

# POSITION PAPER



**ESBG Comments on Commission Report:  
“Financial Services Provision and Prevention of Financial  
Exclusion”**

November 2008

## INTRODUCTION

Savings banks are by tradition important promoters of financial inclusion of all citizens. Their commitment is part of their mission and shows in the way they conduct their daily business. 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. Considering the important commitment of its members in this field, the ESBG has taken great interest in the recent work of the European Commission on access to financial services and prevention of financial exclusion.

At a recent Commission conference on this topic<sup>1</sup>, on behalf of the ESBG, the work of Spanish savings banks was presented, particularly highlighting the importance of proximity banking as a means for increasing the level of financial inclusion. For many consumers, not least 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 as regards their own future pension provision. It has also been shown, particularly in the new EU Member States, that the level of exclusion is higher in rural areas than in larger cities<sup>2</sup>. The 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.

While local presence on the one hand is a major factor in succeeding to reach a high level of financial inclusion, financial institutions also need to adapt their products and services, making them available and accessible for all. ESBG members are committed to function responsibly and to serving all strata of society. They offer their services through their ordinary branch networks but also through schemes targeting particularly vulnerable groups, enabling them to offer additional support such as financial education. The ESBG will offer some insights to the experience of its members in working with inclusive schemes, when remedies and preventive measures for financial exclusion are discussed in section 4.

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<sup>1</sup> Commission conference: "Financial Services Provision and Prevention of Financial Exclusion", Brussels, 28 May 2008

<sup>2</sup> Commission report: "Financial Services Provision and Prevention of Financial Exclusion", page 31

## 1. Methodology and Definitions

### 1.1. Methodology

The ESBG would like to express concerns as regards the methodology followed by the Commission report “Financial Services Provision and Prevention of Financial Exclusion”, as it lacks reliable data to sufficiently analyse the issue from an empirical point of view. Although it is difficult to find an information source covering all 27 EU countries, an ambitious academic research should not, in our opinion, be based, as is the case, on data from the Eurobarometer which is a household opinion poll, not focused on questions specifically related to financial exclusion/inclusion. Moreover, these figures are far from being coherent with national official data. Conclusions can be misleading and the ESBG would therefore recommend taking a cautious approach to the results produced.

### 1.2. Financial exclusion

A clear distinction must 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 they have<sup>3</sup>. These diverse situations call for different approaches and subsequently different possible solutions.

It is important to recognise the right of the individual to choose which products may or may not suit his/her specific needs. In order to target the efforts where they are most needed, the ESBG would recommend the Commission to focus its efforts first and foremost on individuals who are de facto excluded from the formal financial system. These are consumers lacking access to a bank account where they can deposit and save, and from which payments can easily be made, be that via the Internet, through cards, ATMs or actual branches.

In addition to, and sometimes among, the “financially excluded”, the Commission’s recent report also refers to the concept of “marginally banked”, addressing a group of consumers which for example have a bank account but do not have electronic payment facilities and cards<sup>4</sup>. Among the marginally banked are also those who have these facilities but *rarely use them*<sup>5</sup>. A consumer may have various reasons for choosing to hold an account without electronic payment facilities, cards or credits. That does not necessarily entail that the consumer should be regarded as *excluded* from the formal financial system. A more suitable term, if any, would in such a case be “marginally *included*”, a term equally introduced in the Commission report<sup>6</sup>.

It is clear that there are measures to be taken to improve the situation of those individuals in Europe who involuntarily face financial exclusion. As financial institutions,

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<sup>3</sup> The difference between these groups of consumers is clearly recognised in the Commission report “Financial Services Provision and Prevention of Financial Exclusion”, page 13

<sup>4</sup> Commission report: “Financial Services Provision and Prevention of Financial Exclusion”, page 11

<sup>5</sup> Idem, page 15

<sup>6</sup> Idem, page 16

ESBG members stand ready to provide an environment which to the largest extent possible offers all individuals the choice of financial inclusion. Although addressing the issue in the context of developing countries, we believe that the following statement from the UN Blue Book “Building Inclusive Financial Sectors for Development” describes the goal in a suitable way: *“Inclusive finance does not require that everyone who is eligible use each of the services, but they should be able to choose to use them if desired”*<sup>7</sup>.

The ESBG would recommend developing a clear definition of financial exclusion in order to facilitate future discussion and policy making. Against the background provided, the ESBG believes a workable definition would be: *“Consumers not having access to products and services that meet their core financial needs fairly and cost-effectively”*. This definition would be sufficiently comprehensive but the problems arising from a vague definition which includes consumers who, by choice, do not use a certain product or service would at the same time be avoided.

