EC Consultation paper – ‘Financial Inclusion: ensuring access to a basic bank account’

Toynbee Hall response
March 2009

Toynbee Hall welcomes the opportunity to respond to this consultation and the focus given to this important issue. As an organisation with a long-standing involvement in this agenda in the UK, we look forward to building on this to work in partnership with the commission and other European stakeholders.

About Toynbee Hall

Based in the East end of London, Toynbee Hall produces practical innovative programmes to meet the needs of local people, improve conditions and enable communities to fulfil their potential. The organisation makes a difference by producing local programmes that have the power to become national solutions, with a constant and ongoing commitment to the development of social policy and networks for positive change.

Toynbee Hall has been a pioneer of financial inclusion work in the UK third sector for some years, and continues to develop services and projects to help improve the lives of people facing financial exclusion. Current projects include:

- SAFE (Services Against Financial Exclusion) which delivers support to individuals and organisations in London to develop financial capability and access financial services
- Transact, the national forum for financial inclusion, a network of over 1000 organisations committed to practising and promoting financial inclusion
- Banking project, working with banks, Government and consumer and voluntary organisations to identify and tackle the barriers to banking that exist on both the supply and demand side.

General response

Before considering the specific issues addressed in this consultation it is helpful and important to recognise the endpoint being sought. We would like to see a situation across Europe in which everyone is able to access a product appropriate to their needs and lifestyle, allowing them to conduct transactions in an affordable, secure and inclusive manner. As technologies for paying
and receiving money develop we are keen that the discussion develops with them. At present in the UK we believe that a basic bank account offers the best means of ensuring access to appropriate services. However, while we understand that this consultation centres on the provision of basic bank accounts, we would stress that this focus should not be at the expense of resources given over to exploring other avenues to inclusion and indeed what happens after a basic bank account has been accessed.

When considering the role access to basic bank accounts plays in financial inclusion, it is important to remember that we are talking about a market model and whether or not this can meet social ends. The story of basic bank accounts is very much one of both a market success (in that it broadly meets the perceived commercially viable section of the market with approximately appropriate mass-market products) and a market failure in that a sub-sector of the market is not effectively served, even if they do have access to products.

**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 agree that every EU citizen or resident should be able to access a basic bank account if they decide that this is the product that best meets their needs. We strongly feel that every effort should be taken to ensure that no-one is unduly denied access to a basic bank account as a result of procedural restrictions that should be negotiable and that, where these appear, financial institutions should be encouraged and supported to employ flexibility and seek a resolution resulting in access to the product. In addition to this, staff at the point of supply require support and training to ensure that they are able to better support individuals attempting to access a basic bank account.

In our experience the challenges to access can be thought of as existing in one of two ‘camps’ - those that exist on the supply-side (i.e. with the financial institution and regulators or as a result of staff error at the point of supply) and those that exist on the demand-side (i.e. with the individual). Conceptualising solutions using this break-down can aid clarity and also demonstrates a fuller-understanding of the complexity of the issues. Solutions that only focus on the mechanics of access and product equation will not result in a financially included society.

We believe that a constructive partnership approach offers the best strategy in meeting these challenges. Over the last year, Toynbee Hall has facilitated a Banking Partnership Group - whose
members include the banking sector, government, regulators and consumer/voluntary sector\(^1\) - to address the issue of overcoming barriers to basic bank accounts in bank branches. Our experience suggests that this approach can yield positive results and lead to an improved mutual understanding of the pressures and forces under which each stakeholder is acting.

A separate challenge lies in ensuring that consumers are equipped with the relevant knowledge, skills and confidence to recognise: why a basic bank product may be appropriate to them; how one can be successfully accessed; how to make best use of one when opened. Research undertaken by BMRB Social Research on behalf of the UK’s Financial Inclusion Taskforce in 2006\(^2\) found that roughly two-thirds of those who were marginally banked felt that a bank account was not relevant to their lifestyles. Ensuring that these individuals fully understand the benefits a bank account can have to their lives so they can then make an informed decision is of great importance – even more so in the face of current economic uncertainty which could lead to a greater mistrust of financial institutions. While the realities of the current situation do not impact upon a bank’s ability to provide and operate a basic account, the current negative climate surrounding financial institutions may ingrain a belief among some without bank accounts that banks are not to be trusted, in which case the right to an account will not result in the desired outcome.

