



FINANCIAL SERVICES PROVISION AND PREVENTION OF FINANCIAL EXCLUSION

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Inclusion, Social Policy Aspects of Migration, Streamlining of Social Policies

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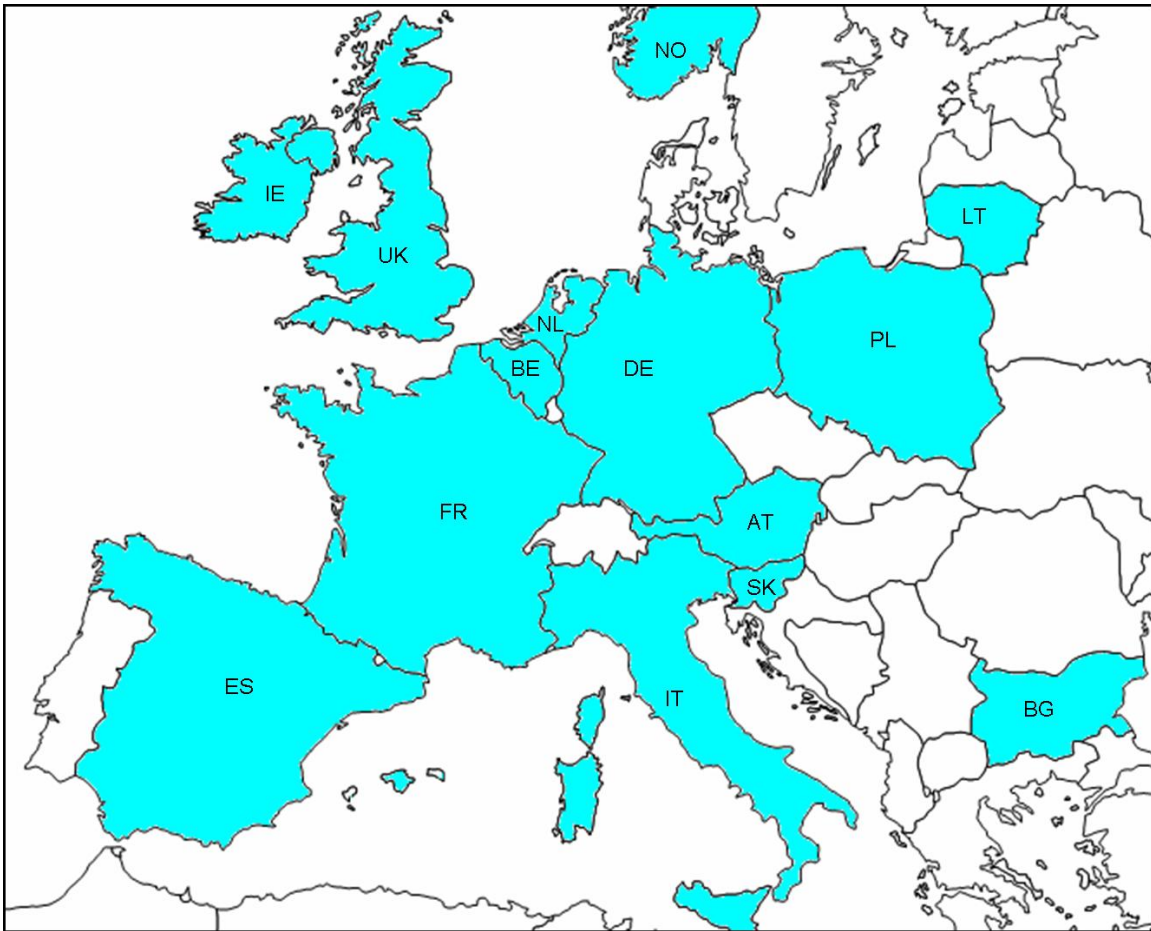
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1 Introduction

This final report is the culmination of a year's work on financial services provision and prevention of financial exclusion by experts in fourteen countries in Europe. In the following introduction, we shall detail in a few lines the methodology applied throughout the project to undertake the research.

Figure 1 Map of fourteen countries involved in the project



The first step was to carry out a compilation and review of the existing research done on financial exclusion and inclusion in all the countries studied. Then, second step, an overview paper defined the framework of future research through five main questions:

- 1- What is financial exclusion?
- 2- What are the levels of financial exclusion?
- 3- Who is most likely to be financially excluded?
- 4- What are the causes and consequences of financial exclusion?
- 5- What are existing policy approaches to financial exclusion?

The third step was to carry out ten working papers on the following specific topics:

1. Financial exclusion problem in New EU countries in comparison to EU-15
2. Legislative action by governments to promote financial inclusion
3. Migrants and financial services
4. Social, economical and financial consequences of financial exclusion
5. The link between financial exclusion and over-indebtedness
6. Indicators of financial exclusion to be used in EU poverty monitoring
7. Alternative Financial Credit Providers in Europe
8. The Role of Credit Unions in dealing with financial exclusion in New EU countries
9. The Role of Corporate Social Responsibility to promote financial inclusion
10. Tackling financial exclusion in Europe: The market response

In parallel, country experts answered a semi-structured questionnaire regarding the situation of financial services provision and financial inclusion/exclusion situation and data in their country, which was called “country report stage I”.

Concerning statistical overall European data, a secondary analysis of the Eurobarometer 60.2 (which contains the original EU 15 countries) and the Eurobarometer 2003.5 (which contains the new EU 10 accession countries) has been carried out. Moreover, as there was far less information about access to financial services in the EU10 countries than for the EU15.

Moreover a small-scale survey was carried out to look at the situation in Poland (the full report of the survey results and analysis is in Annex 12.3.11).

Finally, based on the information collected in the country report stage I, a smaller group of eight countries have been selected to be studied in greater detail in what we called “country reports stage II”.

Belgium, the Netherlands, France, Germany, Austria, the United Kingdom, Ireland and Poland have been chosen because of the level of attention paid to tackling financial exclusion and over-indebtedness, the different market structures and the models used to address the problem of financial exclusion.

These country reports stage II give focused and practical information on the mix of policies and programmes developed in the above mentioned countries to tackle financial exclusion. The following four points are developed:

- 1- Debate on financial exclusion
- 2- Government response for financial inclusion
- 3- Market responses for financial inclusion
- 4- Evaluation of impact

The combination of all the data gathered is synthesised and analysed in this final report. The partners writing up this report are the Warsaw School of Economics, the Personal Finance Research Centre, the University of Milan and the Réseau Financement Alternatif.

2 What is financial exclusion?

The term financial exclusion was first coined in 1993 by geographers who were concerned about limited physical access to banking services as a result of bank branch closures (Leyshon and Thrift, 1993). Throughout the 1990s there was also a growing body of research relating to difficulties faced by some sections of societies in gaining access to modern payment instruments and other banking services, to consumer credit and to insurance. There was also concern about some people lacking savings of any kind. It was in 1999 that the term financial exclusion seems first to have been used in a broader sense to refer to people who have constrained access to mainstream financial services (Kempson and Whyley, 1999).

Since then, a number of commentators have added their views of how financial exclusion should be defined. These include both academics (for example, Anderloni, 2003; Anderloni and Carluccio, 2006; Carbo et al, 2004; Devlin, 2005; Gloukoviezoff, 2004; Kempson et al, 2000; Sinclair, 2001); and policy makers (Treasury Committee, 2006a, 2006b; HM Treasury, 2004).

The term “financial exclusion” has a broad range of both implicit and explicit definitions.

Research carried out and discussions held among experts within the the present research project leads us to propose the following definition:

Financial exclusion refers to a process whereby people encounter difficulties accessing and/or using financial services and products in the mainstream market that are appropriate to their needs and enable them to lead a normal social life in the society in which they belong.

There is also a widespread recognition that financial exclusion forms part of a much wider social exclusion, faced by some groups who lack access to quality essential services such as jobs, housing, education or health care.

Difficulties accessing appropriate financial services and products....

Beside the fact that use of financial services makes more and more part of a standard life, the way to access and use those services may be more and more over demanding on various aspects as geographical, technical, cultural, educational or about guarantee and risk analysis criteria. This leads to a large range of access and use difficulties that are deeply related to each country's market structure.

Financial products will be considered “appropriate” when their provision, structure and costs do not lead the customer to encounter access and/or use difficulties.

These difficulties are caused simultaneously by the characteristics of the products and the way they are sold (supply side) and the situation and the financial capability of the

customer (demand side). The analysis of each structure (both demand and supply sides) may, for each country, highlight the way supply meet demand, and how appropriate it is.
.... provided by mainstream providers

Much of the exclusion appears to arise from a failure of the mainstream commercial providers to supply a range of products and services that are appropriate to the needs of all sections of society.

“Mainstream providers” may be considered as non stigmatizing providers regarding to the national reference. Related to the market structure of each country, a particular type of providers may appear as mainstream in one and as “alternative” in another one (e.g. saving banks are mainstream in France or Spain, but not in the United Kingdom).

“Alternative” may refer to organisations paying special attention to marginal segments, often operating as not-for-profit organisations and acting in compliance with rules and regulations or other providers which exploit the marginal market segments and often act on the borderline of legality (“alternative commercial profit-oriented” entities).

... lead to financial exclusion which reinforces the risk of social exclusion

Financial exclusion is deeply interrelated with social exclusion: if the latter almost automatically leads to the first, financial exclusion belongs to a process that reinforces the risk to face social exclusion. Being objectively excluded or having a subjective feeling of being excluded can begin or be reinforced by access or use difficulties in financial practices.

The perfect financial inclusion may therefore be described by the capacity to access and use appropriate financial services proposed by mainstream providers. Meanwhile, there may be an adequate “second best choice” to get appropriate services proposed by alternative providers that comply with rules and regulations and do not exploit low-income people. At least, an authenticated “social / open minded” provider may give a sufficiently safe / positive image to enable excluded people to try once again financial services, which could then be the first step towards financial inclusion with mainstream financial providers.

Financial exclusion is, however, a complex concept and the following key issues need to be considered.

- Exclusion from which financial services and institutions?
- Do we need to draw a distinction between *access* to financial services and *usage* of them?
- Are there degrees of financial exclusion and, if so, how to express these?
- For whom do we measure access: the individual, the family or the household?

We address these issues in the sections below.

2.1 Access to what?

Which services are to be considered essential and therefore ones to which all in society should have access? We will consider the World Bank (1995) four key areas:

- Transaction banking;
- Savings;
- Credit;
- Insurance.

2.1.1 Banking exclusion - transactions

The access to banking (transaction banking services in particular) is seen as a universal need in most developed and cashless societies, or will become so in all EU regions soon.

The lack of access or use of this financial provision has such bad effects that social inclusion is effectively damaged because:

It is the most popular/generalised financial provision, lack stigmatizes;

It is a key to access other financial services (credit/savings), lack disturbs market access and gives opportunity to unfair provisions to grow and may consequently increase risk of poverty;

It becomes more difficult and expensive for people who can only pay in cash, lack increases risk of being stolen and risk of poverty;

It leads to time consuming and somehow annoying procedures, lack reinforce exclusion.

The types of transactions that can be linked to an account are:

- Receiving regular (electronic) payment of funds such as wages, pensions or social assistance
- Converting cheques or vouchers into cash
- Storing money safely until it needs to be withdrawn
- Paying for goods and services other than in cash
- Paying bills electronically
- Making remittances

Since it is not enough to have access to a banking account to be qualified as “financially included”, we consider the following degrees of inclusion¹:

- ‘unbanked’ who are generally people with no bank at all,
- ‘marginally’ banked who are people with a deposit account that has no electronic payment facilities and no payment card or cheque book. It can also be people who do have these facilities but make little or no use of them.
- ‘fully banked’ are people that have access to a wide range of transaction banking services that are appropriate to their needs and socio-economic status.

¹ (Anderloni and Carluccio, 2006; BMRB, 2006; Barr, 2004; Corr, 2006; Kempson, 2006)

2.1.2 *Savings exclusion*

The problem related to savings is completely different. The access to a simple deposit account does not seem globally to bring many problems. In addition, a lack of access or use may bring inconvenience in day to day life, but cannot be related to social exclusion.

Nevertheless, some social problems have been identified related to savings account:

- lack of identification document (relevant for transaction banking too)
- lack of any significant advantage bring by a deposit account (due to costs, fees and/or complexity of the procedures/contracts)

In addition, we have to consider that the lack of deposit is more often a consequence than a cause of social problems, as in the following cases:

- lack of money to save (low income, low pension,...);
- lack of habit to save money in bank;
- unwilling to deal with banks because of negative past experience or prejudice

The savings exclusion shall be regarded also in the light of the pension reform debate. This debate mainly relates to the reform of welfare systems due to the ageing populations in EU countries. In particular, there is a concern to achieve a balance between the need to improve the solvency of public welfare system through longer active working lives and higher contributions, and the need to provide incentives for people to pay money into private pension schemes. This is part of a much wider debate and is not covered in this study.

2.1.3 *Credit exclusion*

Credit is a main financial tool to enable access to goods or expenditures that oversize the monthly budget such as equipment goods (e.g. diverse vehicles, housing, furniture, renting guarantee...). It may play a significant role to smooth consumption and to protect against income shocks.

Consumer credit pilot-project experiences² proposed by not-for profit providers underline the positive social impact an appropriate small credit can bring for usually "credit excluded" household: increase on mobility, access to training and improving the quality of the housing (improve health and self-esteem) which can lead to higher future income and wider general welfare.

The lack of access or use of this financial provision may impact social inclusion in various ways:

- because some type of credit (e.g. overdraft facilities / credit cards) are already so much used in some EU region, lack may stigmatize;

² We are not speaking here about microcredit aimed to finance self-employment/small business, but the ones adapted specifically to households to access essential goods and services.

- because lack of access to some goods impact access to the minimum national standard of living, lack of appropriate credit may stigmatize and reduce welfare level and self-esteem;
- because lack of access to appropriate credit may lead to reimbursement difficulties, it may increase household budget disequilibrium for long period of time and, finally, it may lead to over-indebtedness. Indeed, over-indebtedness may lead to financial and social exclusion.

A good understanding of the structure of national market supply is once again particularly relevant to measure the way demand is met, and the way it is appropriately met.

The existence of interest rate ceiling, sub-prime market or equivalent, illegal lenders, non for profit or social providers, mainstream providers with high Corporate Social Responsibility (CSR) standard may influence deeply the situation from a country to another.

Problems of use, for credit, are mainly relying on the quality of the risk analysis (creditworthiness and credibility) realised in the pre-contractual phase, on the main characteristics of the contract: cost, guarantee, duration and clarity and on the possibility to adapt to unforeseen events that borrowers can encounter once the loan is granted.

Concerning credit matters, problems of access or use are more difficult to define and contain, because of their multidimensional aspects: various products, various providers, various laws, various demands and various methodologies (credit score). Moreover, the need for someone to have an appropriate credit has to be balanced with the reasonable need for banks to avoid too high risks. For all these reasons, building a precise scale from a fully excluded to a perfectly and appropriately served client is difficult.

A first tentative that may present more broadly the various situations that can appear could be the following, starting from the very excluded to the totally included:

- credit excluded: lack of access
- inappropriately served by alternative lenders: by sub-prime, money lenders or any kind of providers with a particularly high interest rate and other possible bad conditions compared to the market average;
- inappropriately served by mainstream lenders: mainstream providers may offer inappropriate credit;
- appropriately served by alternative lenders: even if few cases may appear, the probability exists;
- appropriately served by mainstream lenders: the ideal situation.

2.1.4 Insurance exclusion

Nowadays some kinds of insurance are essential in the organisation of modern societies and, some of them, are therefore mandatory (for example those for the use of motor

vehicles, or to carry on some kind of jobs). However, there is no clear definition of which types of insurance are considered essential so that anyone who lacks them might be considered financially excluded.

As already mentioned, insurance for the use of motor vehicles is compulsory across all European countries. In some countries, it is also very common for landlords to be required to take out insurance (credit life or fire insurance). In the above mentioned cases, easy access and usage should be considered part of a financial inclusion goal.

Furthermore, the insurance tool for retirement purpose is of growing importance, due to the well-known difficulties of the state welfare systems.

Since this matter requires a complete study on its own, it has been decided together with European Commission DG Employment, Social Affairs and Equal Opportunities to not go deeper into the subject in this project.

2.2 Access or usage?

There is an important distinction to draw between access and usage of financial services.

First of all, in the context of banking we need to consider how to categorise people who do have transaction banking facilities with an account but choose not to use them. As we note above, such people are often considered to be marginally banked (Anderloni and Carluccio, 2006; BMRB, 2006; Barr, 2004; Corr, 2006; Kempson, 2006).

Then there is the issue of people who *could* gain access to specific services but choose not to do so. This applies especially to consumer credit and insurance, but it can also be the case for insurance and banking too.

Here an important distinction is often made between those who choose freely not to use a particular service (such as people who have a fundamental objection to using credit) and those who are deterred from doing so because they believe the features of the products or services make them inappropriate to their needs or the costs puts them beyond their reach.

Finally, there is the issue of people facing use difficulties because they accessed to inappropriate financial products. These difficulties are caused simultaneously by the characteristics of the products and the way they are sold (supply side) as well as the situation and the financial capability of the customer (demand side).

These difficulties can happen with a current bank account which becomes overdrawn as people are not used to manage money electronically. It can also happen with a loan that is sold with insufficient advice and with technical terms that are incomprehensible to anyone who is poorly informed, or with exorbitant charges for someone with a low income. Inappropriate access (e.g. use difficulties) to credit could result in the borrower having less disposable income and sometimes over-indebtedness (Gloukoviezoff 2008).

2.3 Are there degrees of financial exclusion?

The World Bank distinguishes between those who are '*formally served*' that is those who have access to financial services from a bank and / or other formal providers and those who are '*financially served*' who also include people who use informal providers. In contrast to the other work described above, the term '*financially excluded*' is only used to describe those who have no access at all (World Bank, 2005).

In the scope of our European study, we have decided to consider only the formal sector which includes only the legal providers as the illegal sector is clearly not to be encouraged. The following details the degrees of financial exclusion per category studied: transaction bank accounts, credit and savings.

Regarding the bank transactions account, as previously evoked, there are three levels of exclusion:

- '*unbanked*' who are generally people with no bank at all,
- '*marginally banked*' who are people with a deposit account that has no electronic payment facilities and no payment card or cheque book. It can also be people who do have these facilities but make little or no use of them.
- '*fully banked*' are people that have access to a wide range of transaction banking services that are appropriate to their needs and socio-economic status.

For the credit category, we have identified a five main levels:

- *credit excluded*
- *inappropriately served by alternative lenders*
- *inappropriately served by mainstream lenders*
- *appropriately served by alternative lenders*
- *appropriately served by mainstream lenders*

Finally, concerning the savings category, being excluded is slightly different here, in the sense that it is not lack of access or usage that determines the exclusion, but the mere fact of the concerned person actually being able to save or not. As we will see there are many ways to save from the unofficial home savings, to the savings account with a credit union, to the savings account with a mainstream bank account.

2.4 Individual, family or household exclusion?

Finally, there is a debate about whether financial exclusion (and banking and credit exclusion) should be assessed at the individual or household/family level (Anderloni and Caluccio, 2006; BMRB, 2006; Gloukoviezoff, 2004; Kempson and Whyley, 1999). Each has its limitations.

If the assessment is made at the *individual* level, people appear to be financially excluded even though their partner may make extensive use of financial services and they would easily get them in their own right. In addition, a decision has to be made about the age range of individuals to be covered. In most countries there is a legal age limit below

which credit facilities cannot be granted. As a consequence many studies have looked at adults aged 18 or over, although others cover people from the age of 16 or 15.

On the other hand, assessing access at the *family* level (that is the head of household and their partner if they have one) we have a clearer idea of the proportion of the population with no ready access, even through a partner, but underestimate the proportion of people at risk of being financially excluded if they experienced the break-up of their family. It also underestimates the number of *people* who are affected. For this reason the United Kingdom Government, in its monitoring, estimates the number of adults living in family units without access to banking (Financial Inclusion Taskforce, 2006a, 2006b).

Assessing access at the *household* level (that is considering all adults living in a household) compounds these problems still further as there is much less stability of households than of family units. Moreover, household level analysis does not provide estimates of the financial exclusion faced by young adults still living at home.

2.5 Conclusion

As previously defined, financial exclusion is a process whereby people encounter difficulties accessing and/or using financial services and products in the mainstream market, that are appropriate to their needs and enable them to lead a normal social life in the society in which they belong.

Given the growth in high-cost fringe banking services that target people who do not have access to mainstream financial services and the limited respect of consumers' rights and fair dealing rules by some alternative financial providers that exploit low-income people, it is important to consider the interplay between services and providers when assessing the access someone has.

While access is the first step towards financial inclusion it is important to have information about people's levels of usage of financial services too. As we shall see later, many people are deterred from using financial services by many of the same factors that may deny others access.

It is important to acknowledge that financial exclusion is not an absolute concept (excluded or not) but a relative one, rather like poverty, with degrees of exclusion. People vary in their extent of engagement with specific services (e.g. transaction banking where we have both the *unbanked* and the *marginally banked*). And they also vary in the number of types of financial products to which they can gain access. It may be helpful in this context to use the term *financially excluded* for those who lack all products and *marginally included* for those who have limited access – just as poverty is often described either in terms of being in the lowest income decile or quintile or, alternatively, of being below a threshold, such as 60 per cent of median income.

Finally, sampling for surveys should be constructed in order to allow data to be analysed at both individual and family level and should be explicit about the lowest age covered.

3 Levels of financial exclusion

The main source that has been used to assess levels of financial exclusion in Europe is the Eurobarometer Survey 60.2, undertaken at the end of 2003 (Anderloni and Carluccio, 2006; Nieri, 2006; Corr, 2006). To date, however, use of the Eurobarometer data has been restricted to looking at access to specific products only (*banking*: Anderloni and Carluccio, 2006; Corr, 2006; *credit*: Nieri, 2006; *life insurance*: Corr, 2006). We have, therefore, re-analysed the data to take this analysis further and also taken into account data from Eurobarometer 2003.5 which looks at the EU 10 new member states over the same period. Although there is more recent data this was not suitable for the analysis we require³. One implication of this is that for some countries (Cyprus, Czech Republic, Estonia, Lithuania, Malta, Poland, Slovakia and Slovenia) the figures quoted will overstate the extent of financial exclusion as levels seem to be falling.

Although Eurobarometer surveys individuals aged 15 or over, our analysis is restricted to people aged over 18 as this is the legal age of access to some types of product (including a transaction bank account with an overdraft and unsecured credit). It asks about the holding of a range of financial products, including transaction accounts (with a cheque book and/or a payment card facility), deposit accounts (which pay interest but have no payment card or chequebook) and other savings products including life assurance policies, stocks/shares, collective investments (unit trusts) and bonds. The forms of credit covered include overdrafts, credit and charge cards and loans for car purchase and other purposes.

It is important to note that the Eurobarometer data is useful to draft a broad picture and to be able to draw very rough international comparisons, but that is it not 100% accurate information. Indeed, experts have underlined that the questions are sometimes interpreted differently from one country to another, and as the study shows, comparisons with national data sometimes show quite important gaps, which could not only be due to samples issues. To summarise, it is one of the best data available for the moment, but it can still be improved in the future.

The analysis of these two data sets shows that at the end of 2003, ten per cent of adults aged 18 and over in the EU 15 countries and 47 per cent of adults in the new member states had no bank account at all (Table 2 and Table 3). We describe these people as '*unbanked*'⁴. A further eight per cent in the EU 15 and six per cent in the new member

³ We have not used Eurobarometer 63.2 to undertake this analysis because the coding of the variables does not differentiate between people who 'do not know' if they have an account and those who 'do not' have one. It also lacks information on incomes. For further details, Kempson, E, Crame, M and Finney, A (2007) *Financial services provision and prevention of financial exclusion: Eurobarometer report*. Personal Finance Research Centre

⁴ For details of how these variables were derived see Kempson, E, Crame, M and Finney, A (2007) *Financial services provision and prevention of financial exclusion: Eurobarometer report*. Personal Finance Research Centre

states had only a deposit account with no payment card or cheque book – these we have called ‘*marginally banked*’.

In both groups of countries, adults were less likely to hold revolving credit⁵ than savings. In all 40 per cent of EU 15 adults and 73 per cent of those in new member states had no access to revolving credit (credit card or overdraft) whilst 30 per cent and 54 per cent respectively did not have a savings product.

On the whole, people who lacked a bank account of any kind (transaction or deposit) were very likely to have neither a savings product (77 per cent in the EU 15; 74 per cent in the new member states) nor revolving credit (83 per cent and 93 per cent respectively) (Tables 2 and 3). Putting this together, we find that seven per cent of all adults in the EU 15 countries and 34 per cent of those in new member states had none of these three types of financial product and might, consequently, be considered ‘*financially excluded*’ (see Table 4).

Table 2 Percentage of the EU 15 population excluded from credit and savings by banking status

	No revolving credit	No savings product ⁷	All	Weighted base
<i>All</i>	40	30	-	15526
No transaction bank account	81	42	18	2742
Deposit account only ⁸	80	0	8	1266
No bank account at all	83	77	10	1476

Source: Eurobarometer 60.2

Base: all adults aged 18 or over

Table 3 Percentage of the EU 10 population excluded from credit and savings by banking status

Cell percentages

	No revolving credit	No savings product	All	Weighted base
<i>All</i>	73	54	-	8492
No transaction bank account	93	66	53	4456
Deposit account only	96	0	6	470
No bank account at all	93	74	47	3986

Source: Eurobarometer 2003.5

⁵ Credit repeatedly available up to a specified amount as periodic repayments are made. Definition by The American Heritage® Dictionary of the English Language, Fourth Edition, 2000, by Houghton Mifflin Company.

⁶ All figures are expressed as cell percentages, e.g. 80 per cent of people with only a deposit account have no form of revolving credit.

