Country Report – Stage 2
Ireland

1. Debate on Financial Exclusion/Inclusion

The issue of financial exclusion received scant attention in Ireland until recently by both social policy makers and the financial services sector. Research that had been carried out, explored issues for specific vulnerable groups such as the Travelling community and older people or focused on issues related to credit and debt. In 2004, the Financial Regulator, because of absence of research in the area, approached Combat Poverty to carry out research on financial exclusion in Ireland. At the same time, the Financial Regulator set up a Stakeholder Forum, consisting of industry, government representatives and Combat Poverty, to facilitate dialogue throughout the undertaking of the research. The Combat Poverty report, published in 2006, was the first major study on financial exclusion in Ireland (see Corr, 2006). This report and discussion at the Stakeholders' Forum acted as a catalyst to bring financial exclusion and related issues into the public arena in recent years.

The Financial Regulator, state agency Combat Poverty, and departmental programme, the Money Advice and Budgeting Service (MABS), have been active in examining issues related to financial exclusion in Ireland. Some non-governmental organisations have also contributed to the emerging debate in Ireland, usually focusing on key issues such as credit or debt (e.g. Saint Vincent de Paul (SvP); One Parent Exchange Network (OPEN); Free Legal Advice Centres (FLAC). Academics (e.g. Centre for Co-operative Studies, University College Cork) and independent researchers (Quinn and NiGhabhann; O'Leary and Conroy) have also contributed to the debate.

The issue of financial exclusion has also been given increasing attention from the financial services sector. While the Financial Regulator does not currently have a statutory remit on financial exclusion, it is committed to fostering access to financial services and this is highlighted both in its *Strategic Plan 2007 -2009* and the *Consumer Protection Code,* which has set out very specific provisions in relation to financial access. The Irish banking sector proposed the development of a universal bank account in 2002. The most recent development has been within the National Payments Implementation Programme (NPIP) who is committed to examining policies which could encourage the 'unbanked' to become involved in banking services.

Media attention and public debate has mainly focused on issues related to access to credit and the cost of that credit in Ireland. In September, 2006, the Minister for Social and Family Affairs stated in the DAIL (Irish government) that he is 'particularly concerned about the high levels of interest rates currently being charged by some financial institutions, loan companies and by legal moneylenders in situations where people have no alternative sources of credit available to them'. However, he continued that he is not convinced that the most appropriate response is to cap interest rates as 'people may be charged at a lower rate but over a much longer period and no significant difference will be made'. The Minister stated that the government wants to ensure that vulnerable people ‘have broader options and access to the legitimate system’. Some organisations, such as the Irish League of Credit Unions and the Consumers’ Association have supported the introduction of interest rate caps in Ireland. Conversely, NGOs and organisations working with low-income consumers (e.g. Combat Poverty) have recommended that the debate on credit should concentrate on offering a range of affordable credit options to people on low incomes. Most recently, the media has covered stories related to sub-prime lending companies, due to an increasing number of house repossessions being reported.

2. Government Response to Financial Inclusion

Recent research carried out in Ireland found that financial exclusion is not a public policy priority for the Irish government (Corr, 2006). Similarly, in a review of financial exclusion policies in Europe, Carbo *et al.* (2005: 107) advised that ‘financial exclusion will have to move much higher up the political agenda’ in Ireland.

2.1 Political framework and agenda regarding financial exclusion prevention

Financial exclusion was largely ignored in debates around social exclusion in Ireland until recently. Previously, over-indebtedness was viewed as the key priority in this area. In the last *National Action Plan against Poverty and Social Exclusion 2003-2005* the government recommended ‘continued priority will be given to the operation of the country-wide Money Advice and Budgeting Service. The focus will be on the prevention of over indebtedness, informing people before they reach crisis point, as well as continuing to meet the needs of those who find themselves in immediate financial difficulties’.[1]

In consultations for the development of the *National Action Plan for Social Inclusion 2007 – 2016* (NAP/incl)*,* several organisations recommended that a greater focus should be placed on the relationship between financial exclusion and social exclusion in Ireland, with a particular ‘commitment to identifying and addressing barriers to financial services’ (OSI, 2006: 71). To this end, financial inclusion was highlighted in the recent NAP/incl – *National Action Plan for Social Inclusion 2007 – 2016.*. This marked a new departure for social inclusion policy in Ireland as it was the first time financial inclusion appeared in a policy document. However, the focus is narrow as it highlighted the role of the Financial Regulator in relation to financial literacy and competency and the role of the Money Advice and Budgeting Service (MABS) in addressing overindebtedness. Combat Poverty (2007) has stated that although the fact that financial inclusion has been addressed in a policy statement ‘is welcome, it is disappointing that there is only one target in relation to financial inclusion to develop the MABS by establishing it on a statutory basis during 2007’.