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

The consultation document’s description of the causes and consequences of financial exclusion provides a good overview of the issues. For a more detailed discussion of all the issues we recommend the introduction to our 2008 report ‘From Access to Inclusion’\(^3\). While the paper focuses on the UK-experience, it brings together a large amount of background reading on financial exclusion, its causes, costs, who it can impact upon and its results.

At the root of financial exclusion discussions there is currently an absence of a clear commercial imperative, which may be because there is no case, or the case has not been effectively made. While this can be developed, we believe it is important that the discussions have a clearly signalled social imperative, and a decision is made on where responsibility for meeting this social ends sits (ie. with government, industry, consumers or across all sectors).

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\(^1\) Please visit [www.transact.org.uk/bankingproject](http://www.transact.org.uk/bankingproject) for details on how this approach was utilised in our own work.


\(^3\) This can be downloaded from [http://www.transact.org.uk/page.asp?section=00010001000400190002](http://www.transact.org.uk/page.asp?section=00010001000400190002)
**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?

Through the Banking Partnership Group’s work with financial institutions (see earlier reference) we believe it is important to recognise that banks’ primary concern is that of a business. While all financial institutions we have worked with have shown positive social commitments, we do not believe that framing this work as an 'obligation' would encourage more to be done and the use of such rhetoric does not encourage effective engagement of commercial organisations. An important part of our work has been to demonstrate to banks how strong social commitments are not at complete odds with good business practice.

At present we believe that there is a general culture whereby basic bank products are viewed as commercially unviable and therefore positioned as being separate from other products. Even if the intentions are good, this view runs the risk of ghettoising these products and those customers who make use of them and in the long-term may be counter-productive to greater inclusion.

We believe that effective delivery of commercial objectives needn’t run in opposition to achieving social goals and would like to see basic bank accounts positioned as part of the whole account range offered by financial institutions, with the expectation being that customers may, if appropriate and willing and with adequate support, move on to further products in the future. In the UK the link between a basic bank account and employability can play an important role in this migration, with the account acting as a gateway to further products and inclusion⁴.

Demonstrating this migration from basic bank accounts to other products is important in making the ‘business-case’ argument to those areas of financial institutions outside of the CSR and Government relations departments. In our report ‘From Access to Inclusion’ (see earlier mention for link), we found that 25% of people who opened a basic bank account in 2005 had gone on to take out further products (mainly savings products) within two years of account opening. This figure mirrors those compiled by the British Bankers’ Association – the industry body for UK banks. We believe that with greater support these figures can be improved upon further. Interestingly, basic bank account holders are also less likely to ‘shop around’, which from a business perspective makes them more loyal as customers.

⁴ For further discussion on this see the 2008 Toynbee Hall report ‘Employability and financial inclusion: examining the links’ [http://www.transact.org.uk/page.asp?section=00010001000400190002](http://www.transact.org.uk/page.asp?section=00010001000400190002)
**Question 4:** In your experience, where voluntary codes of conduct are in place, are they well applied?

We believe that monitoring and policing can only go so far - any code of conduct requires internal implementation within individual business models and so will fall short of being the entire solution. The entire buy-in of all aspects of banks’ activities is required to ensure the spirit of such codes is achieved and to get this an internal culture shift towards inclusivity needs to be encouraged.

In the UK, High Street banks have signed up to the Banking Code\(^5\), a voluntary code operated by the Banking Code Standards Board\(^6\). We believe that the code contains many positives for those owning or wishing to open a basic bank account. Banks do seek at the top-level to operate within the Banking Code, however, problems do arise on the ground-level (i.e. in the branch). There are also areas of bank activity that are not covered by the banking code. Thus a situation where there is 100% adherence to a code does not necessarily equate to people having access at the ground level.

