

Lab on "Financial inclusion: sustainable services for underserved potential customers". The contribution by the Italian Banking Association (ABI).

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The domestic scenario in which Italian banks operate today features novel needs and demands, which a rising group of new customers is addressing to banks in an increasingly impelling way: suffice it to mention a category of new customers with certain common traits, such as the fact that they are not yet fully integrated in society, and in the ordinary financial system, such as, for example, so-called 'atypical' workers (e.g. temporary), the not-for-profit sectors, low-income families, micro-enterprises operating in disadvantaged areas of the country, migrants.

For the banks concerned, this scenario may represent an opportunity for growth and development, by extending their operations and developing a new role, becoming active stakeholders and promoting financial inclusion, while at the same time focusing on the new market operators. This must not occur simply according to a 'grant mentality', but by encouraging the introduction of new (cost-effective) operating methods, with a view to enabling banks to implement corporate social responsibility strategies. This consists in a multistakeholder-oriented method of strategic governance, which aims at generating value not just strictly for the shareholders, but for all the stakeholders who have relations with a company on a daily basis and who contribute to the achievement of its goals and/or are influenced by its decisions and activities, such as, for example, its employees and customers, the local community at large, the environment and government institutions.

Attention to these aspects by banks is rather recent, also because the strong and structured demand by this class of customers appears greatly significant today, and this situation calls on banks to provide a concrete response, by broadening their field of action. If one considers, for instance, the target group of migrants, one will easily see how, on the one hand, banks could tap this potential customer base, and, on the other hand, how a large number of persons could become more active economically and more integrated in society, thanks to a set of existing financial services and/or adapted to new special needs. Migrants, in fact, provide an interesting cross-section, which better clarifies the potential demand expressed by this category of customers. According to the latest Caritas report on immigration, it is now obvious that this phenomenon has become a structural component of the country: considering a legal immigration of 2.8 million, migrants now account for 4.8% of the population. A certain proportion of these is already economically active: suffice it to mention the 213,000 one-man businesses set up by foreigners, which accounts for 6% of the total and has been on a rising trend for the last few years (survey by the Chamber of Commerce of Milan, 2005).

With regard to remittances, in particular, which represent an important point of contact linking banks and migrants, less than half the 5 billion euros of remittances leaving Italy pass through official banking channels and/or money transfer businesses, while over 2 billion euros pass through underground and informal channels, with the ensuing side-effects, in terms of connections with illegal forms of financial services demand, related to money laundering or the financing of terrorist groups.

Having become aware of these (significant) changes in the scenario, in recent years Abi has promoted a number of public events, and related initiatives, aimed at fostering dialogue with and mutual acquaintance of the potential new customers of banks: to mention just a few examples: in May 2004, Abi hosted a conference on the third sector; in June 2004, an event on

migrant banking and the presentation of an initial research on the subject with CeSPI; on 18 November 2004, it organized a conference on microfinance, at the launching of the International Year of Microcredit 2005; on 3 – 4 October 2005, as part of the first banking Forum on Csr – “Corporate Social Responsibility and New Business Strategies” – an entire session was dedicated to microfinance.

Abi, therefore, has taken an active stance on the issue by implementing a series of initiatives. Right from the start, it was appointed a member of the National Committee for the International Year of Microcredit 2005, established by the Ministry of Foreign Affairs, on the launching, by the Un, of the International Year of Microcredit 2005. This Committee, which pooled authorities and organizations of various kinds, bringing with them a wealth of experiences, was an important forum for promoting and developing the issue of microfinance and which will continue to show its effects well after 2005. Abi has also participated in the microcredit project sponsored by S. Paolo and the Risorsa Donna Foundation of Rome, providing experts to improve banking literacy among migrant women, as a means for accessing financing. The Abi experts have already provided over 40 hours of training on subjects such as current accounts, payment systems, criteria for assessing the credit capacity of small and medium businesses, the dangers of excessive indebtedness, guarantee funds and business credit. A series of theoretical investigations on the subject of microfinance have also been promoted, within the framework of the survey on corporate social responsibility – “Guida critica alla responsabilità sociale e al governo d’impresa” (Bancaria Editrice, 2005).

Within the above-mentioned Italian National Committee, Abi has promoted two surveys – in partnership with the Giordano dell’Amore Foundation (Fgda) and the Centro Studi Politica Internazionale (CeSPI) – with a view to supporting banks in this field: “Microfinance and Commercial Banks: an Italian Survey” and a “Survey on the bankarization of Migrants in Italy”. The aim of the two researches is both that of investigating the state of the art, the products on offer and the methods currently employed by commercial banks in Italy, and of highlighting the tools and development opportunities for innovative (and cost-effective) operational methods, to be brought to the attention of all the banks concerned.

