FINANCIAL INCLUSION: ENSURING ACCESS TO A BASIC BANK ACCOUNT
EUROPEAN COMMISSION: CONSULTATION DOCUMENT

Joint response by The Financial Inclusion Centre and Community Development Finance Association

About The Financial Inclusion Centre
The Centre is an independent UK based research and policy innovation think-tank dedicated to promoting fair, affordable financial services and an efficient, accountable financial system.

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About the Community Development Finance Association (CDFA)
The cdfa is the trade association for Community Development Finance Institutions (CDFIs) in the UK. CDFIs are sustainable, independent financial institutions that provide capital and support to enable individuals or organisations to develop and create wealth in disadvantaged communities or under-served markets.

For more information on the CDFA please visit www.cdfa.org.uk
INTRODUCTION

The Financial Inclusion Centre (The Centre) and the Community Development Finance Association (CDFA) very much welcome the publication of this consultation. We are also very encouraged by the priority the Commission is giving to the issue of financial inclusion in its work programmes. We look forward to working with the Commission on promoting financial inclusion.

SUMMARY OF OUR POSITION

We fully support the view that access to basic financial services (including a transactional bank account) is a necessary precondition if citizens are to be able to participate fully in a modern society. Financial exclusion contributes to wider economic and social exclusion.

We are of the view that banking as a matter of principle should be treated as a utility service and therefore consumers should have a basic right of access to a bank account.

It is very encouraging therefore that the objective of this consultation is to collect views from all stakeholders on how financial inclusion can be improved and, more specifically, on how best to ensure that by a certain date every EU citizen or resident has access to a basic bank account.

We urge the Commission to play an active role in ensuring that all citizens do have access by a certain date. While self-regulation and voluntary initiatives can be effective in certain markets, we do not believe that is sufficient to ensure that the most vulnerable consumers have access to a basic bank account. The Commission should introduce regulations requiring Member States to ensure consumers have access to a basic bank account.

Moreover, we take the view that the Commission should not simply require member states to ensure that all consumers have access to a basic bank account. This basic requirement needs to be supported by minimum standards with regards to:

- treatment of consumers with basic bank accounts (this should apply to consumers trying to open an account and to the ongoing operation of the account - for example, time taken to process applications, barriers to account opening);
- the functionality of basic bank accounts – that is, the services, functions and features available; and
- the charges applied to accounts - vulnerable consumers should not face unreasonable or unfair charges.

We can appreciate why the scope of this consultation is restricted basic bank accounts. However, we urge the Commission to turn its attention to other services where there are major problems with financial exclusion in a number of member states. Access to fair and affordable credit and insurance are priorities in the UK.
Defining financial inclusion
The definition of financial inclusion is important. From our perspective, it is not just about consumers having ‘access’ per se to a basic bank account, or being provided with the opportunity to open an account. Consumers can only be properly ‘included’ if the following conditions are met:

- consumers have access to fair, affordable products and services that meet their needs from
- they are treated fairly, ethically, and with integrity by the financial institutions that provide those products and services; and
- there is evidence that consumers use those products and services effectively.

A narrow definition of inclusion can have the effect of disguising the scale of financial exclusion and exaggerate the success of self-regulation initiatives.

Need for transparency and disclosure
We also recommend that, if financial exclusion is to be challenged effectively in the EU and in individual member states, much greater transparency and improved disclosure must be introduced. We need much better statutory reporting on the numbers of consumers facing financial exclusion, and on the performance of individual financial institutions.

Therefore, we urge the Commission to require member states to introduce transparency measures similar to those contained in the USA Community Reinvestment Act (CRA). In the case of basic bank accounts, individual banks should be required to disclose on a quarterly basis:

- the number of basic bank accounts in operation;
- the number of accounts opened and closed;
- an analysis of the profile of customers with basic bank accounts (categorised by location, income, gender, minority ethnic groups and so on\(^1\)); and
- complaints from consumers (including numbers received and resolved).

Moreover, banks should be required to produce an annual statutory compliance report on financial inclusion to complement financial report and accounts.

Furthermore, given the importance of financial inclusion, banks should be required to ensure that this issue is made a board-level responsibility and not relegated to the corporate social responsibility (CSR) teams.

