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Good Practices in Social Security

Good practice in operation since: 1997

Bridging benefit - social insurance in the event of bankruptcy: Bankruptcy insurance and insurance against involuntary cessation of activity

A case of the National Institute for the Social Security of Self-Employed

National Institute for the Social Security of Self-Employed
Belgium

Summary

The social security statute covering the self-employed provides for a bridging benefit, referred to as social insurance in the event of bankruptcy for self-employed workers in difficulty who are forced to stop working for specific reasons and no longer engage in occupational activity.

To qualify, the self-employed worker must not earn any income from work or receive any other replacement income (residual benefit).

Bankruptcy insurance is a compulsory branch of social security.

Scope of application:

- a) bankrupt self-employed workers;*
- b) managers, administrators and active partners of a bankrupt company;*
- c) self-employed non-retailers who cannot pay their debts and who are covered by a collective debt settlement; and,*
- d) since 2012, self-employed workers forced to interrupt or stop work after a natural disaster, fire, destruction of a workplace or industrial equipment, or an allergy resulting from practicing a profession (e.g. a baker who becomes allergic to flour).*

Benefits:

- a) a monthly allowance for a maximum twelve months period (which may be broken up); and,*
- b) maintenance of family benefits and health care for up to four quarters, without paying contributions.*

CRITERIA 1

What was the issue/problem/challenge addressed by your good practice?

- a) The lack of social protection and the risk of increased poverty among the self-employed facing financial difficulties or forced to stop working after an external event

The Belgian scheme for the self-employed does not provide unemployment insurance. However, some self-employed workers may receive unemployment benefits based on wage-earning activities prior to becoming self-employed. Bankruptcy insurance provides self-employed workers facing financial difficulty with social security coverage and an allowance when they are not entitled to unemployment insurance.

In 2012, such protection was extended to self-employed workers forced to stop working for an external cause (e.g. fire or natural disaster).

- b) Fear of taking entrepreneurial risk

Taking risks and, hence, being subject to the risk of bankruptcy is inherent to entrepreneurship.

However, such risks may discourage some people who might otherwise become entrepreneurs, whether launching their first business or resuming activity after a setback.

This is particularly true, given the growing number of bankruptcies in Belgium in recent years (Source: SPF Economie, PME, Classes moyennes et Energie):

2001: 7 094
 2002: 7 222
 2003: 7 593
 2004: 7 935
 2005: 7 878
 2006: 7 616
 2007: 7 680
 2008: 8 476
 2009: 9 420
 2010: 9 570
 2011: 10 224
 2012: 10 587

c) Social isolation

Self-employed workers facing bankruptcy or cessation of activity as a result of an external cause often experience a period of doubt, both emotional and financial, and may find themselves socially isolated. To overcome such isolation, it is important that they resume work quickly.

CRITERIA 2

What were the main objectives and the expected outcomes?

- a) Offering social protection and replacement income to self-employed workers experiencing financial difficulty or forced to stop working after an external event;

It is very important not to leave already-weakened self-employed workers without social protection or income, as this would increase their risk of falling into poverty.

- b) Limiting entrepreneurial risk;

Bankruptcy insurance reduces entrepreneurial risk by providing temporary compensation for loss of earnings and, hence, encourages entrepreneurship.

- c) Encouraging entrepreneurs to try again;

Bankruptcy insurance provides a temporary opportunity to recover from a period without earned income. Thanks to such insurance, an individual can make a fresh start, either as a self-employed person or an employee. Limitations on the length and fragmentation of such periods encourage a return to the labour market.

CRITERIA 3

What is the innovative approach/strategy followed to achieve the objectives?

- a) Component of the compulsory social security scheme for self-employed workers;

The systems in various EU countries protect the self-employed against unemployment. In many cases, this is a form of voluntary insurance. Belgian bankruptcy insurance, on the other hand, is a distinct branch of the compulsory social security scheme for the self-employed.

- b) Scope of application;

The scope of application of this scheme has grown slowly over time. It now covers both self-employed workers in serious financial difficulty (bankrupt or covered by a collective debt settlement process because they cannot clear their debts) and self-employed workers who must stop working after some external event (natural disaster, fire, destruction or allergy).

- c) Allowance linked to the minimum pension;

The amount of the allowance is not fixed, but is automatically linked to the minimum pension for the self-employed. Any increase in that pension thus automatically triggers an increase in the bankruptcy allowance, which avoids having to revise the legislation repeatedly.

- d) Several times over an individual's working life;

Initially, bankruptcy insurance could be granted only once over a worker's entire working life. Beneficiaries who had not used the full maximum duration of benefit could not later use the remaining period.

Starting in 2012, beneficiaries may use bankruptcy insurance several times for up to 12 months over their entire working life. This provides an incentive to resume activity more quickly.

- e) Incentive to rejoin the labour market;

Limiting the duration of and providing multiple opportunities to rely on bankruptcy insurance constitutes an incentive to rejoin the labour market quickly. The objective is specifically to offer a bridge to a new activity.

CRITERIA 4

Have the resources and inputs been used in an optimal way to achieve the set objectives and the expected outcomes? Please specify what internal or external evaluations of the practice have taken place and what impact/results have been identified/achieved so far.

Since bankruptcy insurance was established in 1997, it has gradually been developed and improved based on experience (the changes are described in greater detail under criterion 5).

In 2009 the General Management Committee (Comité general de gestion) made several proposals to improve bankruptcy insurance (Opinion 2009/04 of 25 June 2009).

Bankruptcy insurance has also been discussed in various studies of poverty among the self-employed (Cf. Proposals for a policy of support to the self-employed facing difficulty, King Baudouin Foundation, 2012).

In 2012, these developments led to several changes: the application deadline was extended; the opportunity to use bankruptcy insurance several times was established (with a total maximum of 12 months); and, the scheme was expanded to include involuntary cessation of activity.

To ensure that self-employed workers are informed about bankruptcy insurance, starting in February 2013 they will all receive an annual summary (on paper) of all their entitlements and, thus, also of bankruptcy insurance.

Between 1999 and 2012, bankruptcy insurance (including the allowance and maintenance of entitlement to benefit) was awarded in 6,947 cases, involving more than EUR 63,5 million in allowances. Over the 2008-2012 period, the number of awards increased by ten per cent on average, compared to 1999-2007. This increase is related to a rise in the number of applications for benefits resulting from the growing number of bankruptcies and the economic crisis. However, it is also related to the improvements intended to ensure that the insurance addresses the needs of the self-employed more effectively. The residual nature of this benefit suggests that at the time benefits were awarded, nearly all the beneficiaries were living below the poverty line.

CRITERIA 5

What lessons have been learned? To what extent would your good practice be appropriate for replication by other social security institutions?

Bankruptcy insurance was introduced in 1997. It has evolved to take account of practice and lessons learned.

The scope of application has expanded over time (initially, it applied only to bankrupt self-employed workers), the award period was extended (from two to twelve months), and the

amount of compensation has increased gradually and is now linked to the amount of the minimum pension for self-employed workers.

The current bridging benefit reflects the lessons learned from experience with this scheme. This insurance is available to the self-employed who are experiencing financial difficulties or other problems due to external factors. It is intended to serve as a springboard to other occupational activity, is flexible, allowing for discontinuous award periods and offers social security coverage and income to prevent self-employed workers from falling deeper into poverty and social exclusion.

More generally, experience has also shown the importance of informing the self-employed about their rights. Indeed, many self-employed workers do not know their rights, especially when they are vulnerable. It is very important to use multiple communication methods to reach a broad range of self-employed workers and provide them with information on public policy and their rights.