Based on the Abi-Fgda survey, it emerges that microfinancing currently concerns such financial services as loans, savings, payments (transfer of funds and remittances) provided by commercial banks. The focus on this sector by banks has increased considerably: microfinance products and services, in fact, are offered by banks accounting for 60% of the total banking assets and 54% of bank outlets. Yet other banks are currently engaged in developing this line of business and are set to launch their products and services within the next 5 years. To these we must then add numerous ‘cooperative credit banks’, which provide microfinance-related services and which were not included in the Abi survey, because they have specific structural and operating characteristics. Among the microfinance products, 31.7% of the survey sample offer savings services, 32.9% payment services and 35.4% loans. With regard to the target groups, microfinancing mainly concerns the customer groups that are more integrated in society at large and in the financial system, ranging from the third sector to not-for-profit businesses, from low-income families to micro-businesses, from atypical workers to migrants. With regard to savings, over 19% of the sample banks feature migrants among their customers, about 18% are students and slightly less than 12% micro-businesses. In the case of payment services, over 21% of the banks offer services to immigrants, while in the case of microcredit, besides migrants (18.2%), banks offer these services to families (17.4%), micro-businesses (15.7%) and atypical workers (9.9%).

The survey carried out with Cespi on the bankarization of migrants has revealed that banks are ready to cater to a migrant population that has become a structural component of society, with

an increasingly stable presence in this country: to date, 57.3% of the 2,100,000 legal adult migrants living in the country are customers of a bank. The survey also concerns a sample of banks accounting for 64% of the total banking assets and 62.5% of outlets, throughout the country. The first results of the ABI-CeSPI survey show that – notwithstanding a number of obstacles and difficulties – more and more migrants are turning to banks and that mutual relations between banks and migrants are acquiring increasingly greater significance, also with a view to increasing the “economic citizenship” of migrants, which will unquestionably ultimately support their social – as well as financial – inclusion.

The prevailing strategy reveals a tendency, by banks, to define a typical offering based on a package of basic products and services. Apart from sending remittances abroad, the financial needs of resident migrants do not differ significantly from those of certain groups of Italian customers, beginning with those that are typical of initial bankarization. Here we are dealing, first and foremost, with young people or with family reunification. The main demand to the financial system, for instance, appears to be that of mortgages and consumer credit by new households.

This initial data will be followed by further qualitative analyses aimed at painting a more detailed picture, which Abi will make available to the banks concerned for business development purposes.

Moreover, the desire to support the financial inclusion of new customers, through innovative dedicated methods and tools, complying with criteria of cost-effectiveness, is no novelty for the banking industry. With regard to basic bank services, in fact, the industry has already promoted ‘Patti Chiari’ – a project aimed at redefining relations between the banks and their customers. At October 2005, about 25,000 basic bank products, available at banks throughout the country, had been purchased. The aim of these products is to meet certain basic needs, such as, for example, cash or cheque deposits, cash withdrawals, salary or pension payments into an account, paying bills from an account, sending and cashing bank transfers, cashpoint cards, savings schemes. The service features low management fees (the average monthly fee – including 54 transactions a year – is 3.52 euros per month, not including stamp duty) and aims, therefore, at being widely affordable, as well as user friendly.

The banks, and Abi, therefore, are active in these fields, based on the awareness that the various measures aimed at reducing the distance between the banks and their new customers are useful and necessary and require, on the supply side, greater interest in and attention to these customer segments by banks, with a view to broadening the range of microfinance products and services and satisfying new expectations, while, on the demand side, it is equally important to promote financial education projects involving the various target groups; this can be accomplished both by concluding agreements with strategic partners, who are recognized by the new target groups, also with a view to encouraging more and more people to make use of banking services, and by developing contacts with the local authorities (at provincial, regional and local government level) and other geographical networks involved in the regional dynamics of certain target groups (e.g. migrants).

In this context, ABI is leading the Lab on “Financial inclusion: sustainable services for underserved potential customers” whose main goals are:

complete and analyse findings of research already in progress, as mentioned above, to better understand the needs expressed by these underserved potential customers. (e.g., special vehicles already developed: Microcredito di solidarietà Spa – Banca Monte dei Paschi di Siena, an ad hoc company specialized in microfinances services; Banca Prossima - Banca Intesa, a

bank dedicated entirely to the not-for-profit sectors; Agenzia Tu – Unicredit Banca, branches focusing on the financial needs of young people, immigrants, and temporary workers).

- Provide a new framework and support for banks to experiment innovative and viable bundles of services, also carrying out a survey on the demand side and engaging relevant stakeholders in the analysis.
- Contribute to a complex set of policies aimed at promoting and supporting development.

It is obvious that the goals of financial inclusion, addressed in connection with microfinance – migrant banking, also require more far-reaching policies not limited to the confines of bank operations. Banks, as undertakings, operate in a business environment and must necessarily pay strict attention to the cost-effectiveness of their management activities. Now, if this principle is not fully complied with, and in order to ensure that banks may, in any case, develop projects and tools aimed at responding to new demands and needs, based on their own strategic decisions, it is necessary to resort to a complex set of policies aimed at promoting and supporting development. A development of society that would be beneficial for all the parties concerned, implemented by a variety of different stakeholders, where everybody does their share of the work: not just the banks, therefore, but also the institutions, governments, international organizations, and those representing or who are close to these new customer groups.

ABI's aim is to foster innovation and entrepreneurship in sustainable products and services which address societal needs through the engagement of different stakeholders and the Lab provides a shared knowledge and values framework for several bottom-up initiatives undertaken by banks.