### **1.3. Providers**

According to the Commission’s report, “mainstream providers” are, according to the report, non stigmatising providers in relation to the national reference. Related to the market structure of each country, a particular type of provider may, according to the report, appear as “mainstream” in one country and as “alternative” in another one (e.g. savings banks are seen as mainstream in France or Spain, but not in the United Kingdom)<sup>8</sup>. This raises the question whether consumers which are appropriately served by others than what the report refers to as “mainstream providers” should really be considered to be financially excluded.

The report also refers to “appropriately served” and “inappropriately served” customers. Although the report mentions customers who are appropriately served by both “mainstream” providers and “alternative” providers the report still claims that policymakers should strive for all consumers eventually to be served by mainstream lenders, the so-called “ideal situation”<sup>9</sup>.

The definitions provided in the report will not be useful unless the purpose of them is absolutely clear. The ESBG would therefore ask for clarification as to the reason for such a division of providers, seeing that the general purpose, after all should be that consumers are appropriately served, whether by mainstream lenders or other responsible providers.

### **1.4. Basic banking services**

What kind of products would a consumer need in order to be regarded as financially included? The Commission report proposes the following four areas to be considered;

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<sup>7</sup> UN Blue Book, “Building Inclusive Financial Sectors”, page 3

<sup>8</sup> Commission report: “Financial Services Provision and Prevention of Financial Exclusion”, page 10

<sup>9</sup> Idem, page 13

transaction banking; savings; credit and insurance<sup>10</sup>. As the ESBG primarily represents banking activities, we will concentrate on the first three areas.

When addressing the access to an account, which is certainly the most crucial part of banking inclusion, it should be made clear whether such an account includes a credit and/or overdraft facility or not. In some parts of the Commission report, the term “transaction account” is used whereas other parts refer to a basic bank account as a “current bank account”<sup>11</sup>. A basic bank account should always be considered a basic account in which deposits can be made and from which payments can easily be carried out. Access to basic banking services should include the possibility to transfer money to and from an account, to be able to pay bills and withdraw cash. Any access to an indirect credit via the account would entail that the account can not be regarded as, what is strictly understood by a basic bank account.

The ESBG cannot stress enough, the importance of promoting a savings culture among vulnerable groups in society and in cultures where the tradition of saving is weak. In the view of the ESBG, to protect and encourage savings entails not only a civic duty to the more vulnerable strata of the population, but is also an expression of a moral obligation to help people to use accumulated resources wisely.

The ESBG is confident that savings provide an important financial safety net for poorer households to which they can turn in case of emergency. It also plays a critical role in financing productive activities and can for instance foster micro enterprise development. At the macroeconomic level, savings can also trigger sustained economic growth<sup>12</sup>. Access to the most fundamental savings facilities should be regarded as a basic service, provided that the financial service provider has the right to demand minimum deposits, in order to cover possible future costs of the account.

Finally, the ESBG would like to remind about the importance of acknowledging the great difference between credits on the one hand and basic financial services on the other hand. While ESBG members have extensively advocated the importance of improving access to finance, for example for micro entrepreneurs<sup>13</sup> as a means for creating growth and jobs and helping individuals out of poverty, our firm belief remains that a credit can never be regarded as a basic financial service. The provision of credit is per se depending on the assessment of risk, in order to ensure that there is reasonable ability for the consumer to repay the loan in the foreseeable future. The link to stability, responsible lending and overindebtedness should be made in this respect and any reference to credit as a “citizen’s right” must be strictly avoided.

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<sup>10</sup> Idem, page 11

<sup>11</sup> Idem, page 74

<sup>12</sup> “Ten years of sharing innovations in the savings market”, WSBI/ESBG Perspectives number 53, January 2007, page 13

<sup>13</sup> The ESBG has been an important contributor to the debate on microcredit at EU level, see for example:

[http://www.esbg.eu/uploadedFiles/Position\\_papers/1195\\_final%20version.pdf](http://www.esbg.eu/uploadedFiles/Position_papers/1195_final%20version.pdf)

For examples of microcredit schemes within ESBG member institutions, see:

[http://www.esbg.eu/uploadedFiles/Publications\\_and\\_Research\\_\(ESBG\\_only\)/brochure%20screen%20view.pdf](http://www.esbg.eu/uploadedFiles/Publications_and_Research_(ESBG_only)/brochure%20screen%20view.pdf)

## 2. Geographical aspects and cultural differences

The Commission report clearly shows a significant difference between the levels of inclusion in the old EU Member States, as compared to the new. In some countries, such as Norway (which was subject to the study although not a Member State) and the Netherlands, exclusion actually seems to be solely related to self-exclusion or previously fraudulent behaviour from the side of the consumer<sup>14</sup>. The study states that a lower level of wealth and higher levels of inequality in the new EU Member States are two reasons behind that difference. Another important aspect, which may not have been sufficiently highlighted during the Commission conference, 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**. Such differences in culture and traditions vary across EU Member States and the most suitable way of handling the problem would therefore be measures at national level, tailored to each context and the traditions of each country.

