



DIRECTORATE-GENERAL FOR INTERNAL POLICIES  
POLICY DEPARTMENT  
ECONOMIC AND SCIENTIFIC POLICY **A**



## Basic banking services

IMCO





**DIRECTORATE GENERAL FOR INTERNAL POLICIES  
POLICY DEPARTMENT A: ECONOMIC AND SCIENTIFIC POLICY**

## **Basic banking services**

### **Abstract**

This briefing paper examines the current state of play in the access to basic banking services, as well as the expected benefits of providing such access for citizens as well as for cross-border trade, in particular e-commerce. It also identifies the banking services that would ideally be covered by any initiative and the main hurdles met by citizens accessing bank services in Member States in which they are not permanent residents.

This document was requested by the European Parliament's Committee on the Internal Market and Consumer Protection.

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## LIST OF ABBREVIATIONS

**CSES** Centre for Strategy & Evaluation Services

**CSWP** Commission Staff Working Paper

**EC** European Commission

**EFT** Electronic fund transfer

**EIAA** European Interactive Advertising Association

**EU** European Union

**EP** European Parliament

**IFF** Institut für Finanzdienstleistungen

**SEPA** Single European Payment Area

## Member State abbreviations

BE	Belgium	LU	Luxembourg
BG	Bulgaria	HU	Hungary
CZ	Czech Republic	MT	Malta
DK	Denmark	NL	Netherlands
DE	Germany	AT	Austria
EE	Estonia	PL	Poland
EL	Greece	PT	Portugal
ES	Spain	RO	Romania
FR	France	SI	Slovenia
IE	Ireland	SK	Slovakia
IT	Italy	FI	Finland
CY	Cyprus	SE	Sweden
LV	Latvia	UK	United Kingdom
LT	Lithuania		

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## EXECUTIVE SUMMARY

It is becoming increasingly necessary to have access to at least a basic bank account; however, it is estimated that over 30 million individuals over the age of 18 across the EU do not have access to a bank account.

Currently, in 12 Member States there is a legal requirement (in Belgium, Denmark, France, Finland, Netherlands and Sweden) or a voluntary code of conduct obligation (in Germany, Ireland, Italy, Luxembourg, Slovenia and United Kingdom) to provide access to some type of basic bank account. However, such provisions do not currently exist in the other 15 Member States.

In July 2011, the EC issued a Recommendation on access to a basic payment account with the aim of guaranteeing access to a basic bank account to all citizens within the Union.

The services to be provided by a basic bank account should:

- include the ability to open, operate and close a payment account
- enable money to be placed in and withdrawn from a payment account
- allow the execution of payment transactions by direct debit; a payment card or credit transfers.

Moreover, the services should not be tied to the purchase of other services or products (such as insurance) from the institution offering the basic bank account. An overdraft facility should not be provided with this type of account.

Granting access to a basic banking account to all EU citizens is likely to primarily benefit the "unbanked" and cross-border mobile consumers.

- Access to a bank account improves the way of life for the "unbanked" through better access to jobs, pensions and social security payments, and possibly through discounts from the use of direct debits, access to online purchase, and improved security in effecting payments.
- Mobile consumers will find it easier to operate in other Member States due to the improved ease of opening bank accounts in other Member States of the Union. Mobility within the Single Market could be enhanced by the provision of access to a basic bank account.

The provision of access to a basic bank account will also support the growth of e-commerce as 12% of those who did not use the internet to order goods or services online in the 12-month period preceding the survey identified the lack of a payment card as a reason.

Moreover, greater access to basic banking services together with the advent of the Single European Payment Area will contribute to the expansion of cross-border e-commerce.

## 1. INTRODUCTION

Currently, it is becoming increasingly necessary to have access to at least a basic bank account<sup>1</sup>. However, it is estimated that over 30 million individuals over the age of 18 in the EU do not have access to a bank account<sup>2</sup>.

Access to basic banking services can have a considerable impact on the lives of consumers and is an important element in the continuing development of the Single Market. Multiple benefits derive from having access to basic banking services, both for the individual and more broadly for society, as well as through the better functioning of the Single Market.

The importance of having access to at least a basic bank account, also known as a basic payment account, has increased in recent years due to the reduced use of cash within the EU. For example, the fact that salaries are increasingly paid directly into bank accounts means that those without such access to basic banking services are greatly disadvantaged and this group of individuals can potentially face serious difficulties in finding employment. Having access to at least a basic bank account often enables an individual to gain access to other financial products or services, such as the ability to make electronic payments, obtain credit and purchase life insurance.

The provision of access to basic banking services will have greatest the impact on two groups of individuals.

First, it will benefit those who are currently "unbanked", i.e., those who currently do not have access to any form of bank account. This is particularly important as a disproportionate number of "unbanked" are vulnerable members of society.

Second, it will benefit those seeking to live, work or study abroad and who wish to open a bank account in a Member State other than their own. Improving access to banking services by temporary or permanent intra-EU migrants will contribute to improve the mobility of labour across the EU.

Furthermore, facilitating access to basic banking services may also have a positive effect on cross-border trade and e-commerce within the EU. Those without access to the various payment means associated with bank accounts cannot take full advantage of the Single Market.

In light of the situation currently prevailing in the EU, the European Commission, after a public consultation and undertaking their own research, decided that it was appropriate to issue a *Recommendation on Access to a Basic Payment Account*. In this Recommendation, the Commission identifies the services that should be provided, the people to whom the services should be offered and how much should be charged for the provision of a basic bank account.

The structure of the present note is as follows:

- Section 2 describes the current state of play regarding access to banking services in the EU and the measures that could be taken in order to improve access
- Section 3 analyses the expected benefits of greater financial inclusion
- Section 4 discusses the banking services that should ideally be provided to achieve the highest benefits for citizens and the Internal Market

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<sup>1</sup> See European Commission, 2011b

<sup>2</sup> See CSES, 2010

- Section 5 reviews the main hurdles faced by citizens who want to open bank accounts or obtain a payment card in a EU Member State other than their home Member State
- Section 6 discusses the expected benefits of a right to basic banking services for cross-border trade and e-commerce
- Section 7 presents information of on the current level of fees for different payment means for both domestic, EU and international payments
- Section 8 sets out a number of conclusions.

## 2. CURRENT STATE OF ACCESS TO BANKING SERVICES IN THE EU

### KEY FINDINGS

- Currently, across the EU, there are six Member States that have implemented a legal right to a basic bank account. In six other Member States, voluntary banking codes provide for access to basic banking services. In the majority of Member States, there exist no provisions to encourage banks to offer basic bank accounts.
- The instruments that the EC could use to improve access to basic banking services include promoting self-regulation by banks, establishing an expert group and informal information sharing networks, issuing a Recommendation, or a Directive, Regulation or Framework Regulation.
- In practice, in July 2011, the EC issued a Recommendation on access to basic payment services with the aim of guaranteeing access to a basic bank account to all citizens within the Union.

### 2.1. Current situation across Member States

Currently, the legal framework governing the access to basic banking services varies markedly across the EU<sup>3</sup>:

- Belgium, France, Finland and Denmark have passed legislation providing for access to a bank account (basic or regular)
- In Sweden, there exists a legislated right to a deposit account (which does not provide for electronic payment).
- In the Netherlands, citizens have a right to a bank account as a result of an agreement between the banks and the authorities.
- Voluntary codes providing for access to a bank account have been adopted by the banking industry in a further 6 Member States.
  - In Germany, Ireland, Luxembourg and Slovenia, the codes foresee that banks open accounts for anybody fulfilling standard requirements concerning proof of identity and address, and compliance with anti-money laundering rules.
  - In the UK, banks should offer a special basic bank account to those customers who cannot obtain a regular bank account.
  - In Italy, the banking code stipulates the provision of a payment account.

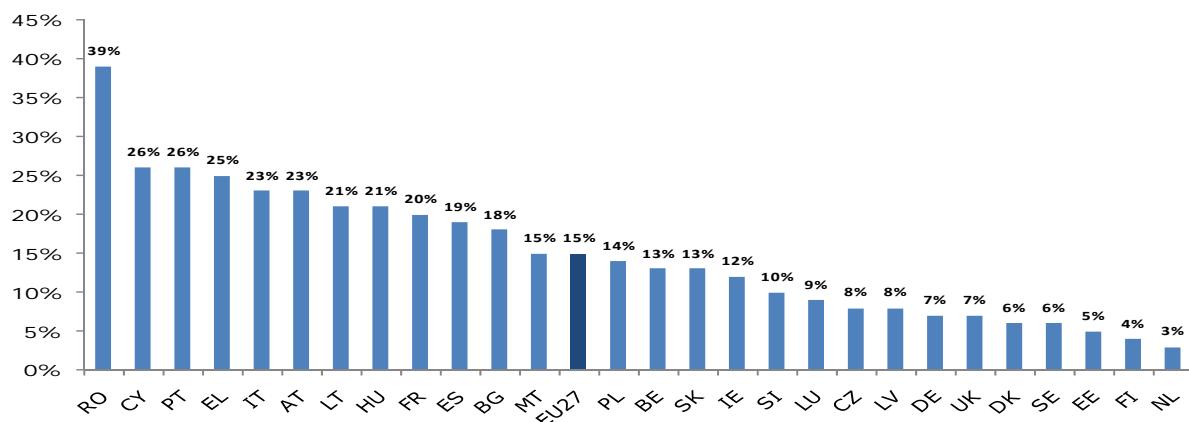
Thus, in 12 Member States there is some type of requirement for banks to provide some form of bank account. Such provisions do not currently exist in the other 15 Member States.