[1] See section 4 for a detailed discussion of the Money Advice and Budgeting Service.

2.2 Government response

The Irish government has not yet responded to the issue of financial exclusion in Ireland as a facilitator, nor directly as a legislator. However, from a legislative standpoint, some regulation may have an indirect effect on greater financial inclusion.

Government as facilitator: Kempson and Anderloni (2007) reported that a government can act as a facilitator to financial inclusion in a number of ways:

- Providing an understanding of the problem
- Promoting and supporting market initiatives
- Contributing directly to the provision of financial services
- Providing positive incentives to encourage the changes in the banking system to promote financial inclusion
- Tackling the reluctance to use financial services by those who are excluded

None of these initiatives have been implemented by the Irish government. Most of the research undertaken to date has been carried out or funded by the state agency, Combat Poverty. The Irish government has not promoted initiatives to tackle financial exclusion by commercial financial service providers not has it encouraged banks to offer basic bank account. An Post, in collaboration with Dutch/Belgium bank Fortis, will be launching a new current account as part of their new banking initiative Postbank by the end of 2007. Corr (2007) pointed out that the Irish government missed out on a 'golden opportunity' to support An Post in providing this as a basic bank account to low-income consumers.

With the exception of the initiative of the Financial Regulator in setting up a National Steering Group for Financial Education, there has been no response to the general issue of financial literacy or education at a national policy level which could help to tackle reluctance to use financial services by those who are excluded. The Financial Regulator has a statutory function to provide information to consumers. It provides consumers with clear, relevant and appropriate information in plain English about the costs, risks and benefits of financial services and is working in partnership with other agencies to increase levels of financial literacy and competency. It has also launched a website - www.itsyourmoney.ie – which offers independent information on financial products in plain English. Towards, the end of 2006, the Financial Regulator established the National Steering Group for Financial Education to bring together key stakeholders to develop an approach to financial education. One of the sub-groups of this Steering Group is examining the educational issues of disadvantaged groups. While it is too early to examine the effectiveness of this initiative, it is hoped that the work of this sub-group will have a positive impact on the financial capability of financially excluded groups.

Government as legislator: According to Kempson and Anderloni (2007) legislative action by governments to promote financial inclusion can be grouped in three main areas:

- Direct legislation, which imposes upon banks and other financial intermediaries an obligation to provide, for example, universal banking services
- Indirect regulation, designed to remove obstacles that reinforce financial exclusion

- Indirect legislation to control providers that exploit the financially excluded

To date, there has been no direct legislation enacted in Ireland in relation to financial inclusion or around a 'right to a bank account'. Therefore, access to a bank account in Ireland is based on the principle of contractual freedom, where consumers do not have an absolute right to have a particular type of contract with a particular credit institution. Neither has legislation been introduced which imposes on banks, and other intermediaries, an obligation to provide universal banking services.

Similar to other European countries, the first EU Anti-Money Laundering Directive was transposed into Irish legislation under the Criminal Justice Act, 1994. As a result, financial institutions are required to obtain 2 separate documents (usually a passport/driving licence and a utility bill) from potential customers to prove their identity and address. *Guidance Notes for Credit Institutions* published in 2001 and revised in 2003, outlined alternative identification which could be accepted. However, groups working with low-income consumers (e.g. NTMABS, 2006) as well as the IBF (O'Rourke, 2006) have found that there are inconsistencies across various financial institutions in applying the guidelines. Research has also found that low-income groups are not always made aware of the alternative options (Corr, 2006). A further problem highlighted by NTMABS (2006) is that the guidelines assume that the non-financial sector (e.g. Garda Síochána, solicitors etc.) will provide proof of identification and this is not necessarily happening. The anti-money laundering regime will be changing again as a result of the Third Anti-Money Laundering Directive, which was published in November 2005. Ireland and other EU member states are required to introduce the provisions of the third directive by 15 December 2007. The third directive is viewed by the IBF as 'conservative' and 'fairly stringent' and they have stressed that 'more work will need to be done to find practical solutions which address the needs of those who do not possess the standard documentation whilst meeting the fairly stringent legislative requirements placed on credit institutions' (O'Rourke, 2006: 20). Organisations working with low-income consumers also recognise the need to address the anomalies with the current guidelines.