## 3. Cause and effect

It is clear that the causes for financial exclusion differ, both between markets and individuals. The ESBG agrees with the findings of the Commission report that the issue is many times closely linked to low income, age, education and ethnic minorities or migrants<sup>15</sup>. It is thus not an isolated issue and the effects of the exclusion will therefore also differ.

As mentioned, financial exclusion in some markets is to a larger extent related to general conceptions in society and to the financial situation of groups of individuals in that market. In those markets where the problem however, is clearly and almost exclusively related to socially excluded individuals, such as many of the old EU Member States, there might be good reason for starting at "the other end". Financial exclusion in some of the old EU Member States might not be solved through additional efforts in the area of information, education and availability. 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 an introduction or a reintegration into the formal financial system.

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<sup>14</sup> Commission report: "Financial Services Provision and Prevention of Financial Exclusion", page 30

<sup>15</sup> Commission report: "Financial Services Provision and Prevention of Financial Exclusion", page 30

## 4. Remedies and preventive measures

### 4.1. Policy responses

The ESBG agrees with the Commission report that a dialogue between stakeholders and public authorities at national level can prove to be a useful tool to ensure that self-regulation fulfils its purpose<sup>16</sup>.

For consumers who make the choice of self-exclusion due to a lack of knowledge and awareness as well as for consumers who do not appropriately use the products they have, financial education has an important role to play, in order to help them choose and make the most of the products they already have. However, as mentioned in a report of the European Parliament on “Protecting the Consumer: Improving consumer education and awareness on credit”, knowledge and skills will not be sufficient to ensure that consumers manage their finances appropriately: *“People with the same knowledge may choose different courses of action because they have different attitudes towards spending and investing. Even when people have the knowledge and skills they still may make decisions that are not responsible. ...”*<sup>17</sup>. Although the final course of action must be left to the individual to decide, the differences in culture and tradition are strongly influential on these choices. In order to substantially increase the level of financial inclusion in traditionally cash-intense cultures, there may be a need for a change in attitude as education alone may fail to alter well-established structures.

The ESBG welcomes the message put forward by Commissioner McCreevy at the Commission conference that the issue of access to a bank account should first and foremost be dealt with at the level of the EU Member States. Governments of Member States will be 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 recognise that circumstances may not only be national but in many cases regional or even local. The ESBG is pleased that the Commission report acknowledges that one important step in the process is the identification of best possible solution taking into account local conditions (legislation vs. self-regulation) in order to avoid a one-size-fits-all approach<sup>18</sup>.

### 4.2. Industry responses

The ESBG is pleased to note that the Commission report recognises that commercial social-oriented providers, including savings banks, post offices and other mutual co-operative providers, are or have been even more active than private banks in developing new products for financial inclusion and alternative financial services, and that they

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<sup>16</sup> Commission report: “Financial Services Provision and Prevention of Financial Exclusion”, page 116

<sup>17</sup> Report prepared by MEP Iliana Malinova Iotova on “Protecting the Consumer: Improving consumer education and awareness on credit” (2007/2288(INI)), European Parliament, Committee on the Internal Market and Consumer Protection

<sup>18</sup> Commission report: “Financial Services Provision and Prevention of Financial Exclusion”, page 118

sometimes are/used to be the sole providers of such services in their countries<sup>19</sup>. For example, the report suggests further promoting and encouraging the development of commercial social-oriented providers, such as cooperative and savings banks and/or credit unions, which according to the report, in many cases develop appropriate responses to fighting financial exclusion<sup>20</sup>.

Initiatives which fall under the category of Corporate Social Responsibility (CSR) are specifically acknowledged by the Commission report. The report claims that authorities can ensure transparency of such initiatives by implementing indicators that can lead to the evaluation of the CSR practices in the different financial services sectors<sup>21</sup>. The ESBG would like to recall the message put forward by the Commission in its 2006 Communication; that the issue of CSR means initiatives taken on a *voluntary* basis *without reporting requirements*<sup>22</sup>. The ESBG is supportive of that statement, as the introduction of mandatory reporting requirements may create unnecessary burden on business and risk slowing down the development of new CSR initiatives.

