Consultation response

European Commission
DG Markt

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Which?

Re: Financial inclusion: Ensuring access to a basic bank account

Which? is an independent, not for profit consumer organisation. Based in the UK, it is the largest consumer organisation in Europe. Entirely independent of government and industry, we are funded through the sale of our range of consumer magazines and books.

Thank you for the opportunity to respond to this consultation on financial inclusion. Which? is of the view that tackling financial exclusion is one of the key public policy challenges facing the UK and other EU member states.

Moreover, exclusion affects the way the whole range of consumers’ financial needs are met. Although we appreciate why the Commission has focused on banking services, other areas like affordable credit, access to advice and provision for the future/long-term savings will also need to be looked at in future.

One final point we would like to make in the introduction is that exclusion has generally been associated with consumers in the lowest income/socio-economic groups. And it is quite true that the most vulnerable consumers in society are most affected by financial exclusion and its associated disadvantages. However, we take the view that exclusion affects a much wider population of consumers especially the mass market of consumers on lower-medium incomes.
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 would constitute the main challenges in meeting this objective?

We are supportive of the Commission’s overall objective. In the UK and most other EU member states a bank account is a vital prerequisite to be able to partake in economic life.

Which? has raised concerns about the effects of financial exclusion for many years and in our response to the Treasury Committee investigation into financial inclusion in 2006 we argued: “that access to banking should be seen as a utility rather than a discretionary, commodity good. It is becoming as increasingly important as other utility goods such as energy (electricity and gas) and telecommunications. Therefore, when market failure occurs (in the sense that consumers are denied access to basic services) it is valid to consider all types of intervention to ensure that consumers core needs are met fairly and efficiently”.

According to a UK Government survey for 2006/07, up to 2.1m or 4.5% of the adult population, living in 1.4m households do not have access to a bank account of any kind. There has been a reduction of nearly 500,000 households over the last 4 years but the UK financial inclusion taskforce has acknowledged that “compared with the data for 2005/06, the 2006/07 data also suggest that progress towards the shared goal, which measures unbanked adults in households with no bank account, slowed or stalled during that year”.

The main challenges in meeting this objective will be to find an approach that is capable of taking into account the different situations in different member states.

Question 2: Do you agree with the description of the causes and consequences of financial exclusion?

Financial exclusion is a dynamic state and affects different segments of society at different stages. However, there are some groups of society that are more likely to be affected than others and research in the UK shows that single-parent-households are more likely to be unbanked (10% of single-parent-households are unbanked

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1 Which? evidence to Treasury Select Committee Inquiry into Financial Inclusion 09 January 2006.
3 Ibid
compared to 5.3% of households overall\textsuperscript{4}. Other population groups with a statistically significantly higher percentage of unbanked are low income households, unoccupied households and pensioner households.

Table 1 of the consultation document helpfully lists the factors causing financial exclusion and we have nothing to add. The consequences of financial exclusion are significant in the way that consumers access, transact, and consume other products or services. Payments for utilities for example are affected by access to transactional tools resulting in higher prices for consumers least able to afford paying them.

**Question 3**: Do you think that one can reconcile financial services 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?

We believe that tackling financial exclusion is something that should be part of financial services providers’ objectives as it will ultimately benefit them. According to the British Bankers Association the provision of basic bank accounts (BBAs) is the “cornerstone of the banks’ commitment to ensuring affordable banking services is available to all”\textsuperscript{5}.

Toynbee Hall has identified a number of potential benefits for banks generated from basic bank accounts. These include\textsuperscript{6}:

- Cross-selling opportunities
- Liquidity
- Attracting corporate business from organisations with ethical or social considerations
- Improving customer service standards
- Reputational advantage.

\textsuperscript{4} ibid
\textsuperscript{5} British Bankers’ Association press release, 20\textsuperscript{th} November 2008.
\textsuperscript{6} Toynbee Hall: Developing inclusive banking
  
  \url{http://www.toynbeehall.org.uk/core/core_picker/download.asp?id=1712}
Question 4: In your experience, where voluntary codes of conduct are in place, are they well applied?

Voluntary codes of conduct can be an effective way of addressing issues of concern but only when the following criteria are met:

- Strong Independent Governance
- Clear objectives including a consumer focus
- Robust Standards
- Transparency
- External Consultation
- Adequate Funding for monitoring and supervision
- Promotion of the scheme
- High take up in the sector
- Effective monitoring, inspection and reporting
- Robust Sanctions
- Adequate redress

Failure to meet these criteria renders most voluntary codes ineffective and runs the risk of exacerbating the problem instead of resolving it.