⁷ Savings products included a deposit account which pays interest but has no payment card or chequebook, life assurance policy, stocks/shares, collective investments (i.e. unit trusts) and bonds

⁸ Some of the people listed as having a current account, actually stated that they had either a deposit or no bank account, but also said they had access to a chequebook and an overdraft facility. It was found that these people shared similar characteristics to people who stated they held current accounts, so for this reason it was felt that they were likely to be people with current accounts, but had misunderstood the question. Hence, we recoded them as holding a current account for the purposes of this research

Base: all adults aged 18 or over

3.1 Levels of financial exclusion

Levels of financial exclusion varied widely, ranging from one per cent or less in Denmark, Belgium, Luxembourg, and the Netherlands, to 40 per cent in Poland and 48 per cent in Latvia (Table 4). Indeed, as we shall see in subsequent sections, the countries with large proportions of adults who are financially excluded feature among those with the highest proportions of people excluded from each of the three types of financial services we have studied in detail: banking, unsecured credit and savings.

Moreover, there was a broad a correlation between levels of financial exclusion and the levels of affluence (measured by the GDP per capita) and inequality (Gini coefficient), which is consistent with other research (Kempson, 2006). Where affluence was high *and* income inequality was low, levels of financial exclusion tended also to be low.

Table 4 Levels of financial exclusion in individual EU 25 countries

	Percentage financially excluded	Unweighted base	Weighted base	Gini coefficients	GDP per capita
EU15	7	15453	15526	--	--
EU10	34	8516	8493	--	--
EU15					
Belgium	1	988	422	33	119
Denmark	1	970	214	24.7	122
Germany	3	2000	3517	28.3	109
Greece	28	964	434	34.3	82
Italy	16	955	2408	36	105
Spain	8	959	1659	34.7	98
France	2	957	2327	32.7	111
Ireland	12	949	145	34.3	139
UK	6	1294	2424	36	119
Luxembourg	< 1	574	17	--	223
Netherlands	1	978	645	30.9	120
Portugal	17	947	413	38.5	73
Finland	6	960	206	26.9	115
Sweden	2	969	356	25	116
Austria	3	989	339	29.1	122
EU10					
Cyprus	18	456	79	--	82
Czech Rep	17	953	1165	25.4	72
Estonia	16	910	153	35.8	50
Hungary	34	1001	1200	26.9	61
Latvia	48	946	265	37.7	43
Lithuania	41	934	382	36	48
Malta	21	478	44	--	72
Poland	40	949	4368	34.5	47
Slovakia	26	950	614	25.8	52
Slovenia	6	939	223	28.4	78

Source: Eurobarometer 60.2 and 2003.5

Base: All adults aged 18 or over⁹

There are relatively few national surveys of financial exclusion against which the Eurobarometer figures can be assessed. They include surveys from the United Kingdom, Italy, Spain and Ireland¹⁰.

⁹ 'Unweighted base' is the number of people actually interviewed in each country (approximately equal numbers of people were interviewed in each country)

'Weighted base' makes an adjustment so that the number per country reflects the country's population as a proportion of the EU15 and EU10 populations. Weighted data is therefore used when analysing at the EU15 and EU 10 levels.

¹⁰ http://www.cso.ie/surveysandmethodologies/surveys/housing_households/survey_hbs.htm

In the United Kingdom there are two, both using data from the annual *Family Resources Survey* which collects information on the ownership of bank accounts of various kinds, as well as other savings products¹¹ and various forms of insurance. Analysis of this data identified seven per cent of *households* in Britain lacking any mainstream financial products at all (very similar to the six per cent of *individuals* identified using the Eurobarometer data). A further 19 per cent were on the margins of financial services, having only one or two products (usually these were a deposit account or a transaction banking account) (Kempson and Whyley, 1999; Meadows, 2000). Although the data are publicly available, this analysis has not been repeated for more recent years.

Other countries have similar surveys although they have not been analysed to provide similar information on overall levels of exclusion. For example, in Italy the biennial panel survey on *Household Income and Wealth* collects data on deposit accounts (with a bank or the Post Office), other kind of financial assets (savings), life insurance and private supplementary pension plans. In Spain, the *Survey on Household finances (EFF)* collects data on bank accounts (including transaction accounts that offer payment facilities, deposit accounts without payment facilities and house-purchase saving accounts), other savings products, including pension schemes and unit-linked or mixed life insurance.

3.2 Levels of transaction banking exclusion

Again the Eurobarometer analysis shows wide variation in exclusion from transaction banking services across the 25 countries – ranging from two per cent of individuals in the Netherlands to 78 per cent in Greece (Table 5, column 2). Other countries with high proportions of individuals without a transaction account include Latvia and Lithuania (65 per cent), Poland (58 per cent), Slovakia and Cyprus (48 per cent). Spain (42 per cent), Ireland (41 per cent), Italy (26 per cent) and Portugal (20 per cent) stand out amongst the EU 15.

It should be noted, however, that in Greece, Spain and Ireland, a high proportion of individuals had a deposit account even though they lacked a transaction account, so the proportion lacking an account of any kind was a good deal lower (Table 5, column 4).

The proportion of individuals who were completely unbanked ranged from two per cent in the Netherlands to 62 per cent in Latvia. In general it was higher in the EU10 countries than in the EU15. It is, however, worth noting that the proportion of completely unbanked people remained high in Greece (36 per cent), despite the high level of deposit account-holding noted above. Among the EU10 counties, Slovenia stands out as having a particularly small proportion of its population who are completely unbanked.

In addition to the Eurobarometer surveys, national surveys have also been undertaken in a number of member states. These are summarised below and, generally speaking, they indicate levels of banking exclusion that are somewhat lower than is found using the

¹¹ *Savings products included a deposit account which pays interest but has no payment card or chequebook, life assurance policy, stocks/shares, collective investments (i.e. unit trusts) and bonds*

Eurobarometer data. This may well have arisen because of the problems of defining the different types of account in a way that can be applied across Europe. For example, the people surveyed may have under-reported accounts held with the post office, savings banks or credit unions.

Table 5 Levels of financial exclusion in individual EU countries

	Cell percentages					
	No transaction bank account	Marginally banked	Unbanked	Financially excluded	Unweighted base	Weighted base
<i>EU15</i>	<i>18</i>	<i>8</i>	<i>10</i>	<i>7</i>	<i>15453</i>	<i>15526</i>
<i>EU10</i>	<i>53</i>	<i>6</i>	<i>47</i>	<i>34</i>	<i>8516</i>	<i>8493</i>
EU15						
Belgium	5	3	3	1	988	422
Denmark	11	7	5	1	970	214
Germany	7	2	5	3	2000	3517
Greece	78	42	36	28	964	434
Italy	26	7	19	16	955	2408
Spain	42	30	11	8	959	1659
France	4	1	3	2	957	2327
Ireland	41	21	19	12	949	145
UK	15	6	9	6	1294	2424
Luxembourg	11	6	6	< 1	574	17
Netherlands	2	<1	2	1	978	645
Portugal	20	2	18	17	947	413
Finland	18	6	11	6	960	206
Sweden	17	9	8	2	969	356
Austria	20	11	9	3	989	339
EU10						
Cyprus	48	19	29	18	456	79
Czech Rep	40	11	29	17	953	1165
Estonia	35	8	27	16	910	153
Hungary	49	6	43	34	1001	1200
Latvia	65	3	62	48	946	265
Lithuania	65	12	53	41	934	382
Malta	51	27	25	21	478	44
Poland	58	2	56	40	949	4368
Slovakia	48	12	37	26	950	614
Slovenia	13	2	11	6	939	223

Source: Eurobarometer 60.2 and 2003.5

Base: All adults aged 18 or over

A 2005 survey of young people and adults in **Austria** aged 15 and over found that only two per cent had no relationship with a bank at all and seven per cent possessed no bank account. This was slightly lower than the nine per cent found from the Eurobarometer analysis, although a direct comparison cannot be made because of the difference in the age range of the people surveyed (Bank Austria Creditanstalt, 2006)¹².

Researchers in **Belgium** believe that the proportion of individuals who were unbanked in 2005 was just 0.1 per cent – considerably less than the proportion of households identified in Eurobarometer (Disneur et al, 2006)¹³. However, they also indicate that the proportion has fallen considerably since their previous report in 2001, and so the discrepancy may be time-related.

Research from 2001 indicated that just one per cent of *households* in **France** lacked a transaction bank account (Daniel and Simon, 2001¹⁴), compared with the four per cent of *individuals* identified on Eurobarometer.

A recent report from the Combat Poverty Agency provides additional information on the extent of banking exclusion in **Ireland** (Combat Poverty Agency, 2006). This shows how measures can vary widely depending on the definitions used.

Drawing on data from the 1999/2000 Irish *Household Budget Survey*, they found that 33 per cent of *households* lacked a transaction bank account. While market research undertaken for the Irish Bankers Federation in 2003 showed that 28 per cent of *individuals* lacked such an account (Corr, 2006). Again these figures are somewhat lower than those from our re-analysis of the Eurobarometer data, which identifies 41 per cent of Irish individuals as lacking a transaction account in 2003.

Taking a narrower definition of the unbanked, the *Financial Regulator Consumer Survey*, in 2003, found that 10 per cent of *individuals* aged 15 or over lacked a bank account of any kind (Corr, 2006) – very similar to the level (11 per cent) in a survey for the Irish Payment Services Organisation in 2006 (Marketing Partners Ireland Ltd, 2006). Furthermore, subdividing the 11 per cent without a bank account, three per cent had no account but seven per cent did have access to a post office or credit union account. Again these are a good deal lower than the 19 per cent of individuals who were found to lack an account of any kind in the Eurobarometer survey. This could well be because credit union usage is high in Ireland and may not have been consistently identified by the Eurobarometer survey. It would not, however, explain the discrepancy found for

¹² (Bank Austria Creditanstalt, 2006) [Lecture at the Annual Meeting 2006, European Bank for Reconstruction and Development, London May 21th 2006].

¹³ Disneur L., Radermacher F. and Bayot, B. (2006) “Evaluation de la loi sur le service bancaire de base”, Etude réalisée par le Réseau financement Alternatif pour le compte de la Ministre en charge de la protection de la consommation.

¹⁴ Daniel A., Simon M.- (2001), L’utilisation des moyens de paiement et l’accès au crédit des bénéficiaires de minima sociaux, rapport d’enquête réalisé par le CREDOC pour le Conseil national du crédit et du titre, Paris.

transaction accounts as most credit unions do not offer transaction banking facilities – just a deposit account (only 0.4% offer transaction facilities).

In **Italy**, Banca d'Italia, since the 1960's, carries out bi-annual surveys with the aim of gathering data on the incomes and savings of Italian households. Over the years, the scope of the survey has grown and it now provides data on the access to the Italian banking system (Banca d'Italia 2002, 2004, 2006, and 2008). The most recent survey, in 2008, found that 10,8 per cent of workers in Italy lacked a bank account of any kind (Banca d'Italia 2008). Once again this is slightly lower than the 19 per cent of *individuals* lacking a bank account in the Eurobarometer data. It does, however, need to be remembered that the population being surveyed differs in the two studies.

Availability of local data in new member states is scarce. It is only in Poland and Slovakia that we identified banking sector reports (of commercial character) with data regarding the fact of having bank account. In **Poland**, unpublished research by Pentor International Research indicates that the percentage of individuals (aged 15 or over) without a current account in 2005 was 41 per cent and for households this fell to 30 per cent. As the age range is different, direct comparisons cannot be made with the Eurobarometer statistics. However, the survey of financial exclusion in Poland that was undertaken as part of our own study identified only 32 per cent of individuals aged 18-75 as lacking an account. It did, however, uncover very high proportions of people who were only marginally banked (Błędowski and Iwanicz-Drozdowska, 2007).

In **Slovakia**, according to the Focus Agency Report from 2005, the average of people with more than one bank account was around 72% and the rest were individuals with no bank account at all.

Although the Eurobarometer survey shows that 42 per cent of *individuals* in **Spain** lacked a transaction account, 11 per cent lacked an account of any kind, both figures are considerably higher than those identified in a panel survey commissioned by the Banco de España. This found that 17 per cent of *households* lacked an account with payment facilities, while only two per cent had no account at all (Banco de España, 2005). As in Italy, it is important to remember that the population being surveyed in the two studies differs and this may, in part, explain the discrepancy.

Finally, in the **United Kingdom**, analysis of the *Family Resources Survey* data shows that 12 per cent of *families* and 14 per cent of *individuals* lacked a current account in the 2002/3 survey. In this case the figures for individuals were similar to those found in the Eurobarometer data (15 per cent). Since then the Government's Financial Inclusion Taskforce has been monitoring progress towards the goal (shared by Government and the banking sector) to halve the numbers of individuals living in households without a transaction bank account¹⁵ and the numbers with no bank account at all. These show a

¹⁵ From 2003, basic bank accounts (simple transaction accounts that cannot become overdrawn) became more common, and the Post Office has offered a stored value card (The Post Office Card Account). The way that information about these was collected on the *Family Resources Survey* in 2003/03 and 2004/05 means that the data cannot be used to measure levels of account-holding accurately.

considerable fall in levels of banking exclusion. In 2005/06 the number of *families* without a current account had fallen to 1.9 million (compared with 3 million in 2002/03); while the number of families with no bank account of any kind fell to 1.3 million (from 1.8 million in 2002/03) (Financial Inclusion Taskforce, 2007¹⁶). There were also large falls in the numbers of *individuals* living in families either without a current account (from 4.5 million to 2.9 million) or with no account of any kind (2.8 million to 2 million).

The Financial Inclusion Taskforce has also commissioned a survey that was designed to explore the extent and nature of banking more fully. This included levels of use of accounts by account-holders and also the overlap between banking exclusion and the use of various forms of unsecured credit (BMRB, 2006). This found that eight per cent of individuals lacked a transaction bank account in their own name, while five per cent of individuals did not have such an account themselves nor did they live with a partner who had one. They also identified that seven per cent of *households* either lacked a transaction account or had one but did not use the transaction banking facilities.

Summarising these national findings, it appears that, on the whole, the Eurobarometer surveys provide a broad international comparison based on “standard” functioning of markets and economies more than a perfectly accurate picture of the relative levels of financial exclusion across Europe. Although many of the discrepancies with national surveys can be explained in terms of differences in sampling or the timing of surveys, it does seem that Eurobarometer may slightly over-state the levels of banking exclusion. It is, however, known that measures of transaction bank account exclusion are heavily dependent on the wording of the question and the description of this type of account (Kempson and Whyley 1998).

Ways to improve the Eurobarometer data include, on the one hand, a better sampling, that is the panels in larger countries should be enlarged to better represent the population, and on the other hand, the questions should be better designed to reduce the potential misinterpretation, and therefore improve the quality of the answers. More attention should be paid on this interesting tool, to make it more accurate in its future use.

3.3 Levels of credit exclusion

Using the Eurobarometer data it is possible to compute two variables to measure the level of exclusion from unsecured credit. The first is the proportion of people with no credit in the form of an overdraft, credit card or loan; the second is a narrower definition - of access to mainstream revolving credit facilities (overdrafts and credit cards). Both measures, however, tend to provide an over-estimate of credit exclusion as they will include people who are opposed to borrowing and so decline such facilities¹⁷ or they simply did not need them. Importantly, the extent of this will vary from country to

¹⁶ http://www.financialinclusion-taskforce.org.uk/PDFs/second_annual_taskforce_banking_report_sept_2007.pdf

¹⁷ Research in the United Kingdom, for example, showed that eight per cent of households did not have any form of credit because they were opposed to borrowing. Although we lack precise figures, this phenomenon emerges also from qualitative surveys in Italy, France and Spain.

country, depending on the prevailing attitude towards borrowing. It should also be noted that there are three quite distinct types of credit card in Europe, and also that the Eurobarometer survey puts charge cards together with credit cards even though they do not offer extended credit. Secondly, the Eurobarometer survey excludes some forms of credit that are quite prevalent in some countries – including goods bought on credit through mail order catalogues and, in the United Kingdom and Ireland, a form of credit known as hire purchase. Finally, experience of designing surveys in the United Kingdom has identified that a significant proportion of consumers confuse debit cards with credit cards. Despite these concerns about the Eurobarometer data, it does offer at least some insight into levels of access to credit across the EU 15 countries. These should, however, be kept in mind when interpreting the findings of the analysis.

Across the EU 15 countries four in ten (40 per cent) of adults aged 18 or over did not have any revolving credit facilities in 2003; the comparable figure across new member states is 72 per cent (Table 6). Again there was wide variation across countries. The proportion of people with no revolving credit was lowest in France (14 per cent)¹⁸, Denmark (18 per cent) and Luxembourg (18 per cent). The highest proportions were found in Lithuania (86 per cent), Slovakia (81 per cent) Estonia and Latvia (80 per cent).

In **United Kingdom**, a survey undertaken for the Government found that, in 2002, 26 per cent of *households* had no credit facilities¹⁹ (Kempson, 2002). This is consistent with the Eurobarometer data which shows that 30 per cent of British *adults* had no credit facilities. However, other research in the United Kingdom, using a longitudinal data set where the same people are re-interviewed each year, has shown that snapshot surveys lead to over-estimates of the numbers of people who are not using credit. Although 64 per cent of adults did not owe money on unsecured credit in 2000 a much smaller proportion of people (45 per cent of all adults) had not owed any money in either 1995 or 2000 (Kempson et al, 2004).

18 This percentage would mean that 86% of people in France have access to revolving credit - percentage which is considered totally inaccurate by the French expert. This shows that the Eurobarometer data are not always correct.

19 This includes credit cards and overdrafts on which no money was owed and is, therefore, similar to the Eurobarometer definition except that it does include people who have access to credit in the sub-prime market only.

Table 6 Levels of revolving credit and savings exclusion

	Cell percentages					
	No revolving credit	Have a loan(s)	No savings	Financially excluded	Unweighted base	Weighted base
<i>EU15</i>	40	18	30	7	15453	15526
<i>EU10</i>	72	11	54	34	8516	8493
EU15						
Belgium	37	17	13	1	988	422
Denmark	18	35	15	1	970	214
Germany	46	16	21	3	2000	3517
Greece	76	9	41	28	964	434
Italy	56	13	50	16	955	2408
Spain	46	16	25	8	959	1659
France	14	21	39	2	957	2327
Ireland	51	34	21	12	949	145
UK	30	24	22	6	1294	2424
Luxembourg	18	35	28	< 1	574	17
Netherlands	21	11	28	1	978	645
Portugal	75	12	62	17	947	413
Finland	48	23	34	6	960	206
Sweden	33	22	7	2	969	356
Austria	36	21	11	3	989	339
EU10						
Cyprus	54	33	24	18	456	79
Czech Rep	62	14	35	17	953	1165
Estonia	80	7	67	16	910	153
Hungary	78	11	58	34	1001	1200
Latvia	80	8	76	48	946	265
Lithuania	86	6	61	41	934	382
Malta	70	9	30	21	478	44
Poland	73	11	60	40	949	4368
Slovakia	81	13	40	26	950	614
Slovenia	36	23	32	6	939	223

Source: Eurobarometer 60.2 and 2003.5

Base: All adults aged 18 or over

Where more direct measures of credit exclusion have been attempted at a national level, they show that the figures from the Eurobarometer do seem to greatly over-state the proportion of people excluded from the mainstream credit market – for the various

reasons spelt out above. The **United Kingdom** National Consumer Council has, for example, estimated that 7.8 million people (17.5 per cent of the adult population aged over 18) had applied for credit and been refused several times and could therefore be considered excluded from mainstream credit (Treasury Select Committee 2006a). This is considerably lower than the 30 per cent of the United Kingdom population that the Eurobarometer data indicates as having no credit facilities.

A survey carried out in 2005 in **France, Spain and Italy** has attempted to understand the behaviour of people on low incomes (unemployed or employed on a temporary basis) with regard to credit access (Nieri, 2006). Although the aim of the research was not to measure the level of credit exclusion but to analyse qualitative aspects, it showed that a large proportion of people on low incomes *did* have access to credit, although not necessarily from a bank. Most of them, however, paid no attention to the difference in costs and terms between banks and other financial institutions and were not able to evaluate how high the costs were. About half of the people interviewed had never approached a bank or a credit institution for a loan: this percentage was higher still for migrants (62 per cent of the sample), especially those living in France. However, only 16 per cent of respondents said that they had applications for loans rejected – a level that is remarkably similar to that found in the United Kingdom. Adding to these the people who said they did not apply because they expected to be rejected (21 per cent) gives a figure of 37 per cent of people who needed credit but were excluded or chose to self-exclude (Nieri, 2006). The Eurobarometer data, which looks at the whole population, not just those on low incomes, indicates that levels of credit exclusion were 14 per cent in France; 46 per cent in Spain and 56 per cent in Italy.

Levels of credit refusal were, however, somewhat high in the survey of financial exclusion in **Poland**, in which 25 per cent of adults aged 18-75 said that they had no credit currently because they had been refused (Błędowski and Iwanicz-Drozdowska, 2007).

In other words, by using the Eurobarometer data to assess the numbers of people who do not have any credit facilities we are almost certainly adopting a wide definition of credit exclusion – including those who self-exclude through choice as well as those with constrained access.

3.4 Lack of savings

As we saw earlier, around a third (30 per cent) of adults living in one of the EU 15 countries and 54 per cent of those from the new member states had no savings account at the time of the 2003 Eurobarometer survey. Once again there were wide variations across individual countries (Table 6). Sweden was the country with the highest incidence of saving account-holding – only seven per cent of adults lacked a savings account. At the other extreme, countries in the EU 15 where a large proportion of the population did not have a savings account included Portugal (62 per cent), Italy (50 per cent), Greece (41 per cent) and France (39 per cent). Amongst the new member states, proportions of the population without a savings account ranged from 24 per cent in Cyprus to 76 per cent in Latvia.

Analysis of the *Family Resources Survey* in the **United Kingdom** suggests that just over a quarter (27 per cent) of *households* (Department for Work and Pensions, 2006) and over a third (37 per cent) of *individuals* (Rowlingson et al, 1999) lacked any savings. This last figure is rather more than the proportion indicated by the Eurobarometer survey (22 per cent) although it could be explained by the large time gap.

The survey of financial exclusion in **Poland** identified 65 per cent of adults aged 18-75 had no savings account – a figure that is close to that identified by the Eurobarometer (60 per cent) (Błędowski and Iwanicz-Drozdowska, 2007)

Analysis of the last Household Income and Wealth survey in **Italy** (Bank of Italy, 2008) shows that 10,8 per cent of *households* lack any savings, that is they have no assets at all.

3.5 Conclusion

On the whole, a minority of the adult population living in the EU 15 countries is affected by financial exclusion – two in ten lack access to transaction banking facilities; around three in ten have no savings and four in ten have no credit facilities, although rather fewer (less than one in ten) report having been refused credit. The proportion of people lacking access to any of these three forms of financial service is lower still – at around seven per cent of the adult population aged 18 or over. In contrast, a third of people in the new member states are financially excluded; more than half have no transaction account, a similar proportion have no savings and almost three quarters have no immediate access to revolving credit.

There are, however, considerable variations in levels of financial exclusion even across the EU 15 countries. In general, levels are lowest in the countries such as Netherlands, Denmark, Sweden and Luxembourg where the standard of living is universally high. They are highest in countries like Latvia, Lithuania and Poland that have transition economies and low levels of gross domestic profit.

4 Who is most likely to be financially excluded?

Previous research in Europe²⁰ has shown that complete financial exclusion among households has very strong links to low income. It was, therefore, most common among people who were not in paid work and in households where there was no wage earner. Consequently unemployed people, lone parents and people unable to work through disability had above average levels of exclusion. There was also a link with age, with the youngest and oldest people being most likely to be excluded, and a link with educational attainment so that the more education someone had received the less likely they were to be excluded. Financial exclusion was also very prevalent among ethnic minorities and migrants. The country reports of the fourteen countries studied tended to confirm these research findings.

In addition to these personal characteristics, (multivariate) statistical analysis has also shown that living in a neighbourhood that had high levels of deprivation increased the likelihood of being financially excluded still further and so too did having friends and family who were financially excluded.

Research around Europe has looked largely at the types of people who lack access to transaction banking. On the whole, the findings are as just described above, although in countries where transaction banking exclusion is relatively uncommon, it tends to be concentrated among migrants and people who are over-indebted (see, for example Disneur et al, 2006; IFF, 2000; IFF, 2006; Linz, 2006). Indeed, in **Belgium** even though the numbers of people without a transaction account fell between 2001 and 2006, the types of people most likely to be affected (migrants, people with little or no education and people going through debt settlement programmes) had remained the same (Disneur et al, 2006). We explore the links between over-indebtedness and financial exclusion further in section 5.3. The study of financial exclusion in **Poland**, where financial exclusion is fairly high, found that levels of banking exclusion were highest among: the under 25s and people over retirement age; people on low incomes; people with low levels of education unemployed people, and students (Błędowski and Iwanicz-Drozdowska, 2007).

It is also worth noting that our country correspondents in the **Netherlands** and **Norway** indicated that financial exclusion is not considered to be a problem in their countries (and statistics bear this out). The Dutch correspondent commented that the only people excluded are those who choose not to have an account and a very small number of people who have been laundering money or have behaved fraudulently. Similarly, our Norwegian correspondent suggested that the only barriers to financial inclusion in Norway are related to self-exclusion because of problems relating to travelling or technology.

²⁰ Anderloni, 2003; Anderloni and Carluccio, 2006; Bank of Italy 2004, BMRB, 2006; Barr, 2004; Bayot, 2005; Błędowski and Iwanicz-Drozdowska, 2007; Corr, 2006; Devlin, 2005; Disneur et al, 2006; Gloukoviezoff, 2005; Kempson, 2006; Kempson and Whyley, 1998; Idzik, 2006; IFF, 2000; IFF, 2006; Marketing Partners Ireland Ltd, 2006; Mintel, 2005; Test Achats, 2001.

