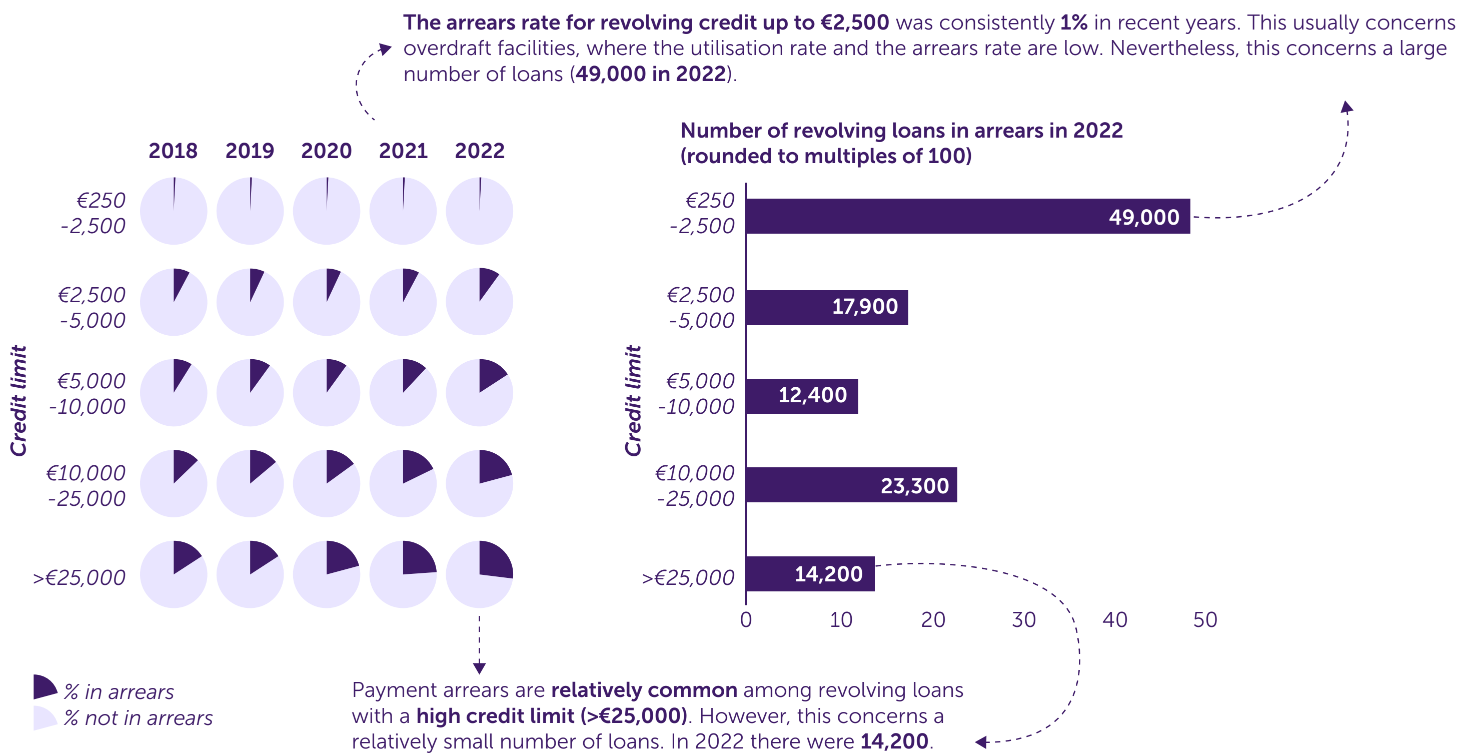
How to read?
***2%** of the revolving loans is in arrears (■). This concerns a relatively large number of households, namely **98,000** (the size of the bubble).*

Source: Results based on calculations by AFM using non-public microdata from CBS and BKR.

In the case of revolving credit, contracts with a high credit limit are most often in arrears. To separate overdrafts from the other loans within revolving credit, we have crossed the arrears with the credit limit. This shows that 10% to 25% of revolving loans with a limit greater than €2,500 were in arrears at the end of 2022 (Figure 4, left). In total, this amounts to approximately 68,000 loans (Figure 4, right). These loans are no longer widely offered, judging by the fact that the number of revolving loans with a limit above €2,500 has fallen by 60% in five years and new production by as much as 90%.[21]

On the other hand, the arrears rate for revolving credit up to €2,500 was consistently 1% in the same period. The most plausible explanation for the significant differences in arrears rates is that small revolving loans are predominantly overdrafts, where utilisation is known to be low and payment problems are rare. Because the vast majority of revolving loans have a limit of €2,500 or lower, the high arrears percentages rates for revolving credit above €2,500 are barely visible in the total of all revolving loans (Figure 3, left).[22]

Figure 4 Strong association between credit limit and arrears within revolving credit



Source: Results based on calculations by AFM using non-public microdata from CBS and BKR.