As a result, consumers face very different circumstances in different Member States.

<sup>3</sup> The information provided in this section is based on the Commission Staff Working Paper on impact of access to basic payment services (2011) and research by London Economics

Indeed, a recent survey of consumers across the EU<sup>4</sup> shows that, typically, a much larger proportion of consumers find it difficult to gain access to a basic bank account in Member States with no legal or voluntary requirement to provide access to such an account than in Member States where some form of access requirement exists. On average across the EU, 15% of people found it difficult to gain access to a basic account. However, Figure 1 illustrates that the average EU-wide figure hides very different situations with 39% of survey participants from Romania reporting having experienced problems in opening a basic bank account, while only 3% of Dutch survey participants indicate having faced such a problem.

**Figure 1: Percentage of individuals that found it difficult to gain access to a basic bank account**



**Source:** Special Eurobarometer 355 (2010)

Below, we provide a more detailed description of the current state of access to basic banking practices for a selection of 10 Member States, namely Bulgaria, Cyprus, Denmark, France, Ireland, Luxembourg, Italy, Slovakia, Slovenia and Spain. This set of Member States comprises a mix of Member States with and without provision of access to basic banking services, larger and smaller Member States, northern and southern Member States, EU15 and newer Member States, etc.

### 2.1.1. Bulgaria

The banking system in Bulgaria is not as developed as those of many of the EU15 Member States and therefore, according to Association of Banks in Bulgaria, the vast majority of products and services offered by Bulgarian banks could be classed as basic. According to the Association of Banks in Bulgaria, the only obstacles that residents face when trying to open a basic bank account are those applied as a result of the anti-money laundering legislation. Therefore, if an individual has an acceptable form of ID, she/he can usually open a basic bank account very quickly, irrespective of her/his residency, social status, income or other socio-economic characteristics. Such socio-economic characteristics would only be considered if the individual required an overdraft or credit card. In Bulgaria, different types of social payments are paid straight into the recipient's bank account. Many of the beneficiaries of these payments have a low income and have a low level of education. The direct payment to a bank account encouraged some people who may otherwise not use a bank account, to do so. However, according to the results of the Eurobarometer survey shown in the figure above, 18% of Bulgarians find it difficult to access a basic bank account. The Financial Inclusion Observatory notes that the main groups of people without an account in Bulgaria were elderly people in villages who tend to be on low incomes and prefer to hold their resources in cash.

<sup>4</sup> See Special Eurobarometer 355, 2010

### 2.1.2. Cyprus

According to the Association of Cyprus Banks, its members have signed up to a voluntary banking code which aims to provide good banking standards, encouraging transparency and good faith in banking transactions. It states that "banks shall offer their services to all customers with the same level of quality and comprehensiveness and shall demonstrate the same due courtesy avoiding any discrimination based on customers' nationality, religion or sex". Everyone in Cyprus has access to a basic bank account, as long as this complies with the legislation concerning anti-money laundering. There are no real obstacles to opening a bank account in Cyprus for non-permanent residents. However, due to the anti-money laundering Directive and to protect the banking system against illegal activities, banks must apply the principle of "know your customer". This means that banks are required to verify the identity of any person applying to open an account and clarify the purpose of the bank account. Therefore, customers are required to prove their identity and address, whilst they are also required to fill out and sign the appropriate documentation. Despite the voluntary banking code, 26% of Cypriots indicated in the Eurobarometer survey described above that they faced problems accessing a basic bank account.

### 2.1.3. Denmark

In Denmark, all citizens have the right to a Danish bank account, according to Section 19 of God Skik (Good Conduct), although this does not include the right to a credit card. Banks are obliged to open an account for all citizens but can refuse on the basis of poor conduct, violence or intimidating behaviour. Those citizens who are refused a bank account are entitled to a written statement explaining why they have been refused the service and there is a body that deals with complaints. As a result of the Danish Financial Services Association ruling in 2005, foreign citizens who do not have Danish residency or a Danish social security number but need a Danish bank account are still legally entitled to an account, unless the bank can show factual grounds to the contrary. The fact that all banks are legally obliged to offer basic bank accounts to all consumers has meant that it is relatively easy for Danish consumers to open basic bank accounts. This is shown in Figure 1 with only 6% of Danish consumers reporting having had problems in opening such an account.

### 2.1.4. France

In France, individuals have a legislated right<sup>5</sup> to a basic bank account. By law, a customer who has been refused an account by a bank is entitled to written information on the reasons, and the refusing bank has to offer to the refused customer to transmit to the Banque de France the demand to designate a credit institution that will be obliged to provide a basic bank account, as well as the information necessary for opening the account. Alternatively, the refused customer can undertake the required process herself/himself.<sup>6</sup>

While very few individuals were refused the opening of a bank account (3% of poor households and 1% of the population globally) in 2009, only 5% of these individuals and households used the special procedure foreseen for obtaining an account after a refusal by a bank<sup>7</sup>.

The facilities provided by a basic bank account allow the user to deposit or withdraw cash; make electronic payments; use bank drafts, standing orders and direct debits; make international transfers; receive postal payment and receive a monthly statement of transactions. However, the basic bank account does not include the provision of a cheque book or an overdraft facility.

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<sup>5</sup> Paragraph 1 of Article L.312-1 of Code monétaire et financier.

<sup>6</sup> Observatoire de l'épargne réglementée, 2011

<sup>7</sup> See CREDOC, 2010

According to the Eurobarometer survey, approximately 99% of the French population have a current account. Importantly, The French Bankers' Federation notes that the focus should not solely be on the issue of access to basic bank account but also on increasing the uptake of accounts.

#### 2.1.5. Ireland

In March 2011, a fundamental restructuring of the Irish banking system was announced by the Irish Government in order to ensure the recovery of the domestic banking sector. The Irish government had made a commitment to review the options available to achieve financial inclusion, as part of the EC's Decision on the restructuring of the Bank of Ireland (a private bank). The aim of this was to decrease the level of financial exclusion across Ireland over a 3-5 year period. The review found that 17% of Irish people live in households with no current account and noted other research carried out by the Financial Regulator that highlighted the fact that 10% of the adult population have no bank account at all. A fundamental conclusion of the review was that "access to transaction banking needs to be the priority because it is key to accessing other financial services (for example insurance, savings and credit). Accordingly, the provision of Basic Payment Accounts (transaction accounts designed to meet the needs of the financially excluded) by the Irish banks, along with the Post Office (and Credit Unions with electronic fund transfer (EFT) capability) will form the cornerstone of the proposed strategy." The precise details of the provision of such accounts are still under review.

#### 2.1.6. Italy

In Italy, there are currently two different basic banking services which are provided to improve financial inclusion, the *Servizio Bancario di Base* and the *Conto Corrente Semplice*. The first of these was set up in 2003 and designed for the "unbanked" due to its ease-of-use and low cost. It provides essential services such as a debit card, salary or pension deposit, direct debit, bank transfers, information on balance and transactions, and access to simple investment plans.

The second of these services was created in 2009 through an agreement between the Italian Banking Association (ABI) and the consumer associations which are members of the Italian National Council of Consumers and Users (CNCU). This service is offered on a voluntary basis by banks and enables consumers to hold a current account and, if they pay an annual fee, to perform a specific number of transactions and use certain services. It was set up to improve access to banking for vulnerable consumers such as those denied credit, immigrants and people with poor credit histories. The service includes the ability to deposit and withdraw cash, make bank transfers, pay utility bills and other regular payments, use a debit or payment card, use internet or telephone banking and receive account statements periodically. However, it does not allow for the provision of a chequebook, credit card, any form of financing or the purchase of securities. If any individual wishes to use any of these services, the bank should suggest a different type of payment account.

#### 2.1.7. Luxembourg

Individuals and businesses have a legislated right to a basic current account at the P&T Luxembourg, which is the incumbent postal operator owned by government. This basic account does not have an overdraft facility nor does it provide a chequebook or any other payment means which could give rise to a negative account balance.

According to the Luxembourg Bankers' Association, non-residents can open an account under the same conditions as residents. However, for commercial or prudency reasons, a bank may decline to open account if it the customer speaks a language that is unfamiliar to bank staff; if the customer does not fall within the bank's customer target group; if the customer comes from a Member State whose consumer protection law the bank is

unfamiliar with<sup>8</sup>; or if the customer comes from a country considered “risky” from a money laundering perspective.

