

PERSONAL BANKRUPTCIES UNDER JURISDICTION OF PRAGUE AND PILSNER REGIONAL COURTS

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Abstract

This paper presents the results of an ongoing research of personal bankruptcies in each region of the Czech Republic. The research is focused only on successful proposals for a debt relief and various factors influencing its successful rate across the regions. The option of undergoing the debt relief is possible in the Czech Republic since 2008 in which a new Act No. 182/2006 Coll. came into force and there is growing number of proposals ever since. The research thus compares debtors according to the success rate of their proposals, their age, gender, income, the total amount of debt, the structure of creditors and also university education level. Apart from data obtained from proposals, the research takes into account the demographic information about each region as unemployment and population as well. In this paper are presented the results of successful proposals submitted under jurisdiction of Prague and Pilsner Regional Courts. Therefore we are comparing three regions as there are two regions under Pilsner Regional Court jurisdiction – Pilsner Region and Karlovy Vary Region, and one under Prague Regional Court – Central Bohemian Region.

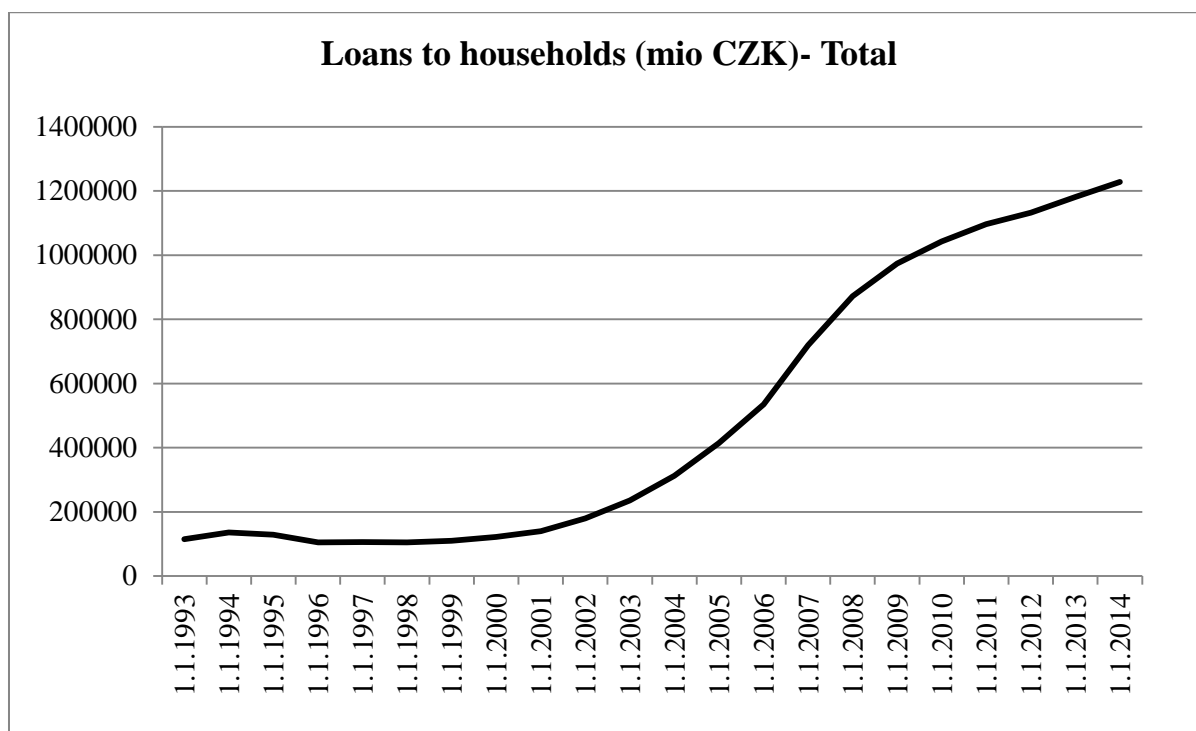
Key words: Personal Bankruptcy, Debt Relief, Debtor, Creditors

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Introduction

This article presents the results of analysis of debtors who are undergoing or already went through a process of personal bankruptcy (debt relief). Debtors can submit a proposal for debt relief in the Czech Republic since January 1st 2008 when the new Insolvency Act No. 182/2006 Coll. came into force. When working on Insolvency Act, legislators were inspired abroad, mostly influenced by our neighboring country Germany and partly by American legislation whose principles can be found even in European law (Frelichová, 2008). As the amount of household loans rises every year (see Fig. 1), the financial literacy is still deficient, and there is growing awareness of possibility of debt relief, it is not surprising that the number of personal bankruptcy increases by 30% annually. (Paseková, 2013).