21 There seems to be survivorship bias: the performing loans flow out; the poorly performing loans are left and there is hardly any new inflow to 'compensate' for this. As a result, the arrears rate is increasing while the number of loans in arrears is decreasing. In other words, the numerator and denominator of the arrears rate are both decreasing, but the denominator is decreasing faster than the numerator. See figure 7 (right) and figure 8 (right) in the technical annex.

22 See figure 7 (left) in the technical annex.

3.2 Which households have payment problems?

Households with payment arrears are financially vulnerable in multiple respects. For example, they have lower incomes (which also consist of a larger proportion of benefits and allowances), few financial assets (bank, savings and investment balances) and more often have wider payment problems than households with the same type of credit that are not in arrears (Table 1). This profile is consistent across all types of consumer credit, although the degree of financial vulnerability varies. For example, the differences between households with and without arrears are smallest in the case of private car leases. Across the board, the difference in financial assets is most striking: these are 65% to 95% lower in an average household with arrears than in a household with the same type of credit without arrears.

Households with arrears are more likely to 'stack' consumer loans and credit types. 70% of households in arrears have more than one consumer loan (Figure 5). One in six households in arrears even has five or more consumer loans, three times as many as households without payment arrears. Households in arrears are also more likely to combine credit types. More than half of them have two or more types of consumer credit, compared to about a third of households without payment arrears.[23] The accumulation of credit makes consumers vulnerable to payment problems if their total debt burden does not match (or no longer matches) their financial capacity.

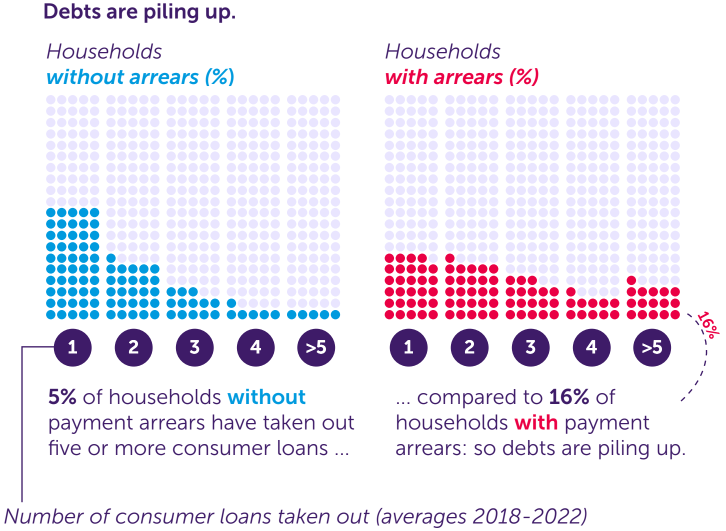
23 See figure 10 in the technical annex.

Table 1 Households in arrears have a (more) financially vulnerable profile (2018-2022)

	Phone on credit		Instalment credit		Credit cards		Mail-order credit		Revolving credit		Private car lease	
In arrear on 31 December?	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No
*Main breadwinner is entitled to benefits **(%)***	36%	10%	30%	7%	22%	6%	38%	17%	34%	7%	11%	2%
*Main breadwinner is in arrears on health insurance **(%)***	49%	77%	56%	82%	62%	84%	57%	75%	57%	81%	67%	86%
*Hoofdkostwinner is wanbetaler Zvw **(%)***	29%	2%	21%	1%	19%	0%	24%	2%	18%	1%	16%	0.4%
*Gross household income **(x €1,000)** (p50)*	€35.9	€76.2	€41.5	€83.3	€48.8	€86.4	€37.2	€59.7	€38.9	€67.5	€69.0	€101.2
*Income share of benefits **(%)** (p75)*	58%	3%	51%	1%	32%	0%	60%	19%	59%	0%	12%	0%
*Financial assets **(x €1,000)** (p50)*	€0.4	€6.5	€0.9	€6.1	€1.0	€14.3	€0.7	€2.0	€1.0	€20.9	€1.4	€13.8

Source: Results based on calculations by AFM using non-public microdata from CBS and BKR; All differences between households with and without arrears are statistically significant ($p < 0.01$).