One previous study in the **United Kingdom** has explored gender differences in transaction account-holding and found that ethnicity, having children, personal income and economic activity status all had a greater effect on women's propensity to be financially excluded than they did on men. The authors note that this is consistent with qualitative research showing that some married women give up having an account in their own name when they give up work to have children (Kempson and Whyley, 1998).

We were only able to find one study that looked at the characteristics of people who had been refused credit – the study of financial exclusion in **Poland** (Błędowski and Iwanicz-Drozdowska, 2007). This found that refusals were highest among people who were over retirement age, had low incomes, had low levels of education or lived in a rural village.

Analysis of the Eurobarometer data is mostly consistent with this earlier research (Table 7 final two columns). This shows that women were more likely to be completely financially excluded than men. Young people (aged 18-25) and adults aged 65 and over were most likely to be financially excluded. Younger people were the ones who were most likely to be excluded in EU 15 countries, while in new member states it was most common among elderly people.

Lone parents and single people (who tended to be either quite young or quite old) included a greater proportion of who were financially excluded than people who were living with a partner, whether they had children or not.

There was a strong link between financial exclusion and level of education received and also with income. So the less well-educated people were and the lower their household income, the more likely they were to be excluded from all forms of financial services. Students were also far more likely than average to be excluded. Given that low income was associated with financial exclusion it is unsurprising that unemployed people and those looking after the home full-time had high levels of financial exclusion. Although it is not shown in the table, levels were also high for people living in households where the head of household was either unemployed or looking after a family full-time. In new member states, people who were retired or unable to work through disability also had above-average levels of exclusion – reflecting the age effect noted above.

Although a great deal has been written about the difficulties accessing financial services faced by people living in rural areas, levels of financial exclusion varied little by type of geographical area across EU15 countries. There was, however, a noticeable difference between levels in rural areas (43 per cent) and large towns (25 per cent) in new member states.

Table 7 Types of people likely to be financially excluded by national levels of financial exclusion (celle percentage)

	Level of national financial exclusion					All	
	Low	Low medium	High medium	High			
	EU15	EU15	EU15	EU10	EU10	EU15	EU10
<i>All</i>	1	5	18	20	39	7	34
Family type:							
Lone parent	4	12	24	25	46	11	40
Couple with children	1	5	10	9	33	5	28
Single no children	2	6	22	29	48	9	42
Couple no children	1	3	17	16	36	5	30
Respondent work status:							
Self employed	1	1	8	1	22	3	17
Employed	1	3	8	7	16	3	13
Looking after home	2	12	30	26	58	13	52
Student	5	11	38	17	47	17	39
Unemployed	4	9	33	36	63	12	57
Retired/unable to work	1	4	20	38	52	7	48
Age left education:							
Up to 15	1	6	24	48	61	10	57
16-19	1	5	13	16	40	5	32
20 +	1	1	7	6	18	2	16
Still studying	5	10	38	17	49	16	39
Gender:							
Male	1	4	14	17	35	5	30
Female	1	6	21	22	43	8	37
Age:							
18-25	3	10	33	16	44	13	36
26-44	1	4	12	11	28	5	23
45-64	1	4	12	15	37	5	31
65 +	1	4	25	46	60	8	56
Geographical area:							
Rural area or village	1	4	20	24	51	7	43
Small or middle sized town	2	5	17	17	36	7	30
Large town	1	5	16	17	28	6	25
Household income:							
Lowest income quartile	2	7	32	41	60	9	55
2 nd lowest income quartile	<1	5	13	19	44	5	37
2 nd highest income quartile	1	2	14	10	24	4	20
Highest income quartile	0	2	8	5	17	2	14
How easy to compare information from banks, about bank account features and charges:							
Very easy	2	3	8	8	19	4	16
Fairly easy	1	3	10	10	26	4	21
Don't know	2	6	22	40	53	9	49
Fairly difficult	3	12	46	40	61	18	56
Very difficult	1	6	16	17	37	7	32
How easy to know beforehand how much it's going to cost to borrow money							
Very easy	<1	2	8	12	27	2	22
Fairly easy	1	4	12	10	30	5	23
Don't know	3	10	34	38	61	15	55
Fairly difficult	1	5	18	17	36	7	31
Very difficult	3	7	27	38	45	11	44
The marketing techniques of financial institutions are aggressive							
Tend to agree	1	4	12	15	31	5	26
Don't know	2	9	27	13	33	14	47
Tend to disagree	1	3	15	29	53	5	28
I expect financial institutions to give me advice							

Yes	1	4	11	12	34	4	29
Don't know	6	14	36	28	55	20	47
No	2	8	28	27	48	12	41

Source: Eurobarometer 60.2 (EU15 countries)/Eurobarometer 2003.5 (EU10 countries)

Base: All adults aged 18 or over

We have also investigated the influence of a range of skills and attitudes on financial exclusion. Across both EU15 and new member states levels of exclusion were higher if people:

- found it difficult to compare information from banks about bank account features and charges;
- found it difficult to know beforehand how much it's going to cost to borrow money, and
- did not expect financial institutions to give them financial advice.

In each case, though, significant proportions of people replied 'don't know' to these questions and these people had higher levels of financial exclusion still. They were also very likely to say they did not know whether the marketing techniques of financial institutions are aggressive. Taken together, this suggests that financial exclusion is influenced by:

- perceived difficulties likely to be encountered finding out the costs of using banking services and credit;
- lack of knowledge about financial services, and
- not receiving any marketing materials – which other research has shown reinforces a belief that financial services are 'not for people like me'.

Clearly, many of these personal characteristics and attitudes are linked to one another. For example, lone parents are often out of the labour market because they are looking after their children and, as a group, they tend to have relatively low incomes. To disentangle these effects we have used a statistical technique known as logistic regression. This enables us to look at the effects of each factor in turn, independently of all others included in the analysis, and to see the extent to which it raises the odds of someone being financially excluded. It also enables us to disentangle the effects of attitudes and personal characteristics. (See Table 8 column 2 – all EU25).

This analysis showed that the largest, and most statistically significant influence on financial exclusion was being unemployed (which almost quadrupled the odds relative to someone in employment) and not knowing whether financial institutions would give advice or expecting they would not (both of which more than tripled the odds compared with someone expecting them to do so). Other factors with a sizeable effect (all of them doubling the odds) included: being retired or unable to work; being in the lowest income quartile²¹, being a student and not knowing how easy it would be to compare bank charges. Age, gender and type of locality lived in were significant to some extent, but the

²¹ By this we mean among people living in the quarter of households with the lowest incomes.

effects were small. We were unable to include age at which people left education in this model because of the strong co-linearity with the work status variable (both having groups of current students).

4.1 Variations in the types of people who are financially excluded

It is interesting to analyse whether the same types of people are financially excluded in countries with high levels of financial exclusion as are found in those where the levels are low, or whether a lower incidence of financial exclusion means that it tends to be even more concentrated among certain groups in society.

It is plausible that, in countries with a lower level of financial exclusion, it becomes concentrated among certain groups of people. To assess whether or not this is the case, we have grouped the 25 EU countries according to their levels of financial exclusion. These were as follows (Table 7 column 2-6):

- **Low level of financial exclusion** (i.e. those with levels of exclusion under three per cent) – Luxembourg, Belgium, Denmark, Netherlands, France and Sweden.
- **Medium-low level of financial exclusion** (between three and eight per cent) – Germany, Austria, the United Kingdom, Finland, Spain and Slovenia.
- **Medium-high level of financial exclusion** (between 12 and 28 per cent) – Italy, Ireland, Portugal, Greece, Estonia, Czech Republic, Cyprus, Malta and Slovakia.
- **High level of financial exclusion** (34 per cent and above) – Hungary, Poland, Lithuania and Latvia.

On the whole, the same types of people had an above-average likelihood of being financially excluded regardless of whether they lived in a country with higher or lower levels of financial exclusion. It is plausible that as one moves towards a low level of financial exclusion, some groups get left behind. In fact, all groups, regardless of their circumstances, benefit greatly as one moves from high to low levels of financial exclusion. Even so, some groups of people disproportionately experienced financial exclusion whether they lived in a country where overall levels were high or one where they were low. These were lone parents, young people (aged 18-25), students and people who were unemployed (Table 7 columns 2-6).

In contrast, the disproportionate exclusion experienced in countries with high and medium-high levels of financial exclusion by women, single people without children, retired people, those aged over 65, people who left school at an early age and rural dwellers, disappeared in countries where the level of financial exclusion was low. The effect of income also reduced markedly, as did the effects of attitudes, although people who did not know whether one could expect financial institutions to give advice remained disproportionately affected in areas of low exclusion.

As before, we have used regression analysis to identify whether different factors seem to drive financial exclusion depending on whether overall levels are high or low (Table 8 columns 3-6).

This showed that the number of factors that increased the odds of being financially excluded increased with the level of financial exclusion experienced in a country. So in Hungary, Poland, Lithuania and Latvia, where levels were high a large number of factors were highly significant statistically (Table 8 column 6). These included: age, employment status, household income, geographical area and a range of attitudes.

Table 8 Logistic regression of the odds of being financially excluded across all EU25 countries and by national level of financial exclusion

R squared	0.24	0.14	0.18	0.21	0.29
Levels of exclusion	All EU25	Low	Low-medium	High-medium	High
	Exp(B)	Exp(B)	Exp(B)	Exp(B)	Exp(B)
Gender		ns	ns	ns	
Male (reference)					
Female	1.1				0.8*
Age		ns			
26-44 (reference)					
18-25	1.7**		2.2**	1.5**	1.6**
45-64	1.1		0.8	0.9	1.4*
65+	1.0		1.0	1.0	2.3**
Family		ns		ns	ns
Couple no children (reference)					
Single parent	1.2**		1.9**		
Couple with children	1.2*		1.5*		
Single no children	1.2**		1.9**		
Other	0.6		2.5		-
Respondent work status		ns			
Employed (reference)					
Self employed	1.1		0.8	0.9	0.8
Looking after home	2.3**		3.5**	3.0**	3.4**
Student	2.0**		1.4	2.2**	2.2**
Unemployed	3.6**		3.2**	3.2**	3.1**
Retired/unable to work	2.3**		1.5*	2.2**	1.5**
Household income		ns			
Highest income quartile (reference)					
Lowest income quartile	2.1**		2.8**	2.6**	2.4**
2 nd lowest income quartile	1.9**		2.5**	1.9**	1.8**
2 nd highest income quartile	1.4**		1.3	1.4*	1.3*
Geographical area		ns	ns		
Large town (reference)					
Rural area or village	1.2**			1.2*	1.9**
Small or middle sized town	1.0			1.0	1.3*
How easy to compare information from banks, about bank account features and charges					ns
Very easy (reference)					
Fairly easy	1.1		0.8	1.2	1.2
Don't know	1.8**		2.1**	2.0**	2.7**
Fairly difficult	1.5**		1.0	1.5*	3.0**
Very difficult	2.0**		1.3	1.6**	1.8**
How easy to know beforehand how much it's going to cost to borrow money					ns
Very easy (reference)					
Fairly easy	1.0	0.7	1.4	0.9	
Don't know	1.1	1.0	1.4	1.2	
Fairly difficult	1.4**	2.9*	1.6	1.8**	

Very difficult	1.9**	2.4	2.3**	1.5*
The marketing techniques of financial institutions are aggressive ns ns				
Tend to agree (reference)				
Tend to disagree	1.2**		1.3*	1.1
Don't know	2.1**		1.4**	1.4**
I expect financial institutions to give me advice ns				
Tend to agree (reference)				
Tend to disagree	3.1**		2.1**	2.0**
Don't know	3.0**		2.9**	2.1**

Eurobarometer 60.2 and 2003.5 Base: All adults aged 18 or over

*** Significance < 0.01 * Significance < 0.05 * ns= not significant*

In contrast, in the countries with the lowest levels of financial exclusion (Luxembourg, Belgium, Denmark, Netherlands, France and Sweden) no factor reached the higher level of significance (Table 8 column 3).

4.2 Focus on migrants and financial exclusion²²

Empirical evidence demonstrates that in many countries a large majority of migrants are successfully socially included and have a satisfactory access and use of financial services. There is, however, a part of this population that shows characteristics and attitudes typical of other socially excluded groups, such as low income, low skills levels, a lack of language knowledge, and psychological barriers such as lack of confidence and mistrust of financial services suppliers.

Moreover, in addition to these attitudes immigrant groups also differ, under certain conditions, from other socially excluded groups, and this makes it particularly worthwhile to pay specific attention to the issue of migrants' financial exclusion. In fact:

- migrants' financial behaviours depend on their levels of integration in the host country as well as the type of banking system existing in the country of origin;
- migrants are a complex universe, made up of various ethnic groups which differ widely;
- migrant social and financial exclusion differs according to geographical context: some countries, such as the United Kingdom, France and Germany, have experienced migration flows for many decades, and their "integration problems" are different from those experienced by countries with recent and more varied migration flows, such as Italy and Spain where there are many different nationalities of immigrants;
- migrants' attitudes to financial inclusion, that is their demand of financial services, is an evolving process related to migration phases each of which present different financial needs.

The latter point is particularly interesting in analysing migrants' access and demand of financial services: migrants financial needs depend on their migratory plan that consists in different phases each of which has different priorities in terms of financial needs.

²² For more information, please refer to the working paper entitled "Migrants and financial services", written by Luisa Anderloni.

In the first phase - of the “initial settlement” - basic needs relate to labour, housing and language. In this phase, financial needs relate mainly to the use of money for survival. Housing problems may lead to financial needs, such as the need to obtain a bank guarantee to rent a house, in cases where immigrants favour or are able to choose the legal approach and do not have to rely on the “irregular” rental market. More often, immigrants share housing with friends, relatives or simply other immigrants from the same country or ethnic group. Illegal entry is, furthermore, often associated with incurring large debts to finance the journey. It is practically impossible for immigrants to save money during this economically unstable first phase.

In the second phase, financial needs consist mostly in saving and transferring money abroad through remittances. How often they send money depends on how important individuals’ help is for the survival of their family in their country of origin and the amount will depend on how much they manage to save, given low salaries and high expenses. Other financial needs may include personal loans or consumer credit to buy furniture or household appliances, or, micro-credit for the self-employed to purchase business equipment. Sometimes, the demand remains only latent due to a failure to meet the requirements that banks generally stipulate in order to grant a loan in the first place.

The third phase of “stable settlement” involves a greater degree of integration in the host country. Therefore saving is characterized by more medium-term goals, and immigrants look for basic savings products. As far as credit is concerned, demand will focus on micro or consumer credit, mortgages for house purchase, and business loans. The amount and frequency of remittances generally decreases as many immigrants now have a family living with them in the host country and prefer to invest most of their resources in improving their life in their adopted country.

The exact features of the fourth phase of “consolidation” will depend on the original plan or model of migration.

If the plan follows the “transit” model, where the aim is to work abroad for a certain period of time, to save money for the family in the country of origin, to be able to buy, build, or refurbish a house and then return home, needs are similar to those in the previous phase. An untapped area of offer for this segment of immigrants may be that of savings and transferable pension schemes and the formation of deferred annuities.

If the project follows the model of “final settlement and succeeding generations”, the financial needs will become more sophisticated, and resemble those of people in the host country with the same characteristics.

In all the above mentioned phases, remittance and retirement schemes are important services for migrant populations, even though their relative importance generally tends to change throughout their life cycles and to decrease as other needs increase. Remittance services can therefore be considered a way of starting off a relationship with a bank. The relationship gradually strengthens and eventually more complex services are used that incorporate greater added value.

4.3 Conclusion

Financial exclusion affects some groups of people more than others and, on the whole, similar types of people are disproportionately affected regardless of the prevailing level of exclusion in their country. These are people living on low incomes; and consequently those who are unemployed, lone parents caring for children full-time and people who are unable to work through sickness or disability. In new member states, retired people also have high levels of financial exclusion. Regression analysis shows that these are the most significant factors statistically and have the largest effects.

There is also evidence that financial exclusion is linked to people's knowledge of and exposure to financial services and that this remains statistically significant and has a large effect even when other factors such as income and work status are controlled.

There is a link with age, with younger (EU15) and older people (new member states) being most likely to be excluded. Single people are more likely to be excluded than those living with a partner. In both cases, however, the regression analysis showed that the effects were small even though they were statistically significant. This suggests that they mediate their effects through income and work status. Although women had slightly higher levels of financial exclusion than men, gender was not significant in the regression – again suggesting that gender effects may be attributed to work status and income, as people who are retired or looking after the home full-time are disproportionately women.

It is important to note that it is not just economic circumstances and personal characteristics that affect the propensity to be financially excluded. There is evidence that financial exclusion is concentrated in certain communities. So living in a deprived area increases the likelihood of being financially excluded and so, too, does living in a rural area in new member states. This almost certainly reflects the paucity of financial service provision in such communities. At the same time, there is evidence that people have higher levels of financial exclusion if their friends and family are also excluded. This suggests that where operating in a cash economy is the norm, there is much less of an incentive to use financial services and may also explain the geographical effects.

Finally, previous research has also shown that migrants and people who are over-indebted are also likely to be excluded. It was not, however, possible to include this in the regression analysis, although it is highly likely that both factors would have been statistically significant.

Through qualitative research, however, migrants are an interesting group to focus on to improve their chances of financial inclusion. Indeed, they are a population whose financial needs evolve according to their migratory plan.

Four phases have been identified:

- the “initial settlement” phase; where financial needs are more for survival (labour, housing and language)
- the second phase, where the needs consist in saving and transferring money to the country of origin

- the “stable settlement” phase where financial needs are more medium-term, such as savings and credit
- the “consolidation” phase which can take two routes. The “transit” model, where migrants clearly only want to work abroad for a specific time and aim to come back to their country of origin, or the “final settlement and succeeding generations”, where financial needs will strongly resemble to the ones expressed by people living in the host country.

Two financial services are to be focussed on: retirement savings and remittances, as they are the services most used by migrants in their settlement in a host country.

5 The causes and consequences of financial exclusion

The earliest analysis of financial exclusion concluded that it involves “*those processes that serve to prevent certain social groups and individuals from gaining access to the financial system*” (Leyshon and Thrift, 1995). The authors contend that people with limited incomes and certain disadvantaged social groups represent too high a risk as customers for mainstream financial institutions, which then avoid geographical areas where these groups of the population live. In other words, financial exclusion was seen in terms of **physical and geographical access**. Since then, there has been a large body of research that has identified a wide range of other factors that restrict access to and use of financial services or that renders them less appropriate.

A range of **societal factors** have been identified as having an impact on people’s access to and use of financial services. These include liberalisation of financial services markets, which has, in turn, led to an increase in the number and complexity of financial products and providers. While this has widened access, the confusion that arises makes it difficult for some people to engage with financial services (Anderloni and Carluccio, 2006; Atkinson et al, 2006; Kempson et al, 2000).

Secondly, there are structural changes in labour markets, leading to greater ‘flexibility’ and growing job insecurity, which in some countries is accompanied by high levels of youth unemployment (Anderloni and Carluccio, 2006).

Thirdly, tightening of money laundering rules in response to terrorist attacks means that many people may face difficulty in getting access to services (Anderloni and Carluccio, 2006; Kempson, 2000).

Fourthly, social assistance programmes can play an important role – with both the level of payments and the method by which they are made having an effect on levels of financial exclusion. And for benefit receipt the rules may deter people from saving where that might reduce the level of assistance they would qualify for (Anderloni and Carluccio, 2006; Citizens Advice, 2006; Kempson and Whyley, 1999).

Fifthly, financial exclusion is affected by demographic changes such as rising levels of divorce and the tendency for young people to leave home at an older age (Anderloni and Carluccio, 2006; Kempson et al, 2000).

Finally, as reported in section 3, there is a link between levels of banking exclusion and levels of income inequality as measured by Gini coefficients (Kempson, 2006).

Much of the previous research and analysis has, however, tended to concentrate on the reasons for exclusion in specific areas of financial services. In the area of **transaction banking** a range of factors covering both **supply and demand** has been identified across a wide range of countries (for an overview see: Anderloni and Carluccio, 2006; Corr, 2006; Gloukoviezoff, 2005; Kempson, 2006).

On the **supply** side, banks refuse to open full transaction bank accounts for certain groups of people, such as those with a poor credit history, unstable patterns of employment or those who fail credit scoring systems because their characteristics mean they are assessed as a high risk. In some countries, there exists negative registers for payment failures and insolvency, although legal initiatives aim to reduce this too-stigmatising risk. People unable to satisfy identity requirements also find it difficult to open an account. This applies especially to migrants but can also affect a wider group of people who do not have the standard forms of identity required. This is a particular problem in countries that lack identity cards, where banks rely on passports and driving licences instead. Moreover, the terms and conditions and charges associated with transaction bank accounts deter both access and use. This includes such things as minimum balances, monthly charges and charges per transaction – especially if the charges are regressive and disproportionately affect people on low incomes.

On the **demand** side, people are deterred from accessing and using transaction banking services for a range of psychological and cultural reasons. These include elderly people who are part of a ‘cash only’ generation, migrants and also people on low incomes generally, who frequently see banking as only being appropriate for people who are better off than they are and fear losing control of their money if they cease to deal only in cash. In Italy, people are deterred from opening an account if it does not have an overdraft facility to ease access to money paid in. Delays in clearing cheques paid into an account mean that people cannot have instant access to any money paid in (Anderloni, 2003).

The balance of importance of these factors does, however, vary between countries. In Italy, for example, transaction bank charges are very high (Anderloni and Carluccio, 2006). In the United Kingdom there are no transaction charges but proof of identity is a particular problem along with very high charges for unauthorised overdrawing of accounts (Collard et al, 2001; Kempson and Whyley 1998; Kempson, 2006). While in France many people are denied access to an account as a result of over-indebtedness (Gallou and Le Queau, 1999; Kempson, 2006). In Sweden, which has traditionally had high levels of banking inclusion, the general move to internet-based banking is denying use of transaction accounts to those who lack access to the internet (Anderloni and Carluccio, 2006). This last point is important because it underlines the need to constantly reassess barriers to access and use.

Moving on to **consumer credit**, previous research has identified a range of similar factors – again relating to both **supply and demand**. Refusal by credit companies is a very significant reason across all countries, as a result of lack of information about an individual at credit reference bureaux, an adverse credit history or failing the score card operated by creditors as a consequence of lack of stable employment, low income and other personal characteristics (Corr, 2006; Ellison, Collard and Forster, 2006; Kempson and Whyley, 1999; Kempson et al, 2000; Nieri, 2006).

Often just as significant is the fact that some people do not apply for credit as they think they will be turned down. (Nieri, 2006; Kempson and Whyley, 1999; Kempson et al,

2000). It has been estimated that across France, Italy and Spain, 16 per cent of people have actually been refused credit and another six per cent did not apply because they expected to be refused (Nieri, 2006).

Also significant in limiting access to and use of unsecured credit is a fear of borrowing – and especially of using forms of credit such as overdrafts and credit cards where it is easy to lose control over spending (Kempson and Whyley, 1999; Kempson et al, 2000; Collard and Kempson, 2005). People who cannot easily gain access to unsecured credit are often deterred by the high cost and poor contractual terms obtained through intermediaries (Nieri, 2006) or in the sub-prime market (Collard and Kempson, 2005).

Many people on low incomes need to borrow fairly small sums of money for a short period of time. They also prefer fixed term loans which they know they will repay. Most mainstream lenders have minimum amounts that they are prepared to lend as a fixed term loan which are way in excess of the requirements of such people (Carbo et al, 2005; Collard and Kempson, 2005; Corr, 2006).

Finally, religion can act as a barrier to use – especially in Muslim populations (Collard et al, 2001; Collard and Kempson, 2005; Kempson et al, 2000).

In contrast to transaction banking and unsecured credit, there has been rather less investigation of the reasons why people **lack savings accounts**. Research in the United Kingdom has, however, shown that the explanation is not as simple as people not having sufficient money to save. Many people on low incomes *do* save but do so outside formal savings organisations, mainly in cash at home or through informal savings and loans schemes (Kempson, 1999). There are a number of explanations for this.

First, some people face the same difficulties providing proof of identity as we have noted for transaction bank accounts. Secondly, as we have seen above, clearing times for cheques deter people in Italy from opening accounts that do not allow instant access to the funds deposited (Anderloni, 2003). But, perhaps, more significantly, people do not put their savings into an account with a bank or other similar organisation because they believe that a large minimum deposit is required or they feel that using such institutions is inappropriate if they have only small sums of money to save.

Informal savings schemes are more accessible psychologically (Collard, 2001; Corr, 2006; Kempson, 1999; OLR, 2006). The number and complexity of savings products also acts as a deterrent (Citizens Advice, 2006). Finally, religious factors deter people from opening savings accounts just as they deter them from using credit (Collard et al, 2001; Kempson 1999).

5.1 An overview of the causes of financial exclusion

A range of different models exist to classify causes of financial exclusion, however, none deals adequately with the complexity of the situation described briefly above. We have, therefore, developed a new schema for financial exclusion that combines ideas from each

of the existing models. This is presented in the table below, which categorises the barriers into three groups: societal, supply and demand factors. The table also indicates whether they act to limit access or use, and also the type of financial services provision where they have their main effects.

It should, however, be re-iterated, that not all these factors will necessarily apply in any one country. Moreover, the balance of their importance will also vary from country to country. It is also important to note that the reasons for financial exclusion are complex and these barriers do not often act in isolation. So any one individual may be prevented or deterred from using financial services for several reasons.