Fig. 1: Development of loans in the Czech Republic



Source: Czech National Bank, 2015

In this paper are presented the results of successful proposals submitted under jurisdiction of Prague and Pilsner Regional Courts. It is part of ongoing research which examines debtors who successfully submitted a proposal for a debt relief. The main aim of this research is to analyse debtors under each Regional Court in the Czech Republic and compare them with each other. Debtors are analyse and compared throughout regions for their age, gender, the total amount of debt, income, the structure of their creditors and also whether they have university degree or not. But personal bankruptcies may have bigger impact on lives of debtors that might seem. For example there was a study in Canada that found a correlation between personal bankruptcies and debtors' health, especially growing number of acute myocardial infarction (better known as heart attack) of those undergoing debt relief. (Savu, 2016)

1 Theoretical basis

The research focuses on debt relief, but what the *debt relief* is? It is possibility, for those who have huge debts and are not able to satisfy all their creditors, to be excused from paying the rest of their debt if certain conditions are fulfilled. Debt relief is meant for those whose debts

are more than 30 days overdue and has at least two or more creditors. (Smrčka, 2011). Moreover debtor must specify how he got insolvent in the first place and how he is going to pay at least 30% of its current debts to creditors if the court does not decide otherwise. It is important to know that debt relief was originally meant for individuals who had not any debt from business. Since 2010, based on decision of High Court in Prague, it is possible to have some business liabilities if there is an agreement with creditors to do so. Process of debt relief starts when the proposal is approved by the court, following by assigning a bankruptcy administrator who supervises the whole process since then. Debtor is protected against new fines, interest and penalties which might come from creditors. It is most important to remember that everyone can go through the process of debt relief only once in their entire life.

When it comes to methods of debt relief, there are two. The first method is based on monetizing debtor's assets (if valuable) and using the money to repay creditors. The second one is repayment plan, which is used the most in the Czech Republic. In this case some or even all debts are repaid to the creditors during the next five years since approved proposal for debt relief in court. The debtor is left only with subsistence minimum, which should be more than enough for its living, and the rest of his earnings is used to repay creditors. Five years is not a long time in comparison to other European countries: "A personal bankruptcy in Ireland lasts for 12 years, and in Germany six years, during which the debtor's rights are few and the law gives the creditor all the levers to extract as much money from the debtor as he can." (Draghici, 2015) The advantage of first method is that the process of debt relief can be shorter than five years. Both methods can be combined, especially when the debtor does not fulfil the repayment plan properly. (Hásová, 2013)

2 Methodology

This section describes the process used to obtain necessary information for the research as well as the methodology and further usage of the data. All the essential data were acquired from the Czech Insolvency Register, where are all proposals for debt relief available to view in pdf format. Therefore data could not be automatically obtained from register and all debtors' proposals must have been checked and read through. The analyse period was set to January 1st 2012 until December 31st 2013 and due to a large number of proposals in this period only a ten percent sample of debtors was examined for each Regional Court.

Some debtors submit the proposal more than once if rejected and it would bias the outcome of our research if one debtor was examined more than once because of numerous

proposals. Thus some adjustments had to be made. The list of application was cleared of those who applied more than once except for their last proposal, also cleared of those who applied for different form of insolvency. Another adjustment was that married couples were count as two individuals.

Each debtor was analyse for numerous criteria. Firstly, whether its proposal for debt relief was successful or not. If the proposal was unsuccessful, debtor was further analyse whether submit more proposals in the future and if any of them was permitted by the court. Then the debtors were analyse according to their age group, gender, income, the total amount of debt, type of creditors and their education. Income of each debtor consisted out of three categories – social contributions (including gift covenants), gross earnings and net earnings. Gross earnings were adjusted with a simple formula based on the Czech social welfare and taxation system onto net earnings.