The legislative framework for regulation of the financial services industry in Ireland in recent years has undergone a lot of change due to national legislation and the transposition of EU Directives under the EU's Financial Services Action Plan. These developments have highlighted the need for the streamlining of the legislative framework. Therefore, in December, 2006, the Minister for Finance established the Financial Legislative Advisory Forum to advise on the consolidation and modernisation of legislation governing financial regulation. The Forum is representative of all major stakeholder interests, including industry and consumers. Its primary objective is to provide expert advice, support and drafting assistance on the preparation of a Bill to streamline the existing legal framework for financial services regulation. It is too early to state whether this work will impact positively on greater financial inclusion.

In May 2003, the Financial Regulator was established by the Government as an independent watchdog to:

- Regulate firms that provide financial services
- Help consumers make informed decisions about their personal finances

In addition to its statutory role to provide information and its education initiatives already outlined, the Financial Regulator introduced a new statutory *Consumer Protection Code* in 2006 which sets out how regulated financial institutions must deal with consumers. The Code contains two specific provisions in relation to financial access. It states that:

- A regulated entity, without prejudice to the pursuit of its legitimate commercial aims, does not, through its policies, procedures or working practices, prevent access to basic financial services
- A regulated entity must take into consideration the provisions of the relevant anti-money laundering guidance notes issues with the approval of the Money Laundering Steering Committee and in particular, any guidance in such notes on how to establish identify, in order to ensure that a person is not denied access to financial services solely on the grounds that that person does not possess certain specified identification documents

The Financial Regulator has undertaken a number of initiatives to foster access to financial services which are outlined elsewhere in the report.

The Consumer Protection Code, which came into operation on the 1st July, 2007 offers greater protection to consumers, sets out general principles and some rules for specific service providers. Among the rules are:

- A regulated entity must not offer unsolicited pre-approved credit facilities
- A regulated entity must have in place procedures for the handling of arrears cases
- Prior to a loan being approved, a regulated entity must explain to a consumer the effect, if any, of missing any of the scheduled repayments.

The Code also outlines rules in relation to guarantors, payment protection insurance, non-mortgage personal lending, mortgages and lifetime mortgages. While this Code has the potential to offer greater control over providers that exploit the financially excluded, it does not apply to non-deposit-taking lenders (who are not covered by regulation) or moneylenders. MABS (2007) argues that it is 'incongruous to have a consumer protection code that does not apply to that section of the financial services market that targets the most vulnerable consumers'. However, moneylenders are subject to an Interim Code of Practice, and it is likely that a new Code will be introduced to cover these lenders. Similarly, the Minister for Finance and the Financial Regulator have been concerned for some time that lending activities of some non-deposit taking lenders fall outside the scope of Financial Regulator's Consumer Protection Code and therefore borrowers do not benefit from the additional benefits the Code provides. Therefore, the Department of Finance has been working on developing legislative proposals to allow for the application of the Consumer Protection Code to the activities of non-deposit taking lenders. It is likely that the necessary changes will be introduced by way of amendments to Part V of Central Bank Act, 1997, possibly by way of provisions in, or committee stage amendments to, a suitable financial services Bill.

Indirect impact of government legislation: Commentators argue that the continued payment of state benefits in cash is significantly related to financial exclusion (Kempson *et al.,* 2000; Sinclair, 2001). In July 2007, 43% of social welfare recipients in Ireland were not receiving their payment electronically (8.4% by cheque and 34.6% by personal payable order at An Post). However, this has decreased from 61.3% in October 2004. The Irish government is encouraging social welfare recipients to receive their payment electronically, although it is not compulsory. This could lead to greater financial inclusion. This move is supported by research on financial exclusion in Ireland which also states that EFT should remain a choice for customers.