#### 2.1.8. Slovakia

In Slovakia, there is no legal right to a basic bank account. However, the member banks of the Slovak Banking Federation have signed a binding agreement committing them to open a current account to any consumers who are interested in such an account and who fulfil certain criteria. They will only refuse to open an account if the consumer fails the security criteria.

An internal survey by the Slovak Banking Federation showed that over 90% of banks within Slovakia allow the opening of an account by non-resident consumers from other Member States. Less than 10% of banks required consumers to have temporary or permanent residency.

#### 2.1.9. Slovenia

There is no legislation in Slovenia which provides a legal right to a bank account. The Bank Association of Slovenia identifies consumers in personal bankruptcy or with blocked accounts as a group that may have difficulties opening accounts. However, this potential problem is mitigated by the fact that information from credit bureaus, which may be potentially harmful to the consumer, cannot be used by the bank in its decision of whether or not to open an account. In terms of access to banking services by non-residents, the only extra requirement is to obtain a tax number which, according to the Bank Association, is an easy process.

#### 2.1.10. Spain

According to the Spanish Bankers' Association, access to banking services through the opening of a bank account is almost universal in Spain and there are no restrictions based on residency or income. The only restrictions for the opening of a Spanish bank account, they say, are due to compliance with anti-money laundering legislation regarding identification and knowledge of the client. Evidence of the wide access to banking services, according to the Association, is that the number of Spanish bank accounts is 89 million for a population of 40 million people over the age of 15. The Spanish Bankers' Association notes that the availability of bank accounts means that this issue does not give rise to any social concerns in Spain and, for this reason, there have been no legislative, regulatory or self-regulatory initiatives regarding access to bank accounts in Spain.

## 2.2. Measures that could be taken to facilitate access to basic banking services

This sub-section discusses a number of measures that could be taken to improve access to basic banking services.

#### 2.2.1. EU Level

The EC can prevail itself of a number of tools to enhance access to basic banking services. These tools differ in the degree and intensity of the EC intervention and include a range of soft and hard approaches such as:

- Encouragement of self-regulation by the banking industry;
- Development of a network through which to exchange best practice;
- Adoption of a Recommendation;

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<sup>8</sup> This is due to the fact that, under Rome II convention, in case of a dispute between the bank and the customer, it is the latter's home country consumer protection laws which prevail.

- Adoption of a Minimum Harmonisation Directive which sets out minimum requirements that Member States have to meet, allowing Member State legislation to exceed the Directive requirements, the so-called “gold-plating”;
- Adoption of a Maximum Harmonisation Directive that does not give Member States freedom to impose additional requirements over and above those foreseen by the Directive
- Adoption of a Framework Regulation; or
- Adoption of a Regulation. In contrast to a Directive, a Regulation is binding in its entirety and directly applicable in all Member States, while a Directive is binding in relation to the result to be achieved, but leaves to the national authorities the choice of form and methods<sup>9</sup>.

Relying on self-regulation by the banking industry to encourage better access to basic banking services for consumers may not be an efficient way forward for two key reasons. First, banks may not generate much profit from supplying basic bank accounts to individuals that would otherwise struggle to gain such access<sup>10</sup>. It may actually be costly for banks to provide this service if fees are capped at low levels (such as those prevailing in Belgium)<sup>11</sup>. Thus, some banks may decide to ignore or adhere less than wholeheartedly to a voluntary code. For example, France and Belgium moved to a legislative requirement because their voluntary industry codes were viewed as insufficient to encourage more widespread provision of these basic payment accounts. Secondly, self-regulation may result in an uneven playing field if only some banks respect the code and the provision of basic accounts entails higher costs. A further potential problem with self-regulation is that different standards may be agreed upon in different Member States which implies that the problems associated with cross-border access may not be solved as a result of the adoption of the voluntary codes.

An exchange of best practices is unlikely to have much of an effect as it is even less constraining than a voluntary code.

A Recommendation sends a powerful signal to the banking industry and the Member States, especially to Member States without any formal or informal requirements to provide access to basic banking services, while allowing each Member State to decide how best to deal with the issue. However, a major drawback of a Recommendation is that it is only a signal and can be ignored by the parties to which the Recommendation is addressed.

A stronger action, a Directive, would ensure that basic banking services are provided across all Member States. In order to take account of the different Member States' circumstances and minimise the degree of EU intervention, it could involve only minimum harmonisation whereby all Member States would be obliged to ensure that all citizens have access to, at least, basic banking services without specifying how these are to be provided. A Maximum Harmonisation Directive would ensure that across the EU the same standards of access to basic banking services were provided.

A Regulation is more prescriptive and would ensure with a greater degree of certainty that citizens in all Member States would gain access to basic banking services once the regulation is in force. However, to take account of the differences in banking systems across Member States, a Framework Regulation may be more appropriate.

While the Commission decided to issue a Recommendation (see section 2.3), due to its non-binding nature, there is a significant risk that it will fail to improve much the situation in Member States currently without any formal or informal requirements.

<sup>9</sup> Article 288 of the Treaty on the Functioning of the European Union

<sup>10</sup> See European Commission, 2011b

<sup>11</sup> See CSES, 2010

This risk is only partially mitigated by the fact that the Recommendation specifies that the Commission mentions that it will want to be informed of the progress made by Member States to ensure that changes are made.

An important point to note with regards to any of the approaches listed above is that simply legislating or recommending the provision of access for all citizens to basic banking services is not sufficient. Other issues faced by financially excluded groups such as difficulties in proving identity in order to open an account, the failure to promote basic bank accounts, and attempts to sell unsuitable services alongside the basic bank account would need to be addressed as well.<sup>12</sup>

### **2.2.2. Actions taken by some Member States**

A 2011 report by the Irish Department of Finance<sup>13</sup> identifies three key policies which have led to virtually the whole population of some Member States having access to a bank account. These are:

- the existence of socially-oriented financial services providers;
- the payment of social and welfare benefits straight into an individual's bank account;
- the existence of sectoral frameworks for the provision of payment accounts to the financially excluded.

According to this report, the presence of socially-oriented financial service providers, such as savings banks, cooperative banks and postal banks helps deal with the issue of financial exclusion. As some of these institutions are not purely driven by the need to maximise their profits, they tend to be more inclined to offer accounts to those individuals who may not be offered accounts by other financial service providers. Examples of these institutions across the EU include the postal bank in France and Belgium; the savings banks in Germany, Austria, Spain and France and the co-operative banks in Austria, the UK and France. All of these institutions offer access to a bank account to those who would otherwise likely to be financially excluded.

Many at risk of financial exclusion include individuals living on low incomes, the unemployed, lone parents or individuals unable to work due to sickness or disability. The manner in which social security payments are actually made can make a large difference to the degree of financial inclusion of these individuals. A move towards direct payment of the welfare benefits into bank accounts provides a very strong incentive for those people who do not have access to a bank account, for reasons other than having been rejected, to open such an account.

A third measure used to increase access to banking services by those who may struggle to gain access otherwise involves setting up a sectoral framework for the provision of current accounts to the financially excluded. The strength of these sectoral frameworks varies from globally-binding regulatory frameworks, which affect all financial service providers in a Member State, to voluntary banking codes.

### **2.3. European Commission Recommendation on access to a basic payment account**

In July 2011, the EC issued a Recommendation<sup>14</sup> which addresses the issue of access to payment services among consumers, in order for them to "fully benefit from the Single Market and for the Single Market to function properly".

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<sup>12</sup> See, for example, the submission of the UK Citizens Advice Bureau to the EC consultation on basic banking services.

<sup>13</sup> See Irish Department of Finance, 2011

<sup>14</sup> See Commission Recommendation on Access to a Basic Payment Account, 2011

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The Recommendation notes that currently the provision of such services is neither ensured by payment service providers nor is it guaranteed by all Member States.

One of the major reasons justifying the issue of a Recommendation is that the market is not providing basic banking services to a large group of people. These individuals may not be considered to be profitable by a number of financial institutions and therefore these institutions have little incentive to provide basic banking services to the financially excluded. According to the EC, the current situation requires intervention, as the free market model of competition for the provision of banking services is failing to provide the "public good" of access to banking services for all, which would be beneficial for society as a whole<sup>15</sup>.

According to the Recommendation, the principles governing access to basic bank accounts should be consistent across the EU. However, due to the differences in the banking systems across Member States, the implementation of these principles should be flexible.

The Recommendation states that all consumers, who are legal residents within the EU, should be able to open and use a basic bank account in any Member State, if they do not already have an account in that State. It places the onus on individual Member States to decide exactly how this scheme should be implemented in practice, such as, for example, by imposing an obligation on all banking service providers or on a single, specially selected, provider. However, irrespective of the approach that is adopted, it is important that it does not distort competition between payment service providers.