Table 9 Factors affecting difficulty of access or use

	Access or use	The possible relationship*	Type of service affected**
Societal factors			
Liberalisation of markets	Access	(+) increased competition may result in more attention been paid to all market segments or (-) less attention to marginal market segments (-) levelling the regulation of different banking/financial institutions generally resulted in the disappearance of types of financial institutions which traditionally served people on low incomes	Banking**, Credit; Savings
Labour market changes	Access	(-) more flexible markets mean less stable incomes and, often, less creditworthiness	Banking; Credit
Money laundering rules/Identity checks	Access; Use	(-) preventing the use of the financial system for money laundering and financing of terrorism brings a greater bureaucracy to financial transactions	Banking; Savings
Fiscal policy	Access; Use	(-) duties and taxes on banking services may represent a heavy burden for people on low incomes people, reducing the convenience of using the services, (+) but fiscal measures can provide incentives (reducing cost or granting fiscal advantages) for financial inclusion	Banking; Savings, Credit
Social assistance	Access; Use	(-) paying social assistance in cash can deter people from opening a bank account (+) but antipoverty policies can facilitate financial inclusion	Banking; Credit, Savings
Demographic changes	Access; Use	(-) older people generally suffer more from the technological divide (+) young people have a higher propensity to use credit, but (-) their risk of over-indebtedness is higher and may lead to exclusion.	Banking; Credit; Banking, Credit
Income inequalities	Access	(-) higher income inequalities and literacy disparity are normally associated with greater difficulties of access	
Supply factors			
Geographical access	Access	Generally, in the past, supply factors played a negative role (obstacles), recently sometimes new strategies of some innovative banks turned these factors positively in order to satisfy the specific needs of marginal segments (-) / (+)	Banking; Savings
Risk assessment			Banking; Credit
Price			Banking; Credit
Product design (terms and conditions)			Banking; Credit
Service delivery (eg internet banking)			Banking; Credit; Savings
Complexity of choice			Savings
Marketing			Banking; Credit; Savings
Demand factors			
Belief that not for poor	Access	Listed demand factors generally play a negative role. Initiatives to improve financial capability and literacy as well as actions aimed to encourage to develop confidence in the banking system may reduce their negative impact.	Banking; Credit; Savings
Fear of loss of financial control			Banking; Credit
Mistrust of providers			Banking; Credit; Savings
Concern about costs			Banking; Credit
Preference for alternative cultural factors			Banking; Credit; Savings
Religion			Banking; Credit; Savings
Opposition to use			Credit

* (+) if the factor facilitates financial inclusion, (-) if the factor causes financial exclusion ** Note in this context 'banking' refers to 'transaction banking'

The table below brings together information contained in the country reports regarding the causes of financial exclusion within the framework set out above. Methodologically, although some biases exist, this table has helped to centralise and harmonise the data collection.

On the whole societal factors were more commonly cited than either failure of supply or demand, but this distribution also varies by country.

Table 10 Causes of financial exclusion in 14 European countries

	Type of factors	Access or use	Type of service affected	Number of countries where this cause of financial exclusion has been identified*
Societal factors	Demographic changes technological gap	Access; use	Banking; credit	10/14
	Labour market changes	Access	Banking; credit	8/14
	Income inequalities	Access	Banking; credit	8/14
	Liberalisation of markets less attention to marginal market segments	Access	Banking	6/14
	Liberalisation of markets disappearance institutions targeted to low income	Access	Banking	5/14
	Social assistance	Access; use	Banking	5/14
	Demographic changes overindebted	Access; use	Banking; credit	4/14
	Money laundering rules/Identity checks	Access; use	Banking	3/14
	Fiscal policy	Access; use	Banking	3/14
	Demographic changes young (1)	Access; use	Banking; credit	2/14
	Demographic changes migrants/minorities (2)	Access; use	Banking; credit	2/14
	Cash is common (3)	Access	Banking	1/14
Supply factors	Risk assessment	Access	Banking; credit	8/14
	Marketing	Access	Banking; credit; savings	8/14
	Geographical access	Access	Banking; savings	7/14
	Product design (terms and conditions)	Access; use	Banking; credit	7/14
	Service delivery (eg internet)	Access; use	Banking; credit; savings	7/14
	Complexity of choice	Access	Savings	7/14
	Price	Access; use	Banking; credit	4/14
	Type of product (4)	Access; use	Banking; credit; savings	1/14
Demand factors	Concern about costs	Access; use	Banking; credit	8/14
	Belief that not for poor / low self esteem	Access	Banking; credit; savings	8/14
	Fear of loss of financial control	Access	Banking; credit	7/14
	Mistrust of providers	Access	Banking; credit; savings	7/14
	Preference for alternative providers and cultural factors	Access	Banking; credit; savings	4/14
	Religion	Access	Banking; credit; savings	4/14
	Opposition to use	Access	Credit	4/14
	Bad past experience (5)	Access; use	Banking; credit	1/14
	Fear of seizures (6)	Access; use	Banking; savings	1/14

* Fourteen countries have been studied: Austria, Belgium, Bulgaria, France, Germany, Ireland, Italy, Lithuania, Norway, Poland, Slovakia, Spain, the Netherlands and the United Kingdom

Although the causes of financial exclusion are many and varied, a general tendency can still be detected. Indeed, and not so surprisingly, the most frequently evoked causes (at least by seven countries or more) seem to be, respectively, in each group of barrier, the following:

Societal factors

- *Demographic changes technological gap*: the ageing population has difficulty in staying up-to-date with all the new ways of dealing with money
- *Labour market changes*: more flexible meaning less stable incomes
- *Income inequalities*: bring difficulties of access to financial services

Supply factors

- *Risk assessment* procedures: generally they are becoming more and more tight and thus create financial exclusion
- *Marketing* methods: they can be unclear and lead potential clients to abandon the request or to mistrust financial institutions and look for other alternatives
- *Geographical access*: location of financial services providers are too far away from potential clients
- *Product design*: the terms and conditions are not clear and target public is not defined
- *Service delivery*: the financial service is delivered by inadequate means for the target public, e.g. Internet for older people
- *Complexity of choice*: can be an education issue, too many products proposed, target public has trouble to choose

Demand factors

- *Belief* that bank accounts are *not for poor people or low self esteem*
- *Concern about costs*: potential clients fear costs might be too high or lack information
- *Fear of loss of financial control*: bank account feels intangible compared to cold cash, also some means are seen as “unsure” i.e. Internet hacking
- *Mistrust of providers*: fear of bankruptcy or lack of confidence with financial institutions

Undeniably, societal, supply and demand factors can play a role in the exclusion or limited inclusion of individuals. Let's take for example the risk assessment factor. The lack of permanent address and identification documents, the lack of an “official” or stable job, not speaking the national language, and living in deprived economic circumstances may render it more difficult to have easy and fair access also to basic financial services. This is clearly shown in credit scoring models, variables such as area of residence (i.e. postal code or also specific address), kind of job position, period of time in the same working place and of living at the same address are used in order to define the credit score. These models are mainly used for deciding whether to accept or to refuse a demand for unsecured loans and mortgages, but often represent a tool for customer segmentation and for identifying “undesirable” customers.

Taking a closer look at the table, it is interesting to note that some country experts have added a few new financial exclusion causes to the ones initially agreed upon. They are the ones followed by a number and below explained:

Societal factors:

- *Demographic changes young* (1): whereas younger people tend to use credit more often, in some countries they stay longer with their families and therefore find it less useful to open a bank account
- *Demographic changes migrants/minorities* (2): there can be cultural or languages barriers to using and / or accessing financial services
- *Cash is common* (3): it is not a stigma not to use sophisticated payments

Supply factors:

- *Type of product* (4): the appropriate financial service is non existent on the market

Demand factors

- *Bad past experience* (5): one refusal of a financial service in the past of a potential client is enough to become a barrier to any new trial
- *Fear of seizures* (6): some people might be afraid that creditors will seize their minimal guaranteed income

To conclude, although societal factors were most commonly mentioned as the cause of financial exclusion in the country reports, there are a number of failures of supply and demand that are clearly important. These almost certainly exist more widely than was reported but only come to light when the situation is explored in detail. Such evidence only exists in a minority of countries.

Indeed, concerning the supply, the risk assessment remains still too much of a “black-box” and should be clearly exposed to the public. Indeed, although the factors involved are somewhat known, the precise details of the relative importance of these factors for specific products will never be known since this is what gives credit companies their commercial advantage over one another.

The criteria they use in terms of objectivity, legitimacy, efficiency and even legality can be questioned. In some countries, geographical access is issue that should be properly addressed in order to include the people that wish to have financial services. Finally, product design and the way it is delivered need to be addressed to better cater the target population.

Moreover, regarding the demand factors, financial education seems to be a potential solution to the issues mentioned such as the belief that bank accounts are not for poor people, the concern about costs or the fear of loss of financial control. These factors could be tackled through a comprehensive programme of financial education that would clarify facts from beliefs.

5.2 Links between financial exclusion and social exclusion

A political definition²³ of social exclusion can be a “lack of participation in society and emphasizes the multi-dimensional, multi-layered, and dynamic nature of the problem.” These features can be explained as follow:

“(1) *Lack of participation*. Protagonists differ over which aspects of society are important and where responsibility for non-participation resides. Most agree that exclusion is a matter of degree, since individuals may be participating to a greater or lesser extent, and that it is relative to the society in question.

(2) *Multi-dimensional*. Social exclusion embraces income-poverty but is broader: other kinds of disadvantage which may or may not be connected to low income, such as unemployment and poor self-esteem, fall within its compass.

(3) *Dynamic*. The advent of dynamic analysis and a demand from policy makers to investigate cause as well as effect has generated an interest in the processes which lead to exclusion and routes back into mainstream society.

(4) *Multi-layered*. Although it is individuals who suffer exclusion, the causes are recognized as operating at many levels: individual, household, community, and institutional.”

Financial exclusion Financial exclusion has been defined in the first chapter of this report as a “process whereby people encounter difficulties accessing and/or using financial services and products in the mainstream market that are appropriate to their needs and enable them to lead a normal social life in the society in which they belong”.

Just by examining these two definitions, we can come to the obvious conclusion that financial exclusion is deeply interrelated with social exclusion. Although there was general feeling among country experts that financial exclusion and social exclusion are tightly linked, only five country reports (namely Austria, Germany, France, Ireland and the United Kingdom) actually refer to concrete studies analysing this specific phenomenon.

In **Austria and Germany**, the situation is similar. Many studies²⁴ have been carried out to research the links between financial exclusion, poverty or social exclusion and overindebtedness. Although not typically the central point of the research these links are analysed and concluded to be important. Other studies investigate the type of population more akin to be involved in such exclusion. They seem to be people who have suffered a life incident such as separation, long-term illness or job loss.

In the **French** perspective, financial exclusion is always related to social exclusion as a cause and a consequence, although difficulties of access may not always lead to social exclusion. Financial exclusion clearly has negative social consequences (“social” is

²³ Buchardt, Tania, Centre for Analysis of Social Exclusion London School of Economics, UK, 2003 http://www.policyresearch.gc.ca/doclib/DecConf/Tania_Burchardt.pdf

²⁴ Please refer to country reports stage II for references to these studies.

defined as every aspect of a normal life: self-esteem, relations with family, friends and other, employment, etc.).

It is essential to link difficulties of access and social exclusion systematically, or else promoting access could be understood as a will to develop financial market for mainstream providers at any cost. The goal of financial inclusion is to have appropriate products and services for people that want them and not for people that live very well without them. Moreover, it is precisely because of social consequences that talking about “appropriate” financial services is crucial.

In **Ireland**, no research study has specifically examined the causal link between financial exclusion and the broader phenomenon of social exclusion. However, some studies have shown that financial exclusion can cause social exclusion in that not having a bank account into which wages can be paid can be a barrier to taking a job (Corr, 2006).

Moreover, social exclusion can also cause financial exclusion as low-income groups are less likely to have the appropriate identification to open a bank account. Research has highlighted that this is a particular problem for those living on a low income, members of the Travelling community, immigrants (including refugees and asylum seekers), lone parents, non-home owners such as those in private rented accommodation, ‘non-utility bill holders’, people who are unemployed, those in receipt of social welfare payments, homeless people and younger/older people (Conroy and O’Leary, 2005; Corr, 2006; NTMABS, 2006; Quinn and NiGhabhann, 2004; Reidy, 2004). Other research in Ireland has shown that people have been refused bank accounts or credit as they were unemployed and did not live in the vicinity (Corr, 2006; Quinn and McCann, 1997; Quinn and NiGhabhann, 2004). Immigrants, particular refugees and asylum seekers face language barriers, while members of the Travelling community may have literacy issues (Corr, 2006).

In the **United Kingdom**, links between financial exclusion and social exclusion are complex. Financial exclusion very often contributes to social exclusion – for example, not having a bank account into which wages can be paid can be a barrier to taking a job; not having access to credit can make it more difficult to be part of the wider consumer society. On the other hand, financial exclusion can be a consequence of social exclusion – through limited access to mainstream financial services in areas of high deprivation, for example.

Indeed, empirical evidence suggests that people who are unbanked persons or marginally served by mainstream financial services are more likely to belong to segments of the population who are socially excluded or only marginally included (Anderloni, 2003; Anderloni and Carluccio, 2006; Kempson and Whyley, 1999).

For these reasons, previous studies have emphasised the causal link between financial exclusion and the broader phenomenon of social exclusion (Kempson and Whyley 1999; Kempson et al, 2000; McKay and Collard, 2006). Indeed, financial exclusion has been seen as a process that contributes to the development of social exclusion at both the individual and the collective level. “*Where whole communities have limited access to*

financial products, the process becomes self-reinforcing and an important contributor to social exclusion more generally” (Kempson & Whyley, 1999).

Three other country reports (specifically Belgium, The Netherlands and Italy) acknowledge no precise study on the links between financial exclusion and social exclusion but still detail their general agreement that the two concepts are clearly interrelated.

Indeed, in **Belgium**, although the link has not yet been studied it is well recognized. To better analyse it in the future and to monitor poverty in Belgium, the Service of fight against poverty, financial uncertainty and social exclusion of the Belgian public centre for equal opportunity recommends in 2004 to create an indicator²⁵ about financial exclusion.

In the **Netherlands**, to our knowledge, no particular study has focused on the links between social exclusion and financial exclusion. Research in the Netherlands concerns mostly how to tackle the problem of poverty. This is being achieved by working with each target group that can potentially become socially and/or economically excluded: minorities, foreigners, unemployed, recipients from social benefits, etc.

In **Italy**, no particular study has analysed the links between social exclusion and financial exclusion. As demonstration of this lack of attention to the phenomenon, we can mention that the NAP Social Inclusion 2006 (as well as in those of the previous years) does not mention financial exclusion among the causes of social exclusion. However, surveys on financial exclusion that analyse who is financially excluded detect that the likelihood of being unbanked is higher among unemployed, woman, people living in rural areas, less educated, in other words, among people at risk of social exclusion.

In the remaining six national country reports (Bulgaria, Lithuania, Norway, Poland, Slovakia and Spain), no further explanation is given, the link between financial exclusion and social exclusion has yet to be researched in these regions of Europe.²⁶

To conclude, there is clearly a circularity of cause and effect between financial exclusion and social exclusion or poverty. This link has been more or less researched depending on the country, but no country contests its existence.

We consider the consequences of financial exclusion in more in depth below (section 5.4).

²⁵ « Une autre approche des indicateurs de pauvreté: recherche-action-formation. » Centre pour l'égalité des chances Mars 2004 <http://www.luttepauvrete.be/publicationsserviceindicateurs.htm>

²⁶ The only information is the survey conducted in Poland within framework of this project in 2007.

5.3 Links between financial exclusion and over-indebtedness²⁷

5.3.1 Who is affected and what are the consequences of over-indebtedness and financial exclusion?

There is a dearth of data pertaining to the relationship between financial exclusion and over-indebtedness. Nevertheless, in two countries (the United Kingdom and Belgium), studies show that the profiles of financially excluded and over-indebted people are quite similar although unbanked people were more likely to have a lower socio-economic status than those who were over-indebted. In Italy and France, one main reason of being unbanked is the negative record in the register of credit default of payment “incidents”.

People receiving social benefits, unemployed people, single people and lone parents are disproportionately likely to face over-indebtedness and financial exclusion. On the whole, though people who face financial exclusion tend to be poorer on average than those who are over-indebted. Nevertheless both groups of people face socio-economic difficulties (structural poverty or changes in life circumstances).

A parallel study of over-indebtedness concludes that someone is over-indebted if they have a structurally unbalanced budget (even if their income is above the poverty line). This can arise through insufficient income to meet basic needs or through additional expenditure (most notably through the use of credit) which effectively reduces their level of disposable income. Available data also stresses that when over-indebtedness occurs, it becomes increasingly difficult to participate in economic and social life.

Despite the lack of data and studies carried out comparing the causes and consequences of financial exclusion and over-indebtedness, it appears that they are both causes and consequences of poverty and social exclusion. This is true for every European country but to differing degrees.

5.3.2 Does over-indebtedness lead to financial exclusion?

The main relationship which has been addressed by research studies is that over-indebtedness leads to financial exclusion which is understood in the narrow sense of access difficulties. This relationship is present in most of the countries studied.

Concerning access to current bank account, it is reported that, in some EU countries, being over-indebted or having a bad credit history can prevent people from opening a bank account or having access to other products.

In other words, it seems clear that over-indebtedness can lead to access difficulties. This link is stronger when credit bureaux exist because of the increased availability of information for bankers.

²⁷ This section is based mainly on the Working Paper “The link between financial exclusion and over-indebtedness”, written by Georges Gloukoviezoff.

5.3.3 Can lack of access to a bank account lead to over-indebtedness?

Not having access to an account does not lead directly to over-indebtedness but it can contribute to it. More precisely, it can lead to additional costs of operating a cash budget, such as bill payment or cheque cashing which can make a bad financial situation become worse.

Banks often close transaction accounts when people become over-indebted and this causes real difficulties when creditors need to be paid by direct debit. Debt counsellors regularly report that it makes setting up a negotiated payment plan very difficult.

The consequences of not having a bank account on over-indebtedness vary, depending on whether it is possible to borrow credit without a bank account.

5.3.4 Can lack of access to credit lead to over-indebtedness?

There are no figures available on this question but qualitative studies can offer some explanations. Some social consumption credit experiences (in France and in Belgium) have shown situations where small appropriate credits were able to reduce or avoid a drop in over-indebtedness: for example, financing a car repair (or second hand car) may help people to maintain the mobility needed to keep a job, and related incomes.

5.3.5 Do use difficulties lead to over-indebtedness?

The link between use difficulties and over-indebtedness is probably the most important. In relation to credit, use difficulties mean that when a borrower uses credit in an inappropriate way or does not access appropriate credit, he/she faces negative socio-economic consequences.

Over-indebtedness following unexpected life changes is a result of use difficulties for two main reasons which can be exclusive or not. First, the borrower can make the wrong decisions because of a low level of financial capabilities or mistrust in his/her lenders. Secondly, lenders cannot adapt terms and conditions of current loans to make them suitable for the borrower facing new circumstances.

So use difficulties can lead to access difficulties and to over-indebtedness. Over-indebtedness is a result mainly of use difficulties but also of access difficulties (e.g. being unbanked or marginally banked). In this perspective, over-indebtedness, the fact of being unbanked or marginally banked, are results of the process of financial exclusion.

5.3.6 Conclusion

An examination of the socio-economic profiles of people facing over-indebtedness and those facing access or use difficulties shows that they have a lot of common characteristics even if they are not totally similar. The consequences of these kinds of difficulties are similar and caused by the same process of financialisation (the fact that financial products use cannot be avoided in a normal social life).

The relationship between access difficulties, use difficulties and over-indebtedness shows that the most important link is that over-indebtedness could be understood as a result of access and use difficulties. Similarly, it has been shown that access difficulties to bank accounts, means of payments or credit, can lead to use difficulties and vice versa. Nevertheless, it has to be clear that over-indebtedness is not always a result of access and use difficulties simultaneously: it could be a result of only one of them.

Moreover, it has been demonstrated that over-indebted people face use difficulties, the same way as people who are unbanked or marginally banked face access difficulties. So, if financial exclusion is defined as access and use difficulties it becomes clear that over-indebtedness is a consequence of financial exclusion. It is important to note that traditional financial service providers (e.g. banks, moneylenders, credit unions, etc.) are not the only providers involved in the process of financial exclusion. Besides customers, it is necessary to consider the role of the state and other types of financial commitments (e.g. subscriptions) as part of the same process. It is necessary to distinguish between unbanked people, marginally banked people or over-indebted people when looking for respective solutions. However, it would be damaging not to take into account that they are part of the same process as financial exclusion when examining global solutions (i.e. solutions which try to prevent access and use difficulties at the same time).

5.4 The consequences of financial exclusion²⁸

Two main dimensions of financial exclusion consequences under the umbrella of **socio-economic consequences** on affected people can be determined.

First, financial exclusion can generate **financial consequences** by affecting directly or indirectly the way in which the individuals can raise, allocate, and use their monetary resources. Secondly, **social consequences** can be generated by financial exclusion.

These consequences are affecting individuals' patterns of consumption, the way they participate to economic activities or access social welfare and the distribution of incomes and wealth. They impact the way in which people behave both in terms of purchase decisions and the way in which they choose to spend their time, as well as their overall quality of life.

These are the consequences affecting the various links that are binding the individuals: link to you corresponding to self-esteem, links binding to the society and links binding to community and/or relationships with other individual or groups.

A single financial exclusion situation can of course generate at the same time financial, socio-economical and social consequences for the person facing it. The different dimensions of financial exclusion consequences identified in the country reports are listed summarised below regarding each one of the keys areas of essential financial services: transaction banking, credit and savings.

²⁸ This part is based on the working paper "Social, economical and financial consequences of financial exclusion" written by Bernard Bayot.

5.4.1 Banking

For transaction banking, a further distinction can sometimes be made between access difficulties and use difficulties consequences.

Financial consequences

People with no bank account at all face difficulties dealing with cheques made out in their name by a third party. Often they have to pay to have the cheque cashed and in some countries there are networks of cheque cashing companies whose main purpose is to offer this service (Anderloni and Carluccio 2006; Hogarth and O'Donnell 1999, Kempson and Whyley, 1998; Kempson et al, 2000).

Lacking a transaction bank account with payment facilities can make payment of bills costly – particularly when such accounts are the norm and outlets for paying in cash are closed (BMRB, 2006; Corr 2006; Kempson and Whyley, 1998; Kempson et al, 2000).

Moreover, the cost of banking services bought separately is generally higher than those accessed within a stable relationship with the bank. Consequently, occasional payments of utility bills, payment of taxes, bank transfers to third persons, cashing cheques and money orders at the banking counter are more expensive for those who are not customers of the bank. Therefore there are relevant negative economic consequences of dealing occasionally with banks, not only of using alternative commercial profit-oriented financial services providers.

Many utility companies offer discounted rates for people paying their bills electronically each month (BMRB, 2006; Corr, 2006; Kempson and Whyley, 1998; Kempson et al, 2000). People lacking a payment card (debit or credit card) are also unable to take advantage of the lower prices of goods and services bought in this way.

It is also difficult to take employment in countries where payment of wages is by electronic transfer into a bank account (Citizens Advice, 2006; Treasury Committee, 2006b).

Social consequences

Not having access or not knowing how to use properly bank services can, depending on history, status and life experience of people facing it, have an impact on self-esteem and lead to (self)-isolation and deprivation of social connections and social relationships with friends or family (Gloukoviezoff 2004).

In some places, having to pay in cash generates the feeling that the money is not clean or has been stolen. People concerned by this situation can feel humiliated by it and lose their self-esteem (Gloukoviezoff 2004).

5.4.2 *Credit*

Financial consequences²⁹

People unable to get credit from banks or other mainstream financial providers often have to use intermediaries or sub-prime lenders where the charges are higher and the terms and conditions may be inferior (Anderloni and Carluccio, 2006; Collard and Kempson, 2005; Corr, 2006; Kempson et al, 2000; Treasury Committee 2006a).

Customers of alternative commercial profit-oriented financial services can face a number of negative consequences (as do customers of mainstream services).

Those who are totally “credit excluded” and who cannot gain access to any type of credit also face negative consequences. In Germany, those who cannot access credit have to depend on informal borrowing (Policis, 2007). However, Rogaly et al. (1999) stress that ‘relational capital’, accessed through networks of neighbours and kin is ‘double-edged’ as it can cause conflict with friends and family. Another strategy used by low-income consumers who are credit impaired in France and Germany is to delay utility bill payments in order to ‘inject flex into their budgets’ (Policis, 2007: 36). Consequently, consumers in France and Germany are more likely than those in the United Kingdom to lose utilities and housing because of non-repayment.

As already stated, the main disadvantage of sub-prime lending is the high costs involved.

Customers can fall into greater financial difficulties and over-indebtedness as a result of terms and conditions applied to some sub-prime products. For example, alternative financial service providers rarely carry out credit ratings and therefore, customers can be at greater risk of defaulting, given that the lender is unaware of their capacity to repay the loan. Some alternative financial providers (e.g. sub-prime lending companies; cheque-cashers) also apply extra fees for extending a loan or issue penalties for defaulting.

Social consequences

Evidently, the most negative consequences are experienced by those lending from illegal financial service providers. In Germany, Policis (2007) highlighted that one of the major risks associated with borrowing from illegal lenders arises when borrowers find themselves in financial difficulties with lenders likely to use violence and intimidation. In Slovakia, when customers do not fulfil their repayments, unlicensed lenders pass on the information to an outsourcing company who then use harsh methods to recoup payments.

5.4.3 *Savings and asset building*

Financial consequences

²⁹

This section is also based on the working paper “Alternative commercial credit providers”, written by Caroline Corr.

Without savings, people have no means of coping with even small financial shocks or unexpected expenses and those who keep savings in cash do not benefit from interest payments (Kempson et al, 2005).

Moreover, those who keep savings in cash at home are vulnerable to theft (Kempson and Whyley 1999; Kempson et al, 2000).

5.5 Conclusion

There are three groups of causes of financial exclusion: societal, supply and demand. It is on supply and demand reasons that we can better identify what could be done to avoid financial exclusion. Risk assessment, geographical access as well as product design and delivery are causes of financial exclusion that merit more attention in the public debate. In particular, risk assessment is, among others, sensitive and essential to improve the appropriate meeting of credit supply and demand: what kind of criteria is used for risk and creditworthiness assessment (Legal? Non-discriminatory? Updated? Transparent? Adequate?). Moreover, issues mentioned such as the belief that bank accounts are not for poor people, the concern about costs or the fear of loss of financial control could be tackled through financial education and of course the provision of appropriate financial services.