In 2003, the Department of the Taoiseach, acting on behalf of the Information Society Commission, engaged Accenture to help develop recommendations for the Government on the development of a National e-Payment Strategy. According to the resulting Accenture Report (2003: 35), this has the potential to 'significantly improve access to banking products and services for the traditionally under-served segments of the Irish population and also contribute towards greater technology adoption by these segments'. As a result of this strategy, the National Payment Implementation Programme (NPIP) was established in November 2005 by the Irish Payment Services Organisation Ltd. (IPSO) and the Department of the Taoiseach. It is designed to deliver to Ireland a payments infrastructure that is a 'best of breed payments environment which delivers efficiencies to all sectors of the economy, is inclusive of all sectors of society and shares the benefits universally'. The main goals of the NPIP are to change payment behaviour in Ireland away from expensive and inefficient paper-based payments and to improve the efficiency, accessibility and inclusiveness of the payment infrastructure in Ireland. A National Advisory Group was set up to direct and drive the programme. Members of the Advisory Group are senior representatives drawn from key Government Departments, Regulators, Payments Industry, Business Community and Consumer Representatives. The NPIP is supported by a Programme Manager based at IPSO. The NPIP took on a new dimension in 2006 which manifested itself at the National Payments Conference in December. The conference was co-hosted by the Department of the Taoiseach and IPSO and brought together a vast array of stakeholders to debate the current situation and consider the best way forward for the nation. The conference focused on three main areas of concern - cash reduction, cheque migration and universal access. In relation to universal access the NPIP is developing proposals made by the Irish banking industry (see below – banking industry commitment) on a 'universal account' and is considering how the work of the NPIP could lead to greater financial inclusion.

3. Market Response to Financial Inclusion

3.1 Banking industry commitment

There have been no initiatives or services introduced in Ireland by the banking industry specifically targeting the needs of low income consumers. However, in 2002, the Irish banking sector proposed the development of a 'universal bank account' (IPSO, 2002). The Irish Banking Federation (2005b: 1) recommended that it should be delivered by banks in conjunction with An Post (and perhaps also credit unions) and sees it as providing 'basic access to the Irish payments infrastructure enabling citizens to make and receive payments electronically'. The IBF (2005b:1) stated that this account would provide a 'straightforward, no-frills banking solution for facilitating wider financial inclusion'. There were no definitions given on what was meant by a universal account but it is likely that the banking sector was envisaging some type of eCard or 'electronic purse' which would enable consumers to receive their social welfare payments or wages onto an eCard and then use it for cash withdrawals at ATMs or for payment at a number of retail outlets. There will be no credit provided except for the possibility of a small buffer. A further idea, at an evolutionary stage, is the 'ATM mobile', which is similar to the eCard except the chip is contained in a mobile phone; this system also permits some bills to be paid electronically. The Irish Banking Federation envisage that either the eCard or ATM mobile will effectively be a basic bank account.

Research in Ireland has found that the greatest barrier to accessing bank accounts for low-income groups is producing the relevant forms of identification in accordance with anti-money laundering legislation (Corr, 2006; Conroy and O'Leary, 2005, Quinn and NiGhabhann, 2004). In 2005, the Irish Banking Federation (IBF, 2005a) developed the *IBF Fact File on Financial Inclusion*, which sets out proposals for addressing identification requirements for opening bank accounts and universal banking options.

The Irish Banking Federation (IBF) is the leading representative body for the banking and financial services sector in Ireland, representing over 70 member institutions and associates, including licensed domestic and foreign banks and institutions operating in the financial marketplace in Ireland. In 2006 they welcomed 'all initiatives designed to increase understanding of financial exclusion and which generate discussion on potential strategies to increase financial inclusion' (IBF, 2006). In particular, they welcomed the partnership approach proposed in the Combat Poverty study (see Corr, 2006) and stated that they would be happy to participate in a new Steering Committee on Financial Inclusion, if it were established. The IBF (2006) also stated that it would be 'happy to participate in a review of the content and operation of the anti-Money Laundering Guidelines to help ensure that they do not act as an undue barrier to account access'. This review is to be progressed through the Money Laundering Steering Committee to coincide with development of the legislation to implement the Third Money Laundering Directive.

The IBF also believes that financial education is crucial to addressing barriers in relation to financial exclusion. The IBF has not introduced any initiatives particularly targeted at disadvantaged groups or financially excluded consumers. However, IBF's education resources have been successfully utilised by Money Advisors and other parties working with disadvantaged consumers. It is represented on the Financial Regulator's National Education Steering Group and works closely with the Money Advice and Budgeting Service (MABS). It also provides free education on finance to schools in the form of the Money-Go-Round Programme (primary school) and the Paymaster Programme (post-primary). Many IBF members have also embedded the principles of plain English into the development of their promotional and marketing materials.