Moreover, the Recommendation specifies that the opening and operation of a basic bank account should be free or the cost should be reasonable, with Member States deciding what constitutes a "reasonable charge" based on national income levels, average charges associated with payment accounts in that Member State, total costs relating to the provision of the basic payment account and national consumer prices. This is likely to become a major area of contention as stakeholders views about what is reasonable may differ significantly.

In addition to advising Member States to take action on the provision of access to basic banking services, the Recommendation also stipulates that individual Member States should increase the awareness amongst the population of a) the availability of basic payment accounts; b) the cost of using such accounts; c) the process for opening such an account; and d) the complaint process if problems are encountered when opening such an account.

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<sup>15</sup> See Ayadi & Rodkiewicz, 2007

### 3. EXPECTED BENEFITS OF FINANCIAL INCLUSION FOR THE INTERNAL MARKET AND RIGHT TO FREE MOVEMENT

#### KEY FINDINGS

- Granting access to a basic bank account to all EU citizens is likely to benefit the “unbanked” and the cross-border mobile consumers to the greatest extent.
- Access to a bank account improves the way of life for the “unbanked” through better access to jobs, pensions and social security payments, and possibly, discounts from the use of direct debits, access to online purchases and improved security.
- Mobile consumers will find it easier to operate in other Member States due to the improved ease of opening bank accounts in other Member States. Mobility within the Single Market could be enhanced by the provision of access to a basic bank account.
- Other longer-term benefits include the fact that marginalised groups in society become socially included, which yields private and broader social benefits, and a potential change in perception about the financial services industry.

Providing greater access to basic banking services will yield benefit to two core group of individuals, namely “financially excluded” individuals and “cross-border mobile” individuals.

#### 3.1. Benefits of access to basic banking services for “financially excluded” individuals

Financial inclusion can be defined as ensuring that everyone has the opportunity to access the financial services products needed to participate fully in modern day society and the economy<sup>16</sup>, and an individual who does not have access to either a current account or a basic bank account can be defined as “unbanked”.

One key driver of financial inclusion is having access to basic banking services. One of the main reasons for offering basic banking services to all individuals that reside in the EU is because those individuals who tend to be financially excluded are also those who tend to be the most vulnerable members of society<sup>17</sup>. Research points to the fact that those living on low incomes, in deprived areas, or who are lone parents tend to be those who are most likely to be financially excluded in the EU<sup>18</sup>.

An “unbanked” individual may benefit in a number of different ways from gaining access to a basic bank account<sup>19</sup>. These benefits vary across the EU, due to the different banking systems and structures in the different Member States. They would also vary with the range of services that are provided by a basic bank account.

The benefits of access to a basic bank account rightly identified in a cost-benefit analysis undertaken for the EC<sup>20</sup> include:

- The ability to take jobs or rent property where a bank account is required;

<sup>16</sup> See HM Treasury, 2007

<sup>17</sup> See Consumer Focus, 2010

<sup>18</sup> See Carbo et al., 2007; Beck & Brown, 2011

<sup>19</sup> See Ardic et al., 2011; Citizens Advice Bureau, 2006; House of Commons Treasury Committee, 2006

<sup>20</sup> See CSES, 2010

- Access to money transmission services;
- Lower transaction costs on payments and receipts;
- Access to discounts for electronic payment;
- Quicker access to funds;
- Increased security through lower level of cash transactions;
- Increased choice of goods and services through the internet; and
- Reduced sense of financial exclusion.

In countries where it is becoming more commonplace for employers to pay salaries directly into bank accounts, one of the most significant advantages of having access to a basic payment account is that it makes it easier to gain employment. Indeed, individuals without access to bank accounts are effectively frozen out of the job market or they have to find someone whose account they can have their wages paid into, which is a risky strategy as they therefore must trust this person with their entire wages<sup>21</sup>. The other alternative is to try and find jobs which offer payment in cash. However, as a result, they are likely to end up working in jobs paying a lower wage<sup>22</sup>.

A number of welfare payments, such as pensions and social security, are now being paid directly into bank accounts in some Member States. Without access to a basic bank account, individuals who are entitled to these welfare payments may not be able to claim them.

Furthermore, depending on the type of services provided by the basic bank account, access to such an account may open the possibility for previously "unbanked" individuals to purchase goods and services online that may be cheaper than in "bricks and mortar" shops or only accessible online<sup>23</sup>. Lack of access to payment means required for online purchases can cause those without bank accounts to pay more for goods and services. This is sometimes referred to as the "poverty premium", i.e. the higher price poorer families have to pay for goods and services because they cannot access the online deals that are available to households with payment means accepted for e-commerce<sup>24</sup>. The ability to purchase online also means that the individual has more choice.

Lacking access to a bank account may even prevent an individual from purchasing certain goods or services from "bricks and mortar" shops such as, for example, goods paid in instalments through direct debits or standing orders, or services requiring direct debits or standing orders such as certain type of mobile phone or pay-TV services, etc.

Finally, in a number of Member States, a payment by direct debit can yield a discount on the total amount owed. For example, in several countries across Europe, including Cyprus, France, Italy and the UK, the ability to make payments by direct debit may allow consumers to take advantage of discounts offered by utilities and other suppliers when paying by direct debit.<sup>25</sup>

### **3.2. Benefits of access to basic banking services for "cross-border mobile" individuals**

This second group of individuals who are likely to benefit from greater access to basic banking services includes non-residents living near a border, non-resident property owners, foreign students, expatriates, temporary workers, non-residents whose parents live abroad, people married to a foreign national and other individuals who need to access bank

<sup>21</sup> See Datta, 2009

<sup>22</sup> Ibid.

<sup>23</sup> See European Parliament, 2011

<sup>24</sup> See Blake and de Jong, 2008; nef, 2008

<sup>25</sup> This information is based on research undertaken by London Economics.

accounts in Member States other than their own<sup>26</sup>. These groups are referred to as mobile consumers in the discussion below.

These individuals need access to a bank account in order to pay for accommodation, to receive pensions or salaries, to pay bills and other such transactions. Opening a bank account in another Member State could have the added benefit of avoiding paying systematic currency conversion charges<sup>27</sup>.

A Eurobarometer study from 2011<sup>28</sup>, which consisted of 48 focus group discussions across the EU, with at least one in each Member State, considered the obstacles faced by citizens in the Internal Market. One of the potential obstacles discussed was opening a bank account in a different Member State.

Due to the fact that these were focus group discussions, it is not possible to know exactly how many people viewed this as an obstacle in the Internal Market or how great an obstacle they believed it to be. Taking this caveat into account, it is useful to note that overall, focus groups in approximately two-thirds of Member States did not view opening a bank account in another Member State as complicated and problematic at all.

It should be noted that only about a quarter of those involved in the focus groups had lived in another Member State. Therefore, it is not clear exactly what these participants are basing their opinions on. Moreover, focus group participants from Poland, Portugal and the United Kingdom commented that they did not know much about the issue of opening a bank account in another Member State.

Of the participants that felt that opening a bank account would be difficult, a number referred to their personal experiences. They noted that the two main problems they encountered were the need to have a residential address and produce a utility bill.

Difficulties associated with gaining access to banking services in other Member States is one factor identified by the expert group as causing a problem for the mobility of labour across the EU and addressing this issue would contribute to strengthen the Internal Market<sup>29</sup>.

### **3.3. Long term benefits**

In the longer run, reducing the number of financially excluded and unbanked individuals will assist these individuals to become socially "included" in society and participate more broadly in a wide range of private and social activities for their own benefit and the benefit for society at large.

Moreover, over time, as a result of having operated a basic bank account for a certain period without problems, it is possible that previously "unbanked" individuals will be in a better position to gain access to credit other than high cost credit because of a good banking record.

Another long-term benefit that may occur as a result of the introduction of basic bank accounts for all citizens is a change in the public's opinion of banking institutions and greater trust in the financial sector<sup>30</sup>.

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<sup>26</sup> See European Commission, 2007

<sup>27</sup> See European Commission, 2011b

<sup>28</sup> See Eurobarometer, 2011

<sup>29</sup> See European Commission, 2007. *Expert Group on Customer Mobility in Relation to Bank Accounts*

<sup>30</sup> See CSES, 2010

### **3.4. How large would the benefit of providing access to basic banking services be?**

The cost-benefit analysis of a policy ensuring access to basic banking services<sup>31</sup> shows that the benefits could reach a total of €9.5 billion per year if all consumers within the EU currently without a bank account gained access to an account. The cost-benefit also notes that banks could lose €900 million for providing all of these accounts and other stakeholders could potentially gain between €226 and €463 million.

Due to the multitude of factors that may affect the costs and benefits to the EU as a result of ensuring access to basic banking services, it is very difficult to view the figure above as a very precise one. This is particularly the case because there exists no quantitative data for all the factors that should be taken into account in the quantification of the costs and benefits.

However, the figures of the CSES cost-benefit analysis suggest that the benefits to individuals and other stakeholders vastly outweigh the costs to financial service providers of ensuring access to basic banking services.

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<sup>31</sup> Ibid.