Figure 5 Households with arrears are more likely to stack consumer loans

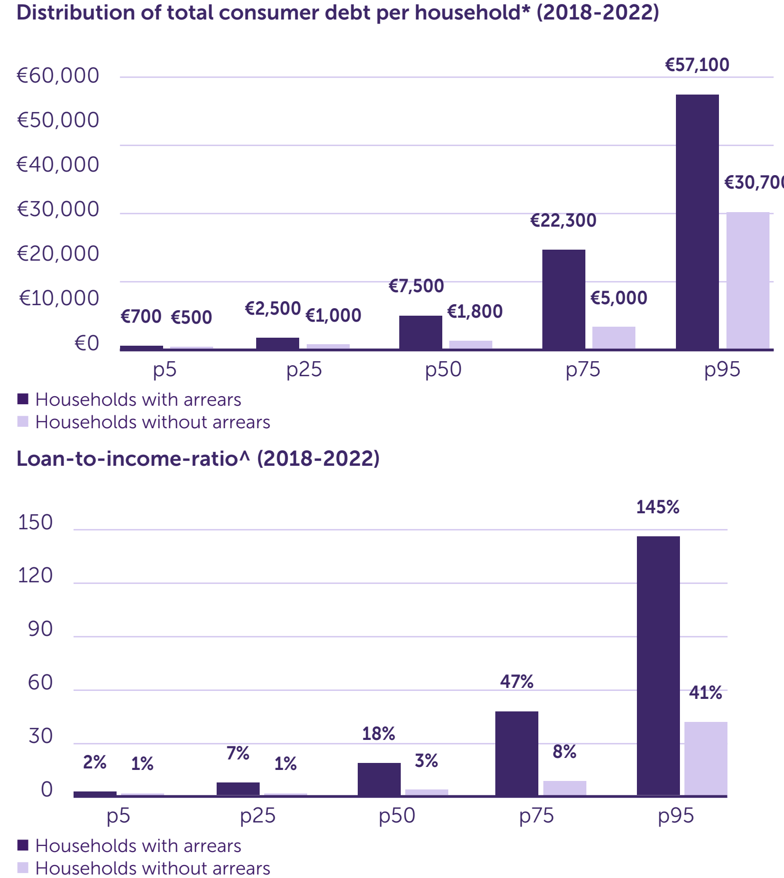


Source: Results based on calculations by AFM using non-public microdata from CBS and BKR.

The accumulation of debt is associated with a higher consumer debt burden. An average household with payment arrears has €7,500 in consumer credit. This is four times as high as a household without payment arrears (Figure 6, top panel). This contrast is even greater when we relate the total consumer debt burden to the household's financial capacity. The indebtedness of households with arrears amounts to around 18% of their gross annual income (median of the loan-to-income-ratio or LTI); for households without payment arrears the LTI ratio is 3% (Figure 6, bottom panel). The total indebtedness of households in arrears is 7.5 times higher than their financial assets (median of the loan-to-assets-ratio or LTA) compared to an LTA ratio of 0.1 for households without payment arrears.[24] Hence, there is a distinct relationship between a household's relative indebtedness (debt compared to financial capacity) and payment problems.

24 See figure 11 (right) in the technical annex.

Figure 6 Households in arrears have a higher debt burden



Source: Results based on calculations by AFM using non-public microdata from CBS and BKR; * Rounded to multiples of 100; ^ Excluding households whose income is 0 or negative.

4. What are the signs of new payment problems?

Now that we have gained more insight into payment arrears, the question arises how to identify them at an early stage. To this end, we analyse for each type of credit which characteristics are associated with the emergence of new payment arrears in the period 2018-2022. We distinguish between phone on credit, instalment credit, credit cards with instalment plan, mail-order credit, revolving credit up to €2,500, revolving credit above €2,500 and private car lease. In the analyses, we include borrowers who fall behind on that type of credit during a year and borrowers of the same type of credit who do not fall behind in the same year nor were already in arrears on this type of credit at the beginning of the year.[25] We relate whether or not a person falls behind on consumer credit to life events, loan portfolio characteristics, personal characteristics and household characteristics, in order to find out where the relationship is the strongest (Box 4). Variables that are strongly related to the likelihood of falling behind are also called *red flags*.