IBF remains firmly of the view that the development of a National Payments Strategy provides the best framework for delivery of higher levels of financial inclusion and that the Financial Regulator's development of a national Education Strategy provides the best basis for addressing financial education/literacy. To this end, IBF is committed to working with Government, its agencies, Combat Poverty and other relevant stakeholders.

3.2 Not for profit sector commitment: credit union movement

Ireland has one of the largest credit union movement with 3 million members in October 2007 (approximately 70% of the population). However, the Irish credit union movement has made no public commitment to tackling financial exclusion in Ireland. Nevertheless, some of its current initiatives have the potential to contribute to greater financial inclusion.

Social finance: The provision of social finance by the Irish credit union movement is being given increasing priority. The ILCU (2005: 3) defines it as 'the provision of finance by organisations which seek a social return or social dividend, as well as financial return'. In order to quantify the extent of social finance provided by credit unions, the ILCU carried out a survey in 2004 among 137 member credit unions. The survey revealed that all the credit unions provided small loans to already indebted or low-income families. Over half the credit unions surveyed (58%) were providing social finance, which constituted 10% of loans made. The majority of social finance lending was to individual members (70%), which included members who could not borrow elsewhere (8%), individual members who would be regarded as disadvantaged (31.1%) and members setting up or expanding their businesses (30%). However, the survey found that the fund was not being publicised 'due to perceived problems of loan assessment/risk, staffing requirements and systems support' (ILCU, 2005: 4). The report concluded that social finance and its development are a key area of concern for credit unions and, despite difficulties encountered in processing social finance, credit unions are 'keen to develop a social finance policy which they consider a crucial element in fulfilling their responsibility in line with the credit union ethos and its operating principles' (ILCU, 2005: 10). Research on financial exclusion in Ireland supported the credit union movement's aim of developing a social finance policy (Corr, 2006).

Future developments: Research in Ireland has found that credit unions need to develop their services in order to continue to attract and appeal to low-income consumers and contribute to greater financial inclusion. Byrne *et al.* (2005: 69–71) recommended that credit unions need to:

- Improve their marketing to low-income groups and schools
- Work on improving the financial literacy and autonomy of low-income groups
- Develop and introduce targeted educational programmes
- Offer small loans and emergency loans not linked to the requirement to save
- Promote small savings (possibly through a promotional or educational campaign)
- Further develop budget accounts
- Further develop electronic funds transfer services
- Collect socio-economic data on their members.

Credit unions have been posited as a viable alternative to the mainstream banks in broadening access to bank accounts (IBF, 2005b) and it has been recommended that they introduce an appropriate basic bank account for their low income members (Corr, 2006). The Irish credit union movement has the potential to play a significant role in the provision of basic banking services, given its wide distribution (435 credit unions) and large membership. Some credit unions already provide basic transactional services. There are features of credit union accounts, such as no account-keeping fees and no minimum opening or monthly balance which are key features of a basic bank account and elements that are likely to appeal to low-income consumers. The credit union budget account could be linked to a credit union account to facilitate bill-payment and this is likely to appeal to the needs of those on low incomes as payments can be made weekly. Collard *et al.* (2003) also suggest that attaching savings accounts to a basic bank account would increase their attractiveness to people on low incomes. The credit union share account could offer such a facility and is likely to appeal to low-income consumers as the minimum requirement to open the account is only €1 and withdrawals can be made on demand. However, it is essential that the credit union movement gains access to the clearing system[2] in Ireland so that it can develop additional appropriate products for its low-income members (Corr, 2006). It has also been recommended that credit unions develop a common operating system, a common set of standards and enhanced technical proficiencies in order to develop their services for low-income consumers (Corr, 2006).

3.3 Other organisations commitment: Post Office (An Post)

In May, 2007 An Post (the Irish postal bank) and Dutch/Belgium financial services Fortis launched a new banking operation - Postbank. It is currently available through 250 branches and will extend to over a 1,000 outlets within 12 months. An Post's announced in 2006 that this new service should appeal to 'the significant portion of the Irish customers who are currently unbanked' (Oliver, 2006). Full details of the new bank account are not available yet, although Postbank states that it will be an easy to use current account which will receive salaries or pensions electronically and will provide an ATM/debit card. Recent research on financial exclusion in Ireland recommended that An Post 'provides appropriate products as part of its service' and 'give consideration to developing an appropriate basic bank account' (Corr, 2006: 173-4). This study highlighted that there are several advantages of An Post being involved in the provision of banking services to the financially excluded. It has a large distribution network (1,450 offices) and four-fifths of posts offices are in rural areas (IPU, 2005). It also has experience working with low-income consumers as 40% of its counter business is connected to social welfare (65% of all social welfare payments). Furthermore, many low-income consumers in Ireland prefer to carry out their financial transactions at the post office (Corr, 2006).