## 4. BANKING SERVICES THAT WOULD IDEALLY BE COVERED BY THE INITIATIVE

### KEY FINDINGS

- The services provided by a basic bank account should include the ability to open, operate and close a payment account, enable money to be placed in and withdrawn from a payment account and allow the execution of payment transactions by direct debit, a payment card or credit transfers.
- These services should not be tied to the purchase of other services or products such as insurance from the institution offering the basic bank account.
- An overdraft facility should not be provided with this type of account.

An important aspect of recommending that basic banking services be available to all consumers within the EU is deciding exactly what should be included within this service. A few sources provide guidance in this regard, namely a report published by HM Treasury in the UK (the Cruickshank Report)<sup>32</sup>, the EC staff working paper accompanying the Recommendation, the responses to the EC's public consultation on access to basic payment services, and the actual basic account banking services foreseen by the legislation in countries where a legislated, regulated or industry-regulated right to a basic account exists.

The Cruickshank Report notes that, at a minimum, a basic bank account should give its holder the ability to receive electronic credits, make electronic payments, deposit cash or cheques, obtain cash from ATMs or use retail 'cash-back' facilities.

Similarly, the EC Staff Working Paper concludes that individuals should be able to open, manage and close a basic bank account, use this account to receive, place, transfer and withdraw funds physically and electronically, and use a payment card. Such an account should be provided at a reasonable price.

The basic bank account in Member States with a right to such an account typically provides for a number of payment means but not personal cheques and has no overdraft facility.

The responses to the public consultation on access to a basic payment account show broad support for the basic bank account services suggested by the EC in the consultation document, namely that:

*"A basic payment account could consist of the opening and the closing of a payment account; the means for the consumer to receive, place, transfer and withdraw funds, both physically and electronically; the provision of a debit card allowing for the withdrawal of cash and the carrying out of electronic payments."*

Of the public authorities that responded to the consultation, around half were either in favour of the suggested approach or did not raise any objections. Some commented on the additional features that they felt were important such as having the ability to purchase goods online and providing the use of a payment card.

<sup>32</sup> See HM Treasury, 2000

With regards to the latter point, some authorities noted that the use of the payment card should be limited to withdrawing money from ATMs until the account holder had successfully used the account for a certain period of time. However, one public authority felt that no payment card should be provided. Finally, many public authorities were of the view that no overdraft facility should be provided, although two public authorities indicated that it would be useful to provide a small “buffer” overdraft.

The responses from consumer organisations generally showed agreement with the list of proposed services. However, most of them suggested additional services that should also be provided within the basic banking account such as account management, account statements, a list of services for transferring funds, online banking and a savings facility<sup>33</sup>. While most agreed that the provision of credit should not be part of the basic bank account, some were of the opinion that a small “buffer” or overdraft facility should be provided. Consumer organisations also stressed the point that the provision of basic banking services should be untied. Finally, some stakeholders suggested that such basic bank account should also be easy to use for remittances.

#### **4.1. Basic bank account service put forward in the Recommendation**

Section III of the Recommendation, entitled “*Characteristics of a basic payment account*”, notes that a basic bank account should include the following services:

- Services enabling all the operations required for the opening, operating and closing of a payment account;
- Services enabling money to be placed on a payment account;
- Services enabling cash withdrawals from a payment account;
- Execution of payment transactions, including transfers of funds in and out of a payment account with the consumer’s payment service provider or with another service provider following: i) the execution of direct debit; ii) the execution of payment transactions through a payment card that does not allow the execution of payment transactions that would exceed the current balance of the payment account; iii) the execution of credit transfers.

It also notes that the payment service provider should not offer any overdraft facility with this account, or allow the consumer to have a negative balance.

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<sup>33</sup> See BEUC, 2010

## 5. MAIN HURDLES MET BY CITIZENS ACCESSING BANK SERVICES IN MEMBER STATES IN WHICH THEY ARE NOT PERMANENT RESIDENTS

### KEY FINDINGS

- The issues faced by mobile consumers are different to those faced by other financially excluded consumers and it is in countries where banking exclusion is uncommon overall that financial exclusion is concentrated among migrants.
- Mobile consumers are in general less likely than other financially excluded consumers to be affected by psychological, cultural or educational factors. Instead, mobile consumers face problems on the supply side.
- Proof of identity can be a problem for immigrants who may not have the standard documents required, particularly in countries that do not use a national ID card.
- The legal requirements relating to fraud are being interpreted by some banks in such a way that allows them to refuse service to non-residents who are seen by the bank as commercially unattractive customers.
- An EC expert group is of the view that the requirement for banks to verify addresses is “virtually impossible to reconcile with a mobile population and with bank account mobility, to the extent that it takes place through physical mobility”.

This section focuses on the difficulties met by EU citizens in their attempts to access basic banking services in EU Member States in which they are not permanent residents even though these banking services are necessary to be able to fully participate in economic and social life. For instance, one of the main reasons for temporary residents to open a bank account is to allow employers to deposit wages into them<sup>34</sup>. The difficulty in opening a bank account in a new host country has been identified by the European Commission as one of the 20 main concerns for citizens and businesses within the Single Market<sup>35</sup>.

The issues faced by mobile consumers are not necessarily the same as those faced by other groups that lack access to banking services – including those on low incomes, the unemployed or migrants from outside the EU – although there may be some crossover. For instance, the EC<sup>36</sup> cites European research<sup>37</sup> which finds that it is in countries where banking exclusion is uncommon overall that financial exclusion is concentrated among migrants.

According to a Commission Staff Working Paper<sup>38</sup>, mobile consumers are in general less likely than other financially excluded consumers to be held back from opening a bank account by psychological, cultural or educational factors. Instead, mobile consumers face problems caused by suppliers of banking services (see table overleaf).

<sup>34</sup> See Datta, 2009

<sup>35</sup> Published in European Commission, 2011d and based on analysis of Eurobarometer surveys as well as queries and complaints made to the Commission and related services.

<sup>36</sup> See *Financial services provision and prevention of financial exclusion*, 2008

<sup>37</sup> Disneur et al, 2006; Institut für Finanzdienstleistungen, 2000, 2006; Linz, 2006

<sup>38</sup> See European Commission, 2011b

The process of opening an account has been described<sup>39</sup> by migrants as “long and drawn out”. The required documentation may also vary from bank to bank, or sometime across branches.

**Table 1: Key problems faced by different groups of consumers in accessing basic banking services**

	Drivers	Financially excluded consumers	Mobile consumers
<b>Supply</b>	Limited or no availability of products designed for consumers perceived as commercially unattractive	★★★	★
	Price conditions – high price levels	★★★	0
	Commercial policy – profitability	★★★	★
	Commercial policy – risk	★★	★★★
	Commercial policy – residency	0	★★★
	Commercial policy – asymmetry of information	★★	★
<b>Demand</b>	Psychological and behavioural factors	★★★	0
	Low financial literacy	★★★	0

Notes: ★★★ Strong driver    ★★ Moderate driver    ★ Weak driver    0 neutral

Source: CSWP 2011

To be eligible to open a basic bank account, applicants must provide proof of identity under the third EU Money Laundering Directive<sup>40</sup>. This can be a problem for immigrants who may not have the standard documents required. According to CSES<sup>41</sup>, this is a particular issue in countries which do not use a national ID card.

In fact, the legal requirements relating to fraud appear to be interpreted by some banks in such a way that allows them to politely refuse service to non-residents who are seen by the bank as commercially unattractive customers<sup>42</sup>. Furthermore, banking industry experts consulted by the EC<sup>43</sup> identified these differences in interpretation as a reason why eligibility rules may differ even from branch to branch. This causes uncertainty for potential customers and may discourage them from applying.

Although it is generally necessary to verify addresses either under the Savings Tax Directive or under national law, experts are of the opinion that this requirement is “virtually impossible to reconcile with a mobile population and with bank account mobility, to the extent that it takes place through physical mobility”<sup>44</sup>. They highlight common problems, such as the delay in obtaining an initial utility bill or the difficulty in getting a utility bill in one person’s name, when there are several people living at the particular address. This can lead to problematic situations where mobile consumers cannot open a bank account without proof of address but cannot find anywhere to live until they have a bank account through which to pay rent<sup>45</sup>.

Banks may also refuse an application on the basis that the applicant is not a resident in that Member State. The extraordinary growth in online banking services at domestic level has not carried through to cross-border level and this appears to be due to the difficulties in opening a bank account in a country where the applicant is not a resident.

<sup>39</sup> Datta, 2007

<sup>40</sup> See EU Money Laundering Directive, 2005/60/EC

<sup>41</sup> See CSES, 2010

<sup>42</sup> EC Staff Working Paper, 2011

<sup>43</sup> See Expert Group on Customer Mobility, 2007

<sup>44</sup> Ibid.

