

Financial inclusion

(Text largely based on “Retail Banking in Europe - The Way Forward” - ESBG 2009)

During the past few years, the topic of financial inclusion has increasingly been in the focus of discussions at the EU level. In May 2008, at the initiative of DG Employment, Social Affairs and Equal Opportunities of the European Commission a report on "Financial services provision and prevention of financial exclusion"¹ was commissioned. The report provided data on the levels, causes and consequences of financial exclusion in the Member States, described the diversity of policy responses developed in different Member States in the field of transaction banking services, credit and savings, and proposed a series of potential policy responses to prevent financial exclusion of people facing poverty or social exclusion.

Following a conference publishing this report and a commitment in the Single Market for 21st Century Europe² to ensure that by a certain date nobody is denied access to a basic bank account, DG Internal Market and Services together with DG Employment, Social Affairs and Equal Opportunities of the European Commission launched a public consultation in February 2009. The Consultation “Financial Inclusion: Ensuring Access to a Basic Bank Account”³ described the levels, causes and consequences of financial exclusion in the EU. Interested parties were invited to comment on the need and format of possible measures, proposed in four general alternative areas of action, namely 1) promoting and sharing best practices; 2) encouraging self-regulation by the industry; 3) a soft law approach; or 4) a regulatory approach.

ESBG views

Financial Inclusion - Principle of Subsidiarity

Promoting of financial inclusion of all is a central ESBG mission

Savings banks are by tradition important promoters of financial inclusion of all citizens. The promotion of financial inclusion for all citizens is part of savings banks’ mission. Caring for the general interest of society is the savings banks’ initial purpose and is an integral part of their identity, as a long term commitment towards meeting the critical needs of society through their daily business. Therefore, ESBG considers that the “bankarization” of citizens is not only desirable in terms of social stability avoiding financial exclusion but is also of economic and financial importance as it enlarges the market and the scope of potential customers. In addition, many ESBG members have introduced specific, targeted schemes to ensure that also the most vulnerable parts of the population have access to necessary basic financial services.⁴ ESBG welcomes the Commission’s aim to encourage the further development of financial inclusion of all EU citizens. The debate at the European level shows the growing awareness of parties involved.

¹ Réseau Financement Alternatif. 2008. Financial Services Provision and Prevention of Financial Exclusion. Report for the European Commission, DG Employment, Social Affairs and Equal Opportunities. [http://ec.europa.eu/employment_social/spsi/docs/social_inclusion/2008/financial_exclusion_study_en.pdf]. Accessed July 2009

² European Commission. 2007. Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, A Single Market for 21st century Europe [COM(2007)724 final] SEC(2007) 1517 SEC(2007) 1518 SEC(2007) 1519 SEC(2007) 1520 SEC(2007) 1521, 20 November.

³ European Commission. 2009. Financial Inclusion. Ensuring Access to a Basic Bank Account Consultation Document [MARKT/H3/MI D(2009), 6 February.

⁴ Also see *Annex 2, CSR Case Studies*

The principle of subsidiarity has to apply - financial exclusion needs to be tackled at the national level

Considering the important commitment of its members in the field of financial inclusion, ESBG and its members strongly advocate for a strict application of the principle of subsidiarity. ESBG agrees with the aim of European policy makers to raise the level of financial inclusion among all citizens. However, there is a need to deal with the fight against financial exclusion first and foremost at the level of Member States. The specific reasons for financial exclusion are manifold and differ widely from country to country due to different cultural and historical backgrounds, and economic and social circumstances. A lower level of wealth and higher levels of inequality in Member States are two main reasons. Another important aspect is the issue of trust. A lack of trust in the stability and accountability of the financial sector can have significant influence on consumers' choice to store money in cash. A clear distinction must also always be made between those consumers who are financially excluded and those who, for some reason, choose not to buy a certain product or who do not make appropriate use of the products available. These diverse situations call for different approaches and subsequently different possible solutions taken at the national level.

Avoid a one size-fits all approach: apply specific tailored national, regional and local approaches

The most suitable way of handling the problem of financial exclusion is therefore to have measures at national level in the countries where the problem of financial exclusion arises - tailored to each context and the traditions of each country. ESBG is convinced that governments of Member States are the most suited to find remedies for possible problems in accessing financial services depending on the situation in their national markets. In this context, it is also important to recognize that circumstances may not only be national but in many cases regional or even local in order to avoid taking an – ultimately futile - one-size-fits-all approach.