Box 4 Which variables do we take into account?
Each type of credit is analysed separately, and we are interested in the relationship between life events, personal characteristics, household characteristics, loan portfolio characteristics and falling behind on a certain type of consumer credit. In doing so, we take the following characteristics into account:

- Life events: loss of work, illness/disability, relational break-up, widowing and retirement in the previous calendar year and the year before the previous year;
- Personal characteristics: gender, year of birth, socioeconomic status, in arrears on basic health care premium and in debt relief;
- Household features: household composition, housing situation, financial assets, study debts and other debts, disposable household income, dependency on social benefits, dependency on tax allowances and the household's primary source of income;
- Credit portfolio: in arrears with other types of consumer credit and in arrears with a mortgage loan or other financial obligation.

Definitions of the variables, descriptive statistics and an explanation of the methodology are included in the technical annex.

25 Borrowers who are in arrears on a certain type of credit on 1 January and do not fall behind on that type of credit again during the year are not taken into account. These people do not qualify as 'in arrears during the year', but also do not belong to the category of 'not in arrears on credit type'.

The main predictors of new consumer credit arrears are previous payment arrears. The regression analyses show that borrowers who are in arrears on the basic health insurance premium on 1 January are more likely to fall behind on a consumer loan later in that year.[26] Of all the explanatory variables in the model (Box 4), this relationship is the strongest (Table 2). Borrowers who start the year with payment arrears on another type of consumer credit, a mortgage loan or another financial obligation (such as a credit card without an instalment plan) are also more likely to miss payments on a consumer credit that year.[27] The link between previous payment arrears and new payment arrears is found in all types of credit. In all analyses we control for life events, personal characteristics, household characteristics and loan portfolio characteristics (Box 4).

Young people are more at risk of payment problems. We see that borrowers born in 2000 or later are more likely to fall into arrears than older borrowers. Since the research period covers a relatively brief period of time, it is unclear whether this is an age effect or a cohort effect. During the research period, the student loan system was in force. As a result, students, and therefore the young people in our research period, no longer received a scholarship. Consequently, students had higher monthly expenditures, which may have led to more payment arrears on consumer credit. This is called the *cohort effect*. However, the result may also be an *age effect*, for example because young people still have to learn how to organise their financial affairs properly or because they have hardly been able to build up financial buffers. In that case, the young people of the future will also have a greater chance of falling behind on payments. Since it is unclear what is driving the results, it is difficult to generalise them into the future and conclude which group – this specific cohort or young people in general – is at increased payment risk.

Other red flags for new payment problems include few financial assets and relational break-up and work loss in the previous calendar year. For all types of credit, borrowers whose household financial assets are in the lowest quintile are more likely to fall behind than borrowers with more financial assets (the higher quintiles). In addition, borrowers whose relationship ended in the previous calendar year and borrowers who lost their work in the previous calendar year are more likely to run into payment difficulties. For all types of credit, these variables are among the top ten signals for the emergence of new payment arrears.

Moreover, some hypothesised red flags, such as low income, turn out not to be that important. Although we find a statistically significant relationship between most explanatory variables and falling into arrears, not all relationships are equally strong. For example, the associations between payment arrears on the one hand and illness/disability, widowing, retirement, a person's socioeconomic status, income and debts on the other turn out to be relatively weak. This may be because a number of these variables (such as income and debts) are included in the creditworthiness assessment and thus subsequent payment problems have been prevented (a so-called selection effect). It may also be that an event is foreseeable, such as retirement, and since people therefore anticipate it, they do not experience payment problems.

26 These are people in the Zvw defaulter scheme on 31 December of the previous calendar year. If someone does not pay the premium of the basic health insurance for six months, the health insurer registers the insured person with the Defaulters Scheme of the CAK. That person will then remain insured but will have to pay an extra premium every month.

27 This is in line with the results of an earlier BKR study (2010) into the relationship between arrears on phone on credit and payment arrears on other types of credit. This link turned out to be present in both directions: borrowers who were in arrears on their phone loan were more likely to fall behind on another type of credit and vice versa. The relationships were stronger if payment arrears were more recent and credit amounts were higher. The 2010 study did not control for compositional effects as was done in this study using regression analyses. See: 'Belang telecom achterstanden voor inschatting betalingsrisico's', BKR, September 2010.

Table 2 The most important signal for new payment arrears is previous payment problems

- 🚩🚩🚩 Payment arrears on health insurance on 1/1
- 🚩🚩 Payment arrears on other consumer credit type on 1/1
- 🚩🚩 Payment arrears on mortgage or other debts on 1/1
- 🚩🚩 Born in 1990 or later*
- 🚩 Few financial assets*
- 🚩 Relational break-up in previous year
- 🚩 Work loss in previous year
- 🚩 Rental home with rent allowance
- 🚩 Primary household income: Other income
- 🚩 Born between 1980 and 1990

*Combination of multiple dummies.