Financial exclusion is tightly linked to social exclusion. Different studies throughout Europe demonstrate the importance of these links. Indeed, the access and use of basic a bank account and simple transactions are decisive to the integration of people in the current European society. There is also a widely made argument that access to banking is important for the economic development of a country (World Bank CGAP). Policy makers should consider financial exclusion issues in all courses of action regarding social exclusion or poverty.

The same certainty goes for the links between financial exclusion and overindebtedness. Indeed, that the most important link is that over-indebtedness could be understood as a result of access and use difficulties. Similarly, it has been shown that access difficulties to bank accounts, means of payments or credit, can lead to use difficulties and vice versa. Nevertheless, it has to be clear that over-indebtedness is not always a result of access and use difficulties simultaneously: it could be a result of only one of them. Besides customers, it is necessary to consider the role of the state and other types of financial commitments (e.g. subscriptions) as part of the same process.

It is necessary to distinguish between unbanked people, marginally banked people or over-indebted people when looking for respective solutions. However, it would be damaging not to take into account that they are part of the same process as financial exclusion when examining global solutions (i.e. solutions which try to prevent access and use difficulties at the same time).

Finally, the main policy recommendation regarding social, socio-economical and financial consequences of financial exclusion is to fill in the gap regarding information available on the subject in most of the European member states. Research on the impact of financial exclusion on people facing it is essential to better understand the financial inclusion issue and its place and necessity within the wider frame of the social inclusion policy of a country. Moreover, that knowledge is essential to underline and justify the important role that financial institutions corporate social responsibility can play to ensure financial inclusion. All stakeholders (researchers, NGOs, financial institutions and policy makers) should therefore aim to carry out or/and finance further research on the subject.

6 Extent of the financial exclusion debate in Europe

The extent of the national debate on financial exclusion varies widely across the fourteen countries covered in detail by this study. Without doubt, it is most active and wide-ranging in France and in the United Kingdom – both in terms of the areas it covers and the players who are actively involved.

Indeed, in Europe, the debate on financial exclusion started in the 1980's in **France** and, as below will be said, both market and government interventions provided in that country prompted responses and the attention paid to these issues preventing that the difficulties become acute. In France, the national government has played an active role and both debate as well as active policies is long-standing. They date from 1984, with the first law giving citizens a right to a bank account. Over time, the debate, as well as policy and practice, have broadened to cover access to transaction banking services and to consumer credit and other players have become involved. It was given a focal point in 2004 by the Government setting up the Comité Consultatif du Secteur Financier (CCSF), under the auspices of the Banque de France, to act as a focus for negotiation and dialogue between key stakeholders. This committee comprises commercial financial services companies and their trade associations, cooperative financial service providers, consumer bodies and trade unions. Various rules and regulations prevented that payment incidents or credit defaults could stigmatise a person and cause financial exclusion. Furthermore, we should consider the role played in this country by the Postal Office network, mutual and agricultural banks in facilitating financial inclusion (with reference both to banking transactions services, savings and credit).

In the **United Kingdom**, the debate started in the 1990s and it was also linked to the debate on the future of the Post Office. The difficulties of access there were more acute – and still are. As a consequence, there are many more initiatives to tackle the problem than in other countries and these have often been developed through partnerships. These cover all the major areas of financial service provision (transaction banking, saving, consumer credit and insurance) and they involve all major players (including national and local government, commercial financial services firms and not-for-profit organisations). There is also a very large evidence base, drawn from academic research. Since it was first elected in 1997, the United Kingdom government has taken an active interest and played a major role in developments. It set up a committee to investigate access to financial services that reported to the Prime Minister through the finance ministry in 1999. And in 2005, a Financial Inclusion Taskforce was created, comprising independent members representing all key stakeholders that report to the Finance Minister – who in turn reports to Parliament. Alongside the Taskforce, a 170 million € Financial Inclusion Fund was set up to finance initiatives to promote financial inclusion over the period from 2005 to 2008. Both the Taskforce and the Financial Inclusion Fund have been extended to 2011, with a further 184 million € being committed to the Fund.

The debate on financial exclusion also begins to be active in **Ireland** and fairly broad in content (both focus on banking – and access to transaction banking services in particular – and credit). In this country, the debate is more recent and was initiated in 2006 by a

report produced for the Financial Regulator by the Combat Poverty Agency (a State Agency). It has been wide-ranging from the outset and debates in terms of policy and practice are beginning to emerge. The national government has not played a major role, although it did include a statement on financial exclusion in its *National Action Plan against Poverty and Social Exclusion 2007-2016*.

In **Belgium and Germany**, attention has largely been focussed on access to banking and attention has been given recently to the garnishment of bank accounts. In both cases, national governments have played an important role - in Belgium through the introduction of legislation; in Germany through a voluntary agreement with banks. In both countries, there is a growing interest in access to consumer credit. In Belgium, this has included initiatives to promote access to affordable credit, while in Germany there is a very active debate on responsible lending (led by the Institut für Finanzdienstleistungen e.V.). Financial education is also viewed as a tool to combat financial exclusion in Germany and there are many initiatives in this area, mainly in the context of over-indebtedness. The German country expert, however, expressed doubts about the role they have in combating financial exclusion.

In **Austria and Italy**, any debate on financial education has mainly been led by consumer groups and academics. In Austria there has been pressure for the development of policies to promote access to transaction banking services. As in Germany, there is also a very active debate on financial education that largely takes place in the context of over-indebtedness. Savings banks have worked with federal states to provide basic banking services to clients of debt advice services. In Italy, consumer groups have been campaigning on the cost and unfair conditions attached to transaction banking, while academics seek to stimulate a wider debate on financial exclusion, drawing on research and experience in other countries. Recently, the Bank of Italy started to pay attention to this issue and the last survey on Household Income and Wealth included, for the first time, an analysis on the level of financial literacy (Bank of Italy, 2008, p. 22-24).

That leaves a group of seven countries where there is either a very limited debate about financial exclusion or none at all. Two of these (**Netherlands and Norway**) have very high levels of financial inclusion (only 1 per cent of their populations are financially excluded) and reported that this explained the lack of debate. Moreover, in the Netherlands, there has been a long-standing commitment from the financial services sector to ensure that everyone has access to financial services. To achieve this, commercial providers, government and not-for-profit bodies have worked together. A working group (Maatschappelijk Overleg Betalingsverkeer), which involves both the banking sector and municipalities, has been set up to check whether there are any remaining problems with regard to access to banking.

The situation in **Spain** was somewhat different. Here the savings banks are seen as playing a major role in achieving financial inclusion (see section 7.2 below) and local surveys show high levels of banking inclusion. These are not, however, reflected in the Eurobarometer data, which shows that Spain has a very high proportion of the population (30 per cent) who are marginally banked (see chapter 3). The Spanish expert has

explained the Eurobarometer data are not accurate for Spain, and that the main reason for financial exclusion not being a debate is because it is not an acute problem,

Finally, the four new member states covered by this study (**Bulgaria, Lithuania, Poland and Slovakia**) all reported the lack of any national debate on financial exclusion and all had very high levels of financial exclusion (26 to 41 per cent in 2003³⁰), although these are falling rapidly as we note in Chapter 3. When large numbers of people are not served by financial service providers the adverse consequences are minimised (as we note earlier in section 5.4) and the need to tackle the problem of financial exclusion is, therefore, much less acute. Indeed, in an interview for this study, a representative of the Polish Banking Association (Związek Banków Polskich or ZBP) identified three phases in the development of banking services in transition economies:

- serving ‘better-off’ customers;
- expanding services to customers with lower incomes, with the assistance of credit reporting to assess risk, and
- promoting wide use of services across all sections of society.

Poland was identified as being in the second phase, moving towards the third and, as we discuss in more detail below, a coalition body was set up in 2007 that could become the focus for a debate on combating financial exclusion. Meanwhile the main debate in Poland is around bank charges. In **Lithuania**, there is a reported concern about lack of geographical access following the closure of unprofitable bank branches after privatisation. The country expert in Bulgaria reported a focus on microfinance for micro-entrepreneurs and small businesses, rather than financial exclusion of individuals. This was reported as an area of development in Poland too.

Across the fourteen countries studied, various approaches have been adopted to achieve financial exclusion, reflecting the extent of the national debate, the extent of government commitment to tackling financial exclusion and the financial services marketplace. These can be grouped into three broad categories: market responses by commercial providers, co-operative and savings banks, not-for-profit organisations, including credit unions and others (section 7); self-regulation through voluntary charters and codes of practice (section 8), and government intervention as facilitator or legislator (section 9). Each of these is described in more detail below, although, as will become clear, these approaches are often not mutually exclusive and many developments have involved partnerships of various kinds.

³⁰

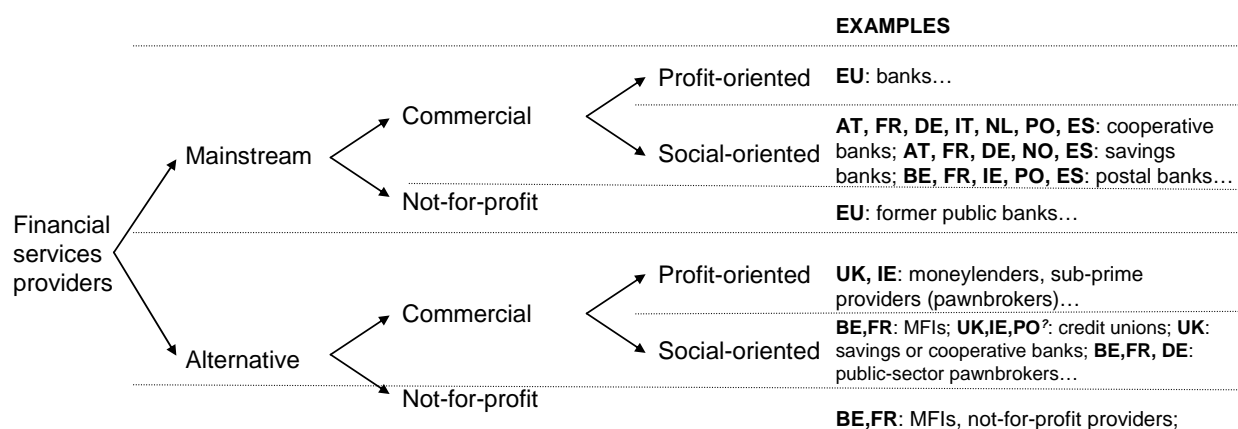
Lithuania, Poland and Slovakia only.

7 Market policy approaches to financial exclusion

A wide range of providers have developed new products and services to tackle financial exclusion. These include:

- mainstream commercial profit-oriented providers– banks, other credit providers and insurance companies;
- commercial social-oriented providers (which can be mainstream or not depending on the country observed) such as co-operative and savings banks, postal banks and mutual organisations;
- alternative commercial (including credit unions and other micro-finance institutions) and not-for-profit providers
- alternative commercial profit-oriented financial service providers.

Figure 11 Market policy approaches to financial exclusion tentative classification



As previously defined, “mainstream providers” are considered as non stigmatizing providers regarding to the national context. “Alternative providers” may refer to organisations paying special attention to marginal segments and acting in compliance with rules and regulations, or they may refer to other providers which exploit the marginal market segments and often act on the borderline of legality.

This classification is a “work-in-progress” scheme and a proposition. The first step (mainstream or alternative) can only be used in a national context and not on a European level. The other categorizations are more dual and can be used across Europe. The examples show how different entities could be classified. The categorization “commercial” and “not for profit” used are juridical ones.

7.1 Development of new products and services by mainstream commercial profit-oriented providers

In many countries, corporate social responsibility (CSR) has become a part of the development, marketing and external communication strategies of profit-oriented institutions like commercial banks. As a result, a focus on marginal customers has come up on some banks' social responsibility agenda. This impulse is, however, not the case of all institutions and the reasons behind CSR are not always to financially include people but more to promote a positive self-image or to capture the most "profit-interesting" part of the marginally banked.

We have seen that some mainstream commercial providers (banks, credit providers and insurance companies) have been active in finding and implementing solutions to financial exclusion in different areas of financial services provision. These include:

- developing new products and services that are more appropriate to the needs of people who are financially excluded;
- working in partnership with not-for-profit organisations or government to reduce costs and barriers to access, and
- promoting financial education to encourage the use of financial services by those reluctant to do so and to raise levels of financial capability.

Although these actions should be encouraged, they should also be monitored and assessed to make sure they are not only a façade to manipulate the public's attention (see section 10.3.3).

7.1.1 *Developing new products and services*

In general, most of the new products and services developed by commercial providers have focussed on banking. Developments in other areas of financial services are more commonly done through partnerships with others (see below).

Commercial banks in **Belgium, Germany, Italy, the Netherlands and the United Kingdom** have developed simple, low-cost transaction bank accounts to meet the needs of people on low and unstable incomes. Banks in Ireland have proposed such an account but have not, to date, developed one. These accounts do not have an overdraft facility which means that they can be offered without the need for credit screening and also overcome the fears of people who are unbanked that using an account could lead to financial difficulties. Some banks do, however, permit these accounts to be overdrawn by a very small amount (up to 20€) to allow people to access the money in their account when it is less than the smallest sum dispensed by a cash machine. They also take advantage of developments in technology – such as the use of electronic payments and debit cards in place of cheques – to reduce the costs and risks of serving people for whom these would otherwise be a barrier. It is often a condition of opening one of these accounts, that the customer does not have an existing account. Experience has shown, however, that simply having a basic account available is insufficient to ensure that they are made available to people who are unbanked. Banks differ in their extent of

commitment to basic banking. Some see such accounts as a way of acquiring new customers who, in time, might migrate to other services and become more profitable.

Many offer a basic bank account as a way of demonstrating their corporate social responsibility. A minority offer them because they have been coerced to do so – either through their trade association or by the government. Consequently, basic bank accounts are in all cases accompanied by either a voluntary code or legislation requiring that they be promoted and offered to people who might benefit from them. And just as importantly, compliance needs to be carefully monitored (see section 8). It is estimated by the Financial Inclusion Taskforce that, in the United Kingdom, about 1.6 million additional people have opened a transaction account since basic bank accounts were introduced³¹.

In **Belgium**, as a refinement of the basic bank account, Dexia Bank has developed a social bank account for the Public Centre of Social Action of Belgian Municipalities (CPAS) to enable local authorities to help disadvantaged people to access banking services. This provides a full range of transaction services and an overdraft facility of 20€. The annual charge for these accounts is paid by CPAS. Nearly 51,000 of these accounts have been opened. Moreover, in Belgium, an electronic wallet, named “proton” has been launched in 1996 and has for goal to replace the physical wallet and to pay small amounts. It is integrated to the regular debit card and does not require a password. In France, the “moneo” system is similar to “proton”.

In the **Netherlands**, the development of the basic bank account was stimulated a specific request made by the Salvation Army for an account that could be offered to the people they assist. Following negotiations with banks and the Finance Ministry, this became a wider national initiative.

Other developments spearheaded by commercial banks include work undertaken by ZBP, the Polish Banking Association, which is promoting non-cash payment methods including the use of mobile telephony and bill-payment at supermarkets. The United Kingdom clearing body for banks, APACS, has been working with the Financial Inclusion Taskforce to find ways of making direct debit payments more appropriate to the needs of people with small, weekly incomes. These include negotiations with direct debit originators (such as fuel companies) regarding weekly (rather than monthly) direct debits and giving the customer more control over the data of payment. Also in the United Kingdom, two banks (Bank of Scotland and Woolwich) experimented with bill-payment services designed for people on low incomes, which involved regular weekly payments into a bill-payment account, from which the bills were paid by the bank. There was a small fee, but this was less than the money saved by being able to pay their bills through a bank. Unfortunately neither of these schemes still exists; the Bank of Scotland one, in particular, met the needs of many people on low incomes, but did not survive a merger.

³¹ http://www.financialinclusion-taskforce.org.uk/PDFs/second_annual_taskforce_banking_report_sept_2007.pdf

7.1.2 *Partnerships to widen access and reduce costs*

Banks and other financial institutions also work in partnership with not-for profit organisations or government to widen access to affordable financial services. Here there are examples that span all types of financial products.

Commercial banks have, for example, assisted others to set up their own **banking services**. In **Belgium**, the Postal Bank was created in 1995 by Fortis, working with the national government. From the outset, this offered a basic bank account as well as a conventional current account – some eight years before other banks offered a basic account. During 2007, Fortis also worked with the Irish Post Office to launch Postbank, which offers basic banking services that are intended to be attractive to the unbanked. In the **United Kingdom**, the Co-op Bank has supported the development of the banking infrastructure needed for a small group of credit unions to extend their services into transaction banking that is linked to the central clearing systems. This has enabled credit unions to develop their own basic bank account during 2007.

There are also instances where commercial banks have worked with charities and local groups to increase access to banking among disadvantaged groups and communities. In the Netherlands the Bankers Association (Nederlandse Vereniging van Banken or NVB) has worked with the Salvation Army to prepare a joint ‘basic payment services agreement’. In the United Kingdom, the Co-operative Bank has worked with the Big Issue, a charity working with homeless people, to provide the people they assist with access to their basic account. In Scotland, the, then, Bank of Scotland worked with local community and tenants groups to provide a transaction banking outlet in a community building in Wester Hailes, a poor and disadvantaged area of Edinburgh. Also, in the United Kingdom, all banks that offer a basic bank account have signed an agreement with the Post Office that permits transaction banking through local post offices. This greatly benefits people living in rural and disadvantaged communities where there is no bank branch and often not even an ATM.

It is, perhaps in the area of **consumer credit** where partnerships can play an important role. Because the costs of providing small loans to potentially high risk customers tend to be high, banks and other mainstream lenders are either prevented from lending to many people on low incomes by interest rate ceilings, or find it unprofitable and/or a risk to their reputation where a ceiling does not exist. Either way, partnerships with not-for-profit lenders offer a way of meeting otherwise unmet needs. Consequently a number of commercial credit providers have provided general funding to local not-for-profit credit initiatives as part of their more general charitable giving.

In addition, there are good examples of commercial companies entering into partnerships with third sector lenders. For example, in **France** some credit card issuers (Cofinoga, Cetelem, Cofidis) work in partnership with NGOs, and provide the loan capital for the development of micro-credit. Loans are, additionally, 50 per cent guaranteed by the state through the Fonds de Cohésion Sociale created in 2005. Unlike the co-operative banks (see section 7.2 below) they tend to concentrate on less disadvantaged groups (such as students). In the **United Kingdom**, too, there are many examples of individual banks

providing loan finance to specific not-for-profit lenders. Here, though, they have contributed in other ways too, including seconding staff and providing staff with time off work to contribute to the boards of not-for-profit lenders. The Co-operative Bank has worked with the credit union movement over a number of years exploring how individual credit unions can move towards financial sustainability. More recently, Barclays Bank has assisted the credit union trade association (ABCUL) to develop and apply the PEARLS system of financial management which is enabling a small group of credit unions to move towards full financial sustainability. Others are expected to follow in their footsteps. Building on these developments, banks have played an active role in a Credit Working Group, set up by the United Kingdom government through the Financial Inclusion Taskforce, to look at ways that banks can support credit unions and other not-for-profit lenders to develop sustainable services across the country. Discussions with banking representatives identified a number of ways that they can potentially assist. These include:

- secondment or placement of staff with relevant experience and skills;
- investment in IT systems and equipment;
- back-office premises;
- increasing lending and risk-assessment capabilities;
- provision of access to banking platforms; and
- direct financial support to meet revenue costs

Finally, in **Poland**, the ZBP, has promoted loan guarantee funds and micro-finance institutions to support micro-enterprises

We were only able to find two examples of new *savings* initiatives involving banks and other mainstream providers and both are in the **United Kingdom**. The *Saving Gateway* is a matched savings scheme for people on very low incomes – for each Euro saved, the government provides a matched amount. There have been two pilots of this scheme, in the first the matched amount was one Euro for every Euro saved; in the second a variety of match rates were tested. HBoS operated both pilots on behalf of the Government on a *pro bono* (non-fee charging) basis. The second is the *Child Trust Fund*, another government initiative, where every child is given a sum of money at birth and again at age seven³² which must be paid into a special Child Trust Fund Account and cannot be withdrawn until the child is aged 18. Banks (but not commercial insurance companies) have all offered these accounts to parents.

Finally, we can find only one example of a partnership initiative in the area of *insurance* - the Insurance with Rent schemes in the United Kingdom which some insurance companies operate in collaboration with local social landlords (including both local authorities and housing associations – charities that provide housing). These schemes provide low-cost home contents insurance to low-income tenants living in disadvantaged areas where premiums would otherwise be high. Block policies are provided by mainstream insurance companies to social landlords who then act as an ‘agent’ for the insurance company, selling insurance to their tenants and collecting premiums with their

³² Approximately 350€, with an additional 350€ paid to children in low-income families.

rent. By pooling the risk premiums are kept low. Social landlords are paid a commission by the insurance company for acting in this way and this money is used either to reduce directly the cost of premiums for tenants or to pay for improved security on tenants' properties – which reduces the level of burglaries and insurance claims and, in turn, reduces the level of the insurance premiums in the longer term. Premiums are normally collected weekly with the rent – so spreading the total cost and making it more manageable. This is a rare example of an initiative where everyone wins: insurance companies receive more business for limited outlay; tenants gain access to cheaper insurance that can be paid for weekly rather than an annual premium, and local housing providers avoid empty properties resulting from tenants having to give up their homes following a burglary or rent arrears as tenants struggle to replace stolen items (Whyley, McCormick and Kempson, 1998). The most recent figures show that, in 1999, around half of larger social landlords offered their tenants an Insurance with Rent scheme (Kempson, 1999). The United Kingdom insurance trade association (Association of British Insurers or ABI) has played an active role promoting the advantages of Insurance with Rent schemes to potential providers, including producing detailed guidelines. It has also commissioned research into other unmet needs for insurance products as part of its contribution to the Financial Inclusion Taskforce.

7.1.3 Financial education

In new member states, in particular, financial education plays an important role in educating people about the advantages of transaction banking and other financial services. This issue was only researched in **Poland** within the country report – second stage. There are two educational initiatives driven by mainstream providers. The Polish Banking Association has promoted education programmes, mainly aimed at young people and financial journalists. Moreover, PKO Bank Polski (which used to be the biggest traditional retail bank for households in Poland) promotes financial education in schools and other child care facilities. For many years (even during communist times), PKO BP has been conducting the SKO (Szkolna Kasa Oszczędności – School Savings Union) programme in schools with the slogan “Today we save with SKO – Tomorrow with PKO”. This programme teaches pupils to save regularly, even small amounts of money.

Elsewhere in Europe, banks have played an active role in financial education and raising levels of financial capability generally. This includes programmes designed to improve money management and budgeting and prevent over-indebtedness and, consequently, tackle one of the causes of financial exclusion.

People at risk of financial exclusion often need more than education and require encouragement to develop confidence in financial services and ensure that they are able to communicate adequately with financial intermediaries. Companies that have developed products or services for this market have, therefore, produced easily understood, honest and comprehensive advertising and promotional material and have worked with trusted intermediaries to promote take-up.

Beyond this, there are examples of initiatives that have been designed to tackle mistrust of commercial financial providers. In the **Netherlands**, the Rabobank has developed a

brochure ‘Step by step banking’ for people needing to get used to phone or internet banking. It has trained senior staff so that they are able to liaise with social care organisations, and has a programme of support with banking for people with literacy problems. In the United Kingdom, individual banks have collaborated with local community organisations to reduce levels of self-exclusion through mistrust of banks and their services.

7.2 Development of new products and services by commercial social-oriented financial services providers

In addition to private commercial institutions, many EU countries have other commercial organisations offering financial services, including savings banks, post offices and other mutual or co-operative providers. For short-hand we refer to these as ‘commercial social-oriented providers’ to distinguish them from the private commercial profit-oriented banks. This does not, however, imply that they are subsidised, merely that they are not privately owned companies quoted on stock exchanges. They often operate in a limited geographical area and are closely linked to the needs of that area, but are generally backed by a network providing expertise and professional management as well as a wide range of products to sell.

A co-operative banking sector exists in seven of the 14 countries covered by this report (Austria, France, Germany, Italy, Netherlands, Poland and Spain) and five (Austria, France, Germany, Norway and Spain) have a network of savings banks. In addition, six countries have postal banks (Belgium, France, Ireland, Poland³³ and Spain) or, less commonly, a Post Office that is active in promoting access to financial services provided by others (the United Kingdom). In the United Kingdom, there are networks of (predominantly) small local building societies, which are mutual organisations owned by their members, and friendly societies and mutual insurance companies. While the Netherlands and France retain a network of Municipal Banks that now largely focus on serving people who are over-indebted. Moreover, these commercial social-oriented providers collectively have market share that almost equals that of commercial profit-oriented banks in Germany and Spain and exceeds them in Austria.

It is notable that the new member states in transition economies had privatised their banking sectors, which nowadays are mostly owned by foreign capital from high industrialized countries. But there are other examples where commercial social-oriented providers have undergone major changes, such as loss of mutual or cooperative status or privatisation, which have sometimes led to a change in their historical mission, bringing it closer to that of commercial profit-oriented banks.

Italy, Ireland and the United Kingdom all had networks of local saving banks in the past, which have been privatised. Many United Kingdom mutual building societies and insurance companies have also been privatised. In the Netherlands, the Postbank is now owned by the ING group, the Girobank set up by the United Kingdom Post Office is now

³³ Bank Pocztowy SA has been operating on the market for a long time, but only in the recent years proved its interest in serving retail customers, also via Post Office outlets. Before, it focused mostly on servicing the Post Office financial operations.

owned Alliance and Leicester plc and the Spanish postal bank has also been privatised. In other cases, in order to ‘level the playing field’, there has been an erosion of the tax, legal, or other benefits that acted as compensation for the burden of serving ‘marginal’ market segments rather than just pursuing a profit.

