

FINANCIAL INCLUSION: ENSURING ACCESS TO A BASIC BANK ACCOUNT – EU CONSULTATION

EMN RESPONSE

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?*

Yes, every EU citizen should have access to a basic bank account to receive his/her salary or social benefits, pay a contractor or a service provider, or simply store his/her money in a save way. A basic bank account is an essential tool for social inclusion, and the first step of financial inclusion.

The challenges lie on both sides: banks are reluctant to deal with some categories of people they do not know or trust, even if there is no risk of financial loss - as we are only considering transaction accounts without any overdraft facility. Banks see little short-term profit with small accounts, with only few transactions and therefore few commissions.

On the other hand, some people self-exclude themselves for reasons of self-esteem ("banks are not for me", "I could never manage an account"), actual lack of practical capabilities (illiteracy), but also for practical/cultural reasons: they may prefer cash, prefer to keep some financial activity underground, or might not trust banks or bankers.

Financial inclusion even at the basic level of access to a simple transaction account is therefore a positive evolution towards social inclusion and social cohesion.

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

The causes of financial exclusion are well summarized in table1 of the Consultation Document. However, another important factor should be cited on the demand side: financial illiteracy, as well as plain illiteracy.

The EU-funded project "From Exclusion to Inclusion through Microfinance" (EMN, MFC and cdfa) has defined financial exclusion "as the inability of individuals, households or groups to access necessary financial services in an appropriate form". Problems with access, prices and marketing are considered as causes of financial exclusion as well as financial literacy and self-exclusion. Gender, age and ethnic minority background also have an impact on the probability of being financially excluded.

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 reminded in the Consultation Document, financial inclusion is a business opportunity for the financial sector. Banks expand their clientele and take the bet that the presently excluded will join the mainstream in terms of derived payable services. It is also an opportunity to develop new approaches and products, such as mobile phone banking.

Financial illiteracy is a threat to the financial sector. While in high periods, unaware clients will take excess loans, when crisis comes the cost of delinquency of the over-indebted strongly affects the banks.

Microfinance is a tool that facilitates both economic development and social inclusion. It successfully reaches those excluded from mainstream banks and has the potential to successively reintegrate excluded persons in the traditional banking sector. In many countries banks have realised this opportunity and strongly support microfinance organisations. They anticipate that the persons they cannot accept as clients today might become their clients tomorrow.

As such, microfinance demonstrates to the financial service providers that growth can be realized without losing sight on the implicit social role these institutions play. Banks should seize this opportunity of combining profitability thoughts and social responsibility, learn from the microfinance sector and get more strongly involved in microfinance through stronger support for and reinforced cooperation with microfinance providers.

If corporate social responsibility has been taken up and internalized by the financial institutions, microfinance is a logical choice. More organisations have now taken up Social Responsibility as a central issue, sometimes legally required, as for French listed companies or Spanish savings banks. But often Social Responsibility is still delegated to a foundation or a separate department. However, the impact is stronger when Social Responsibility is incorporated in the main line of activity. This is particularly true for financial providers, who face an image problem when finance-related problems, such as over-indebtedness or mortgage defaults, take a large social dimension. This image problem is also internal, with bank employees facing the dilemma of reconciling the need to maximize profit and the need to counsel and orient their clients. This tension could be relieved if mainstream banking included more non-financial input such as financial and business training and advice to clients, i.e. improving financial inclusion. This would in turn revert to better and more stable profit on the long run, with less arrears, losses and time-consuming delinquency.

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

The British example shows that under a voluntary banking code, the major banks have little incentive to promote uptake of accounts or to invest in innovative solutions. Low- and increasingly medium-income clients are not attractive to banks. In the UK, about three million of the population are still unbanked (**nef**, Banking Failure and how to build a fit financial sector, 2009).

The financial institutions can also take a lead in this as has been demonstrated by the Global Alliance of Banking on Values, recently launched in which socially conscious banks have joined. They jointly expressed their intentions to take the plight of the clients first and by doing so intend to serve as an example to other financial institutions as well.

The EMN network also supports the intention of the EC to introduce a code of conduct for organisations engaged in microfinance (NBFIs and banks alike) in Europe and will advocate the introduction of such Code of Conduct for all banks all over the EU.

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

Yes, all providers should be obliged to offer basic bank accounts to all citizens throughout the EU. There is practically no risk for the bank, as we only consider positive balance accounts that provide no credit facility. Therefore, banks could be obliged to offer a basic bank account to everybody. They already do, on a voluntary basis through charts in the UK, or through law, as for many years now in the Netherlands and recently in France.