The more red flags, the stronger the association between an attribute and the emergence of payment arrears.

🚩🚩🚩 $(\hat{\beta} / \bar{y}) \geq 10$
🚩🚩 $2 \leq (\hat{\beta} / \bar{y}) < 10$
🚩 $(\hat{\beta} / \bar{y}) < 2$

Source: Results based on calculations by AFM using non-public microdata from CBS and BKR.

New arrears can be the *first* missed payment or the *next* missed payment in a longer period of financial difficulty. When the first payment arrears arise, a person is not in arrears on another consumer credit, mortgage loan, other financial obligation or the basic health insurance premium, he or she is not in debt relief and no such instances have arisen in the recent past. In other words, it is the start of financial problems. However, new payment arrears can also arise during a period of financial stress. In that case, a borrower is already in arrears or has recently been in arrears, and there are now also payment arrears on a certain type of consumer credit. The fact that missed payments are the most important predictor of new payment problems shows that we often look at borrowers in a period of financial stress.

Being alert to payment arrears (wider payment problems) will therefore not prevent the occurrence of financial difficulty, but it can help prevent someone from getting into deeper trouble.

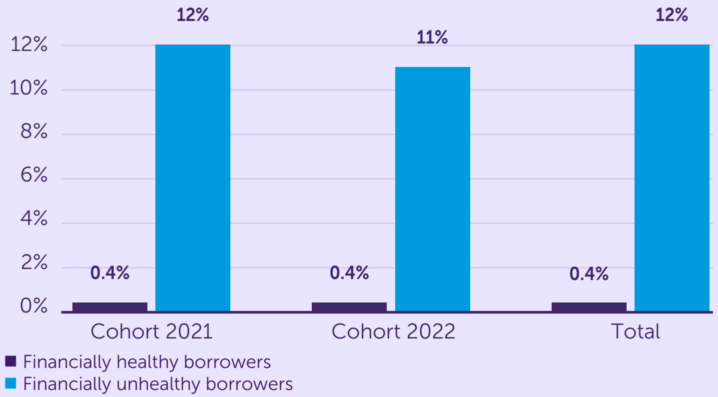
Box 5 The *first* payment arrears versus the next payment arrears

To distinguish between the start of financial problems – the first payment arrears – and subsequent payment arrears in a period of financial stress, we distinguish between financially healthy and financially unhealthy borrowers. We call a borrower *financially healthy* if he or she was not in arrears on a consumer loan, mortgage loan, other financial obligation or his or her basic health care premium for three calendar years in a row and was not in debt relief during those years. New payment arrears are therefore the first payment arrears (in a long time) for this person. A *financially unhealthy* borrower, on the other hand, has already been in arrears or has had debt relief in the past three calendar years. For these people, new payment arrears are the next payment arrears in a period of financial difficulty.

In 2021 or 2022, around 0.4% of financially healthy borrowers fell into arrears or ended up in debt relief (Figure 7). For them, this is the start of a period of financial difficulties. On the other hand, 11% to 12% of financially unhealthy borrowers fell into arrears or ended up in debt relief in 2021 or 2022. For them, it is therefore another instance of payment arrears in a financially difficult period. The new arrears are therefore much more often the *next* missed payment in a period of financial difficulties than the first arrears, in both relative and absolute terms.

Figure 7 We look much more often at the next payment arrears than at the first payment arrears

Fallen into arrears or got into debt relief



Source: Results based on calculations by AFM using non-public microdata from CBS and BKR.

This raises the question of how the first payment arrears, and thus the start of a period of financial problems, arise and how we can prevent them. To this end, we focused on financially healthy borrowers and looked at which variables are most strongly associated with new payment arrears in 2021 and 2022. Controlled for life events, personal characteristics and household characteristics, young people – especially those born in 2000 or later – people with few financial assets and people whose relationship ended in the previous calendar year are more likely to get into financial problems. It should be noted that it is not clear to what extent there is a cohort or age effect among young people (see earlier explanation in this chapter). Moreover, the research period inevitably consists of two coronavirus years because we have to use the period before to determine whether someone starts off the calendar year financially healthy. Consequently, the results cannot simply be generalised into the future.