Table 12 Availability of commercial social-oriented organisations offering financial services

	Co-operative banks	Savings banks	Postal bank	Others
Austria	x	x		
Belgium			x	
Bulgaria				
France	x	x	x	x
Germany	x	x		
Ireland			x	
Italy	x			
Lithuania				
Netherlands	x			x
Norway		x		
Poland			x	
Slovakia				
Spain	x	x	x	
United Kingdom				x

Where these commercial social-oriented providers exist they play an important role in tackling financial exclusion, indeed, many have a statutory responsibility either to serve all sections of the community or to target those who are on low incomes or are financially excluded. In France, Caisse d’Épargne was given a legal obligation in 1999 (French law 99-532 of 25 June 1999) to mitigate the problem of financial exclusion. Ten federal states in Germany have regional legislation requiring local savings banks (but not commercial profit-oriented ones) to accept savings deposits and offer a current account to anyone living in their business district. In two other regions, there is a requirement that is not in legislation. The Belgian and French Postal Banks were established to ensure that people on low-to-moderate incomes had access to banking services. And in the United Kingdom, the agreement (brokered by the Government) between commercial banks and the Post Office to provide access to transaction banking services through local post offices to holders of basic bank accounts, was designed to provide better access to the banking infrastructure for people who are financially excluded. That said, and as we note above, EU requirements regarding State Aid mean that these organisations cannot receive direct subsidy for the banking services they provide. For this reason, the Dutch Municipal Banks, which originally served a wider clientele, now target their services on people who are over-indebted and cannot access credit in the commercial marketplace.

Once again it is possible to group the responses by these commercial social-oriented providers into three areas: development of new products and services; partnership working and financial education.

7.2.1 Developing new products and services

Where basic bank accounts are generally available in a country, commercial social-oriented providers have, on the whole, been much more active in their promotion than have the commercial profit-oriented banks. In **Germany**, for example, although co-operative and savings banks have only 12 per cent and 22 per cent of the market share of **banking**, they operate 32 per cent and 44 per cent of the 'Everyman' accounts respectively. Moreover, around 80 per cent of social benefit recipients have a current account with a local savings bank.

In several countries, where basic bank accounts are not generally available, commercial social-oriented banks are the sole providers. In **Spain**, several savings banks have offered a 'flat rate account' since 2004. The nature of these accounts varies between providers but, in general, they are current or deposit accounts that include additional services such as a bank card and bank transfer facilities. All have a flat fee. Some Spanish Savings Banks have also developed accounts that offer some services free of charge if wages or pension payments are paid into the account. In **Austria**, Die Erste Österreichische Spar-Casse Privatstiftung initiated and has been supporting Die Zweite Sparkasse (second savings bank), which offers a simple bank account without an overdraft. It is also free of charges but flat refundable 9 € 'security deposit' is payable every 3 months for any transactions, and it currently pays 0.5% interest on balances. The account is intended as a route to normal banking relationships for people in financial difficulty, so availability is restricted to a fixed term (four to five years) for people being assisted by a debt advice agency or Caritas. This has been offered in two localities (Vienna and the Tyrol) since November 2006, but there are plans to extend it to other federal states in 2008. In **France**, La Banque Postale and Caisse d'Épargne offer Livret accounts, which are used extensively by poor people and which represents a monopoly disputed by the European Commission. In **Belgium**, the Postal Bank has offered a basic bank account since it was set up in 1995 – eight years before other banks. In **Poland**, there is no basic bank account as such, but a few banks started to offer cheap current accounts.

In addition, commercial social-oriented providers tend to be more sympathetic towards the provision of banking services for people who are in financial difficulties. In **Austria**, for example, two co-operative banks (Raiffeisen Bank and Erste Bank) voluntarily provide current accounts to people who are over-indebted – unlike most Austrian banks.

In **Ireland**, **Italy** and the **United Kingdom**, post offices offer a range of alternative financial services for people who are unbanked. These include facilities for bill-payment in cash, and, in the United Kingdom, the Post Office has developed a simple electronic account for the receipt of state pensions and social security payments. Currently this 'Post Office Card Account' (POCA) offers very limited facilities and operates as an electronic purse. Money can be withdrawn from it in cash, but it is not possible to deposit money into the account, nor can it be used to make payments. However, the current contract

between the Government and the Post Office ends in 2010 and it is likely that the POCA replacement will provide a wider range of facilities.

As might be expected, co-operative and savings banks are also very active in providing **savings** facilities for people who are likely to be financially excluded – indeed in some countries (**France** and **Germany** for example) some have a legal obligation to accept savings deposits. In Germany, Ethnikbank has, since 2006, offered a micro-account – a savings account for people who have had one closed by a bank as a result of over-indebtedness. Access to these accounts requires the signature of either a debt counsellor confirming that a debt settlement agreement has been reached (either amicably or judicially) or an insolvency practitioner if the person has been made bankrupt. In the **United Kingdom**, mutual building societies have been very active in developing special Christmas savings accounts – following the collapse of a major alternative provider that specialised in offering such accounts to large numbers of families on low incomes. The terms of these accounts differ but they typically accept regular payments, with access to savings being limited until just before Christmas.

In terms of **credit**, there are three developments to note. First there are public sector pawnbrokers in countries such as **Belgium**, **France** and **Germany** with interest rates that are considerably lower than those charged by commercial pawnbrokers in other countries. In Germany, for example, they offered 1.1m loans in 2006 at an interest rate of 1% per month, plus a charge for the storage of the items pledged. The amount lent against the value of the pledged goods was, however, about 20 per cent lower than that lent by commercial pawnbrokers. Secondly, in the **Netherlands**, there is a network of municipal banks that offer loans, advice and assistance to people who are over-indebted. Finally, in **Spain** credit co-operatives (Sociedades Cooperativas de Crédito) serving a local area play an important role in facilitating financial inclusion of people in rural areas with very basic needs. And Microbank, a subsidiary of La Caixa, was set up in 2007 to provide start-up finance for self-employed people or disadvantaged individuals (unemployed and migrants) who do not have access to commercial credit. Most active are Caixa Catalunya, Caja de Grenada and Caixa Galicia.

Spanish savings banks have also been active in developing **remittance services**. In 2005, the Confederación Española de Cajas de Ahorros (CECA) encouraged 32 savings banks to launch a new remittance service called ‘Bravo, envío de dinero’. This is based on an agreement with banks from 14 Latin American countries and is supported by a joint platform for money transfers via Swift and the Internet. This competes with specialist commercial money transfer companies in terms of both cost and speed of transfer.

Die Zweite Sparkasse in Austria, in addition to offering basic banking (see above), also provides access to household and personal liability **insurance** at a reduced rate.

7.2.2 *Partnerships to widen access and reduce costs*

Commercial social-oriented financial institutions have, like the commercial profit-oriented banks, been active in promoting access to affordable credit through partnership arrangements. In **Spain**, ‘welfare arms’ (obras sociales) of savings banks channel resources to funds to promote micro-credit initiatives. In the **United Kingdom** several mutual building societies have worked with local social landlords to provide ‘savings and loans’ schemes. Tenants save through their landlord and the money is deposited with the building society. They are then eligible to apply for loans from the building society, which are underwritten by a sum of money deposited by the landlord as a guarantee. Although each tenant has their own savings account, all the deposits made by tenants and also the guarantee deposit is treated as if it were all in a single account. This means that tenants get a higher rate of interest on their savings. Interest rates on loans are heavily subsidised and are generally around 1% above base rate. Even so, take-up has been low.

In **Belgium**, the Postal Bank was, until recently³⁴, involved in a pilot providing social credit in partnership with the regional authority in the Walloon Region (since 2003) which was later extended to the Brussels Region (since 2005). The Postal Bank provided loan capital and back office operation; all other costs are borne by the regional authority, including the provision of loan guarantees. Interest rates on loans are between 4.5% and 6% on average. Crédal Plus runs the service and is the lender in Walloon Region. Like the savings and loans schemes in the United Kingdom, the service remains small in scale – 400 loans to date.

Partnership arrangements involving commercial social-oriented providers are, perhaps, most extensive in **France** where the co-operative banks play an important role, in partnership with NGOs, in the provision of social credit to people who cannot access commercial lenders. The banks normally make the loans, often 50% guaranteed by the Social Cohesion Fund which is managed by Caisse des Dépôts et Consignations; while NGOs assess risks and support the borrower during the repayment period. In total, there have been 2,500 social loans since 2005 totalling 3m €, but it should be noted that people in extreme poverty or who are over-indebted are sometimes excluded from the guarantees so this does not reflect the exact level of need.

In addition, Crédit Agricole (voluntarily) offers social credit and ‘crédit solidaire’ for debt restructuring in one of its regional caisse (caisse Nord Est). The service also provides advice and mediation and, in fact, most people are assisted without recourse to these loans. This was inspiration for the Caisse d’Épargne to offer similar service since 2006, which also linked to advice (but not mediation) – see below for more detail.

While, Crédit Mutuel Midi-Pyrénées, in partnership with Secours Catholique (Caritas France), provides access to credit for people who were victims of the AZF disaster (explosion of chemical factory in 2001).

Finally, it should be noted that commercial social-oriented providers in the United Kingdom, including building societies and mutual insurance companies and friendly

³⁴ Dexia Bank is now involved – see section 7.1 above.

societies, have played a very active role in the provision of Child Trust Fund accounts in partnership with the government. The Children's Mutual, in particular, has been especially active in the development of the Child Trust Fund, including manufacturing Child Trust Fund accounts for many other bodies (including high street banks) to distribute.

7.2.3 Financial education and advice

Notable examples of commercial social-oriented providers playing a direct role in financial education and advice can be found in France and the Netherlands.

In **France**, La Banque Postale has signed a convention with the Union National des Centres Communaux d'action Sociale (UNCCAS) in 2006 (revised from 2005) to improve the provision of information and advice to people facing financial exclusion. Local social workers provide this advice to customers who have difficulties in their relationship with the postal bank.

In addition, Crédit Agricole (a French co-operative bank) has established 'Points Passerelle' to help people facing financial difficulties. This was originally piloted in the north east, but since 2007 it is being extended to other regions of France. These advice points are separate from bank branches and offer both advice and, if needed, mediation and negotiation with creditors; one branch also offers 'crédit solidaire' for debt restructuring (see above). The success of this service has inspired a similar development (Parcours Confiance) by the Caisse d'Épargne, which differs in that it does not offer mediation but assigns a member of its staff as 'banker' to manage the customer's account and any credit repayments until their financial difficulties are resolved. An evaluation of 'Points Passerelle' in 2002 showed that the service had a high success rate (Gloukoviezoff and Guerin, 2002).

Municipal Banks in the **Netherlands** have a long history of assisting people who are over-indebted and play a major role in the debt settlement system. In addition, in 2000, they developed the 'Balancing income system' with some assistance from the Dutch Bankers Association. Revenue costs are, however, financed indirectly by the local authorities, to whom the service is sold. It offers face-to-face advice to people in debt, or facing it, to enable them to analyse their financial situation and monitor and regulate their spending and earning habits. Consequently, it tackles financial exclusion only indirectly, although in the Dutch context of very high levels of financial inclusion, over-indebtedness is one of the main potential causes of exclusion. This is considered to be a successful initiative and 75 per cent of participants were able to control and manage their money two and a half years after receiving assistance³⁵.

³⁵

Country Report stage II, The Netherlands, December 2007.

7.3 Development of new products and services by alternative commercial (including credit unions and microfinance institutions) and not-for-profit financial services providers

7.3.1 Overview

Activities of alternative commercial (including credit unions and microfinance institutions) and not-for-profit organisations are various in financial inclusion and they can be classified within the following fields.

Financial education

A very large range of initiatives have been implemented in this particular field, and a former EU project has already identified many of them as well as best practices and recommendations³⁶.

Nevertheless, the country reports stage II underline the following interesting elements.

In **Austria**, teenagers and young adults have been identified to be particularly at risk of financial difficulties. To face this issue, the Upper Austrian social department claims for a obligatory incorporation of the matter in the school curricula, but there is no financing guarantee in the long term (the project is therefore active when financing is available by governments, sponsors,...).

In **France**, “Finance et Pédagogie”, “Les clés de la Banque” and “Cresus” are the three main actors implementing information, training, and money advice for the public. Although they are theoretically independent, they are very close to the bank. The methodologies are quite different from one project to another: the services range from advice via personal appointments to websites and trainings.

In **Germany**, the “Institut für Finanzdienstleistungen” is a non-profit association doing research and giving advice in the field of sustainable financial services. The institute develops IT programmes to be used to give financial advice to consumers, provides publications, contributes to further training, and creates models for socially responsible credits, investments, means of payment and insurances³⁷.

In **Poland**, teenagers and young adults have been identified to be at risk of financial difficulties. The Microfinance Centre is the most active institution targeting low-income people. However, this organisation faces problems related to long term financing and the scale of the activities is still limited. The appropriate method to reach and motivate low-income people to join the training is still a work in progress.

“My Finance” is another project which targets secondary school teachers (+/- 2.400 teachers altogether). It proposes three different programmes and multimedia teaching supports. Also, in Poland, the only not-for-profit institution involved in financial education is The Microfinance Centre for Central & Eastern Europe and the New

³⁶ www.fes.twoday.net

³⁷ www.iff-hamburg.de

Independent State (MFC), located in Warsaw. In 2004, the Consortium for Low-Income People Education was set up in order to implement the training programme “Plan your future”. All around the world the programme was financed by the Citigroup Foundation and coordinated by Microfinance Opportunities and Freedom from Hunger. Beside the MFC, another member of the Consortium is, among others, the Polish Banking Association. Within the framework of the project there were only pilot activities during the years 2004-2005³⁸. The Microfinance Center plans to re-launch at the end of 2007 a financial education programme for low-income people. This initiative will be financed by a grant from the Levi Strauss Foundation and will be run in close co-operation with about 30 NGOs.

Overall, from the experiences shared by the fourteen studied countries, four elements are to be taken into account when thinking about financial education:

- The size of the action (pilot or general implementation);
- The length of financing;
- The independence of the providers and
- The methodology to implement efficient programmes which target low-income people.

Current bank account

This financial service is almost exclusively provided by banks. One exception, however, can be mentioned:

- one in the **United Kingdom**, via some credit unions that have adopted pilot initiative between ABCUL and the Co-operative Bank.

For the most part, these are credit unions that have also received support from the Financial Inclusion Growth Fund.

Ireland has one of the largest and readily accessible networks of credit unions yet they do not currently provide transaction banking facilities. A pilot project will however be launched in 2008. It has, however, been proposed that they could easily do so but would require access to the clearing system, would need to develop a common operating system and a common set of tools (Corr, 2006).

Related to bank account access, it has been reported that, in **Germany**, debt counselling organization are very active in defending consumers' rights to transaction banking services.

In the **Netherlands**, as already noted, the Salvation Army, a not-for-profit entity, has played an active role in ensuring access to banking services.

³⁸ See two reports on www.edufin.org.pl by Matul M., Pawlak K., Fałkowski J., *Priorytety wzmacniania edukacji finansowej wśród ubogich rodzin w Polsce. Zarys zagadnienia na podstawie wyników badania jakościowego*, październik 2004 and Matul M., Pawlak K., Guzowski K., *Edukacja finansowa dla osób o niskich dochodach w praktyce. Raport z ewaluacji pilotażu warsztatów z edukacji finansowej*, lipiec 2005.

Credit (unsecured credit for private purpose)

Many not-for profit projects have been developed to tackle credit exclusion in individual EU member states. The nature of these projects reflects the national environment, including its legislation, credit market structure and borrowing habits.

In **France**, consumer credit for low-income people has been implemented, relying on a partnership between banks (which play the role of credit providers), not-for-profit organisations (which provide budget advice, client follow-up and a part of the guarantee) and the government, via the Social Cohesion Fund (which covers a part of the risk through a guarantee as long as creditor and borrower respect some particular criteria such as not being registered (i.e. bank prohibited or over-indebted), not having access to other credit, that the financed credit does not correspond to a debt reorganisation, etc).

This is currently being evaluated, but what can be already be underlined is that:

- The implementation of a federal guarantee fund to reduce risk of providing financial services to excluded people (50% of the risk), the other 50% are assumed by the social partner;
- The voluntary participation of many banks, but only commercial social-oriented ones (only cooperative and saving one, plus some credit card providers) and
- The voluntary participation of different not-for-profit organisations.

There are still contrasted opinions about the access and use of credit and if it has to belong or not to basic financial services. Nevertheless, appropriate credit is nowadays widely considered to be able to contribute to social inclusion and access for low-income people may improve general inclusion. In this area, not-for-profit organisations may play various roles such as provider, pilot-project leader or “front office” operator within a partnership.

In **Belgium**, a similar project exists in the Walloon region and more recently in Brussels. The main differences are:

- Lack of partnership with a bank (the Post bank just quit the original partnership, replaced by a financial not-for-profit cooperative – Crédal) and for the moment, no other bank has joined the project;
- Lack of other not-for profit organisation to implement it.

These two first elements influence the size of the project and its capacity to face a more significant part of the excluded needs. It is relevant that this kind of solution has been implemented in countries where no illegal sub-prime providers exists, where maximum ceiling rates are fixed by law, where the average use of credit is considered as low with regards to the EU average, where consumer protection is high and where the market is quite well regulated.

In **Ireland**, there were 3 million members of credit unions in October 2007 (approximately 70% of the population), and thus it has one of the largest credit union movements in Europe. However, the Irish credit union movement has made no public commitment to tackling financial exclusion in Ireland, although some of its current initiatives have the potential to do so.

Indeed, concerning social finance, the ILCU (2005;3) defines it as ‘the provision of finance by organisations which seek a social return or social dividend, as well as financial return’. A survey revealed that all the credit unions provided small loans to already indebted or low-income families. Over half the credit unions surveyed (58%) were providing social finance, which constituted 10% of loans made. Research on financial exclusion in Ireland supported the credit union movement’s aim of developing a social finance policy (Corr, 2006).

In the **United Kingdom**, there are two networks of social lenders. The largest of the two is the credit union network (with 0,5 Mio members), which has until relatively recently operated on the tradition model of requiring members to save before they can borrow. In addition, CDFIs (not-for-profit Community Development Finance Institutions) offer low-cost loans to people who find it difficult to access the prime credit market. Unlike many credit unions, they do not link loans to savings – since most of them are not deposit takers.

Both networks have benefited from a major injection of government funding, largely through the Financial Inclusion Fund, with over 100 organisations receiving financial support to enable them to offer loans to people who are financially excluded. In the case of credit unions, it has also enabled them to break the traditional link between saving and borrowing and to make lending decisions based on people’s ability to repay rather than on the amount they have saved. This financing has included loan capital to enable an expansion of lending to low-income people and investment in capacity building of organisations funded this way. After many years of grant aid to this sector, there is now an emphasis on building organisations that are financially sustainable, covering their running costs from the services they offer.

As the study on credit unions proved, their role in **new member states** is not significant as they achieve only a small share in the relation to the banking market (in most cases less than 1% of the market share). Thus, they were not able to become a key player in dealing with financial exclusion, except in the rural areas of Lithuania. What is worrying, in the case of Poland, is that credit unions start to provide more commercialized services and seem to focus more and more on middle income population, instead of low-income. Out of the countries covered by the project (Bulgaria, Lithuania, Poland and Slovakia), credit unions operated in three of them (not Slovakia³⁹). In Bulgaria, they have specific features and cannot be treated unquestionably as credit unions due to the fact that they cannot accept deposits from their members.

There are some important differences between the credit union providers and the other providers existing in Belgium and France.

Credit unions provide both saving and credit schemes, which is not the case for the other actors. The way credit unions evaluate the creditworthiness is almost solely based on the

³⁹ Using a single European passport three credit unions opened their branches in Slovakia: Rajka és Vidéke Takarékszövetkezet (in 2006, from Hungary), Komerční sporitel'ni a úverni družstvo DOMOV (in 2006, from Czech Republic) and Fio (in 2007, from Czech Republic).

savings capacity. This way of working does not require the long social analysis implemented by the “social credit providers”. In this sense, the risk analysis is less expensive and all together (savings and credit), many credit unions are able to reach break-even. Nevertheless, the conditions in which credit unions can develop are quite specific: a strong common bond within a community has to exist (social control) and the degree of exclusion has to be high and/or other alternatives must be considered dangerous (moneylenders). Indeed, being obliged to save money before being able to access credit may appear very stigmatising in many continental countries.

Debt counselling services

Already well developed in some countries, such as Belgium, Germany, Austria, the United Kingdom, Sweden, Norway Finland, Ireland and the Netherlands, the general movement is now to improve the quality of services, the training of advisors, the coordination and, in some case, the data collection. Development of such services has been also reported in Poland, since a network of centres for financial and consumer advice has been launched in 2001. Now seven centres are operating in big towns. The main focus of these centres is to tackle overindebtedness.⁴⁰

The Money Advice and Budgeting Service (MABS) is posited as a model of best practice at EU level. In a peer review, Korczak (2004) concluded that the particular strengths of MABS that could be transferred to other EU countries include its ‘people-oriented style’, central funding and coordination, collection of standard quarterly statistics, evaluation methods, private-public partnership model and accounting software that enables the services to make a single regular payment for distribution among creditors. Furthermore, the peer review praises the mix of national coordination and local diversity, the strong emphasis on social cohesion and the quality of human contact. Moreover, MABS has received positive feedback from clients and stakeholders. Almost three-quarters (73%) of MABS clients have paid or are currently paying off their debts, 70% state that they can manage their money better and 82% claim to have greater peace of mind. Furthermore, 90% of stakeholders, including creditors, were pleased with the service MABS provides (Korczak, 2004).

Data collection

In **Belgium**, this activity is usually operated by actors such as the “centres publics d'action sociale” (CPAS) or the “Centre d'Appui aux services de Médiation de Dettes de la Région de Bruxelles-Capitale” (GREPA) and the “Vlaams Centrum Schuldbemiddeling”. Studies and actions are not yet coordinated on the national level.

Only the Belgian “Observatoire du Crédit et de l'Endettement” has been mentioned for two main publications:

- a directory of case law with regards to the law on consumer credit as well as the collective debt settlement procedure and
- a survey among debt mediation services (in the Walloon Region) which is used to assess the types, amounts and numbers of loans involved in cases of

⁴⁰ For more information, please refer to the working paper “Financialisation of social relationships: link between financial exclusion and over-indebtedness” written by Georges Gloukoviezoff.

overindebtedness, details of non-credit debts and the socio-economic data of households.

Consumer "claims"

The follow-up of some consumer claims seems to be an informal activity for many not-for-profit organisations. In **Germany**, for example, interventions carried out by advice agencies in cases of refused or cancelled current accounts are successful in 34% of the cases, which means that they carry out the work the banks' dispute settlement offices should do.

7.3.2 Analysis

The three main fields where not-for-profit actors are significantly active are financial education, current accounts and credit. The others appear more like country specificities.

Financial education

It is not surprising that financial education is well represented in the not-for-profit sector. Indeed, in many countries, not-for-profit organisations deal with prevention, consumer protection (in a broad understanding), debt counselling, which are all activities closely linked to education. Nevertheless, if those activities are directly dealing with many causes of financial exclusion, they are not, in a classical way, a new financial product or service. For this reason, and also because this study did not focus on financial education, we refer to the publications and reports of the EU-DG Employment financed project "Financial education & better access to adequate financial services", which identify clear recommendations.

Current bank account:

Current bank account or equivalents (generally with less transactions capacity) have hardly been proposed by not-for-profit organisations. This is due to the fact that there are no networks of third sector bodies able to take on the function (except in United Kingdom, Ireland and Poland) and also probably because the provision of bank accounts is very regulated and needs high technological skills.

Credit

Access to appropriate unsecured credit can play, in many situations, an important role in financial and social inclusion, by the goods/services credit it allows to access. Nevertheless, the situation within the EU members is very different, and the answers are therefore adapted to their environment.

In **United Kingdom and Ireland**, we can consider that financial services and products are widely used by a large majority of citizens. The market is highly competitive and access to credit is widespread even if access to appropriate credit may appear more difficult (subprime, moneylenders, illegal lenders). Nevertheless, in some areas, banks are almost totally absent and exclusion may then be hard to combat. Many communities (with at least a common bond) therefore develop financial services and products they are missing via credit unions. This is particularly adapted to more liberal economic systems where people need to create solutions on their own.

For instance, when credit unions are used by wide sections of the population, as in Ireland, there is no stigma attached to their use. But this is not always true for third sector lenders in other countries. It is also important to underline that credit unions might receive financial support from governments in order to target more specifically excluded people. The system seems to be able to reach, in some conditions, a financial balance and the protection of the savings can also be reached via a public coverage.

In **Poland**, the credit union model is also developing. Not only focussed on low-income people, credit unions may become an important integration actor in financial matters. This may represent a good opportunity in a country without any Polish assets bank and a large countryside population.

In **Belgium and France**, the consumer protection and the market regulation are quite high. The level of bank inclusion is also high and the use of credit much less developed than in English-speaking countries. Maximum interest rates, no subprime or illegal markets and registered lenders imply a less easy access to credit, and therefore, also, less inappropriate credit.

In **Italy**, special funds to provide financial help to people which are at risk of usury practices or which already fell in the usury trap. This initiative is a complement to the law introducing “Rules on usury practices”, introduced by the Italian Government and financed by the Treasury. However, regular people acting as consumers can not benefit from this tool in case of usury experience. There are proposals to extend the access to these Funds to regular people acting as consumers.

The solutions developed for the moment have to be considered as “experiences”: what can be the social benefit of small credits with regular instalments proposed to low-budget people? How high is the risk? What adequate criteria have to be identified for a more appropriate risk analysis? What might be the conditions to enlarge the supply? How appropriate are they to combat over-indebtedness or to educate on budget management?