<sup>45</sup> See The Citizen’s Advice Bureau, 2006

For example, there are no legal regulations in Austria, Belgium, France, Luxembourg, the Netherlands and the United Kingdom blocking the provision of bank accounts to non-residents. Yet, bank policies regarding residency in these countries can serve as another way to politely refuse customers that they consider undesirable<sup>46</sup>.

Some institutions may also ask the applicant<sup>47</sup> to provide additional information such as a national health or social security number, student visa or proof of employment or require the applicant to deposit money in the account regularly<sup>48</sup>. Furthermore, mobile consumers may be discouraged from opening a bank account in the host country if they are offered different price conditions than home consumers.

According to the EC Expert Group<sup>49</sup>, one further barrier to bank account access for mobile consumers is the tendency for bank websites and documents to be provided in the national language only. Focus group research carried out by the UK Department for International Development<sup>50</sup> highlighted the need for non-native language speakers not just to understand information from the bank but also to feel that they are being understood. Efforts from banks to make documents available in more languages and to help customers communicate their requirements to staff could promote financial inclusion among people who do not speak the native language as their first language.

Although it is difficult to cater for every language, some steps have been taken by European banks to address this issue. Anderloni and Vandone<sup>51</sup> detail efforts made by some Spanish and Italian banks to open dedicated immigration banks with multilingual staff and reading material in areas with high immigrant density. According to Pilley<sup>52</sup>, one UK bank offers a special telephone service that allows three way calls between the bank and customers who have a different first language. Another uses name badges to signal members of staff who speak another language.

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<sup>46</sup> See EC Staff Working Paper, 2011

<sup>47</sup> EC Expert group, 2007

<sup>48</sup> Datta, 2007

<sup>49</sup> EC Expert group, 2007

<sup>50</sup> See UK Department for International Development, 2005

<sup>51</sup> See Anderloni and Vandone, 2007

<sup>52</sup> See Pilley, 2004

## 6. EXPECTED BENEFITS OF FINANCIAL INCLUSION FOR CROSS-BORDER TRADE AND E-COMMERCE

### KEY FINDINGS

- 12% of those who did not use the internet to order goods or services online in the 12-month period preceding a recent survey by Eurostat gave the lack of a payment card as a reason.
- The availability of payment cards and electronic money transfer channels are crucial factors underpinning e-commerce, particularly as they offer to the consumer protection and credibility.
- E-commerce is the principal channel through which consumers can engage in cross-border trade.
- Without banking access, consumers cannot fully benefit from the full range of products offered within the Single Market and cannot reap the benefits of online purchasing.

### 6.1. E-commerce and cross-border trade

E-commerce is a key channel for the development of the Single Market. However, only 40% of EU consumers purchased goods or services online in the 12 months prior to the latest Eurostat survey. Of those who had not used the internet to order goods or services, 12% identified the lack of a payment card as a reason. Since most online purchases require the use of a banking card, it seems likely that opening up access to banking services would have a positive effect on e-commerce. Availability of payment cards and electronic channels are crucial factors underpinning e-commerce and providing consumer protection "credibility"<sup>53</sup>. Moreover, as already noted, the "unbanked" pay a "poverty premium" because they cannot participate in e-commerce. Thus, providing access to basic banking services to the "unbanked" will stimulate e-commerce while at the same time increasing their purchasing power (in real terms)<sup>54</sup>.

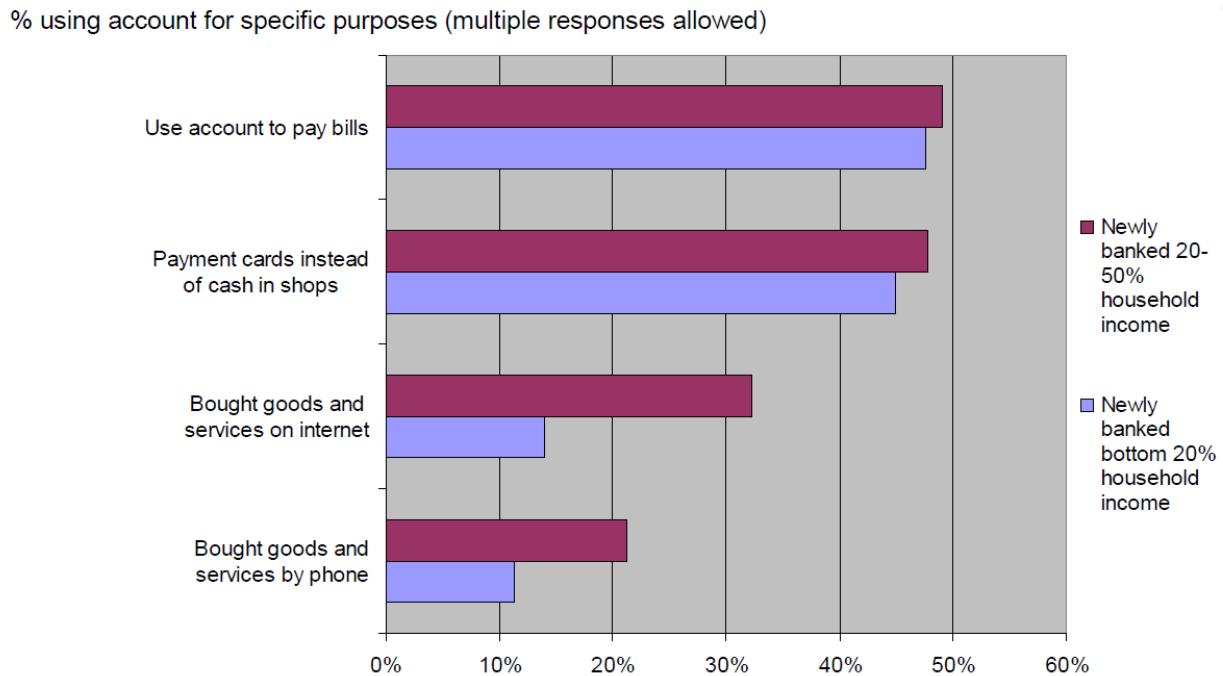
There is some disagreement about the impact that facilitating access to bank accounts would have on e-commerce. The CSES<sup>55</sup> estimate that it would result in a modest increase in a retailer's potential market since the marginal increase would be small in relation to the existing total market. They also suggest that retailers with an online presence deal mostly with products related to discretionary income which would not be a large amount for the financially excluded. A survey for HM Treasury<sup>56</sup> which examined the experience of newly banked UK consumers found that 22% had shopped online and by telephone since opening their account. This compares to the 46% who had started to use their payment card in shops. However, as was suggested by the CSES, online and telephone shopping tended to be concentrated among those on higher incomes of those surveyed.

<sup>53</sup> See Oxley and Yeung, 2001

<sup>54</sup> Provided prices of goods and services are, on average, lower on the internet and the newly banked prevail themselves of the e-commerce offers.

<sup>55</sup> CSES, 2010

<sup>56</sup> See study by Policis, 2010

**Figure 2: New payment channels used by newly banked by income range**

Source: Policis, 2010

Although online economic activity tends still to be directed mostly at the domestic market, with just 23% of those who had bought online during the 12 months preceding the Eurostat survey having undertaken cross border shopping, e-commerce does emerge as the principal channel through which consumers can engage in cross-border trade. For instance, a recent French survey<sup>57</sup> shows that more than three-quarters of participants who had engaged in distance buying had done so either exclusively over the internet or using a combination of internet and mail/telephone.

Increased access to banking services would allow currently excluded consumers the opportunity to make online purchases from both domestic businesses and businesses in other Member States.

## 6.2. SEPA and cross-border trade

The aim of the Single European Payment Area (SEPA) is to ensure that one bank account can be used to carry out all national and cross-border electronic transactions in the euro-zone so that there will no longer be any differentiation between national and cross-border euro payments. It is expected that this will facilitate cross-border trade, although the benefits will be restricted to those who already have access to banking services. According to the European Commission<sup>58</sup>, the efforts to open up access to basic banking accounts to the unbanked therefore complement the SEPA project in that the benefits of both projects will enhance the value of the other. Section 7.2 provides more detailed information on SEPA.

<sup>57</sup> See Hébel and Lehuédé, 2010

<sup>58</sup> eGov monitor website, 2009

### 6.3. Benefits for consumers

With more and more businesses offering products online, consumers who lack banking access cannot fully benefit from a fuller range of products and services offered by the European Digital Single Market.

As most online purchases require the use of a banking card, people who lack access to a basic bank account are likely to miss out on opportunities and discounts offered online. These discounts are one of the main reasons for shopping online with 65% of EU consumers believing that consumers who do not use the internet miss out on good bargains<sup>59</sup>. This figure is particularly high in Anglo-Saxon and Nordic countries and this may be due to the fact that the relatively high price levels in those countries imply that consumers can benefit more from good deals available in other countries<sup>60</sup>. CSES<sup>61</sup> estimates that the annual savings from online discounts could be of the order of €60 per household, assuming a 1% discount on purchases of €500 per month.

