FINANCIAL INCLUSION:
ENSURING ACCESS TO A BASIC BANK ACCOUNT

CONSULTATION DOCUMENT - COMMON RESPONSE

Question 1: Do you share the Commission's overall objective to ensure that, by a certain date, every EU citizen or resident has access to a basic bank account? What could constitute the main challenges in meeting this objective?

Yes.
We agree with the Commission's overall objective to ensure that by a certain date every EU citizen or resident has access to a basic bank account (BBA) because we think that it is clearly the first step to financially include all European citizens and residents.

This basic bank account should allow for at least the following transaction operations:

- Receiving regular (electronic) payment of funds such as wages, pensions or social assistance
- Converting cheques or vouchers into cash
- Storing money safely until it needs to be withdrawn
- Paying for goods and services other than in cash
- Paying bills electronically
- Making remittances

Ensuring an access to a basic bank account is indeed a preliminary aspect to approaching financial exclusion issues. It is a necessary first step but it is not sufficient. Other aspects such as adequate and affordable credit, adapted and clear savings account and basic accessible insurance are also necessary financial products to ensure the financial inclusion of all European citizens and residents.

The main challenge to meet this objective will be to find a solution that can be applicable to the different market realities in Europe. Other important challenges will include reaching a consensus, deciding on building a soft (market regulated) or hard policy (law regulation), defining exactly what a common basic bank account should allow and being able to monitor and assess such an objective.

Question 2: Do you agree with the description of the causes and consequences of financial exclusion? Please provide additional information if available.

Yes.
We agree completely on the described causes and consequences of financial exclusion with the current level of knowledge. The study "Financial services provision and prevention of financial exclusion" insists however, on the lack of information available on this matter. A real effort to improve this knowledge is necessary. On the other hand, the described causes and consequences are general for all types of financial exclusion and not only banking access through a basic bank account.

Concerning causes focused on BBA exclusion, the question of "Identified reasons why people do not use bank accounts" asked to the experts of twelve countries in the "Mutual learning on financial inclusion[1]", the following results can be examined.

Factor	Issue	n° of lands where the quoted reason not to use a bank account has been identified
1 Societal	Cash more convenient	9/12
	Technological gap	6/12
	Generational gap	5/12
	Difficulty managing account	5/12
2 Supply	Fees too confusing	6/12
	Fees too high	6/12
	Income too low	6/12
	Inconvenient locations	5/12
	Savings too low	5/12
	Overdraft fees too high	4/12
	Inconvenient opening hours	3/12
	Minimum balance too high	1/12
	Check-clearing time too long	-
3 Demand	Distrust banks	5/12
	Ethnical / minority gap	5/12
	Cultural gap (migrant, religious, habits…)	4/12
	Fear of seizure of creditors funds/garnishment	4/12
	Fear immigration enforcement	2/12
4 Others	Others: please specify	1/12*

*Not enough information on the basic bank account

This table shows that the use of cash, “cash more convenient”, is still a frequently mentioned reason on why bank accounts are not used. The other side of such a reason can therefore be that many bank accounts are considered not to be convenient for consumers. The technological gap, the price (fees too high or confusing) and the income judged too low are also mentioned by a few country experts. Behind the demand elements mentioned we can find financial or plain illiteracy.

To complete this answer, we can also add that in 4/12 of the studied countries, experts have reported the existence of “some” or “many” deprived area, regarding branches as well as ATM networks.

These causes should be closely considered when creating a European basic bank account.

Question 3: Do you think that one can reconcile financial service providers' legitimate need to make profit with any social obligation they may have vis-à-vis excluded groups? Should financial service providers play a stronger 'social' role in the society, in particular in combating financial exclusion?

Yes.
Reconciling financial services providers' legitimate need to make profit with a social obligation is an objective that, in our opinion, can be met. As revealed in the data collecting to populate the indicators database of the "Mutual Learning on Financial inclusion" project[2], it is already the case in

1 Mutual learning on financial inclusion, VS/2007/0623, www.fininc.eu
2 Please refer to providers with the mission to serve everybody, online:

some countries: Belgium and Slovakia both have mainstream profit-oriented commercial banks and Postal banks active on the market whose mission is to serve everybody i.e. propose a basic bank accounts. It is also true that these two countries[3] have a national regulation that promotes the right to the basic bank account.
In other countries, such as France or Spain, other entities, which are historically known for having an interest in social missions, play this role. Respectively, public providers[4] and mainstream social-oriented commercial banks or credit unions[5] are active on the market and have as a mission to serve everybody.