Those experiences rely on partnerships between lenders, not-for-profit organisations and governments. Moreover, usually, the lenders assume the back office, the not-for-profit organisation the front office and the government finances a part of the activities and assumes a more or less important part of the risk. The objective is certainly to try to finalise an “adequate credit model” to propose to low-income people who can be implemented at a larger scale and in a less stigmatising way.

Hereunder we summarize the pros and cons of the “credit union” and the “social credit experiences” approaches.

Table 13 Pros and cons of the “credit union” and the “social credit experiences” approaches

Credit unions	
Pros	Cons
<ul style="list-style-type: none"> ➤ adapted to local situations ➤ face both saving and credit exclusion (adapted to deprived areas) ➤ mostly efficient and cost effective ➤ if based on savings, low risk credit ➤ solidarity-based ➤ affordable credit ➤ adequate measure of creditworthiness for low-income people ➤ already developed at a high level in some countries (significant providers) ➤ moving towards or has already achieved financial sustainability with no reliance on grant aid 	<ul style="list-style-type: none"> ➤ in most cases, saving before credit ➤ rigid credit framework (narrow range of credit and strict conditions) sometimes stigmatising ➤ sometimes incomplete range of financial services ➤ may reinforce exclusion by mainstream providers

Social credit experiences	
Pros	Cons
<ul style="list-style-type: none"> ➤ low risk credit ➤ solidarity-based ➤ affordable credit ➤ adequate measure of creditworthiness for low- income people ➤ pedagogical approach ➤ increase bank access ➤ targets excluded people 	<ul style="list-style-type: none"> ➤ small scale ➤ rigid credit frame ➤ strong social conditions ➤ in-depth “personal” analysis ➤ stigmatising ➤ limited supply in its actual development ➤ highly subsidised

To conclude, in countries where credit unions are well-developed (usually, they were created as an appropriate answer in areas that have an history of financial exclusion) , their ability to meet unsatisfied demand for credit is quite high and the more they develop, the less they may appear as “stigmatizing”.

This growing movement may eventually lead to bank creation (cooperative), with therefore even more adequate capacity to satisfy the various ranges of financial services and reduce the risk of stigmatization. This development option is positive with regards to the efficiency of commercial social-oriented banks to face unsatisfied demand with appropriate services. The feasibility of such transformation should be facilitated.

7.4 Development of new credit products and services by alternative commercial profit-oriented financial services providers

Apart from the types of financial services providers we have seen above, which are mainstream commercial profit-oriented providers, commercial social-oriented providers or alternative commercial social-oriented and not-for-profit providers, people who are financially excluded can turn to a last option: alternative commercial profit-oriented providers of financial services. Indeed, they are involved in what is called “subprime lending”, defined as high interest loans made to low-income consumers and the credit impaired (Corr, December 2007). These are often ‘extortionate’, that is they may entail high costs, unclear terms and conditions of agreements, unfair sales practices, dishonest brokers and / or illegal debt recovery.

Concerning the three financial aspects studied (transaction bank account, savings and credit), for alternative commercial profit-oriented providers we will concentrate mainly on the credit topic⁴¹.

Credit wise, as a general tendency, English-speaking countries and some eastern countries are more affected by alternative financial credit providers: the sub-prime and sub sub-prime markets. This is explained for two main reasons, in the other European countries studied:

- On the one hand, other options, such as savings banks, are more readily available for credit access and usage, and
- On the other hand, legal frameworks (regulation, consumer protection and maximum interest ceiling rates) are more or less prone to the very existence of the sub-prime market.

Table 14 Categories of alternative financial credit providers and affected countries

Alternative financial credit providers	Countries affected
Sub-prime market	
Sub-prime lenders (or non-deposit lending companies)	United Kingdom; Ireland; Lithuania; Slovakia; Bulgaria
Sub-prime credit card companies	United Kingdom
Pay day lenders	United Kingdom; Bulgaria
Mail-order catalogues and rental purchase outlets	United Kingdom; Ireland
Sub sub-prime market	
Legal moneylenders (or doorstep lenders/home credit companies)	United Kingdom; Ireland; Poland*
Pawnbrokers	United Kingdom; Germany; Norway; France; Ireland; Austria; The Netherlands; Belgium
Illegal sub-prime market	
Unlicensed moneylenders (or loan sharks)	Likely to be occurring in most EU States

* Not regulated by financial authority or commercial law

⁴¹ This part is based on the working paper “Alternative financial credit providers in Europe” written by Caroline Corr.

An exception is still to be observed regarding pawnbrokers which are more widespread in Europe for historical reasons. However, in continental Europe these pawnshops are usually managed by public authorities whereas it is not the case in English-speaking countries. Finally, the illegal sub-prime market may be happening in most countries, but the information remains incomplete. It is also important to stress that the intensity of the illegal sub-prime markets varies throughout Europe. In markets where the legal framework is less stringent, there are less illegal providers. However, it is important to remember that what is legal does not always equal what is appropriate.

It is interesting to note that these sub-prime loans are often contracted by credit brokers that act as extra intermediaries. This is an element that can render them even more inappropriate and dangerous.

Across Europe, different factors explain the varying level of success of alternative commercial providers. For instance, in more liberalised markets, (such as the United Kingdom or Ireland) gaps are fulfilled by alternative commercial providers. Also, more mainstream credit scoring techniques leave behind the low-income fringe of the population, making them available to alternative commercial providers. However, some mainstream commercial social-oriented providers now have credit scorings more adapted to low-income people.

Also, having no bank account makes it difficult for people to access mainstream credit and thus they might turn to sub-prime solutions when they exist. These sub-prime providers charge higher interest rates to enable them to tolerate higher levels of arrears and default payments. Moreover, inappropriate terms and conditions or poor geographical access proposed by mainstream providers also help the sub-prime market to grow.

The question is then, what is the added-value of alternative commercial providers? Studies show that customers of specific types of alternative financial credit providers (home credit companies in the United Kingdom and Ireland) often choose them in preference to mainstream providers because they prefer their terms and conditions or they believe that they would be refused by mainstream financial services. In circumstances where the customer has a good relationship with his/her home credit lender, alternative financial commercial providers can be useful. Moreover, for someone who regularly needs to delay payment - although the APR is higher - the actual cost of borrowing is lower than using a credit card and missing payments or getting bank charges if a direct debit to pay a mainstream loan fails through lack of funds in the account. Indeed, alternative commercial providers might seem interesting to some people because of their specific tailored services: cash loans, door-to-door service, no extra charge for delayed payment etc...

Continuing to look at the different models in Europe, on the other hand, countries with tighter regulatory regimes (such as Belgium, France, Germany) seem to hinder the development of the sub-prime market. However, this is nuanced by some experts that stress that, although it reduces the number of companies operating in the sub-prime

market, it might help increase illegal providers but this has not yet been observed in the three above-mentioned countries.

Using alternative commercial providers can lead customers away from mainstream providers even more. Indeed, they then do not build a transparent credit history which would allow them to have a good relationship with mainstream providers. Customers often borrow more than what they can afford and need to bear more stress in their household because of the sub-prime loan's high interests. These issues worsen when it comes to illegal providers, who sometimes even use coercive practices to recover their loans.

It is interesting to point out that few studies have been done on usage issues regarding sub-prime credit. The advantages and disadvantages need to be better weighed, especially with regards to the social and economic consequences this type of lending can lead to (i.e. sub-prime mortgage crisis in the United States. Indeed, the current American crisis might not have been as big if it had involved only unsecured credits, but the number of personal bankruptcies and indirect consequences for the economy still would have been real).

To avoid these situations - where low-income households need to use alternative commercial providers services - the other actors, namely mainstream commercial profit-oriented commercial providers, commercial social-oriented providers or alternative commercial social-oriented and not-for-profit providers, must be able to provide appropriate credit solutions.

The role played by these actors has been discussed in the above sections but the policies and services they should provide can be summarised in the below table:

Table 15 Meeting the credit needs of financially excluded consumers

	Policies and Services
Societal factors	1. Innovative and flexible regulation 2. Responsible lending legislation 3. Detection and enforcement of illegal lending
Supply factors	4. Greater access to banking services through the provision of basic bank accounts 5. Increasing access to affordable credit (e.g. through credit unions and community-based initiatives) 6. Social funding provided through the state
Demand factors	7. Financial education and advice

Concerning societal factors, regulators should develop incentives when access and use difficulties are addressed by the sub-prime market. Subsequently, illegal lending should be controlled and stopped. Regarding supply and demand, three players need to join efforts to better reach excluded people:

- the mainstream banking sector should make sure to offer appropriate financial services;
- both commercial social-oriented providers and alternative commercial and not-for-profit providers should provide financial education and advice;

- the state should provide social funding.

To conclude, there are different alternative financial credit providers which make up the sub-prime market in Europe. These include sub-prime providers (sub-prime lending companies; sub-prime credit cards); sub sub-prime market (licensed moneylenders and pawnbrokers) and the illegal sub-prime market (unlicensed moneylenders). These providers cater for those with poor credit histories and low incomes although customers of the sub-prime market may or may not be credit impaired. The sub-prime market is more or less important according to the different European countries due to various historical, regulative or economical reasons.

The use of alternative financial credit providers raises public policy issues, particularly in relation to social justice and costs (such as over-indebtedness treatment). Different experts have recommended that services and policies need to be introduced to provide appropriate and affordable options for low-income consumers. This will require action at a national and European level (e.g. through legislation and regulation); at an industry level (through mainstream service providers); as well as at a local level (e.g. through credit unions and community-based lenders and dedicated financial educational campaigns).

Although a great deal of work has already been done on the subject in the United Kingdom and Ireland, which are currently the countries most affected, but a wider study would allow for a better comprehension of the overall European situation, given disparities of regulations and economic models. We therefore recommend carrying out a qualitative impact study on the access and use of moneylenders, brokers and other types of lenders (such as pawnbrokers, or payday lenders). The idea would be to do a real societal cost / benefit analysis to decipher advantages and disadvantages in order to better objectify their real impact.

8 Voluntary charters and codes of practice for financial exclusion

Voluntary charters and codes of practice, developed by the banks themselves through their trade associations to make provision for 'life-line' or 'basic' bank accounts, are a common response to financial exclusion. In many cases, these developments have been prompted and encouraged by governments concerned to increase social inclusion.

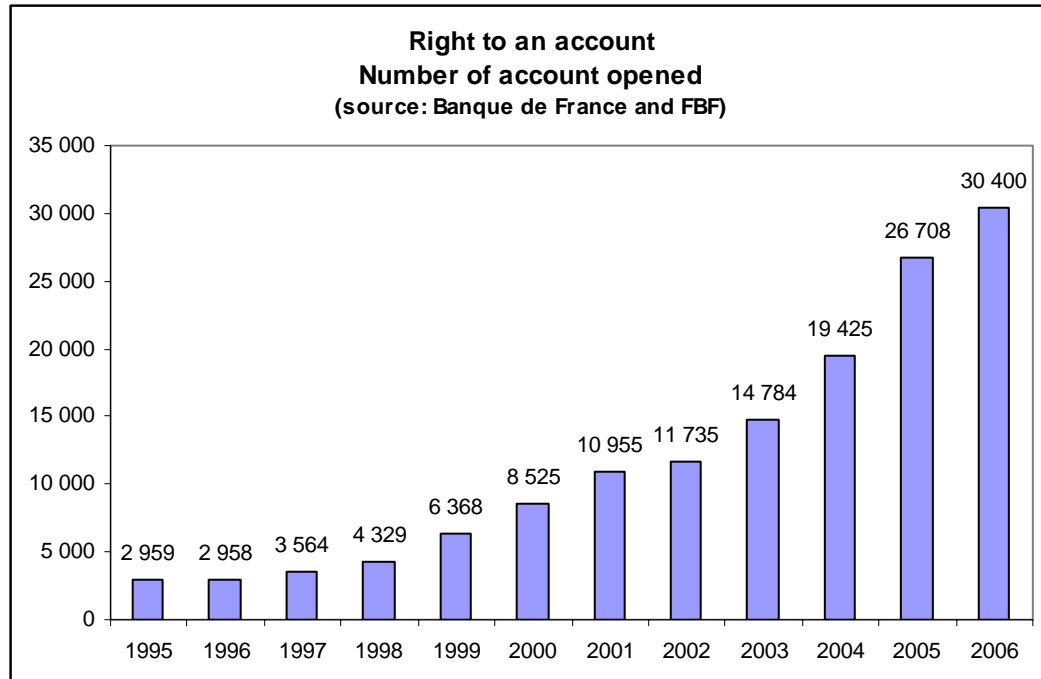
The earliest of these voluntary charters was introduced in **France** in 1992. Developed by the French Bankers' Association (FBF=Fédération Bancaire Française), it committed banks to opening an affordable account with facilities such as a cash card, free access to a cash machine network, bank statements and a negotiable number of cheques. Nevertheless, the ineffectiveness of the charter led the government to introduce legislation to replace it in July 1998. Although this legislation had a modest impact on the number of accounts opened under the 'right to an account' consumer bodies have raised doubts about banks' commitment to telling customers about their right. This has led to more recent voluntary commitments, which have met with greater success. Two action plans 'Banking made easier for all' (9 November 2004) and 'Access for all to financial services' (30 January 2006) that were implemented by the French Bankers' Association to avoid a universal banking service. These give 20 commitments, including a number relating to financial exclusion:

- If a bank refuses to open a current account for a customer, and the customer appeals, the bank must open this account and activate the right to an account within 24 hours.
- Banks will provide free access to cash to customers.
- Banks will provide customers without cheques or payment cards an alternative means of payment. Usually this is a payment card with automatic authorisation for a cost of around three or four euros per month.
- Banks will contact every customer filed to the *Fichier Central des Chèques* (people legally prevented access to cheques and/or payment cards) to make a personalised assessment of their situation in order to help them regularise their situation.
- Banks will develop information about alternative means of payments.
- Social support for people facing difficulties will be implemented in order to tackle financial exclusion.
- Banks will improve information about bank charges and develop a fixed price.

In addition, in November 2006, banks committed to reassess the situation of customers who face an accumulation of bank charges with a view to suppressing some or all of them.

As the graph below shows, there has been a steep increase in the number of accounts opened since banks gave the commitment to disseminate information about them.

Table 16 Right to an account, number of account opened



In **Belgium**, a voluntary charter was adopted in 1997 by the Belgian Bankers' Association (ABB/BVV) following a report commissioned by the Ministry for Economic Affairs. This gives a commitment to provide basic banking services for people on modest incomes who lack a bank account. At a minimum this 'call deposit account' offers three basic types of transaction: money transfers, deposits and withdrawals and bank statements – although individual banks may opt to offer other services if they wish. These accounts have no overdraft facility. Up to three transactions a month can be made at a cost of less than 10 € per year. Some banks permit withdrawals using a cash card at a cash machine. All transactions are real-time and any that would take the account into overdraft are stopped. Doubts about the effectiveness of the charter led the Ministry of Economic Affairs to commission a study of banking exclusion. This showed that banks were not applying the charter and that 40,000 people lacked a bank account and led to the law of 24 March 2004 introducing the right to a basic bank account (see below for a discussion of this law and its effectiveness).

In **Germany**, after a number of (unsuccessful) attempts to introduce a legal entitlement to a current account that did not carry an overdraft facility, a voluntary code was introduced by the Central Credit Committee (Zentraler Kreditausschuss or ZKA) in March 1995. This gives a commitment to provide an 'Everyman' current account, offering basic banking transactions but without an overdraft facility, to people for whom it would be suitable. Individual banks have different interpretations of the 'Everyman' account. The extent to which this voluntary code has reduced banking exclusion is disputed. Figures submitted by the banking industry to the Bundestag show that between June 1996 and June 2000 more than 800,000 'Everyman' accounts had been opened – an increase of 350 per cent. Consumer representatives, however, question these figures. In particular, they

claim that the majority of people opening these accounts are young people and not those on low incomes (Institut für Finanzdienstleistungen, 2000). Anyone refused an 'Everyman' account can apply for arbitration to the Ombudsman; in 2005 only 281 applications were made, most of which were found in favour of the complainant. The German Federal Government has produced four reports on the effectiveness of this charter. The second report (2000) was broadly positive but recommended that banks should set up a complaints procedure. The third report (2002) criticised the data presented and recommended a more consumer friendly out-of-court dispute mechanism as well as reasons for refusal or cancellation of accounts given in writing (this is not, however, being implemented). The fourth and most recent report (2006) says that the data collected by the ZKA was still unclear (Deutscher Bundestag, 2006). Debt advice agencies continue to report account refusals and cancellations justified by negative credit reports or account garnishments. This was noted in the fourth report and the government has announced its intention to introduce legislation to modify the account garnishment act (see below).

Banks in **Italy** offer a basic banking service (with no cheque book or overdraft facility) under a voluntary Patti Chiari⁴² Charter. This charter is, however, is a range of stand-alone commitments and banks are free to decide which ones to implement and charges for basic banking services vary widely. The country expert notes that there is no evidence that the availability of basic banking is promoted and that the high level of transaction banking exclusion suggests that the Charter is not very effective.

Experience in the Netherlands and the United Kingdom has, in contrast, been rather more positive. In the **Netherlands** a basic bank account covenant ('covenant packet primaire betaaldiensten') was introduced in 2001, as a result of collaboration between the Dutch Bank Association, the Ministry of Finance and the Salvation Army. This grants the right to a basic bank account to all citizens aged 18 or over. If for exceptional reasons (fraud, money-laundering, for example) an account is refused or if a basic bank account is closed by a bank, it has to be justified in writing. The Dutch Bank Association regularly carries out qualitative evaluations of how this covenant is working in practice. The findings are discussed at periodic meetings of a stakeholder panel that takes stock of any problems regarding access and decides how best to tackle them. On the whole, the covenant seems to have been effective in ensuring high levels of transaction banking inclusion.

In the **United Kingdom**, there is a Banking Code covering all aspects of customer service by banks, credit card companies and organisations offering savings accounts. The most recent edition of the Code (2005) gives an undertaking to make 'basic bank accounts' available to everyone who might benefit from one. The Code is underpinned by a detailed set of Guidance to subscribing companies and compliance with both the Code and the Guidance is actively monitored by an independent body – the Banking Code Standards

⁴² Patti Chiari is a consortium set up in 2003 under the direction of the Italian Banking Association. Patti Chiari was conceived as a project in which banks take part individually and voluntarily. All participants share strategies, goals and instruments to form a new way of looking at the relationship between banks and customers, where competitive comparison of operators, transparency and simplicity of information are the pivots of market development.

Board (BCSB). This has included five mystery shopping studies to assess compliance with the basic banking commitment. These have recorded a steady improvement in banks' compliance with the basic bank account commitment and the most recent report concludes that any failings are largely due to local staff not following company procedures (see Banking Code Standards Board, 2007). The content of both the Code itself and the accompanying guidance is also subject to independent review. The most recent review was undertaken in 2007, with a new edition of the Code due to be published in March 2008. The independent reviewer also concluded, from the evidence submitted to him, that the Code provisions relating to basic bank accounts were, on the whole, working well and notes that around 50,000 new basic bank accounts are being opened each month – with 2.4 million accounts in operation in 2007. This underline, if needed, the necessity of such a provision. He does, however, note that some people who are in financial difficulty still face problems opening a basic bank account. In response, however, the Code sponsors point out that 15 of the 17 banks offering a basic bank account will open one for someone who is over-indebted and that, consequently they do not propose to cover this point in either the Code or guidance. They have, however, agreed to the proposal that people refused a basic bank account reasons should be given the reasons in writing⁴³.

The effectiveness of self-regulation through voluntary codes and charters is, therefore, mixed. It is clear, however, that the mere existence of a charter (or for that matter legislation) is insufficient to ensure compliance. Self-regulation works best when there is a strong commitment to its provisions by banks. Regular independent monitoring of compliance and the identification of obstacles by key stakeholders is also an important ingredient. So too, is a mechanism to revise the commitments contained in self-regulation in the light of experience and close evaluation. In this context, the situations in the Netherlands and the United Kingdom have a great deal to commend them.

⁴³

http://bba.org.uk/content/1/c6/01/15/39/Response_to_code_review_2007.pdf

9 Government intervention to promote financial inclusion⁴⁴

In order to promote financial inclusion, governments can intervene on different levels that range from the general society, the demand side and the supply side. Of course, because of the inter-relation between all those levels, the particular place where demand and supply meet is also a strategic place to intervene. Nevertheless, this last place is particularly relevant to classify and understand governments' intervention related to credit activity, because it is where credit access "happens".

Governments have intervened in two ways: as a facilitator and as legislator, and finally it is also interesting to see some indicators that can help guide public actors.

9.1 Government as facilitator

Governments have acted as a facilitator to financial inclusion in a number of ways. The following points expose the existing policies.

9.1.1 Existing policies

9.1.1.1 Providing an understanding of the problem / assessment of policy measures

These interventions are situated at the society level. Governments have commissioned or undertaken research projects to investigate the causes of financial exclusion and recommending measures to combat them. In almost all country reports (stage II), governments have initiated and/or financed surveys and/or administrative data collections and/or other task forces or experts group (to assess a particular issue and the effectiveness of the political actions). The following examples are additional to the usual national statistics and EU surveys (Eurobarometer and EU-SILC).

In the **Netherlands**, a large survey is underway on "How people take financial decisions⁴⁵".

In **Belgium**, there are administrative data from the positive and negative consumer credit database, an annual survey within debt counselling services (credit, debt, overindebtedness), a target survey on lack of access to a current bank account and surveys to measure the improvements (a law has been implemented after the failure of a previous soft law).

In **Poland**, the "Accessible bank" was a countrywide project to understand the access difficulties faced by disabled or elderly people, in order to highlight the particular needs of some customers. This programme was run and supported by the National Bank of Poland.

⁴⁴ This chapter is based on the working papers "Regulation in Europe promoting financial inclusion" written by Elaine Kempson & Bernard Bayot and "The Role of Corporate Social Responsibility to promote financial inclusion" written by Bernard Bayot.

⁴⁵ www.centiq.nl

In **Germany**, “the current account for everyone” is regularly assessed by the Federal Government. One improvement identified recommended to create an effective dispute settlement office. This government also has to provide on a regular basis a poverty and wealth report. Two reports have also been ordered by the Federal Ministry of Consumer protection: one on responsible lending and the other on “scoring systems applied to rate creditworthiness – chances and risks for consumers”.

In the **United Kingdom**, the “Financial Inclusion Task force” is assessing the improvement of the situation by measuring the number of unbanked people - when government and banks have accepted the shared goal of halving the number of people who lack a bank account. Authorities have also taken steps to assess the effectiveness of initiatives to promote financial inclusion, including verifying that financial products created to promote inclusion are actually meeting the needs of the target population and requiring scrutiny and approval of marketing material by an independent regulator. In some instances, this has led to the establishment of voluntary codes and charters by financial service providers.

9.1.1.2 Promoting and supporting market initiatives⁴⁶

To enlarge the supply (supply side intervention)

This includes encouraging banks to offer basic bank accounts (in **Germany**, the **United Kingdom** and **Belgium** as a first step), and promoting easier access to the basic financial products provided by banks. Governments have also intervened in markets to stimulate low-cost, low-risk products – such as stakeholder pensions and the proposed ‘personal (pension) accounts’ in the United Kingdom.

When encouraging the industry to adopt voluntary charters, this process is more effective when the industry is convinced that improvements will be measured, and will lead to a law if the results are not satisfying. It has been reported that when such services are proposed, the sector should communicate on it sufficiently in order to raise public awareness on this service.

To improve dialogue between stakeholders (society side)

In Belgium and France, there has been promoting contact, dialogue and negotiation within respective committees where stakeholders are represented. Possible topics that are discussed include: access to credit, maximum interest rate, income protection...

In the **United Kingdom**, the government encourages commercial banks, via the recent establishment of the Credit Working Group, to explore ways to support a national network of not-for-profit lenders.

⁴⁶ This part is based on the working paper “The role of corporate social responsibility in promoting financial inclusion” written by Bernard Bayot.

In **Italy**, there is the initiative “Patti Chiari”, promoted by some banks member of the Italian Banking Association. However, the real impact on tackling financial exclusion is still questionable.

To improve confidence between market actors and fair attitudes

In **Belgium**, the government has implemented an efficient auto-control via an Ombudsman which includes a consumer protection representative, easy “out of Court” procedure for consumers dealing with irregularities committed by providers (supply side);

In **Belgium** and **France**, the government promotes transparency in prices and fee levels (where supply meets demand);

In **France**, the information related to the right to an account (demand side) is being promoted;

In the **United Kingdom**, a pilot project exists in two regions to identify and prosecute illegal lenders, which has been considered as cost effective (supply side);

In **Belgium**, the **Netherlands**, **Austria** and **Germany**, legal debt settlement plans give priority to human dignity regardless of the credit contract. It is thus possible for a debtor, in some circumstances, not to pay back the full amount of credit. In many countries, a law to protect human dignity is in process (protection of minimum living standards, minimum income protected from execution procedure,...) and to increase responsibility for lenders (supply side)⁴⁷;

In **Italy**, the so-called Bersani Decree introduced rules aimed at facilitating the mobility from one bank to another and to modify the contractual condition of mortgages: the ultimate goal is to render easier - for all consumers, and especially for the lower income people with a weaker competitive strength and little financial education – the use of financial services and the financial relationships.

National and local governments can also play an important role in improving the overall climate in which such activities take place, by raising awareness and improving the image of financial products and services, especially among the target population.

9.1.1.3 Contributing directly to the provision of financial services

Governments have also contributed more directly to the provision of financial services for low-income people. This includes the provision of funds, or guarantee funds for not-for-profit organisations (such as credit unions, social institutions) that exist to meet the financial needs of low-income people. In other instances, governments have been the direct provider of financial services designed to meet the needs of people who are financially excluded.

⁴⁷ This example can be seen both as government as facilitator and legislator.