Toynbee Hall’s Banking Partnership Group produced ‘Developing Inclusive Banking’\(^7\) to help combat these situations by ensuring that front-line staff receive the appropriate support and training around five key areas where potential barriers can arise in branches. We hope that this can support a wider change of culture within banks that would lead to a properly inclusive approach, in a way that an imposed, mechanical code of conduct may not.

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

No. We do not have a universal obligation in the UK and it is our experience that where an individual has been unable to open an account the lack of a universal obligation has not been a factor in this. The most common reason for people’s inability to open an account has been ID issues stemming from anti-money-laundering regulations, which would not be obviated by an obligation to provide basic bank accounts to all citizens. Often ID provides an obstacle because the individual or member of staff they talk to is not aware of the wide range of acceptable documents, and therefore the lack of ‘mainstream’ ID such as a passport becomes an obstacle, even though this is a not a ‘real’ barrier (as guidelines already exist to circumvent this issue).


\(^6\) At present the UK’s Financial Services Authority is undertaking a Banking Conduct of Business review, the result of which may see the regulation of everyday retail interactions fall under the FSA’s remit.

\(^7\) [http://www.transact.org.uk/page.asp?section=00010001000100050001](http://www.transact.org.uk/page.asp?section=00010001000100050001)
While banks should be encouraged to offer basic bank accounts it should be recognised that different business models operate under different pressures and so any obligation to this end could result in unintended outcomes such as meeting the requirement through developing inferior products that do not benefit the consumer. In addition, as discussed above, the reality is that having a basic bank account on offer does not equate to a total solution and there is a danger that enforcing a universal obligation could result in the more specific barriers to account opening going undetected or being underestimated.

Amongst the clients we see experiencing financial exclusion locally, the ability to open an account outside the UK would not be a viable solution owing to the different currency bases. Where non-UK EU residents struggle to open accounts in the UK, this is again mostly due to meeting the institutional requirements around ID etc. The Banking Code does not differentiate between non-UK citizens in terms of the compulsion to offer a basic bank account if asked for one, therefore the more significant issue is that of an individual’s ability to meet the account opening requirements.

**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?

As previously stated, we believe that for basic bank accounts to be a part of the wider account range (with all the benefits we feel that this would bring) then thinking of them in the commercial space is useful, as it helps with potential institutional aversion to dealing with the customer base. However, if they are proven to be loss-making (or sub-sections of the market are) it is not necessarily problematic for users to cover the cost as long as it is: reasonable; transparent; predictable; and the account truly meets their needs.

Alternative models have been suggested where the cost is covered by companies receiving payments through the accounts who will make savings by knowing that their service-users are able to make regular payments electronically\(^8\), and we would certainly be interested in seeing this further explored. We believe that national governments and those who are driving previously unbanked individuals towards an under-prepared and sometimes inadequate financial services system should also subsidise some of the costs of this; this may not be the direct costs of account provision, but could include the costs of providing appropriate advice, advocacy and support to individuals to open and use accounts effectively.

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\(^8\) Saving From Poverty is one such suggestion – see the summary paper at [http://www.transact.org.uk/page.asp?section=00010001000400190002](http://www.transact.org.uk/page.asp?section=00010001000400190002)
There is no consensus currently on what the real cost of providing accounts to the marginally banked market is, or agreements in place regarding who should meet this cost. This consultation is a useful exercise in holding the debate, which we welcome.

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

We do not believe that the provision of new products alone will solve financial exclusion, but as indicated above, this requires a dovetailing of supply and demand, with adequate support to bridge the gap. In the UK some Credit Unions offer an alternative to financial institutions for offering basic banking products, however, for the credit union movement here to become a large-scale viable alternative they require scale and reach and therefore investment and support. At present their coverage is not complete (meaning that not everyone will qualify for membership under the common-bond) and the functionality offered varies between credit union.