The extent to which new payment arrears can be foreseen differs depending on the type of credit. The number of new payment problems that can be foreseen depends on the strength of the relationship between a characteristic and the occurrence of missed payments, how often the characteristic occurs and how many missed payments there are for that type of credit.[28] Although the top five most important signals are stable across credit types, the strength of the relationship and how often a characteristic occurs among borrowers differ across credit types and hence so too does the number of foreseeable new arrears. For example, of the borrowers who were in arrears on their health insurance premium at the beginning of a year, an average of 80 per year fell behind on a credit card with an instalment plan, while more than 4,000 of them fell behind on a phone loan every year (see Figure 8). Approximately 100 borrowers who are in arrears on another type of consumer credit subsequently fell behind on a private car lease and nearly 3,000 fell behind on a phone loan. Of the young people born in 2000 or later, more than 200 fell behind on a small revolving loan and more than 1,500 on a phone loan each year. Finally, of the borrowers who lost their work in the previous calendar year, an average of 1,100 people per year fell behind on mail-order credit and almost 4,000 per year on a phone loan. For each credit type and signal, this is the number of payment arrears that might have been foreseen by paying attention to this signal.[29]

28 How often a certain characteristic occurs is then related to how many and which people have that type of credit in the first place.

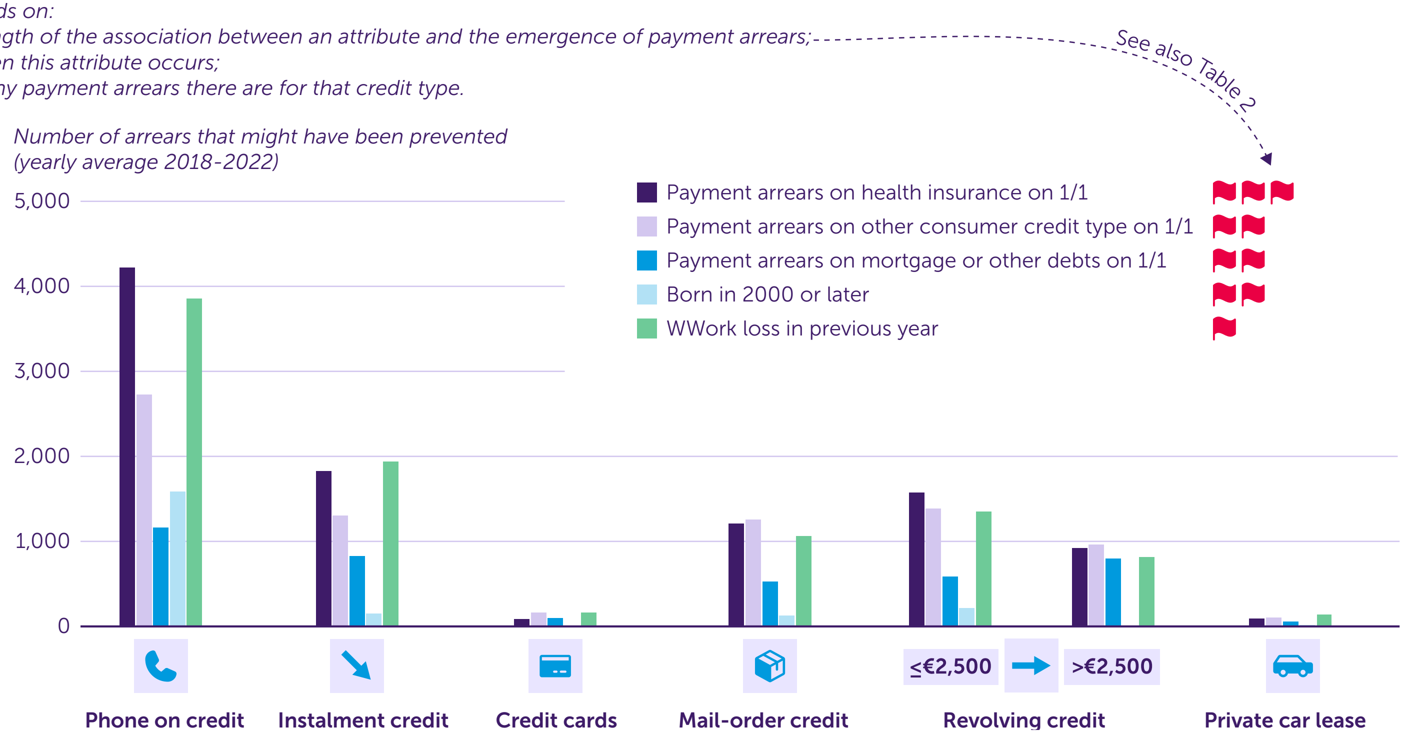
29 It should be noted that the combined effect of looking out for multiple red flags is not equal to the sum of the number of borrowers, because one person can have multiple characteristics. In that case, this person is counted multiple times.