In the Netherlands each citizen has the right to open a bank account achieved through a covenant signed by the major Dutch banks (covering 95% of the Netherlands) in 2001¹. This initiative was taken after the Salvation Army found that many people with a poor history at the national credit bureau could not open a bank account and were thus excluded from access to basic bank services. In 2001, the number of people without a bank account was estimated by social organisations to be only several thousands of people. In 2003, as a result of the covenant this number has decreased considerably. However, this access to basic bank services does not yet give them automatically access to other financial services.

Another successful example is the "right to an account" ("Le droit au compte"), implemented in France since 1998. A person who has been denied the opening of a basic bank account has the right to ask the bank for a written confirmation of refusal. If the person wishes, the bank has the formal obligation to contact the Bank of France and communicate the person's identity as well as his/her written statement that no other account exists under the person's name. The Bank of France can also be contacted by the person him/herself. It checks the provided information and appoints a bank branch where an account has to be opened for the person within one day. The same applies for enterprises and associations. The law stipulates that the cost of the process has to be assumed by the bank in which the account is opened. In the last two years, the Bank of France has had between 2,000 and 3,000 such accounts opened every month. Recently, the French government has adopted a Chart to reinforce the efficiency of the law, introducing more details on the process methods setting a tighter timing for exchange between the financial institution and the Bank of France and improving client information.

With the internet being used by all banks it will become more difficult to limit operations to national borders. Whether banks in one country must accept a citizen from another one as a client remains an issue to be evaluated in the years to come, taking into account the jurisdiction of European legislation as well.

¹ NVB, 2001

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?*

Basic bank accounts should be provided on a not-for-profit basis. Keeping a basic transaction account has a very low marginal cost for a bank, and can very quickly become profitable: as no interest is paid, cost coverage is reached at a very low average balance.

A free of charge basic bank account can be a commercial move. This is the case in the UK, where basic bank accounts have long been free of charge at most banks.

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?*

Alternative commercial and not-for-profit financial service providers play an important role in bridging the gap between the banks and the financially excluded. Alternative providers know their clients well, their working methods being most often based on proximity and confidence. Their products are thus well adapted to the client's needs.

Their role towards the financially excluded is to provide financial services while, most importantly, empowering them as full and confident citizens in their impending relation with banks, which will start with the opening of an account.

Their role as facilitators should be reinforced and supported by key stakeholders: local, national and European authorities and also the banks: They should see alternative financial institutions as providers of well-trained, revenue-producing future clients.

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

Yes, the introduction of new regulation should go along with regular assessments of its impact on financially excluded groups. Social impact assessments are a pre-condition for an inclusive society providing everyone the possibility to actively participate in economic and social life.

The 1977 US Community Reinvestment Act (CRA) is an efficient initiative to be looked at more closely here. It provides consistent levels of public funding, combined with a supportive legislative framework, triggering considerable additional private funding and investment in community development financial institutions (**nef**, A model for funding and supporting CDFIs: lessons from the US, April 2008).

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?*

All of these should be done, and are at least partially done.

- *Provision of an understanding of the problem and awareness-raising:*

Launching more in-depth surveys could help to establish demand for financial services, lending and funding needs as well as existing supply.

- *Transparency obligation:*

Financial institutions should be obliged to provide full transparency of their products and credit contracts and to arrange for a period to reflect on the contract and withdraw from it. They should also disclose the real cost of the credit, i.e. the effective interest rate applied, commissions and other related cost.

Financial service providers could be required to notify the respective national regulating body of any proposal to introduce new or increased charges, for certain financial services.

It would also be laudable if they would inform their customers (depositors) in which project they invest and to which enterprises they extend loans. Interesting initiatives in this respect are Fair Finance (UK) and Triodos Bank (NL; both institutions provide such information through their websites).

- *Access to credit reference systems:*

Alternative financial providers should have access to national credit reference offices recording the borrowers' history. In addition, credit reference systems should be enriched with information on whether a client has a bank account, holds credit cards, has entered into a leasing contract or has debts towards any service provider, tax authority or other. This is for example the case for the German *Schufa* database. In Europe, there should be an expansion of positive database, with information on debt, rather than negative database, with information only on arrears. To avoid over-indebting clients, any institution providing credit should compulsorily check this positive database at the credit application stage. In Belgium, the recent introduction of such a database has dramatically reduced the level of over-indebtedness.

- *Introducing legislation:*

Access to financial services and microfinance should be mainstreamed throughout government and championed by one government department.

A successful legislative example is the "right to an account" that exists in France ("droit au compte"). Sometimes, the fear of income seizure can hinder the involvement of some people in the banking system. In France, there is a legal limit to this seizure, leaving access for the client to a minimum income. This is also now the case in Belgium.