Postbank has already launched its savings and credit services. The new savings product is a simple demand deposit account and is likely to appeal to low-income consumers as there is no fixed term, no minimum opening balance and no penalties for withdrawals.

[2] The clearing system in Ireland is a set of agreed procedures for the exchange and settlement by participating banks of paper and electronic payment instruments, including cheques, credit transfers and direct debits.

Customers with lower rates of savings will not be penalised and will receive the same amount of interest (variable interest rate of 3.3%). Postbank also offers credit through its subsidiary One Direct. However, the minimum amount available to borrow is €1,000 which will not suit the needs of some low-income consumers who prefer to borrow smaller amounts of money.

The Household Budget Scheme, operated by An Post on behalf of the Department of Social and Family Affairs (DSFA), is a service available to some social welfare recipients. It is a free service that gives easy-pay options for household bills. Attractive features include the fact that customers can pay a weekly amount towards various household bills which are deducted directly from their social welfare payments. Low-income households have reported positive experiences of the scheme as it allows them to avoid falling into arrears (Daly and Leonard, 2002). However, penetration is quite low with only 21,000 individuals currently using the scheme. Research has found that low take-up could be related to low income consumers being unaware of the scheme (Corr, 2006). Also, low-income households have criticised the scheme as sometimes the deduction made for certain bills (usually rent) might be lower than the amount owed due to limits on the size of deductions which can be made. It was felt that this diluted the benefit of the service since people had to make the remainder payment themselves (Daly and Leonard, 2002).

3.4 *Partnerships*

The Money Advice and Budgeting Service (MABS) and the Irish League of Credit Unions (ILCU) have introduced a number of initiatives, which have the potential of addressing some of the issues faced by low-income consumers.

- *Educational initiatives:* In September 2007, the Minister for Social and Family Affairs launched a MABS and ILCU information awareness campaign which aims to assist people with budgeting for Christmas. Building on a 2006 pilot programme, this year's campaign entitled *Keep the Wolves from the Door* will be run on a national basis and includes a leaflet/poster campaign organised by the MABS offices and credit unions throughout the country. Leaflets will also be disseminated through the community organisations and post offices. The campaign's leaflet which includes a money planner, gives practical advice on the value of savings and managing a budget before and during the Christmas season. It also highlights the benefits of credit union loans compared to borrowing from moneylenders.
- *Social fund:* A minority of credit unions in Ireland have a social fund, which is used for small loans at a nominal rate of interest. To avail of this loan, members must be referred by MABS. The purpose of the social fund is to meet the emergency needs of people who may resort to moneylenders when an unforeseen need arises. The fund, in operation since early December 2004, is still at the pilot stage. Byrne *et al.* (2005: 60) highlight one area concern in that 'there does not appear to be any long-term procedure in place to transfer such members to the standard credit union loan service at the higher rate and normal conditions'. They therefore recommended that 'further discussion between credit unions and MABS should help with the development of

such services. Those who will be the future users of such services should also be consulted' (Byrne *et al.,* 2005: 67).

- *Special budget accounts:* allow MABS clients to pay their creditors through the credit union. The client makes weekly payment to the local credit union and the payments are made to the various creditors, in accordance with the budget agreed between the money advisor and the client. 'Priority' creditors are paid first, followed by other creditors. Payments to the credit union also include a small savings element. Over a period of time, the client clears their debts and saves with the credit union, so creating access to a new source of credit and eliminating the need to resort to moneylending. Byrne *et al.* (2005) recommended that credit unions should develop budget accounts for the general membership (as well as MABS clients) as budget accounts are central to successful money management planning for low-income families.
- *Loan Guarantee Fund:* is used to guarantee loans advanced by the credit unions to MABS clients who do not satisfy the credit union's criteria for loans. These loans are not issued to clear existing debts but are instead issued for emergency needs. The client makes a weekly payment to the local credit union and payments are made to the various creditors in accordance with the budget agreed between the money advisor and the client. It is funded but not administered by the DSFA. Quinn (2005: 6) recommends that this fund be extended and that money advisors should make more use of it 'as it has the capacity to provide guarantees for a much larger number of clients than it does at present'.