3 Results of Research

This paper intends to compare the results of the research of the debtors from Central-Bohemian Region, Pilsner Region and Karlovy Vary Region (as it is under jurisdiction of Pilsner Regional Court). It is important to take into account the demographic distribution of population into account while making conclusions over the result of our research (see Tab. 1).

Tab. 1: Demographic distribution of population

Age group	Prague Regional Court			Pilsner Regional Court		
	Total	Men	Women	Total	Men	Women
15-24	133 608	68 517	65 091	92 605	47 628	44 977
25-29	82 389	41 776	40 613	58 420	30 055	28 365
30-34	98 718	49 552	49 166	62 679	32 572	30 107
35-44	227 466	116 597	110 869	141 860	72 808	69 052
45-54	161 305	82 775	78 530	113 195	57 777	55 418
55+	384 198	173 300	210 898	276 438	125 301	151 137
Total	1 087 684	532 517	555 167	745 197	366 141	379 056

Source: Czech Statistical Office

Although there are more people living in the Central-Bohemian Region than in Pilsner Region and Karlovy Vary Region combined, there is lower number of proposals for debt relief and even higher successful rate as can be seen in tab. 2. There is a correlation between the unemployment rate and number of proposals, because whereas under jurisdiction of Central Bohemian Court is unemployment rate only 5,2%, it is slightly worse under Pilsner Region Court with 6,9% and as mentioned there is lower number of proposals even if compared to population.

Tab. 2: Successful rate of Debt Relief and Unemployment Rate

	Pilsner Regional Court		Central Bohemian Court	
Number of Proposals	635		517	
Successful Proposals	527	83%	465	90%
Unemployment Rate	6,9%		5,2%	

Source: Czech Statistical Office and own research

When looking at tab. 3, we can see that the distribution of successful proposals between men and women is the same in total. Considering age, most debtors are 35 years old or older. It is probably due to the fact, that people younger than 35 years either did not have time to make a lot of debts, or usually think that their financial situation is not as bad as it seems and believe to handle it in the future. Maybe even by taking another loan.

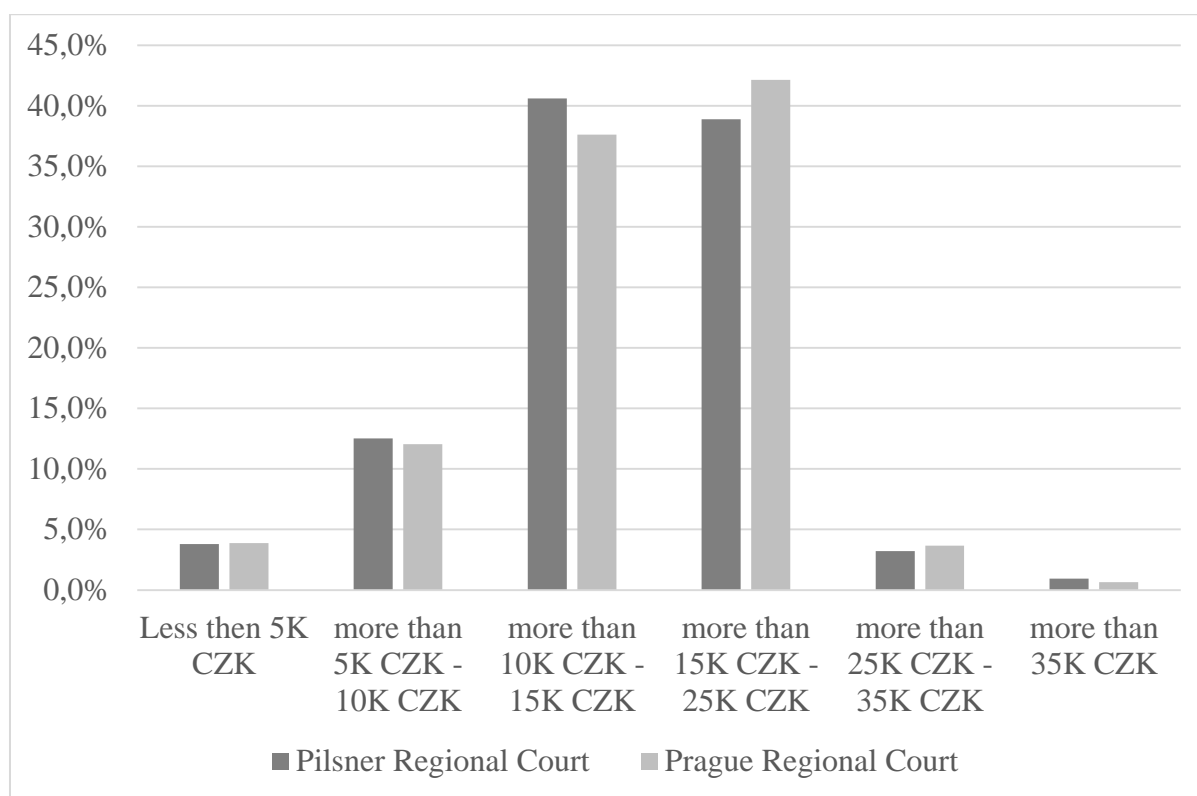
Tab. 3: Age and gender structure of Successful proposals