The ESBG believes that there are a number of ways in which the financial services industry can work towards a higher level of financial inclusion and ESBG members tackle the issue differently, all depending on their national context.

As previously mentioned, proximity is one of the savings banks' greatest assets. It reflects their distinctive market approach and distinguishes them within the banking sector. The ESBG is proud to say that the commitment to a strong physical presence and a balanced distribution of our members' retail network, including rural and structurally weak urban areas, naturally put savings banks in a favourable position to reach out to poorer segments of the population.

In this section, we would like to put forward a few examples of specific measures taken within ESBG member banks, to enhance the inclusion of particularly vulnerable groups. Although the ESBG wishes to stress the importance of keeping the definition of basic banking services clear, we do believe it is of great essence to facilitate access to credit for entrepreneurs with sustainable business ideas. One way of doing this is through targeted microcredit schemes.

#### **4.2.1 Die Zweite Sparkasse in Austria**

Most of us may not be very aware of it, but we need it constantly in our daily lives: a bank account. Whether for paying the rent, electricity or gas bills, or for receiving our salaries, today everything happens via cashless transactions. Yet there are an estimated 40,000 people in Austria who do not hold bank accounts. For various reasons, mostly

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<sup>19</sup> Commission report: "Financial Services Provision and Prevention of Financial Exclusion", page 116-117.

<sup>20</sup> Commission report: "Financial Services Provision and Prevention of Financial Exclusion", page 120

<sup>21</sup> Commission report: "Financial Services Provision and Prevention of Financial Exclusion", page 126

<sup>22</sup> COM(2006) 136, Communication from the Commission to the European Parliament, the Council and the European Economic and Social Committee: "Implementing the partnership for growth and jobs: Making Europe an Pole of Excellence on Corporate Social Responsibility", Brussels, 22.3.2006, page 2 ff

through unemployment, divorce or illness, they have found themselves in social and/or economic difficulties and, eventually, have also lost access to banking services.

With these people in mind, ERSTE Foundation, the major shareholder of Erste Bank Group, initiated a new savings bank: Die Zweite Sparkasse. The bank offers current accounts with no overdraft facility and savings accounts to people who are in difficult straits. This is, however, just the first step in a long process of getting out of debt, and everyone who wishes to take it must be prepared to help themselves. To be entitled to such an account, customers must closely cooperate with welfare and counselling organisations such as Caritas and debt counselling services. Thanks to this comprehensive support service, people have a realistic chance of regaining control of their financial problems. This also means that they will later be able to open a bank account with a regular bank.

Die Zweite Sparkasse operates branch offices in Graz, Innsbruck, Klagenfurt, Salzburg and Vienna. In the provinces of Lower Austria, Upper Austria, Vorarlberg and Burgenland, the services of Die Zweite Sparkasse are to be offered in cooperation with the regional savings banks.

Die Zweite Sparkasse has no profit-making ambitions. The mission of the bank is to support people who need a helping hand by providing them with a service they cannot get anywhere else. Just like the counselling organisations which recommend customers to Die Zweite Sparkasse, the bank seeks to help people help themselves: “Because sometimes you just can’t do it on your own.” 400 voluntary staff members of Erste Bank and the savings banks have taken this phrase to heart. Thanks to their efforts, it has been possible to turn the idea of a “bank for the unbankable” into reality.<sup>23</sup>

#### **4.2.2. Parcours Confiance in France**

Mid 2006, the French Caisses d’Epargne launched a prevention of banking exclusion programme, Parcours Confiance – the “Fresh Start” Programme. The Parcours Confiance programme targets customers who are experiencing social and financial difficulties which are preventing them from finding adapted solutions in other institutions. The participants can be individuals confronted with problems such as a disease, a divorce or unemployment. It can also be micro entrepreneurs wishing to create their own business but who cannot find a bank to finance the project.

The Parcours Confiance offers a comprehensive support package, including tailored banking services that are essential to maintain social integration (account-keeping, means of payment) or to run micro enterprises, and microcredit facilities. In addition, it offers personalised social support through the intervention of social workers and/or specialised voluntary organisations, and an educational dimension through workshops on budget management and banking products.

At the end of November 2008, the Parcours Confiance is available from 15 out of 17 regional savings banks. Almost 4000 persons or micro-entrepreneurs have been in

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<sup>23</sup> <http://www.erstestiftung.org/?projectID=7>

contact with the Parcours Confiance and about 3000 microcredits have been distributed. The aim for 2009 is to provide 8000 microcredits.