4. Services provided and programmes implemented

Access to financial services

A number of steps have been taken to promote access to financial services, though much remains to be done. The Financial Regulator is fostering access to financial services in a number of ways:

- By including in its Consumer Protection Code specific provisions in relation to financial access, already outlined above;
- By providing information on financial products and services in plain English including a wide range of publications;
- By undertaking a major research project on the financial capability of consumers, the results of which are due to be published in 2008;
- By adopting an education strategy aimed at raising awareness of financial competence;
- By responding to specific difficulties or issues by providing targeted information for consumers;
- By its membership of the Money Laundering Steering Committee

Money Advice and Budgeting Service

In 1992 MABS was established by the Department of Social and Family Affairs (DSFA) as a response to the findings of a Combat Poverty study on *Moneylending and Low Income Families* (Daly and Walsh, 1988). In 1992 it started as 5 pilot projects, and by 2007 it had developed to 53 services operating in 65 locations in Ireland. The DSFA has overall responsibility for management of the Programme, including monitoring of projects, financial administration, executive decision-making and facilitation of regional networking. In 2004, MABS National Development Limited was established to support and develop the MABS Service in Ireland.

Overall, MABS has seven key objectives:

- To provide an independent free and confidential Money Advice and Budgeting Service to the target group to facilitate them to cope with their immediate debt problems and become financially independent in the long term
- To facilitate the target group to develop the knowledge and skills required to avoid getting into debt or to deal effectively with debt situations that arise
- To identify sources of financial services which can best meet the needs of the target group and facilitate them to access these sources
- To work in partnership with other support agencies to provide an integrated system of supports which can be accessed by the group as appropriate to their needs
- To support a process of community development through facilitating the target group to be involved in the planning and implementation of MABS to ensure that it is responding effectively to their needs
- To ensure that the target group has equality of access to MABS
- To promote changes in policy and practice which need to be implemented at local or national level in order to eliminate poverty and overindebtedness

MABS' target group is individuals or families, primarily those on low incomes, who need assistance in managing their finances in order to avoid getting into difficulties with creditors. The majority of MABS clients are on a low income (over 70%) and 54% are on social welfare. In 2006, MABS saw 12,500 new clients and in September, 2007 the overall number of people who were being supported and advised by MABS was 18,451.

MABS is posited as a model of best practice at EU level. In a peer review, Korczak (2004) concluded that the particular strengths of MABS that could be transferred to other EU countries include its 'people-oriented style', central funding and coordination, collection of standard quarterly statistics, evaluation methods, private-public partnership model (i.e. the co-operation between professional and voluntary organisations and financial institutions), and accounting software that enables the services to make a single regular payment for distribution among creditors. Furthermore, the peer review praises the mix of national coordination and local diversity, the strong emphasis on social cohesion and the quality of human contact. Moreover, MABS has received positive feedback from clients and stakeholders. Almost three-quarters (73%) of MABS clients have paid or are currently paying off their debts, 70% state that they can manage their money better and 82% claim to have greater peace of mind. Furthermore, 90% of stakeholders, including creditors, were pleased with the service MABS provides (Korczak, 2004).

The main criticism of MABS in the peer review is that it has no statutory base (Korczak, 2004). In the latest *Programme for Government 2007 – 2012* the Irish government has committed to establish MABS 'under legislation of a new structure with national leadership for the 21st century which maximises and recognises the current local voluntary involvement together with a strong professional role aimed at continuing to provide strong and confidential support for its clients'. Furthermore, an evaluation of MABS recommended the need for strategic planning at national level; the need for a greater focus on community education which prevents people falling into debt; and the need to focus on low-income consumers (Eustace and Clarke, 2000). Similarly a more recent study on financial exclusion recommended that MABS need to increase the advertising of its services to target the most disadvantaged and develop its links with the community and voluntary sector. Quinn (2005) also recommended that MABS should develop services particularly for minority ethnic groups in Ireland. In response, MABS has developed its community education function nationally and this will not only provide financial education to those who are indebted, but will also be performing a preventive role. MABS has also developed a new service delivery model where those with financial literacy and a certain educational standard and income level can access financial counselling through a MABS helpline and those with less capacity will receive one-to-one counselling. Furthermore, MABS is continuing to develop closer relationships with community and voluntary groups. Corr (2006: 177) also recommended that 'MABS should promote access to financial services for its clients and wider target group. This could include provision of non-brand specific advice in relation to financial products'. Similarly, the Minister for Social and Family Affairs stated in the DAIL in September 2007, that 'MABS has a unique and expert contribution to make, on behalf of people on low incomes, in shaping the strategies that need to be put in place to ensure greater financial inclusion. For example, MABS has a role in promoting to the providers of payment services, such as banks and credit unions, the needs of people on low incomes, so it is easier for them to access financial services'.