Figure 8 Borrowers most often fall behind on consumer credit after payment arrears elsewhere

How many arrears might have been prevented per credit type, based on the red flags?

This depends on:

- *The strength of the association between an attribute and the emergence of payment arrears;*
- *How often this attribute occurs;*
- *How many payment arrears there are for that credit type.*



Source: Results based on calculations by AFM using non-public microdata from CBS and BKR.

Being aware of these red flags does not mean that all payment arrears can be prevented. First, other factors that are not included in our model also play a role. Second, credit providers must have timely information about these characteristics to be able to act on them. This is not the case for all indicators. For example, credit providers have no information on arrears on health insurance and it is questionable to what extent they are aware of, for example, loss of work. Some credit agreements stipulate that loss of work must be reported to the credit provider, but this is not always the case. Moreover, it is questionable whether borrowers have read this condition and – if so – whether they will comply with it (in a timely manner). Even if credit providers do have information on the most important signals, not all payment arrears will be prevented, for example because a borrower cannot be contacted or because it is not possible to make an appropriate arrangement with the borrower in time. Another caveat with regard to acting on the red flags is that borrowers who would not have fallen into arrears will also be contacted. For example, not all borrowers who are in arrears on their basis health insurance premium subsequently fall behind on a consumer loan.

The analyses do not provide insight into the functioning and appropriateness of the lending standards. Since the analyses are about borrowers, everyone has already passed the creditworthiness assessment and we cannot draw conclusions about the lending standards. After all, we cannot deduce what the results would be if other (stricter or less strict) lending standards were in force, nor can we make statements about the (relative) financial health of persons whose credit applications have been rejected.

5. Conclusions and recommendations

Borrowing for consumption purposes involves risks. Consumer credit makes it possible or easier to spend, but it also comes with a payment obligation. When households can no longer meet the payments, payment problems arise. It is therefore important that consumer loans are provided responsibly, which is why the AFM supervises this market. Payment problems with consumer credit can be part of wider payment problems. Households may also be in arrears with other parties. This research provides insight into the trends and payment risks in the consumer credit market, with the aim of gaining insight into payment problems and providing tools to prevent (further) payment problems.

The consumer credit market is changing. In the five years of BKR data that we analysed (2018-2022), the market proportions among consumer credit types have changed. Private car leasing was on the rise, and initially the same was true for phone on credit. The other credit segments contracted, mainly due to a (sharply) declining inflow of new loans. Some trends seem to be subject to the coronavirus pandemic and the rise of unregulated credit types (e.g., the substitution between mail-order credit and buy-now-pay-later), while the contraction in credit cards with an instalment plan and revolving credit other than overdrafts is the result of declining supply. In the case of credit cards with an instalment plan, the supply has decreased due to less demand from consumers. The decline in the supply of revolving credit is partly due to the fact that the credit market has started to assess the risks and added value differently compared to an instalment loan. This is partly the result of efforts by the AFM. For most spending purposes, an instalment credit is more suitable, while it also entails fewer risks for the consumer.

In parts of the consumer credit market, payment problems are still present. Although the number of people with BKR-registered consumer credit arrears has been declining since 2019, there are still credit types where a large or increasing percentage of loans is in arrears.[30] For example, at the end of 2022 16% of revolving loans greater than €2,500 were in arrears (approximately 68,000 loans), as were 15% of mail-order loans (approximately 47,000 loans). In the case of phone on credit, the payment problems are getting worse: the arrears percentage has quadrupled in five years and the number of arrears has even increased fivefold. Although the arrears rate of 4% is still significantly lower than for the aforementioned credit types, 65,000 phone loans are now in arrears. The payment problems with mail-order credit and revolving credit larger than €2,500, on the other hand, seem to be mainly a legacy from the past: fewer and fewer of these loans are being taken out. The *number* of payment arrears on mail-order credit and revolving credit greater than €2,500 is even decreasing. However, because the total stock of outstanding loans is also declining considerably, the arrears rate remains high (mail-order credit) or even increases (revolving credit >€2,500). With these credit types there seem to be mainly 'legacy problems' (especially older non-performing loans remain on the books) and it is important that solutions continue to be sought for people with persistent payment problems.