Financial exclusion should be addressed in the wider context of social exclusion

In addition, it has to be stressed that financial exclusion is one element of the broader problem of social exclusion and therefore often closely linked to low income, age, education and status of ethnic minorities or migrants. It is thus not an isolated issue and the effects of the exclusion will therefore also differ. In those markets where the problem is clearly and almost exclusively related to socially excluded individuals, financial exclusion might not be solved through additional efforts in the area of information, education, access and availability of financial services and products. If the cause of the problem lies with problems related to general social exclusion, a more holistic approach to the problem should be taken. This would mean starting by addressing issues such as employment, physical and mental health and housing. This does not exclude the possibility of linking such efforts with the introduction or reintegration into the formal financial system.

Access to Basic Banking Services

A clear definition of the coverage of a 'basic bank account' is necessary

ESBG welcomes the Commission's aim to encourage further developments of access to financial services to all EU citizens and residents. The access to a bank account is certainly the most crucial part of financial inclusion. A clear definition of the coverage of such a service is of utmost importance. For the purpose of responding to the Commission

consultation on “Financial Inclusion: Ensuring Access to a Basic Bank Account”, ESBG defined the basic bank account as an account which enables the account holder to receive a salary and/or social benefit, make a certain number of essential payments, and withdraw cash. The basic bank account can also serve as a savings account or enable the account holder to make deposits onto a savings account. Access to an overdraft, a credit facility or a payments instrument including the granting of credit - e.g. a credit card or a deferred debit card - are not considered part of the basic bank account.

Financial inclusion needs to be advocated, but not regulated

In order to ensure and enhance access to basic banking services, ESBG is strongly against regulation. Applying the better regulation principle, there is no justification for an intervention at the EU level in countries where financial exclusion is not an issue, and neither self-regulation nor regulation should therefore be imposed on Member States. As stated by the Commission in its Consultation on Access to a Basic Bank Account, only 2% of consumers do not have access at all. This does not evidence a distortion of the internal market and therefore, no regulatory action at the European level is required. However, ESBG sees the Commission playing a role in maintaining awareness on the subject and facilitating the sharing of information and best practices but does neither see room nor necessity for any regulatory measure for the access to a basic bank account at the European level. Moreover, in order to objectively assess the current situation, ESBG requests that the Commission balance the Eurobarometer findings used in the consultation with national, regional and local market studies.

Initiatives to foster financial inclusion should always be voluntary

In addition, the existing national regulation in some Member States prove that still no complete coverage can be reached by legislative means. Therefore, initiatives in this field should always be taken on a voluntary level, and cannot be imposed on banks. Financial providers should by no means, be obliged to provide financial products or services as this would interfere with the principle of contractual freedom, private autonomy and the obligation of each provider to perform risk management. It would also hamper the innovation of products and services, in particular in the markets where citizens already have easy access to bank accounts. Besides, compulsory measures would increase costs to the financial institution and result in an increase of fees or other costs which would most likely be borne by customers.

Proximity banking

National governments, the financial industry and consumer oriented organisations have already been very active in offering specific, targeted programmes and products to ensure that also the most vulnerable parts of the population have access to necessary basic financial services. ESBG and its member are convinced that access to financial services can and should be increased in various ways, by offering specific products and services. Financial institutions need to adapt their products and services, making them available and accessible for all, through adequate information and through financial education and by improving the level of financial literacy. ESBG members are committed to functioning responsibly and to serving all strata of society. Through various schemes they target particularly vulnerable groups, enabling them to obtain additional support in the form of tailor-made products, services, information and financial education. This shows that ESBG and its member have a

longstanding experience to ensure that also the most vulnerable parts of the population have access to necessary basic financial services.

Proximity banking is a success factor to enhance financial inclusion

The concept of ensuring financial inclusion includes a wide range of activities next to access to a basic banking services and financial education. Proximity banking is also an important means for increasing the level of financial inclusion. For many consumers, not least the weaker groups in society, proximity is of crucial importance when choosing their financial service provider. Support, accompaniment and explanations are necessary in order for consumers to choose the right products and know how to use them correctly. This aspect is becoming increasingly important, as product innovation moves at fast speed and consumers are asked to take more and more responsibility for their personal finances, not least regarding their own future pension provision. It has also been shown, particularly in the new Member States, that the level of exclusion is higher in rural areas than in larger cities. ESBG firmly believes that one of the most important success factors when aiming for financial inclusion of all citizens is for the provider to remain close to the client. In order to live up to this aim, ESBG members work through wide-reaching networks, whether via branches or independent entities. This enables them to serve consumers in cities as well as in more remote geographic areas and to provide all the necessary support for their clients, tailored to each customer's specific situation. Thus, proximity banking is not always and exclusively related to less wealthy groups, but also to offering financial services and products to consumers living in remote or low-populated areas who would suffer from a lower level of proximity banking as costs for access to finance would increase.