In the UK the post office can also play an important role in offering financial services to customers. There are currently over four million Post Office Card account holders, however, the functionality available with the accounts is very limited and their ability to act as a gateway to greater financial inclusion is severely limited. There is discussion at present about introducing greater functionality or further products to the Post Office range, however, whether or not this takes place remains to be seen.

A key role for third-sector organisations involves supporting individuals to access accounts and then, once opened, understand how to make best use of the features available to benefit from being banked. It is important to avoid a scenario in which accounts are subsequently closed due improper use leading to repeated charges or dormancy.

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

Yes. We firmly believe that the impact of regulation on financially excluded groups should be recognised by regulators, both in overarching regulation, supervision regimes and also explicitly in the guidance material they produce for firms. This should also be considered in any consumer facing work undertaken (such as the FSA’s Money Made Clear work). We believe that doing this
is of importance in introducing a culture in financial services where financial exclusion is seen as a valid element for consideration in business strategies.

**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 have an important role in combating financial exclusion. They can provide strategic oversight and facilitate consensus on definitions and agreeing responsibilities. We believe that the effectiveness of public authorities is enhanced by partnership work with other stakeholders.

In the UK the Treasury’s Financial Inclusion Taskforce\(^9\) acts as a centre for setting the agenda, directing the discussion and informing the Government on progress made in different areas of financial exclusion. The Treasury is also an important source of funding for various financial inclusion schemes across the UK, distributing a Financial Inclusion Fund of £130m for 2008-11.

We would also think there is a need for more work on assessing the effectiveness of current activity, and gathering data on the scale and degree of obstacles that the marginally banked face, to provide an evidence base for future policy in this space.

**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?

We believe that financial inclusion should be recognised at an EU level, with the Commission well-placed to act as a centre for European knowledge and activities around financial inclusion. While national models differ, we feel that there is still a place for sharing best-practice in this area across States, with each State reporting to the Commission on its activities and progress. The Commission could also promote financial inclusion activities in those areas where action is currently limited and have the ability to intervene when there is evident failure at a State level.

There is also a role for the Commission to distribute funds for the undertaking of financial inclusion activities where it deems the need is greatest.

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

We are unsure as to the market for opening basic bank account cross-border and therefore how great the need is for addressing potential difficulties.

In the UK it is our experience that individuals from other EU countries who are residing here often find it easier to open a basic bank account due to their holding of an EU passport than other groups for whom ID can prove an obstacle (although some difficulties can arise when an individual who is yet to settle is asked for documents to verify their address). We find that the biggest barriers for EU Citizens in the UK are often knowledge of the basic bank account and in communicating their desire to open one (as opposed to a current account) to bank staff.

We would stress the importance that any move to ensure level access for EU Citizens across borders does not result in providers feeling that they have to resort to increasing the minimum standards for account opening, which could have a detrimental impact on other excluded groups.

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

Yes. We define financial inclusion as a state in which all people have access to appropriate, desired financial products and services in order to manage their money effectively. It is achieved by financial literacy and financial capability on the part of the consumer, and access on the part of financial product, services and advice suppliers.

We feel that, if operated and run properly, basic bank accounts can act as a crucial gateway to other products and greater financial inclusion. Provision of accounts in isolation is not sufficient to lead to the longer-term objectives of combating poverty and combating social exclusion.

There are of course degrees of financial exclusion, and even full usage of a basic bank account will not meet all consumer needs, and other needs may arise where additional services are required. An example of this would be a client with a basic bank account wishing to get reductions
by paying for goods online; this requires a debit card, which is not available on all basic bank accounts.

There are also needs that do not relate to day-to-day money management and payments services. Therefore the promotion and availability of other services should also be considered a part of the concept of financial inclusion. Alongside access to a basic bank account, the other key areas that we recognise as being important for financial inclusion activities are:

- availability of affordable credit (where this smoothes spending and income rather than being perpetually extended to compensate for income inadequacy)
- availability and use of appropriate savings products (to obviate the need for short-term credit and build assets)
- access to money advice
- extending the take-up of insurance products for low-income households