To be able to identify payment risks, good data are needed. In the Netherlands, BKR manages the credit register and ensures that the information is handled carefully by all parties involved. BKR shares information with, among others, credit providers and social institutions to promote responsible lending and to organise timely help for consumers who are (at risk of) getting into financial problems. However, the risk segments in the regulated part of the credit market only become visible when we break down credit types in more detail, for example when we look at mail-order credit separately and when we separate overdrafts from the other revolving credit types. We therefore recommend distinguishing between credit types as much as possible and not lumping them together when payment arrears are published. Otherwise, the payment arrears for, e.g., mail-order credit

30 'BKR Monitor 2023', BKR, March 2024. 'Minder mensen in de schulden, maar voor enkele groepen nemen betalingsproblemen toe', NOS, March 2023.

and 'legacy' revolving credit remain invisible due to the much larger number of overdraft facilities taken out, where utilisation and payment arrears are low. Finally, it is important to gain more insight into (new) unregulated credit types such as buy-now-pay-later (BNPL) and private leases, so that debt problems can be prevented from being obscured with borrowers more at risk of inappropriate debt.

Credit providers can prevent new payment arrears by being alert to wider payment problems in the management phase. Credit arrears are partly foreseeable. Previous payment arrears particularly turn out to be a strong indication that consumers will subsequently fall behind on their consumer loan(s). This is because payment arrears often occur over a long period of financial stress, in which payments are missed repeatedly. Credit providers can help prevent their customers' payment arrears from escalating by means of early detection. There are already tools for this. For example, BKR offers the *BKR Monitoring* service. Credit providers receive an immediate signal when their customers fall behind on another BKR-registered loan. The AFM encourages the use of this service and expects credit providers to respond actively to these signals. In addition, BKR has developed the *Vindplaats van Schulden* (VPS) platform on which a consumer's wider payment arrears are registered, including payment arrears with health insurers, landlords, energy companies and water companies.[31] Due to privacy legislation, the credit registration systems of BKR and VPS are currently strictly separated. This means that credit providers are currently not notified when a customer experiences payment problems elsewhere – outside the domain of credit. This deprives credit providers of the opportunity to prevent payment problems spreading to consumer credit by, for example, agreeing on a preventive payment arrangement or a payment break with the customer. It is therefore advisable to also send a signal from the VPS to credit providers, like that currently being sent to municipalities.

The extent to which credit providers can act on signals of previous payment problems depends in part on the retention period of these data. There is currently a debate on shortening the retention period for resolved payment arrears and for completed debt relief. Because of the predictive value of payment arrears for new payment problems – as shown by this study – it is advisable to first investigate how many payment problems become unforeseeable because of a shortening of the retention period and to subsequently consider whether this outweighs the benefits of a shorter retention period.

Young borrowers are more vulnerable and deserve more attention in the management phase. This study once again shows that the group of 18- to 25-year-olds has an above-average risk of payment problems.[32] With the caveat that we cannot separate age effects from the context, such as the student loan system, it appears that the cohort born in 2000 or later – controlled for their other characteristics such as income and savings – is more likely to fall behind on consumer credit. Other AFM research shows that they also make frequent use of buy-now-pay-later (BNPL).[33] Since it turns out once again that they are a risk group in the regulated part of the credit market, this raises the question of whether the payment problems in the unregulated part of the credit market – such as BNPL – may be even greater than previously assumed. That is why the AFM considers it important that BNPL providers join BKR as soon as possible, to gain more insight into arrears on these credits.

31 'BKR voor gemeenten', BKR.
32 BKR has already signalled this before, see for example: 'Betalingsachterstanden lopen alleen bij jongeren op', FD, March 2023.
33 'AFM Consumentenmonitor Representatief Nederland - voorjaar 2024', AFM/Centerdata, July 2024.

We recommend that credit providers periodically enquire about their customers' life events and make reporting life events as easy as possible for customers. Although life events are less of a predictor of payment problems than previous payment arrears, age and few financial assets, they still pose a real risk. This is especially true for relational break-up and work loss. Credit agreements sometimes stipulate that the customer must report a deterioration in his or her financial position to the credit provider, but it remains to be seen to what extent this happens in practice. However, this study confirms that this is important to avoid payment problems.

The AFM would like to discuss with the sector how we can address the financial vulnerability of consumer borrowers during the management phase and improve their financial well-being. Together with credit providers, we want to explore how the insights from this study can be used to prevent wider payment problems during the management of outstanding loans. In particular, the signalling function of payment arrears elsewhere, the vulnerability of young borrowers and the effect of life events such as relational break-up and loss of work offer opportunities for this.