- *Intervention in cases of exclusion: tax incentives*

Tax incentives for investment in microfinance, such as the Community Investment Tax Relief (CITR) in the UK, could be a way to address financial exclusion by inciting donors to invest into microfinance organisations. Such initiatives have to be backed by continued supportive funding, policy and legislation.

Interesting would be to assess whether it is feasible to introduce in Europe systems to offer tax rebate for investing in social projects and microfinance in developing countries as now applied in the Netherlands (for investment in microfinance in developing countries an in green project in the country itself).

- *Contributing to the provision of financial services:*

It should be recognized that reaching out to the poorest and most excluded is a costly undertaking, but has strong social benefits. In fact, several studies carried out by microfinance providers have highlighted the social return on investment (a methodology that puts a financial value on social intervention) based on the reduction in benefit payments and increased taxes paid to the government (**nef**, Credit With a Social Mission, 2008). Public funding for inclusive financial services therefore needs to be available on a consistent basis.

The French government has set up a very useful initiative through the personal microcredit programme under the Social Cohesion Fund. It provides credit to individuals with the aim to support their re-integration in the labour market, i.e. through buying or repairing a vehicle.

In order to render these actions permanent and more effective, financial inclusion should find its place as a full-fledged tool for social inclusion, and therefore be reflected in the National Action Plans for Social Inclusion (NAP).

Financial inclusion should also be highlighted in the Active Inclusion process, as a tool towards both an inclusive labour market and access to quality services.

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 should be addressed at EU level. The European Union can and should facilitate the exchange of good practices, promote the setting up of programmes that have a holistic approach and are based on the collaboration between several DGs, as is the case for the JASMINE programme. The EU should further strengthen European networks working in the field to give visibility to the issue, promote exchange, reinforce stakeholders' capacity, carry out lobbying, etc. The EU should also approach the private sector and establish links between the different stakeholders concerned.

The Commission should also put more emphasis on having the Member States consider financial inclusion as a full subject, at the heart of social inclusion. There could be more specific indicators to be provided within the frame of social inclusion indicators.

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

A lot could be done through promotion and sharing of best practices and soft law, particularly by including financial inclusion as a NAP issue, for discussion through the Open Method of Coordination and comparison in the Joint Reports on Social Inclusion.

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

Yes, the concept of financial inclusion should definitely cover financial services other than the provision of basic bank accounts. A basic account is a first step, but a fully empowered European citizen should have access to the full range of financial services.

Microfinance is a tool for financial inclusion. It is defined as "the extension of adapted financial services to excluded persons". This comprises a range of services such as credit, savings, investment, insurance, means of payment and money transfers.



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EMN is a network organization with 71 members:

Besa Foundation (Albania); DMI, Enigma Gründungszenrum, EVERS&JUNG (Germany); Brusoc, CREDAL, Fonds de Participation, Réseau Financement Alternatif, SOWALFIN (Belgium); LokMikro, Partner Mikrokreditna Organizacija (Bosnia Herzegovina); Mikrofond, Nachala Cooperative (Bulgaria); DEMOS (Croatia); BBK-Bilbao Bizkaia Kutxa, Cruz Roja Española, Obra Social Caixa Catalunya, Fundacion Caja Granada Desarrollo Solidario, Fundación Cajasol, MITA ONG, Marcelo Abbad Consultoria, Nantik Lum, Microbank, PIGNUS, SURT, Trans-Formando, WWB España (Spain); Finnvera (Finland), Adie, Afile 77, BNP Paribas, Crédit Coopératif (France); Fejer Enterprise Agency, The Hungarian Microfinance Network (Hungary); First Step (Ireland); Forum per la Finanza Sostenibile, Giordano dell'Amore Foundation, Micro.Bo, Microfinanza srl, Fondazione Risorsa Donna, Fondazione Don Mario Operti Onlus, PerMicro, Banca Etica (Italy); Cultura Bank, NCN-Network Credit Norway (Norway); SenterNovem, TriodosFacet, HandsOn, Qredits (the Netherlands), MFC, Polish Association of Loan Funds, Rural Development Foundation (Poland), ANDC (Portugal); CAPA Finance, Eurom Consultancy&Services, ROMCOM S.A., UNCAR, FAER (Romania), Fair Finance, First Enterprise Business Agency Ltd, nef-new economics foundation, Street Cred, The Enterprise Fund, The Prince's Scottish Youth Business Trust, WEETU (UK), The Russian Microfinance Center (Russia), Integra Venture Foundation (Slovakia), Ekobanken, NEEM (Sweden); AKAM, Fondation ASECE-Georges Aegler (Switzerland)