#### **4.2.3. Spanish Savings Banks: Social inclusion through a wide network of branches**

Spanish Savings Banks' main mission is to create economic and social wealth, by preventing exclusion and generating social fabric. One of the most important strategies to accomplish this purpose is to build up a wide network of branches in order to increase proximity to the client.

Spanish Savings Banks have 24 591 branches across the country representing 55% of the total of deposit branches in Spain. Thanks to Spanish Savings Banks, the national network is one the most "dense" in the EU25, representing 99 branches per 100,000 inhabitants, against 45 on average in the rest of EU25.

According to the Spanish National Statistics Institute, Savings Banks have one branch per 1.835 inhabitants. This wide network of branches is also well distributed in the Spanish geography. 25% of the branches are located in small municipalities with less than 10 000 inhabitants and approximately half of the total number of branches is located in localities with less than 50 000 inhabitants. By this capillarity, Savings Banks cover 97,4 % of the Spanish population.

Financial inclusion through proximity to the client is one of the aims in which Spanish Savings Banks work hard year by year. 5000 branches have been opened since 2000 by Spanish Savings Banks, while their main competitors, commercial banks, have closed down almost 300 branches. It shows how financial inclusion is a priority for Spanish Savings Banks.

#### **4.2.4. German savings banks supporting entrepreneurs**

For those clients in Germany who experience difficulties in obtaining a credit through the ordinary structures of the banking system, an integrated model for the provision of microcredit has evolved. This model is characterised by the fact that loans are granted by local credit institutions, which in turn, cooperate with the local operators (local CCI, Crafts Chamber, the City, etc.) so that an inclusion of all citizens in the formal financial system can be achieved. An example of the German model is the project of the City of Offenbach.

The so-called "Ostpol loan" of the City of Offenbach, in cooperation with the local savings bank, is a micro-loan granted to businesses and entrepreneurs of the "Ostpol" business start-up centre, i.e. of the eastern inner city, and graduates of the Hochschule für Gestaltung (HfG – University of Art and Design) in Offenbach. The name of the Ostpol loan is attributable to the targeted deployment of the funds to the structurally weaker eastern inner city area. An interesting mix of learning, working, living and leisure time has been incorporated in this new urban infrastructure, which contributes to a

revival of the area. Here, micro-entrepreneurs are offered an entire service package, e.g. offices and workshops, networks and service, advice, training, events, contacts provided through a “one-stop-shop” and, in cooperation with the Offenbach Savings Bank, the Ostpol loan.

The initiative involves not only the district and city authorities, but also the promotion of trade and industry of the city of Offenbach, young entrepreneurs and intercultural and industry-related associations. An important factor for product development is that Ostpol loans are distributed transparently, simply and quickly. The easy access via the Internet<sup>24</sup> is not constrained by opening hours. Borrowers can obtain a first loan of maximum EUR 5,000. It is deliberate policy to grant micro-loans to start with (from EUR 1,000) in order to gradually build up the businesses. Following the motto “if others believe in you, so do we”, the volume of the micro-loan is determined by doubling the sum of the guarantees provided. A person who can supply a guarantee for EUR 2,500, for example, is granted a loan of EUR 5,000; however, a sustainable business idea is a prerequisite here too.

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<sup>24</sup> [www.ostpolkredit.de](http://www.ostpolkredit.de)



## About ESBG (European Savings Banks Group)

ESBG (European Savings Banks Group) is an international banking association that represents one of the largest European retail banking networks, comprising about one third of the retail banking market in Europe, with total assets of € 5215 billion (1 January 2006). It represents the interest of its members vis-à-vis the EU Institutions and generates, facilitates and manages high quality cross-border banking projects.

ESBG Members are typically savings and *retail* banks or associations thereof. They are often organised in decentralised networks and offer their services throughout their *region*. ESBG Member banks have reinvested *responsibly* in their region for many decades and are one distinct benchmark for corporate social responsibility activities throughout Europe and the world.



ESBG - Association internationale sans but lucratif/Internationale vereniging zonder winstoogmerk/  
International not-for-profit association

Rue Marie-Thérèse, 11 ■ B-1000 Brussels ■ Tel: +32 2 211 11 11 ■ Fax: +32 2 211 11 99

[info@savings-banks.eu](mailto:info@savings-banks.eu) ■ [www.savings-banks.eu](http://www.savings-banks.eu)

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