4. Conclusions: Evaluation of Impact

Given that there have been no national policies, services or initiatives introduced by the government specifically targeted at the financially excluded, it is impossible to evaluate the government and market response in reducing financial exclusion.

The Combat Poverty report was the first study on financial exclusion in Ireland (Corr, 2006) and it recommended that there are seven main areas the Irish government and financial services need to address in relation to promoting greater financial inclusion in Ireland. These include:

a) Strategic approach to financial inclusion
The report recommended that a Steering Committee on Financial Inclusion should be set up chaired by the Department of Finance. The report highlighted the need for all the key stakeholders to be involved (including government departments, state agencies, the financial services sector and organisations working with people living in poverty) in order to ensure that the work carried out by the anti-poverty sector is complemented by developments in financial services provision. This Steering Committee should develop a national strategy on financial inclusion in conjunction with the *National Action Plan for Social Inclusion* and monitor progress towards greater financial inclusion. The report also

recommends that the Steering Committee should liaise with the financial services sector in relation to the impact of anti-money laundering legislation on vulnerable consumers and with the National Payments Implementation Programme (NPIP) to ensure a more co-ordinated response to the issue.

b) Improved access to bank accounts for low-income consumers

The report recommended that 'the legislation and administrative measure implementing the Third Anti-Money Laundering Directive should not deter low-income consumers from opening a bank account' and that 'efforts to identify a range of appropriate identification documents should continue in consultation with organisations working with low-income consumers' (Corr, 2006: 169). Consultation is expected to begin in due course once the provisions of the Third Anti-Money Laundering Directive are introduced.

c) Introduction of basic bank accounts in Ireland, provided on a universal basis

New products, such as basic bank accounts, should be introduced to address the barriers faced by low-income consumers in accessing and using existing banking facilities in Ireland. The provision of basic bank accounts needs to be independently monitored and facilitated by the introduction of a code of practice, underpinned by legislation.

In relation to universal access, An Post should offer a basic bank account as part of its new suite of financial products. Likewise, credit unions could also play a key role in future universal banking services. However, the credit union movement needs to gain access to the clearing system so that it can develop additional appropriate products for its low-income members. Most importantly, new products should include a basic bank account (i.e. transactional account).

d) Increased provision of financial information, advice, education and advocacy for low-income consumers

It is important that low-income consumers are empowered to use bank accounts effectively through the increased provision of financial information, advice and education. Therefore organisations working with low income groups should be provided with training and support to provide non-brand-specific advice in relation to financial products. MABS is in an ideal position to provide such advice and advocate on behalf of its low-income members.

e) Greater provision of social lending for low-income consumers

The most appropriate response to sub-prime lending in Ireland is greater provision of social lending for low-income consumers, preferably through the credit unions. Therefore the credit union movement should continue to develop its social finance policy. This policy should make a clear commitment to reaching out to low-income consumers and it should prioritise its emergency loan facility for low-income members and for those who need money for an emergency or unexpected event. It should also be used to assist those who have current loans from moneylenders.

f) Specific asset-based initiatives should be targeted at low-income consumers

The government should allocate additional resources to MABS to pilot a savings scheme among its low-income clients. If successful, this scheme could be extended over time to a wider pool of low-income consumers. Consideration should also be given to examining the feasibility of introducing a pilot home contents insurance scheme, similar to the UK's Insurance with Rent Schemes.

g) Promoting uptake of electronic payment of benefits
Research on financial exclusion supports the government's move to encourage people to receive their social welfare electronically, although this will always remain a choice. Corr (2006) also recommended that uptake of direct payment of benefits could be greatly increased if the Department of Social and Family Affairs (DSFA) has an information campaign outlining the benefits, payments are provided through relevant institutions of people's choice, and the move is complemented by the provision of appropriate products (i.e. basic bank accounts). DSFA could also increase access to financial services among low-income consumers by ensuring that any identification provided by DSFA should be accepted by financial institutions to open bank accounts.

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