In light of the actual financial crisis, it seems obvious that financial service providers should play a stronger social role in the society, especially in combating financial exclusion. This could be done by a proper regulation or efficient soft law (please see point 8 for more details).

Question 4: In your experience, where voluntary codes of conduct are in place, are they well applied?

It depends.
According to the indicators data gathering for the project "Mutual Learning on Financial Inclusion", there are five countries out of the twelve studied that have voluntary codes of conduct in place: Germany, Spain, France, Italy and The Netherlands. However, it is interesting to note that none of these voluntary codes of conduct are related to a precise definition of the provision and that only one, implemented in the Netherlands, has constraints to guarantee an access to a basic bank account. In the Netherlands this voluntary code works out well. There almost aren’t citizens without a bank account.
It seems indeed that constraints and assessments are needed for a voluntary code of conduct to be well applied.

Question 5: Should all providers be obliged to offer basic bank accounts to all citizens throughout the EU?

Yes.
In order to ensure a broad and inclusive basic bank access, first step to a financial inclusion, all banks should have to provide such an account.
The main reason is that:
A real financial inclusion is obtained when all European citizens and residents access and use appropriate financial services, provided by non-stigmatising providers, that means mainstream ones. If the BBA are exclusively provided by so-called alternative providers, the banking inclusion will be incompletely achieved. This may be considered as a first step in the direction of a complete banking inclusion.

Moreover, BBA has to be considered as a service of general economic interest (SGEI). Such SGEI should be implemented and supported by all providers otherwise it might create competition distortion. On this particular point, a compensatory financing system can be created to ensure that financial institutions broadly implementing the BBA are not disadvantaged compared to other institutions which would not be as involved.

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http://www.fininc.eu/countryreport,en,53,95,5,3.html

3 For Slovakia, provision is defined in the law Zakon o bankach 483/2001 Coll., amendments and for Belgium it is the 23/03/2004 - federal law instituting the Basic Bank Account that covers the following operations for a fixed price: opening, managing and closing the account, money transfers and payments (manual and automatic), standing orders and domiciliation, money deposits, money withdrawals (manual and automatic), account statements, no overdraft facilities.

4 The French expert thinks here of "Crédit Municipal" which even if it does not explicitly have a mission to serve everybody still does it.

5 The Spanish expert explains here that she refers to cajas de ahorros which are "not exactly credit unions but they also operate with a not-for-profit mission and pay great attention to the development of local areas and traditionally serve low to moderate income people."

Question 6: Should basic bank accounts be provided on a commercial or not-for-profit basis; i.e. should they be free of charge? In case you favour the latter option, who should bear the costs?

BBA should be provided, as already mentioned in the answer to question 5, by all providers.
Nevertheless, it could be envisaged that during a restricted period of time, a transitory system could be designed in some EU countries, considering the existing market structure and the opportunity that some providers may offer.

BBA should be provided at an affordable cost (access, transaction use and closing). An affordable cost can be understood as non dissuasive for people who are under the poverty line. Many EU providers already are proposing such services for an affordable fixed annual fee, which cover all the necessary transactions to live a normal life.

Question 7: Could the role of alternative commercial and not-for-profit financial services providers in addressing financial exclusion be enhanced? What could be done to encourage more such providers to help with access to basic bank accounts?

BBA should be provided, as already mentioned in the answer to question 5, by all providers.
Nevertheless, since the market structure in some EU member' states already offers an important share to alternative commercial banks and not-for-profit financial services providers, it would be counter-productive not to use such experience and skills. However, there is a need to document this experience and skill. At present, there is much happening within the alternative and not-for-profit sector, but it is not recorded and therefore, it not accessible either within or outside the sector. Of course this requires resources.

Indeed, these particular providers usually have a deeper understanding and knowledge of people at risk of financial exclusion and have developed more appropriate marketing and products to reach their needs in their proximity.

Here as well, the compensatory financing system that we have mentioned in the ß2 of the answer 5 is also adequate for such financial market structure because if the SGEI is predominantly provided by alternative commercial banks and not-for-profit financial services providers, this system may encourage them to enhance the supply.

Question 8: Should regulators be required to consider the impact of regulation on financially excluded groups?