		15-24	25-29	30-34	35-44	45-54	55+	Total
Pilsner Regional Court	Men	1%	5%	7%	12%	10%	9%	44%
	Women	1%	6%	7%	14%	13%	14%	56%
Prague Regional Court	Men	2%	5%	7%	11%	10%	10%	44%
	Women	1%	5%	6%	19%	15%	11%	56%

Source: own research

With fig. 2, it is obvious that the Regions are lot alike. Most of the debtors in our research does not have income higher than 25 thousand CZK, which means that people whose salary is higher than average salary in the Czech Republic are less likely to become insolvent. It would seem fair to say, that people with higher income are also more educated and skilled with financial literacy, therefore make their decision more carefully than those with lower income.

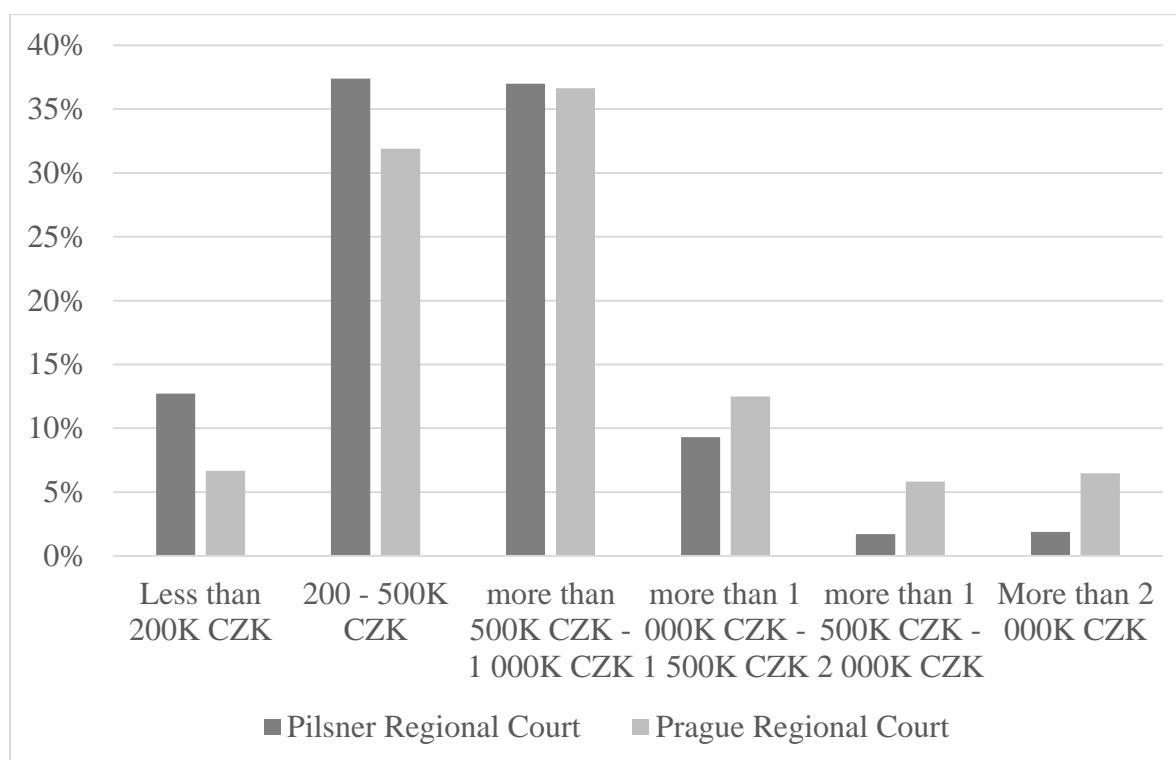
Fig. 2: Debtors according to their monthly income