\(^1\) Assuming data protection laws allow this
Answers to specific questions

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?

We very much share the Commission’s objective. We fully support the view that access to basic financial services (including a transactional bank account) is a necessary precondition if citizens are to be able to participate fully in a modern society. Financial exclusion contributes to wider economic and social exclusion.

We are of the view that banking as a matter of principle should be treated as a utility service and therefore consumers should have a basic right of access to a bank account. It is very encouraging therefore that the objective of this consultation is to collect views from all stakeholders on how financial inclusion can be improved and, more specifically, on how best to ensure that by a certain date every EU citizen or resident has access to a basic bank account.

We urge the Commission to play an active role in ensuring that all citizens do have access by a certain date. While self-regulation and voluntary initiatives can be effective in certain markets, we do not believe that is sufficient to ensure that the most vulnerable consumers have access to a basic bank account.

We do not foresee any significant technical barriers that might prevent all citizens and residents from having access to a basic bank account. A number of EU member states already have this obligation.

The most difficult challenges relate to political will and objections from the banking sector. For example, in the UK, the government has relied too much on self-regulation and delegated much of the responsibility for ensuring vulnerable consumers have access to a basic bank account to the trade associations. This delegated/ self-regulation approach has not been successful in tackling financial exclusion.

Therefore, we take the view that this is an area where the EU must take a more robust stance to protect the most vulnerable citizens.

Moreover, as we point out in the summary, it will not be enough for the Commission to simply require member states to ensure that all consumers have access to a basic bank account. This is an area where self-regulation has failed and minimum standards with regards to the behaviour of financial institutions is needed.
Question 2: Do you agree with the description of the causes and consequences of financial exclusion? Please provide additional information if available.

For the most part, we agree with the very helpful and comprehensive analysis of the causes of financial exclusion contained in Table 1 of the consultation. From our experience, the analysis set out in the consultation identifies most of the underlying main societal, demand side, and supply side factors that cause exclusion.

However, in our view, the table omits one very important over-riding cause of financial exclusion – that is, the basic economics of access. The nature of the retail commercial banking model that prevails in certain member states – certainly in the UK at least - means that there is an ‘equilibrium’ price level below which consumers are not commercially viable for mainstream retail banks.

There are basically two main ways of dealing with this fundamental economic barrier:

- policymakers and regulators can require banks to cross-subsidise lower income/ less profitable consumers by providing access to bank accounts for all citizens on equal terms; or
- the other main option is for policymakers to develop alternative non-profit financial institutions to provide in effect a parallel banking system for excluded consumers.

We believe that it is feasible for alternative non-profit providers to provide access to products such as credit, insurance and savings. However, providing transactional banking services requires such major infrastructure investment which makes it difficult to create new banking systems.

Therefore, in the case of basic bank accounts the most realistic option is to utilise the existing banking system and providers and in effect treating access to banking like a universal service obligation.

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?

As we explain in our answer above, we take the view that there is an inherent conflict between the ‘need’ for commercial organisations to make a profit (or in the case of a mutual organisation, a surplus) and their ability for providing products and services to less commercially viable consumers.

Unfortunately, there is no escaping this basic economic ‘fact of life’ – that certain groups of consumers are less commercially attractive for mainstream, for-profit banks than other groups. The unit cost of providing products and services to consumers who generate lower revenues for banks must be greater by definition than the unit cost of providing the same services to consumers who generate higher revenue.
Therefore, if banks charged consumers on a full-cost recovery basis the costs paid by lower income consumers would be disproportionately higher compared to those paid by medium-higher income consumers.

Therefore, the two main options for reconciling this inherent conflict in providing access to banking services are:

- cross-subsidising in some way less commercially viable consumers (on a voluntary or regulatory basis);
- policymakers creating a parallel banking systems.

Although as we explain above, creating parallel banking systems can be difficult and costly because of the infrastructure needed.

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

No. It is our view that voluntary measures are not working well enough in the UK, and that self-regulation is not sufficient to address the financial inclusion challenge.

At first glance, the UK appears to have made significant progress in reducing the number of consumers without a bank account. However, analysing the research more closely and objectively points to a very different conclusion.