Yes.
The best way to achieve this is to enhance the capacity of the sector to find best solutions to tackle financial exclusion and to avoid competition distortion between providers who serve or not the at risk population.
To reach these goals, public authorities must play a crucial role to encourage social banks and Corporate Social Responsibility policies in this field, and this may encourage social banks to play a major role, when they are active on a market:

Authorities can ensure transparency by implementing indicators that can lead to the evaluation of the social banks of the social economy and CSR practices in the different financial services sectors. This system would be a way to encourage pro-active financial institutions. In order to do so, the inspiration based on the American experiences, such as the CRA (Community Reinvestment Act) is, without any doubt, a direction worth exploring. As a result the banking institutions in the United States are assessed according to their involvement in community reinvestment. Community banks play the role of an intermediary between the big banking networks and the clients with modest revenues. Social banks will play this role in Europe, when they exist on a market.

This allows providing the latter with quality access to financial services. It also favours discovering new profitable markets which have been ignored up till now, improving the knowledge about the clients' needs and about evaluating the real level of risk associated with them, as well as performing evaluations of the banks, which should make the data relative to their banking practices publicly known.

The development of such a tool in Europe should follow the following four stages:

1. determining appropriate quantitative and qualitative indicators to assess the services
2. periodical supply of information by all operators
3. information audit by an independent organisation according to clear procedures
4. periodical assessment of the sector's action and each operator separately

Such a development seems to fall in line with the wish expressed by the European Parliament to prepare a list of criteria for enterprises to comply with if they claim to be responsible, and to shift emphasis from 'processes' to 'outcome', leading to a measurable and transparent contribution from the business in the fight against social exclusion (European Parliament, 2007). Moreover, this system would also be a way to encourage pro-active financial institutions.
Finally, governments can implement a compensatory financing system to ensure that financial institutions doing Corporate Social Responsibility to combat financial exclusion are not disadvantaged compared to the other institutions who do not get involved. In such a system, CSR policies could be remunerated depending on the assessment of the way each financial institution has assumed its social responsibility (assessments being carried out through the use of indicators described above).

Such compensation system can be implemented by governments in the context of services of general economic interest, SGEI on which public authorities are allowed to impose specific public-service obligations (Article 86 of the EC Treaty, formerly Article 90). Considering that access to a certain type of financial services (transaction banking) at affordable prices for everyone is of general economic interest, some banks may be commissioned by governments to provide 'general interest economic services' and thus a compensation could be paid to them to remunerate this service.
Positive decisions have been adopted by the Commission in the past relating to compensations aimed at encouraging banking inclusion for people from an extremely modest background and thereby fighting banking exclusion. These decisions concerned the United Kingdom in particular. Services of general economic interest to ensure geographic accessibility to banking counters in rural areas, for example, were also accepted, in particular for postal banks in the United Kingdom (Colson J.-L., 2006). In doing so, enhanced social responsibility assumed by certain operators would be economically cancelled out, which would avoid distorting competition among operators.[6]

Question 9: What is the most effective role public authorities can play in combating financial exclusion – e.g. providing an understanding of the problem; assessing the efficiency of policy measures implemented and their impact on financial inclusion;
promoting and supporting market initiatives; contributing to the provision of financial services; raising awareness; intervening in cases of exclusion (e.g. via tax incentives, subsidies or regulatory penalties); introducing legislation?

Regarding financial exclusion, public authorities must show determination to reach the effective and measurable objective of a general access to a basic bank account. To do so, the authorities must have the capacity to control the effectiveness that such an objective is reached and, if not, that they can force the stakeholders to do what is necessary to reach it – e.g.: by the capacity to implement constraints. Legislation is not the only tool to reach such an objective, but only the

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6European Commission, Directorate-General for Employment, Social Affairs and Equal Opportunities, Unit E2,

public authorities have the capacity to implement legal constraints.
The countries where financial inclusion is the highest all seem to have a regulation or a soft law with constraints. Therefore, according to our experience, they are the most efficient options.

Question 10: Should financial inclusion be addressed at EU level? How could the responsibilities and competences between the national and EU level be shared? What could/should be the Commission's role?

The EU can promote and share best practices encourage self-regulation by the industry as well as strengthen EU networks focused on financial inclusion matters. Enhancing knowledge on financial inclusion is also essential. At the EU level, an operational and effective standardised monitoring of basic bank account access should be implemented. Based on a common definition, this EU reporting may bring appropriate information in order to identify what political tool is the most effective. It can also be useful to implement a compensatory mechanism (cf. Question 8).
Although promoting and sharing best practices as well as encouraging self-regulation by the industry is essential, it is not sufficient. A Recommendation is needed to stipulate principles and actions to ensure that every EU citizen or resident has access to a basic bank account.