In the UK, the provision of basic bank accounts is currently covered by a voluntary industry code. However, the adherence to the standards set out in the voluntary code has in the past varied quite significantly between different banking providers which required a stepping up of monitoring action by the self-regulatory body responsible for enforcing the code7.

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

We do not believe that a requirement for cross-border provision of basic bank accounts is a necessity and that it would decrease the number of the unbanked or marginally banked consumers in the EU. Most EU citizens are already not engaged in cross-border financial services and people in need of a basic bank account are hardly engaged in their domestic financial services system. They are therefore extremely unlikely to look for basic banking services in other member states.

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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 cost?

Most basic bank accounts in the UK currently attract no direct charges. Due to the UK’s banks current revenue generation model most type of current accounts are free of explicit charges whilst in credit. Banks generate revenue from two main sources: interest foregone and insufficient funds charges which are also applied to basic bank accounts. Banks also generate money by cross-selling products to existing current account customers including basic bank account customers. Research by Toynbee Hall showed that 25% of basic bank account holders had gone on to take up another financial product with their bank account provider.

Banks are not charitable institutions but charging consumers fees for basic bank accounts would undermine the basis of BBAs: to achieve the aim of universal banking for all EU citizens. Universal banking has to be a key Government objective and therefore Government has to ensure that charges are not an obstacle for people opening basic bank accounts. In addition, it is important that the arrangements for the opening of basic bank accounts, and their promotion are in line with their objectives.

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?

In our view, there is a significant role for alternative commercial providers and not-for-profit financial services providers in developing solutions for increased access to financial products.

The following areas could benefit from increased involvement from not-for-profit financial services providers:

- Removing barriers to access to basic bank accounts by assisting with staff training for commercial providers of BBAs
- Identify target groups for BBAs and develop strategies to approach them
- Assist financially excluded consumers in opening BBAs

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http://www.toynbeehall.org.uk/core/core_picker/download.asp?id=1383
Highlight key obstacles encountered by such consumers when accessing BBAs

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

Yes, we believe that national regulators should have to consider the impact of regulation on financially excluded groups.

In its evidence to the Treasury Select Committee enquiry into financial capability the UK regulator, the FSA, stated:

“that, under the FSMA, we have no explicit statutory responsibility for financial inclusion. Nor is it included in the principles of good regulation as an issue to which we should formally have regard. However, we take the issue very seriously and have consistently tried to be thoughtful about and sensitive to the special requirements of those who find it difficult to gain access to financial services.”

We believe that this is an area that needs to be looked at and potentially amended to give national regulators the statutory objective to promote financial inclusion.

Question 9: What is the most effective role public authorities can play in combating financial exclusion?

Public authorities need to play an active role in combating financial exclusion where markets fail. This role includes both monitoring the market and assessing any failures as well as intervening by setting minimum standards or actively setting up adequate alternative services.

It is where markets are incapable of meeting wider public need that public bodies need to be able to intervene and either directly provide services or nurture provision by other bodies.

Another role for public authorities is the involvement and active extension of financial literacy.

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**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?

Financial inclusion is an important aspect of financial services provision and therefore should feature in the Commission’s overall work on financial services integration and supervision. Due to the importance of bank accounts to allow citizens to participate in economic life we believe that the Commission has a role in sharing best practice and setting minimum standards and providing monitoring of compliance with such standards. However, we also believe that any intervention should be at a minimum harmonisation level as some member states with very developed financial systems will require more developed consumer protection than other member states where participation in economic life is potentially possible without access to a basic bank account.

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

We do not believe that the opening of basic bank accounts cross-border is a key means of fighting financial exclusion. We believe that any action taken by the EU needs to be on a minimum harmonisation basis to not undermine any existing initiatives in individual member states.

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

Yes we believe that the concept needs to take an integrated approach and cover other financial products. Affordable credit, access to advice and provision for the future/long-term savings are probably the most pressing issues.

In the aftermath of the current financial crisis there will be significant questions about new business models. There is a significant risk that some consumers, particularly those reliant on credit, will find either a lack of available credit, or increased prices. Financial services companies may seek to purely concentrate on the most profitable segments of the market. Policy makers need to be conscious of these possibilities in what is now a highly dynamic economic environment.