According to the UK Government’s Family Resources Survey (FRS) data for 2006/07, up to 2.1m people, living in 1.4m households do not have access to a bank account of any kind. This suggests that significant progress has been made towards achieving the goal of ensuring that half the ‘unbanked’ have a basic bank account. However, compared with the same data for 2005/06, the FRS data also suggests that progress towards that goal has significantly slowed or even stalled during the previous year.

It is not clear why progress has now slowed. The apparently impressive progress made in the early years of the initiative may be explained by the fact that the UK Government decided to make the transition to paying welfare benefits directly into bank accounts. This will have provided the impetus to individuals to open a bank account.

Now that this transition period has finished, the impetus given by this temporary initiative may be lost. This transitional effect is likely to have overstated the underlying success of initiatives to promote take-up of basic bank accounts, and that it is wrong to conclude that self-regulation has been effective in this case.

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2 For summary of research please see The Financial Inclusion Task Force, Third Annual Report on Progress Towards the Shared Goal for Banking December 2008, p2


3 The baseline for the goal was the 2002-03 Family Resources Survey (FRS) finding of up to 2.8 million adults living in 1.8 million households without access to a bank account (defined as a current account, basic bank account or saving account).
As well as progress slowing, there are a number of other concerns about basic bank accounts. Defining inclusion as consumers just having access to a bank account underestimates the actual impact of exclusion. Simply measuring the number of accounts opened tells us nothing about how these accounts are being used.

Many consumers appear not to be using basic bank accounts as fully functioning transactional accounts. For example, research published by UK charity Toynbee Hall⁴ suggested that direct debit usage amongst BBA holders is low and that limited access to debit cards and limited usability of the majority of debit cards on offer results in ‘exclusion within inclusion’.

Lack of access to and effective use of transactional banking facilities may be significantly detrimental for excluded consumers. For example, research published by Save the Children in 2007⁵ found that lower income families pay a ‘poverty premium’ of £1,000 a year due to financial exclusion. A significant proportion of the extra costs identified in this research were specifically linked to lack of access to a bank account.

Moreover, we take the view that the financial crisis is likely to undermine the basic bank accounts initiative even further. Basic bank accounts, which are high-maintenance/low-profitability products (or in all probability, no-profit), are unlikely to be a priority for senior executives within the main clearing banks who are focused on ensuring the stability of their bank, rationalising operations and improving and maintaining profitability.

Overall, we think there is a significant risk that the number of consumers without access to transactional bank accounts will grow. We are of the view that self-regulation has not been effective in ensuring sufficient consumers have access to functioning basic bank accounts. Moreover, it is likely to be even less effective in the new financial climate given the commercial pressures on mainstream banks.

Therefore, regulatory interventions will be needed to ensure vulnerable households have a right of access to functioning accounts.

Moreover, there is a lack of transparency relating to the behaviour of individual banks towards basic bank account customers. This further undermines the legitimacy of self-regulation. If financial exclusion is to be challenged effectively, greater transparency and disclosure is needed to promote corporate accountability.

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

As we explain in the previous answers, we believe that self-regulation is not working. A statutory obligation is needed to protect the most vulnerable consumers.

**Question 6: Should basic bank accounts be provided on a commercial or not-for-profit**

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⁴ See Table 2: Summary of findings and conclusions, Toynbee Hall, From Access to Inclusion: an evaluation of the role of basic bank accounts in promoting financial inclusion, James F Devlin, Milla Gregor, July 2008
basis; i.e. should they be free of charge? In case you favour the latter option, who should bear the costs?

If banks provided basic bank accounts on a full-cost commercial basis, lower income consumers would pay an unacceptably high price. However, given the importance to citizens, we think there is a clear case for basic bank accounts to be provided free of charge.

If this is the case, then there needs to be some degree of cross-subsidy. This can be achieved in two main ways:

- banks could be required to cross-subsidise from within existing revenue streams – in effect, more profitable customers would pay a slightly higher price for banking to cross-subsidise less profitable customer segments;
- the alternative would be for governments to subsidise the cost of providing basic bank accounts to lower income consumers.

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?

Yes, we believe that alternative not-for-profit financial services providers could play an enhanced role in helping with access to basic bank accounts. We envisage two main roles. Alternative providers could either:

- operate basic bank accounts in partnership with main clearing/infrastructure banks;
- assist vulnerable consumers with opening basic bank accounts – this would be more of a financial capability role.