A soft law approach can be sufficient as long as the national political determination is real. If this recommendation fails, there should be a way to instate binding rules at a EU level.

Question 11: What could the Commission do to address the potential difficulties in opening basic bank accounts cross-border?

The answer to this question is divided in two sections:

- <u>cross-border access to a bank account: the proof of identity</u>
  - based on the fact that the only legal requirement to open a bank account is the identity proof, the Commission should tackle the various situation where identity proof is impossible for a legal EU resident or citizen in some EU member states;
  - because a large range of documents exists to prove identity and because they are not standardised from an EU country to an other, the Commission should invite stakeholders to more broadly accept the existing documents;

- <u>cross-border access to a basic bank account</u>
  Here, we have to consider at least two options:
  a) <u>a basic bank account is a minimum standard</u> that all bank accounts proposed have to fulfil in the EU internal market. In this case, there is no particular action to implement except for the previous one regarding identity proof.
  b) <u>a basic bank account is a specific bank account proposed with restricted conditions</u>: if such an option is taken, this may lead to many issues. For example, in some countries, access to a “social bank account” is proposed under conditions that may be difficult to fulfil for a cross-border consumer: that is to prove minimum income, to prove bank exclusion (not having any other bank account...)... Since there are these potential issues, we recommend to define BBA as a minimum standard for bank account provision.

Question 12: Should the concept of financial inclusion cover financial services other than the provision of basic bank accounts?

Yes.
Access to a basic bank account has to be considered as a very first step of an in depth financial inclusion.

As defined in the study "Financial services provision and prevention of financial exclusion",

financial exclusion refers "*to a process whereby people encounter difficulties accessing and/or using financial services and products in the mainstream market that are appropriate to their needs and enable them to lead a normal social life in the society in which they belong."*
By these financial services and products, four groups are considered: bank account, credit, savings and insurance. This consultation focuses on bank accounts, but the other three groups should also be carefully considered.

<u>About credit</u>: as a major financial tool for citizens and households to access durable goods (house, car, furniture,...) or services and since inappropriate credit can have a harmful impact on people and on the society (over-indebtedness), it is a major issue to understand the role played by credit in our society. As a BBA, appropriate credit must be available for anyone who has adequate creditworthiness. Determining an objective framework of responsible credit is a priority, priority now clearly underlined by the current financial crisis. Risk analysis as well as marketing strategies need to be screened through the financial inclusion lens.

<u>About insurance</u>: if we consider here the insurance related to financial products, insurance may have a high impact on the access to credit, on the cost of credit or on life insurance (pension funds). Many questions can arise on the adequacy of this relation and the kind of role it plays in financial inclusion.

<u>About savings and investment</u>: to promote savings and investment behaviours and to enlarge the accessibility of such products to a large range of people and households, an in-depth analysis and better understanding of these products and services are necessary. What is the role of such products in financial and social inclusion? What can be this role in the future? How can the risk feeling related to these products be reduced and how can the confidence in such products be increased? How can a minimum knowledge in the public be created? How can standardised information that allows a broad public to act on this market with an assumed risk be created?

The goal of ensuring access to a basic bank account is a great first step to promote financial inclusion but it is definitely only a first step. The other three domains should also be considered to better financially include all European residents and citizens.

Indeed, many Europeans – especially those suffering from poverty – cannot access the necessary financial services, deposit and transactional accounts but also saving, credit, insurance and payment services. Access to financial services is essential for citizens to be economically and socially integrated in today's society. It is also a requirement for employment, economic growth, poverty reduction and social inclusion.

Prevention and treatment of over-indebtedness and financial exclusion are regarded as a major element of the fight against social exclusion and poverty in the majority of the National Action Plans on Inclusion drawn up by the Member States. It involves multiple factors that include not only physical and economic barriers but also psychological barriers to banking, financial illiteracy, and an understanding of low income money management patterns. In any case, important gaps still exist in terms of analysis and assessment of strategies of prevention of financial exclusion.

Recurrent strategies to prevent and combat financial exclusion encompass three main types of activities:

- Information and education programmes;
- Measures aiming to facilitate access to a bank account, simplified soft loans and face-to-face counselling and encourage responsible credit;
- Reinforced services for debt advice and guidance.