Source: own research

As next, debtors according to their debts were analysed and as with the income, the results of regions are very similar. There is just around 12% of those with debt below 200 thousand CZK in all regions. It is mainly caused by the need for the debt relief itself. Usually, people are able to repay this debt by themselves and do not need to submit the proposal. On the contrary, it is with debts over a million CZK. It is also the small proportion of proposals for debt relief, but it is caused mainly due to inability to pay at least 30% of debts, because you need a higher income to be able to repay such an amount of debt. Curiously enough the higher debts occurred more often under the Prague Regional Court than under the Pilsner Regional Court, even though income of examined samples were nearly the same.

Fig. 3: Debtors according to their total debt



Source: own research

In table 4 we can see that under both Regional Courts more than 90% of successfully submitted proposals were debts to non-banking institution and just slightly less to bank institutions. At the beginning of this research, the assumption was that most of the debtors have non-banking institutions as creditors and it was confirmed, but it was not expected that banks had provided loan to almost 90% of applicants as well. Debts from other creditors, such as insurance companies, lawyers and state, have approximately 70% of debtors. As the number of personal bankruptcies is growing, which results in significant losses to creditors (especially to bank-institution and non-banking institution), a personal bankruptcy prediction system gained importance in last couple of years and is used in various models such as credit scoring and credit card data mining. (Xiong, 2013)

Tab. 4: Proportion of creditors groups

	Pilsner Regional Court	Prague Regional Court
Bank Institution	87%	88%
Non-banking institution	94%	92%
Others	67%	68%

Source: own research

Finally, one of the most important condition in the insolvency process which is the plurality of the creditors. Every debtor who applies for debt relief must have at least two. In table 5 is shown whether debtor owes only to one type of creditor or more. It is not very common among the debtors who submit a proposal for debt relief to be in debt only to one type of creditor, but if they do it is usually to a banks, where they have mortgage in combination with consumer loan, or many consumer loans from different non-banking institutions. More than a half examined debtors owes money to all three types of creditor group. It is well know that people who have problems with their debts use another loans provided by non-banking institutions to repay their creditors, but consequently create a never ending circle of indebtedness which became only worse through the time.

Tab. 5: Quantity of creditor groups

	Pilsner Regional Court	Prague Regional Court
1	4%	3%
2	44%	45%
3	52%	52%

Source: own research

From the final table of this paper is pretty obvious, that level of education plays a big part whether person is likely to become insolvent or not. Only a little over one percent of examined debtors had university degree, therefore it is confirmed that highly educated people are less likely to submit a proposal for debt relief. Debtors' financial literacy is not of an adequate level, so they are not aware of the risks stemming from borrowed money or anticipate the consequences arising from leaving their liabilities unfulfilled including interest. (Paseková 2013)

Tab. 6: University Education level

Pilsner Regional Court	Prague Regional Court
1,14%	1,08%

Source: own research

Conclusion

According to the outcomes of this research the structure of the debtors under jurisdiction of both Regional Courts indicates more or less expectable results. Comparing those two areas of

the Czech Republic showed mostly very similar results in all categories. The success rate of a debt proposal is very high in both regions. Another result similar for both regions are the debtors' net incomes. The most indebted people are among those whose income is between 10 and 25 thousand CZK. Gender distribution among debtors in the regions showed one expected and one slightly surprising result in the Pilsner Region. The majority of debtors are people older than 35 years. While gender distribution in the age group of 55+ in Central Bohemia is divided almost evenly between men and women, in the Pilsner Region women tend to become debtors more than men.

The most common debtor in the regions announces bankruptcy before his or her total debt reaches one million CZK. On the other hand, most of all debts are higher than two hundred thousand CZK. Most debtors in both regions are indebted towards non-banking institutions whereas the least represented creditor group is Others. It is then to no surprise that in every of the examined regions more than half of the region's debtors are indebted towards all creditor groups.

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