A further benefit of online shopping is that the consumer is offered access to a greater variety of products than is available in shops and this allows consumers to find products that are more suited to their preferences. Brynjolfsson et al.<sup>62</sup> found that, in the book market, the most important consumer welfare gains from the online market came from the greater variety of products rather than the lower prices. According to the EIAA<sup>63</sup>, 50% of European consumers surveyed said that they feel more empowered online because of the greater access to product and service choice. Other consumer benefits of e-commerce include greater ease of product comparison, greater ability to take advantage of recommendations of other consumers, as well as greater convenience<sup>64</sup>.

### 6.4. Benefits for businesses

Cost reductions and market expansion are the main benefits of e-commerce to businesses. The online marketplace allows businesses to increase their customer base, both in domestic markets and abroad. Just as the provision of payment cards opens up the online market to a new group of potential customers, an expansion of the potential retail market can arise from more consumers having the option to use a debit card rather than always depending on cash-in-hand<sup>65</sup>. However, lack of access to banking services among certain groups may mean that these channels are weaker than they would be otherwise.

Since the provision of bank accounts for higher income newly banked consumers has a greater impact on the use of online and telephone shopping than the introduction of bank accounts for those on lower incomes<sup>66</sup>, it seems reasonable to conclude that the increase in demand will be felt more by online retailers of products aimed at the higher income group.

The CSES singled out the financial services industry as one which would benefit in particular from an expansion in its online market from increased access to basic banking services, at least in the medium to longer term but probably limited to groups such as higher wealth migrants. The financial services industry would benefit because many products such as insurance, investment management and pensions are increasingly only available through electronic or cheque-based payments.

<sup>59</sup> Eurobarometer, 2008

<sup>60</sup> See European Parliament, 2011

<sup>61</sup> CSES, 2010

<sup>62</sup> See Brynjolfsson, Hu and Smith, 2003

<sup>63</sup> See EIAA, 2010

<sup>64</sup> European Parliament, 2011

<sup>65</sup> CSES, 2010

<sup>66</sup> Policis, 2010

Around 10% of EU citizens purchased or signed up to a financial service via the internet, by phone or the postal service in the 12 months prior to a recent Eurobarometer survey<sup>67</sup>.

For businesses, according to the CSES, electronic payments are associated with lower costs because they require less administration time and associated banking charges are lower. Other disadvantages of cash payments include higher security costs, higher risk of theft and the need for physical processing. If facilitating access to banking services is followed by an increase in the number of people choosing to use electronic payments, businesses could reap a number of cost savings.

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<sup>67</sup> Eurobarometer, 2011

## 7. FEES FOR VARIOUS PAYMENT MEANS ACROSS MEMBER STATES

### 7.1. Fees

The table in Annex IV details charges in Euro for various payment means in Member States. Many banks charge different rates for inter-branch and inter-bank transfers and these are noted separately in the table. Cross-border payments refer to payments within the SEPA area since this area has particular payment rules designed to simplify EU payments. International payments refer to payments that are going to bank accounts outside this area.

The table covers a range of different payments means ranging from domestic transfers to using payment cards in shops abroad. In the cases of transfers and automatic payments, it is common for cheaper rates to apply for payments effected through online banking rather than in a branch. These cases are highlighted in the table. Cheques have been excluded from the comparison since the charges do not generally apply on a marginal basis and since they are uncommon in many countries.

The charges listed in the table in Annex IV and Table 2 below came primarily from information provided by the individual banks on their own websites. The banks selected were the commercial banks with the largest total customer deposits shown by the Bank scope database<sup>68</sup>. These banks are listed in Annex III. In the case of the Slovenian banks, the data was provided by the Bank Association of Slovenia.

Many banks offer a range of different accounts and cards and charges can vary between the various options. For this table, the charges for the most basic and least expensive cards and accounts were chosen for comparison. Similarly, although different rates and fixed fees can apply depending on the magnitude of the payment, this table assumes a payment of €100.

One of the reasons why payment charges vary so much is that the pricing models themselves differ from country to country. For instance, the Bulgarian banks sampled tend to charge per transaction whereas one Irish bank charges a flat fee which includes most transactions.

<sup>68</sup> Published by Bureau Van Dijk

**Table 2: Minimum and maximum charges across banks sampled**

Payment type	Min €	Countries of min. fee	Max €	Country of max. fee
<b>DOMESTIC</b>				
<i>Transfers</i>				
Internal transfer	0	Denmark, Luxembourg, France, Ireland, Slovenia	4.03	Denmark
Interbank	0	Denmark, Luxembourg, France, Ireland	7.50	Cyprus
<i>Incoming transfers</i>	0	Bulgaria, Denmark, Greece, Luxembourg, France, Italy, Ireland, Cyprus	10	Ireland
<i>ATM withdrawal</i>				
Same bank	0	Bulgaria, Denmark, Greece, Luxembourg, France, Italy, Ireland, Cyprus, Slovenia	0.28	Ireland
Other banks	0	France, Ireland, Slovenia	3	Luxembourg
<b>CROSS-BORDER</b>				
<i>Transfers</i>	0	Ireland	22.84	Denmark
<i>Incoming transfers</i>	0	Greece, Luxembourg, France, Italy, Ireland, Cyprus	2.69	Denmark
<i>ATM withdrawal</i>	0	France, Ireland	4.03	Denmark
<b>INTERNATIONAL</b>				
<i>Transfers</i>	3	Luxembourg	31.50	Ireland
<i>Incoming transfers</i>	0	Bulgaria, France, Ireland	26.25	Italy
<i>ATM withdrawal</i>	3	Italy	6	Luxembourg
<i>POS</i>	0	Bulgaria, Denmark	3.7	France

Source: Bank websites

## 7.2. SEPA

The Single European Payments Area (SEPA) is an initiative designed to integrate the euro payments market. Its aims are to create a single set of European payment schemes and in doing so help make the euro a "truly single and operational currency"; to ensure a consistent customer experience when making or receiving card payments in euros; and to encourage the use of electronic payment instruments<sup>69</sup>. The countries that make up SEPA are the 27 EU Member States as well as Iceland, Norway, Liechtenstein, Switzerland and Monaco.

<sup>69</sup> See *Shortcut to SEPA*, 2011

In practical terms, the aim is to allow consumers to use their debit cards anywhere in SEPA in the same way and at the same cost as they would at home. Similarly, it makes no differentiation between national and cross-border electronic bank transfers and direct debits in euro. Effectively, this means that customers only need one bank account in the euro area in order to make cross-border payments. Other advantages, according to the European Payments Council, include speedier settlements, lower costs and increased competition in the payments market.

Since SEPA applies to euro payments only, the situation is more complicated when it comes to members of SEPA outside the Eurozone. Sweden, Denmark and the UK were given the option to "opt-in" and apply the rule to their own domestic currency. This means that the charge on cross-border payments to countries within SEPA has to be equivalent to charges on domestic transfers in the domestic currency. Denmark and the UK opted out while Sweden opted in. This means that consumers who wish to make payments between countries that have opted in and countries that have opted out incur higher charges than apply to payments within the SEPA opt-in countries. This explains why Denmark's sample banks had the highest cross-border payment charges of the countries chosen for this report.

In the EC Summary of responses<sup>70</sup>, banks argued that the establishment of SEPA would diminish the need for cross-border banking access since consumers would only need one bank account in their main country of residence to make payments anywhere in the EU. Although SEPA does facilitate cross-border payments, it does have limitations. Firstly, mobile consumers living in the UK, Sweden and Denmark will not view it as a suitable replacement for a bank account in those countries. Secondly, since the SEPA credit transfer charges only apply to electronic payments, they are available only to those with internet access and sufficient knowledge to use them.

### 7.3. Account fees and access to basic banking services

One of the questions put to stakeholders by the EC<sup>71</sup> was that of the appropriate price for a basic bank account. Since the financially excluded are particularly price-sensitive<sup>72</sup>, the decision of how much to charge or whether to charge at all would have a large impact of the success of any basic bank account initiative.

In the 2009 consultation, those who supported free basic accounts suggested that costs could be covered by bank and government subsidies, by interest foregone, by cross-selling and by these customers moving to pay products later. Those who did not support providing the account free of charge suggested that it would be possible to provide them at a reasonable fee.

In the 2011 consultation, there was more discussion about what would constitute a reasonable fee. One of the suggestions by consumer stakeholders was to charge only for services that implied an extra cost for the banks such as using teller services rather than using an ATM.

The EC's Recommendation<sup>73</sup> suggested that Member States could base their decisions on what charge would be reasonable on factors including national income levels, average charges associated with payment accounts in the country, costs relating to the provision of the account and average national consumer prices.

<sup>70</sup> See EC *Summary of responses*, 2009 and 2011

<sup>71</sup> Ibid.

<sup>72</sup> See European Commission, 2011b

<sup>73</sup> *Commission Recommendation on access to a basic payment account*, 2011

## 8. CONCLUSIONS AND RECOMMENDATIONS

At the present time, it is estimated that 30 million individuals over the age of 18 in the EU do not have access to a bank account. Very frequently, these are vulnerable individuals experiencing not only financial exclusion, but also frequently social exclusion.