The first role may seem attractive but it is probably only a realistic option for a minority of the larger not-for-profit providers because of the infrastructure barriers involved. Moreover, even the larger not-for-profit providers would require a degree of cross-subsidy if basic bank accounts are to remain free of charge for vulnerable consumers.

It is difficult to see how commercial providers could provide access to basic bank accounts on reasonable terms – even if they were ‘alternative’ commercial providers. The cost these providers would need to charge to satisfy shareholders would be prohibitive.

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

Yes. We firmly believe that any cost-benefit impact assessments should include an evaluation of the impact of existing and proposed regulations on financially excluded groups.
Moreover, we are of the view that regulators should have an obligation to promote the interests of all consumers including excluded groups. Therefore, national regulators should be given a statutory objective to promote financial inclusion.

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?

Public authorities including those at EU level should play a range of roles in tackling financial exclusion. However, promoting market initiatives will not be enough to tackle such a major public policy challenge. Direct interventions by EU and member state authorities to ensure that the most vulnerable have access to basic bank accounts are needed – including legislation.

Promoting understanding
Public authorities have a clear role in promoting a greater understanding of the problem either by conducting and commissioning primary research or providing funding to external specialist agencies. There are significant gaps in our understanding about the:

- extent of financial exclusion in member states;
- the root causes of exclusion – including demand side and supply side causes; and
- effective and innovative solutions that work.

Assessing effectiveness and impact assessment
Public authorities must also play a more active role overseeing the implementing policy measures and monitoring their impact and effectiveness.

However, if financial exclusion is to be challenged effectively in the EU, greater transparency is needed. We need much better statutory reporting on the numbers of consumers facing financial exclusion, and on the performance of individual banks.

The EC should require member states to introduce transparency measures similar to those contained in the USA Community Reinvestment Act (CRA). In this case, individual banks should be required to disclose on a quarterly basis:

- number of basic bank accounts in operation;
- number of accounts opened and closed;
- analysis of the profile of customers who have basic bank accounts (location, income, gender, minority ethnic groups and so on\(^6\)); and
- complaints from consumers.

\(^6\) Assuming data protection laws allow this
At the year end, banks should be required to produce a statutory compliance report on financial inclusion to complement financial report and accounts.

These compliance reports should be independently audited. Self-regulation in the form of corporate social responsibility (CSR) reports is not sufficient to allow performance to be judged.

**Effective interventions**

We urge the Commission to play an active role in ensuring that all citizens do have access by a certain date. We are not confident that self-regulation and voluntary initiatives in certain member states will be sufficient to ensure that the most vulnerable consumers have access to a basic bank account.

Consumers should have a legal right of access to a basic bank account in member states. Moreover, it is not enough that the Commission simply requires member states to ensure that all consumers have access to a basic bank account. It is important that minimum standards are set down with regards to:

- treatment of customers who open basic bank accounts (for example, time taken to process applications, barriers to account opening);
- the functionality of those accounts; and
- the charges applied to accounts to avoid vulnerable consumers paying unreasonable prices.

To ensure that the legal right of access is enforced properly, public authorities should apply robust regulatory penalties based on compliance with minimum performance standards.

**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?**

Yes. We strongly agree that financial inclusion needs to be addressed at EU level. Our experience is that there is not sufficient will on the part of many member state authorities to tackle financial exclusion. There has been too much reliance on self-regulation and market initiatives which have failed to deliver.

With regards to sharing responsibilities and competences, EU legislation is needed to ensure:

- consumers have a legal right of access to a basic bank account;
- banks comply with minimum performance standards relating to fair treatment of customers, functionality and charges; and
- greater transparency on banks compliance with requirements

National authorities should then be responsible for implementing legislation.

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

We have no particular comment on this.

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

We appreciate why the scope of this consultation for now is limited to access to basic bank accounts given how important access to functional banking services is for the single market. However, we urge the Commission to turn its attention to other services where there are major problems with financial exclusion in a number of member states.

We are of the view that access to fair and affordable credit and insurance are priorities.

This marks the end of this joint response.

CDFA/ The Financial Inclusion Centre

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