

Age and loans, is there any problem?

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Citizens of the Czech Republic are getting older in average in about five years and seven months in last twenty-five years as mentioned in the Economist magazine.¹⁾ Population of the Czech Republic increased during 2015 by 15,6 thousand. The average age of the population slightly increased to almost 42 years of age. (see the table)

Evolution of average age in the Czech Republic

| Year | Age |
|------|------|
| 1990 | 36,3 |
| 1995 | 37,3 |
| 2000 | 38,8 |
| 2005 | 40 |
| 2010 | 40,8 |
| 2015 | 41,9 |

Source: ČTK, iDNES.cz

The Czech Statistical Office is giving the information about the increasing number of population in the Czech Republic. In 2015 it grew to 10 553,8 thousand. Nevertheless, the population growth is not based on a higher number of births, but on people coming abroad. Besides there was a significantly higher number of deaths.²⁾ Women live longer than men and in average they are older. Sociologists are considering “the older women” period. The magazine Economist is describing the theory about the great demographic change. There is the increasing number of people in old age and mostly women. That will become the nature phenomenon.³⁾

We can only speculate if there is any connection between our older age people and

¹⁾ Vokurková, K., 2016, March 12

²⁾ <https://www.czso.cz/csu/czso/population-of-the-czech-republic-increased>

³⁾

http://zpravy.idnes.cz/cesi-stari-cesky-statisticky-urad-sociologove-zeny-muzi-starnuti-10s-/domaci.aspx?c=A160327_133501_domaci_fer

the problems with the loans. Why? Because people in the Czech Republic are more and more running into debt every year.⁴⁾ In 2015 they borrowed about 94 milliard Czech crowns more than previous year (approximately EUR 3,5 miliard). And at the same time each the eight is not able to pay its instalments. People are usually enticed by the possibility to get “fast” money although the loan is not advantageous. Statistics do not mention how many loans are for elderly people. There is only the recent awareness about their financial insolvency problem in the Czech Republic.

According to the McKinsey’s report from Global Institute from 2015 we can see that the household overall indebtedness has nearly doubled.⁵⁾ Modern finance sector offered the possibility to live with borrowed money. Previously to get into debt was immoral. But the expectation of the economic growth brought a new opinion. For example mortgage was the unknown financial product twenty-five years ago and today it comprises approximately seventy-five per cent of indebtedness households. Banks offered their loans and the households took loans like it was sure that they will get money tomorrow, like they will be sure, tomorrow it will be better. And how is the situation in the Czech Republic?

The most frequent risk group, as mentioned in the paragraph above, are elderly people in the Czech Republic. Banks are strict and that’s why there appeared a serious problem with nonbanking institutions. They discovered a new marketing “gap”, a new space for their business. The loans for elderly people are even narrowed to the age boarder around 75 age. Compared to the information about average age about 42 (see the table page1) we can only assume that something is going wrong. If banks are conscious of the risk age group and nonbanking institution do not care. Is it in order?

Considering all types of loans the most frequent are short-term loans. Usually you do not have to provide any guarantee as movable or immovable assets. The basis of the interest rate is considering the level of old-age pension and the vetting of the bad payers register. If the terms with the loan have been complied you can get your money on your bank account or you can get them even personally via the business representative. Nowadays there is a lot of banking and nonbanking lenders and the customers can choose whatever they need. We can find also many calculators and graders for elderly people.⁶⁾ They can borrow money from one hundred Czech crown (approximately EUR 3,7 or 4,3 USD, Czech National Bank

⁴⁾ Filipová, K., Kramer, J. 2016, March 9

⁵⁾ Skidelsky, R., 2016, February 7

⁶⁾ see both references

current course in March 2016) to five hundred thousand crowns (approximately EUR 18 518 EUR or 21 739 USD) or they can even compare the interest rates level.⁷⁾

There was provided in the Czech Republic the loan research by ombudsman in 2013. As the result ombudsman declared: “This is elderly people discrimination”. Approximately fifteen per cent of banks, insurance and nonbanking institution discriminate against elderly people. Their age is the restriction reason for availability of financial products and these products are becoming more expensive. The research has been provided in the Czech Republic in 45 banks, 52 insurance companies and 43 nonbanking institutions. There was confirmed the information that banks do not offer to elderly people the credit cards (because it is also a sort of loan). Some of them refused them to grant a credit, mainly the consumption loan.⁸⁾

We can summarize that there is a close connection between the age and the problems with loans in the Czech Republic. Our society is getting older and we all become old one day. The only solution in the situation with the financial problem for elderly people are that’s why mostly nonbanking institutions. They found out a space at the financial product market. We can find some banks (for example web usetreno.cz), that offer the loans for elderly people but mostly larger sums. Nonbanking institutions are able to offer lower sums. That is their great advantage and that’s why elderly people are going to use their service. They can then easily get to the liquidity trap. And to sort out financial problems even with the liquidity trap is not pleasant.

We cannot forget also the question of the interest rate level. There is a great range from five per cent till forty per cent. Considering the Lombard rate (0,25 per cent) and Repo rate (0,05 per cent) from Czech National Bank (<http://www.cnb.cz/cs/index.html>) we cannot believe that. Nonbanking institutions definitely prefer higher level of the interest rate. The information about the level of interest rate usually mentioned in the contract somewhere down and with small letters. So the most important information for elderly people is mostly missed out. But this is not only elderly’s people problem.

Banks insist on the statement that the service for elderly people is getting better

⁷⁾ <http://www.okfin.cz/pujcky-pro-uchodce> or
http://www.usetreno.cz/pujcky/?utm_source=google&utm_medium=cpc&utm_content=KW_financi&utm_campaign=KTX-pujcky-obecne

⁸⁾ <http://zpravy.aktualne.cz/finance/banky-jste-moc-stari-platte-vic-nebo-jdete-pryc/r~091cd3ee1acd11e3bd4f0025900fea04/>

and the imperfections are rare and sporadic. We can agree with that. The offer is better if we are considering all information from banks, from internet, etc. But in fact there are still the same problems with the following liquidity insolvency. That's why is necessary to start to work on the problem not only from banks side but also from government.

Our deputies would like to make the life for debtors and defaulters easier. Financial institutions could in the future charge penalty for delay only till fifty per cent level of their loan. Current penalty limitation does not exist. A great number of debtors could lose all the property including elderly people. We are discussing now about seventy per cent of loan principal till two thousand Czech crowns (approximately EUR 740 or 869 USD, current course in March 2016). The result percentage will be still battled in the House of Commons. We can even declare that some banks and saving institutions this lower penalty ceiling agree.⁹⁾

Particularly topical "loan" problem should be sort out in the Czech Republic by the new consumption loan law. It is discussing now in the House of Commons. This new law will come into force this spring. The conditions for nonbank loans will be tighter for their providers. So we can only hope that it will be helpful for elderly people and for our future.

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http://ekonomika.idnes.cz/dluznikum-se-ulevi-sankce-ziskaji-strop-fdu-/ekonomika.aspx?c=A160402_212904_ekonomika_fka

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