**Improving access for individuals to basic banking services will benefit those that are financially excluded, as well as society at large, as it will allow these individuals to avail of the various benefits derived from the use of a bank account.**

**Moreover, the universal provision of basic banking accounts across the EU will also benefit mobile individuals by removing one potential barrier to cross-border migration, both permanent and temporary.**

Currently, financial institutions in only 12 Member States have a legal requirement to provide access to a basic bank account and the EC's Recommendation aims to ensure access to such an account for all EU citizens.

The proposed service characteristics of the basic bank account are consistent with the views of most stakeholders and would clearly benefit "unbanked" individuals and cross-border mobile individuals. They include:

- Services enabling all the operations required for the opening, operation and closure of a payment account;
- Services enabling money to be placed on a payment account;
- Services enabling cash withdrawals from a payment account;
- Execution of payment transactions, including transfers of funds into and out of a payment account with the consumer's payment service provider or with another service provider following: i) the execution of direct debit; ii) the execution of payment transactions through a payment card that does not allow the execution of payment transactions that would exceed the current balance of the payment account; and iii) the execution of credit transfers.

However, there is no guarantee that the Recommendation will be followed up by actual change at the Member State level.

Therefore, we would strongly recommend that, in one or two years time, an in-depth review of the situation across Member States is undertaken in order to identify whether the Recommendation has had the desired effect.

If the Recommendation is found not to have improved access to basic banking services across the EU, then we would suggest that the best course of action would be for the Commission to consider introducing a Minimum Harmonisation Directive. A Directive ensures the introduction of legislation relating to access to basic banking services across the EU, and we would suggest a Minimum Directive to be most appropriate, as the specific needs of the "unbanked" may vary across Member States depending on the payment practices and usages in the country.

In such circumstances, a one-size fits all approach may not be in the best interests of the "unbanked" if the Directive specifies only a common minimum of services that the bank account should provide, or impose unnecessary costs on the financial sector if the Directive prescribes a large range of services, some of which may not be used commonly in all Member States. A Minimum Harmonisation Directive would give individual Member States the ability to decide on the specific details of this provision.

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## ANNEX I: NATIONAL BANKING FEDERATION CONSULTATIONS

As part of this study, London Economics consulted a number of Member State banking federations across the EU, with the help of the European Banking Federation, in order to gather information on the current state of access to basic banking services across the EU.

The banking federations were given a set of questions which identified the particular areas that we were attempting to gather information on. This information was gathered in September and October 2011.

**Table 3: National Banking Federations consulted**

National Banking Federation
Association of Banks in Bulgaria
Association of Cyprus Commercial Banks
The Danish Bankers' Association Finansrådet
The French Banking Federation
The Italian Banking Association
The Luxembourg Bankers' Association
Slovak Banking Association
The Bank Association of Slovenia
The Spanish Bankers' Association

**Source:** London Economics

## ANNEX II: STATE OF ACCESS TO BASIC BANKING SERVICES IN EU-15 COUNTRIES

Member State	Global binding requirement	Specific binding requirement	Voluntary industry charter	No framework but savings and cooperative banks committed	No framework
DK	X				
FI	X				
SE	X				
NL	X				
LU		X			
FR	X				
BE	X				
DE		X			
ES				X	
AT				X	
UK			X		
PT					X
IE		X			
IT			X		
HE					X

Source: Irish Department of Finance (2011) Strategy for Financial Inclusion

## **ANNEX III: SAMPLE OF BANKS USED FOR THE COMPUTATION OF FEES**

France	Luxembourg	Denmark	Bulgaria
BNP Paribas	Dexia Banque Internationale à Luxembourg	Danske Bank	First Investment Bank
Societe Generale	BGL BNP Paribas	Nordea Bank Danmark Group	United Bulgarian Bank
Credit Mutuel	BCEE Luxembourg	Juske Bank	Unicredit
La Banque Postale			

Ireland	Italy	Cyprus
AIB	UniCredit	Marfin Popular Bank
Bank of Ireland	Intesa Sanpaolo	National Bank of Greece Cyprus
Permanent TSB	Banca Monte dei Paschi di Siena SpA	Alpha Bank Cyprus
Ulster Bank		

## ANNEX IV: FEES

	Cyprus	Bulgaria *	Denmark *	Luxembourg	France	Italy	Ireland	Slovenia
<b>DOMESTIC</b>								
<i>Transfer</i>								
Internal transfer	1 (0.15%, min. 5 → 5.50, max. 10 → 12) or 7.50 fixed †	0.26 → 0.56	2.02 → 4.03 †	0.75 → 2.25 ** †	0 → 3.40	2.50 → 3.50 †	0.50 → 0.75 †	0 → 1.80
Interbank		0.77 → 1.02 †	2.02 → 4.03 †	0.75 → 2.25 ** †	3.20 → 4.16 †	3.50 → 4.50 †	0.50 → 0.75 †	1.49 → 2.29
<i>Incoming transfer</i>	0 → 0.50	0	0		0	0	0 → 10	
<i>Direct debit</i>								
Internal transfer		0.26 → 1.12 set up 0.26 → 0.51 each †		2.25 †	0	0.80 → 2.75 Utilities free	0 → 0.20	0.12 → 0.30
Interbank		0.51 → 1.12 set up 0.38 → 0.92 each †		1.50 → 2.25 †	0 → 9.75	1 → 4 Utilities free	0 → 0.20	0.12 → 0.30
<i>Standing order</i>								
Internal transfer		1.02 → 4.60 set up 0.15 → 0.26 each	0 → 2.69	0 → 2.25	0 → 5.05 set up 2.45 to modify	3.50 Utilities free	0 → 0.20	
Interbank		1.02 → 4.60 set up 0.51 → 0.59 each	0 → 2.69	0 → 2.25	0.98 → 5.05 set up 2.45 to modify †	4.50 Utilities free	0 → 0.20	
<i>ATM withdrawal</i>								
Same bank	0	0 → 0.15	0	0	0	0	0 → 0.28	0
Other banks	1.70 → 2.50 **	0.59 → 0.51	0.54 → 0.67	1.50 → 3	0 → 1	2	0 → 0.28	0 → 0.50
POS	0	0	0	0	0	0	0 → 0.28	

CROSS-BORDER								
<i>Transfers</i>	(0.15%, min. 5 → 5.50, max. 10 → 12) or 7.50 fixed †		4.03 → 22.84 †	0.68 → 1.50 **	3.20 → 4.16 †	3.50 → 4.50 †	0.50 → 0.75 †	1.49 → 2.29
<i>Incoming transfer</i>	0 → 0.50		1.34 → 2.69	0	0	0 → 13.50	0	
<i>ATM withdrawal</i>	2.5 fixed → 3.33%, min. 1.70		4.03 fixed → 1%, min. 4.03	1.50 → 3	0 → 1	2	0 → 0.28	0 → 0.50
<i>POS</i>	0		0	0	0	0	0 → 0.28	
INTERNATIONAL								
<i>Transfer</i>								
<i>Internal FCY</i>	0.5%, min. 5 → 22 fixed	0.5	2.08 → 25.53 †	5 †				
<i>Interbank</i>	0.5%, min. 2 + 5 transaction fee → 22 fixed †	Rate: 0.15% → 0.22% Min.: 15 → 17.90 Max.: 200 → 204.52	20.16 → 25.53	5 fixed → 0.175%, min. 7 †	14.70 fixed → 0.9%, min. 13.75 + 0.5%, min. 14 †	15 → 29.25 †	8.85 → 31.50 †	0.09% → 0.2%, max. 75 → 208.65
<i>Incoming transfer</i>	0.5%, min. 3.50 → 0.45%, min. 15	0 → (0.10%, min. 10.22, max. 102.24)	5.38	0.175%, min. 7	0 → 10.50	15.50 → 26.25	0 → 10	
<i>ATM withdrawal</i>	3.33%, min. 1.70 → 4.27	1.53 + 1.5% → 3 + 1%	4.03 fixed → 1%, min. 4.03	3.30 → 6	Rate: 2.25% → 2.9% Min.: 3 → 3.30	2 + 1% → 2% exchange	3.5%, min. 3.17 → 0.2 + up to 4%	1% to 1.5%, max. 21
<i>POS</i>	2.7% → 2.95%	0 → 0.5%	0	Fixed fee 0.9 → 1% + 0.50	Rate: 2.25% → 2.9% Min.: 0.33 → 1	Fixed: 0 → 2 Rate: 1% → 2%	1.75%, min. 0.46 → 2%, min. 0.5 + 1%	

**Notes:** \* indicates that the country is not Eurozone; \*\* indicates that some given free per month/quarter. † indicates that cheaper rates are available for online banking. Exchange rates from ECB, 5 Oct 2011 (1.9558 BGN, 7.4434 DKK).





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