In the **United Kingdom**, the Child Trust Fund encourages savings for parents and children. Each born child receives a voucher paid into a special Child Trust Fund (the amount is doubled for low-income parents). Moreover, a pilot project 'Saving Gateway' proposes to increase savings done by low-income people during 18 months. The feasibility to enlarge this pilot a project is studied. Furthermore, the Social Fund proposes interest-free loans to people claiming social assistance (income support, income-based job-seekers, allowance or pensioners receiving minimum income) which are paid back via direct reduction in benefits paid (1 Mio € credit / year). Finally, the Universal bank was created via a partnership between the Treasury Ministry, the Post Office and banks (available for all basic bank account holders + creation of the Post Office Car Account - with very little transaction possibility). The setting up cost is paid by all banks;

In the **Netherlands**, via agreement within stakeholders on a municipality level, minorities have access to bank accounts and social credit and an agreement between banks and the Salvation Army is implemented to provide a basic bank account for the "few excluded people";

In **Belgium**, there is a social consumer credit pilot project to face needs of excluded or precarious people on the basis of a partnership between banks, not-for-profit organisations and the government. It is still managed at a quit reduced scale;

In **France**, the Public Guarantee fund (Fonds de Cohésion Sociale) aims to partly reduce the risk of social credit and micro-credit...for partnerships between not-for-profit associations and banks

9.1.1.4 Tackling the reluctance to use financial services by those who are excluded / reducing the "at-risk of financial exclusion" population

This point may include all the economical and social policies that impact in any manner social inclusion. A few actions have been underlined within the national reports stage II.

Education / training / financial literacy / advice

In the **United Kingdom**, the government increased means for not-for-profit organisations dealing with advice for financially excluded people / the legal Services Commission receives funds to reach public that not using money advise services / the Growth Fund to increase financial means for not-for-profit lenders in Britain. Moreover, a campaign called "Now, let's talk about money" which targets financial excluded people has been implemented.

In the **Netherlands**, a large educational campaign is being carried out at national level and an educational important media campaign for people facing financial problems (a 3 year programme) has been implemented. Also, the government started an integrated programme for migrants and minorities in order to get the minimum level of understanding of language and basis for a social inclusion.

In **Poland**, the “Week of savings” campaign is organised by the Financial Supervisory Commission mainly in (secondary and high) school. There is an improved access to internet banking, which is the cheapest way to use banking services. Finally, the National Bank plays an important role with regards to financial education, entrepreneurship, financial literacy (workshop, distance learning,...), the creation of the www.NBPortal.pl.

In **Ireland**, the National Steering Group for Financial Education together with the Financial Regulator provide clear, relevant and appropriate information to consumers.

In **Italy**, in the framework of the activity of the “Patti Chiari” Consortium, an initiative to promote financial education has been undertaken. The main aim is to disseminate with easy-to-understand words a better knowledge of the banking system, banking transactions and how to deal with banks among the population in general and young people in particular.

Economic inclusion tools

In **Poland**, **France**, **Germany** and the **Netherlands**, there are tools to promote education, to prevent poverty and unemployment and to integrate disabled people.

In the **United Kingdom**, since spring 2003, the governments have decided to pay welfare benefits and pension into bank accounts, with the idea to increase inclusion and reduce costs. This measure is also encouraged in Ireland.

9.1.2 Conclusions and recommendations

Above all, governments have to measure and understand a situation, a problem, and, consequently to evaluate the measures implemented with appropriate indicators.

Each country faces particular needs and priorities within financial exclusion, related to the maturity and structure of the market, for one side, and to the homogeneity of the society (social, educational, economical and cultural) on the other side.

9.1.2.1 Demand side initiatives

Social inclusion and education

Of course, all social inclusion policies participate to financial inclusion: education, health, minimum income, housing increase... The role of governments is essential and central.

Particularly, financial education programmes can address specific problem encountered by specific target publics, such as migrants, young adults, the elderly and a generalization of financial education programmes in school is highly recommended.

Consumer trust – when demand meets supply

Consumers’ confidence and understanding of financial products and services are key issues to reduce a large range of self-exclusion and to limit access and use difficulties. Consumer protection measures may be taken via incentives for the providers as well as

laws: it is a preventive approach, which is generally less considered in more liberal economy.

Incentives for consumers

The more significant experiences are oriented on savings, in order to increase this behaviour within the whole population and/or particular target group. For this last group, some quite effective programmes have been implemented, but they still seem to be quite expensive and not so easy to duplicate.

9.1.2.2 Supply side initiatives

Confidence in providers

This partly relies on clear rules which impact all the actors the same way, so no distortion (competitive advantage) within the industry may emerge from it. This element plays in favour of strong regulation, because with soft laws, the implementation may differ from an actor to another. Within a “self-regulation” model, governments may play an important role to limit the risk of bad players by implementing effective assessments and considering that a law may be necessary in case of failure.

It is also possible to improve confidence in providers while organising round tables, regular meetings with stakeholders, on informal or formal basis.

Incentives for providers

To enlarge their offers to the whole community, even to the “at-risk of exclusion” public, political actions can take various forms:

- The lack of profitability can be compensated (many tools are available, that can be financed by consumers or citizens, or by the two of them, depending on who will manage and finance the process – industry, state or both), and so can the higher risk (through a Guarantee fund);
- Corporate Social Responsibility initiatives can be promoted via public initiatives to enhance companies which are involved or via a generalized public CSR rating for providers of financial services.

9.1.2.3 The importance of transparency

One option worthy of consideration in promoting CSR in the financial sector to address the problem of financial exclusion is the introduction of a Community Reinvestment Act (CRA) in the EU, modelled upon the 1977 Community Reinvestment Act introduced in the United States. The US CRA encourages financial institutions to “fulfil their continuing and affirmative obligation to meet the credit needs of their communities”.

The Act requires the regular evaluation of the community lending performance of financial institutions and for this performance to be taken into account when considering merger, acquisition or branch relocation proposals.

The US legislative model may not be directly applicable to Europe. However, the principle of information disclosure that lies behind the CRA could be applied to the regulation of financial institutions in order to consider their lending activities. Such legislation might even be most appropriate at European level in the form of a Disclosure Directive.

Such a development seems to fall in line with the wish expressed by the European Parliament to prepare a list of criteria for enterprises to be complied with if they claim to be responsible, and to shift emphasis from 'processes' to 'outcome', leading to a measurable and transparent contribution from the business in the fight against social exclusion (European Parliament, 2007).

It seems to us that the CRA example, if it should be adhered to in Europe, should follow four stages (Bayot B., 2002).

The first stage consists in determining appropriate indicators. The CRA experience shows that not only with a view to avoiding too heavy an administrative burden and therefore potential hostility from credit providers, but also so as to encourage creativity and self-regulation in the sector, they should focus more on the outcome than on resources applied. This is the desire from the European Parliament. Also, strictly quantitative indicators, which are required to analyse the financing gap, should come with qualitative indicators, which, among other things, can assess more thoroughly the quality of services offered. Finally, indicators related to access to credit should be favoured even though they should come with indicators relating to the investment policy and banking services.

The second stage consists in compelling every credit provider to periodically supply information relevant to these indicators. This is why such information should not strictly relate to the activity of the whole sector but also that of each operator in particular.

Then, this information should be audited by an independent organisation according to clearly established procedures.

Finally, as part of the last stage, the controlling organisation should be able to assess both the action of the sector globally and that of each operator in particular. This implies that precise standards should first be determined, as the European Parliament requested, and that adequate methods should be developed. Such assessment of requirements and of the coverage of such needs should help the various players, credit providers, social services and public authorities to implement the most appropriate policies to meet these needs. This will only be relevant if it is periodical – the assessment based on CRA will take place approximately every two years - and this will further make it possible to assess new requirements through time and the impact of policies implemented to satisfy them. Such an assessment only seems likely to guarantee measurable and transparent contribution from business in combating social exclusion.

Transparency consists in making public the appraisal of the way each credit provider met credit requirements, on the basis of indicators. The objective of this measure is to inform the public and influence the policy of credit providers concerned about their reputation in

this direction. This transparency measure actually made the CRA efficient in the United States starting from 1992. However, it is uncertain that it will have the same impact in Europe, considering that there probably is no social movement in Europe able to exercise a pressure comparable to that which American community development NGO's exercise on banks. Though transparency alone probably is insufficient, it still remains a basic measure used to encourage social responsibility in the financial sector.

9.1.2.4 Services of General Interest

Another option worthy of consideration in addressing the problem of financial exclusion is to consider that basic financial services are services of general economic interest and that access at affordable prices for everyone to these services is at the heart of the European model of society.

Services of general economic interest are commercial services of general economic utility, on which the public authorities therefore impose specific public-service obligations (Article 86 of the EC Treaty, formerly Article 90).

Article 16, which was written into the EC Treaty by the Treaty of Amsterdam, acknowledges the place occupied by services of general economic interest in the shared values of the Union and their role in promoting social and territorial cohesion. Article 16 also states that such services must operate on the basis of principles and conditions which enable them to fulfil their functions.

Article 36 of the Charter of Fundamental Rights of the European Union requires the Union to recognise and respect access to services of general economic interest to promote social and territorial cohesion of the Union.

Many services of general interest cannot be viably provided on the basis of market mechanisms alone and specific arrangements are necessary in order to ensure the financial equilibrium of the provider. For instance, universal access or full geographical coverage may not be offered by the market itself.

Depending on historical traditions and specific characteristics of the services concerned, Member States apply different mechanisms in order to ensure the financial equilibrium of providers of services of general interest. The financing mechanisms applied by the Member States include contributions by market participants (e.g. a universal service fund) (Commission of the European communities, 2003).

Thus, certain banks may be commissioned by the Government to provide general interest economic services (SIEG). To do so, compensation may be paid to them to remunerate this service. Decision 2005/842/EC from the Commission dated 28 November 2005 (Commission of the European communities, 2005) is fully applicable to the banking area and governs conditions under which potential compensation may be accepted in this area in terms of grants (Colson J.-L., 2006).

Obviously, a compensatory financing system is critical to the implementation of such a system in terms of access to basic financial services: the point is to avoid the fact that financial institutions which assume their social responsibility more should be put at a disadvantage compared with others.

Such compensatory financing may depend on the assessment which may have been made, on the basis of indicators described above, of the way each financial institution assumed its social responsibility. So, enhanced social responsibility assumed by certain operators would be economically cancelled out, which would avoid distorting competition among operators and would be an opportunity for development for those which made this choice.

This measure, the effect of which is to provide a structural solution to the need for financial inclusion, probably is the complementary aspect which is critical to the application in Europe of a legislation based on CRA. It further helps encourage social responsibility for financial organisations, as expressed by meeting the needs of underprivileged populations rather than outsourcing services offered to them.

In the context of SIEG, in the past, the Commission adopted positive decisions relating to compensations aimed at encouraging banking inclusion for people from an extremely modest background and thereby fight against banking exclusion. These decisions concerned United Kingdom in particular. SIEG of geographic accessibility to banking counters in rural areas, for example, were also accepted, in particular for postal banks in the United Kingdom (Colson J.-L., 2006).

A compensatory financing system also exists in two Belgian laws. First, the law dated 24 March 2003 introducing a basic banking service provides for the creation of a compensation Fund for the provision of a basic transaction banking service. Any credit institution should contribute money to the Fund and those which manage - in terms of percentage - a number of basic banking services proportionally higher than their economic importance may apply to the Fund for support. This mechanism has not been implemented yet. Indeed, as far as we can observe, there are no such variations on the market that would push an actor to apply for the compensation Fund. Since actors may have to deal with this Compensation Fund if they cheat, currently everyone is respecting the rules.

The other law is the law dated 5 July 1998 on collective debts payment. This law introduced the Over-indebtedness Treatment Fund. Each lender is to pay to this Fund an annual contribution calculated on the basis of a coefficient applied on total arrears for credit contracts registered in the Centrale des Crédits aux Particuliers managed by the Banque Nationale de Belgique. In other words, the more a credit provider will grant credits un-judiciously, the more it should contribute to the Fund. With such earnings, the Fund will repay fees and expenses for debt mediators who could not be paid by debtors.

9.1.2.5 Government acting as provider

Governments act as providers via a public provider or through two or three sided partnerships with NGO or not-for-profit institutions and/or commercial provider. This may be appropriate to reach the target group (particularly at-risk) and to act locally.

Many initiatives have been implemented with public social welfare services or without mainstream providers, which may appear as stigmatizing;

9.2 Government as legislator

Legislative action by governments to promote financial inclusion can be grouped in three main areas:

- **Direct legislation**, designed to impose upon financial services providers an obligation or prohibition to provide a certain kind of financial service and to organise, regulate, monitor or control financial services provision in order to ensure financial inclusion.
- **Indirect regulation**, designed to remove obstacles that reinforce financial exclusion
- **Positives incentives**, designed to encourage the changes in the banking system to promote financial inclusion.

9.2.1 Direct legislation to promote financial inclusion

Multiple legislative interventions with the purpose to impose to financial services providers an obligation to provide financial services or in order to regulate, organise, or control financial services provision have been developed by governments all across Europe.

Direct legislations implemented in that field of action aim to achieve various objectives, such as:

- Ensuring banking institutions' financial capability
- Ensuring consumer protection and therefore increase trust in the market (improvement of general relationships between banks and customers, mediation for disputes settling, protection for investments products...)
- Ensuring transparency and information about products and costs in order to ensure effective competition among providers
- Dealing with over-indebtedness and implementing curative measures
- Promoting financial inclusion as well as access and use of appropriate financial services

We will focus here on direct legislation aiming specifically to promote financial inclusion by addressing the two main following concerns in that respect: the right to an account, adequate transaction and payment banking services provision as well as appropriate lending.

Of course, direct legislations pursuing other objectives (dealing with over indebtedness, ensuring consumer protection) may also have a positive impact on financial inclusion and should therefore also be strongly considered by governments as worth implementing and improving.

The need of assessing the final impact of regulation is crucial because if not implemented properly, it can add to distribution system costs, which, in turn, increases costs for consumers and/or pushes the low-income (“marginal”) consumers out of the market. Another risk is that the relationship between financial institutions and consumers becomes too complicated and less educated people are frightened by contracts.

9.2.1.1 Right to an account, adequate transaction and payment banking services provision

Accessing transaction bank accounts and payment services is a crucial issue today because without reasonable and affordable access to these services, the chances of participating in normal social life are reduced, leading to a greater risk of social and financial exclusion.

In some European countries (**France, Germany, Belgium, the Netherlands, Italy and the United Kingdom**), pressure from governments and public opinion led the banking sector to address problems of transaction banking exclusion through the establishment of voluntary charters and codes of practices whereby banks committed to provide “basic bank account” services.

The efficiency of this self-regulation is deeply connected to cultural, political and economical context, which may vary from one country to another. If in some of them, self-regulation seems to be sufficient and effective⁴⁸, in others, the lack of effectiveness has led to formal law, as it has been the case in France and in Belgium.

Among the fourteen countries studied, access to a transaction bank account is also ensured by a law in **Norway**.

Identified measures implemented through direct legislation in order to ensure access to transaction banking account and payment services are the following:

- Legal requirement that every citizen or resident should have access to transaction banking and payment services, and definition of the types of services that make up the pool of “guaranteed” transaction banking and payment services, as well as pricing criteria and other requirements;
- Creation of a monitoring body, settlement procedure and other provisions in order to guarantee the law's implementation;
- Creation of a compensation system to guarantee that service provision is evenly shared among all the providers.

Legal requirement and definition of the types of “guaranteed” transaction banking and payment services, as well as pricing criteria and other requirements

⁴⁸

See chapter devoted to voluntary charters and codes of practices.

In **France**, the banking law n°84-46 of 24 January 1984 stated that every individual without a current account who had been refused by three banks was entitled to ask the Banque de France to designate a bank or the postal bank to provide a free account. The main weakness of this legislation was related to the absence of banking services definition.

In 1992, the banks via the French Banker's Association (today, French Banking Federation) introduced a voluntary charter which involved providing an account opened via the right to an account with facilities such as an ATM card, free access to cash machines, bank statements and a negotiable number of cheques. These facilities had to be provided at a reasonable price.

In 1998, the government stated that access to the right to an account was too difficult, and that the banker's charter was ineffective. The law n°98-657 of 29 July 1998 said in article 137 that the right to an account is accessible after only one refusal by a bank (before it was three) and that basic banking services will be provided for free. This basic banking service was defined in 2001 by the decree n°2001-45 of the 17 January.

Moreover, the decree 2006-384 of 27 March 2006 on basic banking services make the provision of a payment card requiring systematic authorisation not optional any more but compulsory. The law set the mandatory obligation to all banks to offer alternative payment mechanism to people who are not entitled to a chequebook or a credit card. Individuals who are not considered sufficiently reliable and trusted to use fiduciary payment instruments which involve risk for the issuing bank can now use alternative payment mechanisms without resorting to cash. These are payment cards with systematic authorisation and other alternative payment mechanisms. Most banks have developed specific packages with a systematic authorisation payment card but it seems that they do not advertise it a lot.

The French legislator is also concerned with the level of banking charges for bounced cheques. When customers fail to pay cheques they face bank charges but also, if the situation is not resolved within 2 months, they face a penalty fee from the state. All these fees are regulated by law.

If the amount for the cheque is under 50€, bank fees cannot be over 30€ (decree 2002-694 of the 30 April 2002). Over 50€, the amount of banking fees are capped and should not exceed the amount unpaid (Article 70 of the law n°2007-290 of 5 March 2007 about the right to housing and various measures for social cohesion and decree 2007-1611 of 11 November 2007).

In relation to the fees from the state (penalty fees), if the customer does not resolve his/her situation within the two months delay, he/she will have to pay penalties fees to recover his/her right to write cheques. The amount of these fees is 5€ if the amount unpaid is under 50€ and 22€ for each slice of 150€ unpaid (art. 15 of the law n°2001-1168 of 11 December 2001).

In **Belgium**, the law of 24 March 2003 makes it compulsory for all banks whose activities include opening current accounts to offer a basic banking service to individuals for the transactions that the latter carry out for non-professional purposes. Access to a basic transaction banking service is stated as a right for all consumers residing in Belgium, on condition that they do not have a current account or other related products with a credit institution. The basic banking service is not intended to facilitate borrowing. Therefore, transfers or withdrawals may not be made if the current account has a debit balance or would become overdrawn as a result of the intended transaction. The total charge for this basic banking service cannot exceed €12.62 a year.

In **Norway**, the law ensures that anyone can open a regular bank account as long as they have a D-number (dummy number) issued by the government.

Creation of a monitoring body and settlement procedure

In the three countries where a legal right to a bank account has been created, an independent supervisory body has been created to enforce and control the implementation of that right.

In **Belgium**, the scheme is monitored by a non judicial and independent claim organism: “Service mediation Banques – Crédit - Placements”, composed by both consumers and banks representatives, that deal with claims regarding basic bank account demands and collects statistics on the number of basic bank account opened and closed, the denial decisions and motivation of denial decisions regarding opening of a basic bank account.

Disputes concerning the basic banking service, including decisions to refuse to open a basic current account or to close such an account are settled by the service. If it considers that such a decision is unjustified, the dispute settlement body may require the credit institution that has taken the decision or another credit institution to open a basic current account, if applicable. In the first case, the basic banking service will be free for two years.

The injured party also has the right to institute court proceedings to obtain a cease and desist order (see above). The Federal Minister for Economic Affairs, a trade association and certain consumer organisations are also allowed to institute such proceedings. Any party that intentionally infringes the law or fails to comply with a cease and desist order is liable to a fine.

In **Norway**, the law is monitored by the Financial Supervisory Authority of Norway (Kredittilsynet).

Creation of a compensation system

In **Belgium**, the law introducing a basic banking service provides for the creation of a Compensation Fund for the provision of a basic transaction bank account service, managed by the Belgian Central Bank and supplied with the banks' contribution system. Any bank providing transaction bank accounts to individuals should contribute financially to the Fund and those which manage - in terms of percentage - a number of

basic banking services proportionally higher than their own economic importance on the Belgian market may apply to the Fund for support.

This mechanism has not been implemented yet. In 2005, an evaluation of the law's application among transaction banking service providers showed that, one year after the law implementation, there were no such variations on the market that would push an actor to apply for the Compensation Fund. Since actors may have to deal with this Compensation Fund if it appears they do not provide efficiently their share of basic bank account services, all providers currently respect the rules. The implementation of the Fund may, according to the law, only be decided after a second evaluation of the law which is planned to take place in 2008.

Impact of direct regulation regarding transaction bank account provision and payment services on financial exclusion

In **Belgium**, aside from the curative effect of the law (5.000 basic bank account service provision opened in 2005) introduction of the mandatory obligation to offer a basic transaction bank account has also had a preventive effect: mainstream banks do sometimes offer a regular bank account (with no overdraft) to people asking for a basic transaction bank account. People who would have been refused such a service in the past therefore have the opportunity to access the legally designed product, but sometimes also access to a regular mainstream product which cost is higher but offers larger services.

In **France**, the legislation introduced in the recent years together with the debate on the right to an account has improved access for people with difficulties. At the end of 2005, over 26.000 accounts were opened according to the right to the account, almost ten times more than in 1995 (2.950) (Banque de France, 2006).

Direct legislation to ensure appropriate lending

Achieving financial inclusion regarding credit: when appropriate credit services are offered and meet all reasoned demand

The need to borrow exists among people at all income levels, although most of the countries participating in this study have reported that two groups of people find it difficult to access credit from mainstream providers, such as the banks. These are people with low and unstable incomes and people with an impaired credit history. Both groups of people have a greater need to access credit for essential expenditure (such as replacing a car that has broken) than others in society.

Many of these people do not have such a high risk of defaulting on payments that lending to them would be irresponsible. The experience of the reputable sub-prime lenders in countries such as the United Kingdom and Ireland shows that default can be kept to a manageable level, particularly if they have products and lending and repayment practices that reflect the circumstances of their customers. Moreover, there is a large body of research showing that financial difficulties that lead to an impaired credit record frequently occur as a result of a change in circumstance such as job loss (see for example: Gloukoviezoff, 2006; Le Duigou, 2000; Kempson 2002; Kempson et al, 2004; Koljonen

and Romer-Paakkanen, 2000; Korczak, 2001; Springeneer, 2005). For most of the people affected, the situation is temporary and their incomes return to a level where borrowing again is both a feasible and financially responsible decision.

The key elements to achieve financial inclusion on the credit market are therefore to overcome both access and use difficulties by offering appropriate credit products (provision appropriate to the person's situation and needs, not leading them to overindebtedness) to meet all reasoned credit demand (borrowing is both feasible and financially responsible regarding to the person's situation and needs).

Direct regulation: a tool to prevent use difficulties and ensure appropriate credit provision

Clearly it cannot be argued that access to consumer credit should be a right for all citizens granted by legislation, in the same way, as one might argue that everyone should have the right to transaction banking or a savings account.

Addressing access difficulties to credit of people with reasoned borrowing demand is therefore to be addressed through other policy responses than direct regulation, such as government intervention as facilitator and market responses.

On the contrary, the role of direct legislation is essential to address credit use difficulties by protecting vulnerable consumers from exploitative lending and ensuring the provision of appropriate credit on the market.

Most of the countries studied do have direct legislation of this kind, but the nature of this legislation varies.

In order to prevent use difficulties and ensure appropriate credit provision, some countries studied (like France and Belgium) have developed very strict and preventive legal frameworks, leading to a strongly regulated mainstream market, where appropriate credit products are offered, but not all reasonable demand is served.

On the other hand, some other countries (like the United Kingdom and Ireland) have limited direct regulation and opted for self-regulation of the credit market, allowing the development of a very diversified offer in terms of type of products (from mainstream to sub-sub prime) allowing a wider access to financial products, among which some are inappropriate and cause use difficulties,

The following types of measures have been identified in the countries studied:

- Interest rate ceilings
- Requirement for creditors to report payment defaults and to consult credit reporting agencies before granting credit
- Requirements for lenders to check a borrower's ability to pay before lending money to them or granting a credit line
- Lenders compulsory contribution to a Compensation Fund

Although these have similar policy intent, they can have quite different outcomes in terms of financial exclusion.

Interest rate ceilings

The purpose of interest rate ceilings is to protect vulnerable people against usury practices, which can be defined as lending at an excessive interest rate, making profit from the state of need of the borrower.

More than half of the countries studied were reported as having interest rate ceilings, including **Austria, Belgium, France, Germany⁴⁹, Italy, Netherlands, Poland** and **Slovakia**.

The level of these interest rate ceilings varies both between countries and within them for different types of credit. For example, in Belgium they vary between 13% and 21% annual percentage rate (APR) of charge (for loans of €5,000 or more and under €1,250 respectively), with rates varying between loans and credit cards and with the amounts borrowed. In France, rates range between 8.72% and 20.35% APR – again depending on the sum borrowed and type of credit used. Italy has 15 different rates. In the Netherlands, there is a single ceiling, set at 17% above the central bank base rate; in Poland it is four times the base rate.

In **Ireland**, although there is not a statutory interest ceiling, there is a ceiling in practice. Credit companies must renew their licences to trade annually and there is a policy that companies charging more than 200% APR will not be granted a licence. As a consequence, companies that operate in both Ireland and the United Kingdom (where there is no ceiling) make lower overall charges in Ireland. The customer base is, however, rather different in the two countries, with Irish customers being drawn from those who were less likely to be excluded from other sources of credit (Competition Commission, 2006).

Concerns were expressed in four country reports (**Poland, Italy, Ireland** and the **United Kingdom**) that such ceilings, if set too low, can act to exclude people for whom the costs of providing credit are higher than the ceiling. These concerns relate especially to people who want and need to borrow small sums of money for short periods of time, where their circumstances require more expensive payment collection methods or where their likelihood of default is higher than average. Research has shown that in such circumstances the costs of providing credit will be high even in a not-for-profit organisation. If the price is to be low, some form of subsidy would be required (Kempson and Collard 2004).

In **Italy**, it has been argued that the interest ceilings they have mean that people perceived to have a high risk of default are refused credit by mainstream providers and are therefore prey to informal and illegal lenders (Porta and Masciandro, 2006). Similar findings have been reported in France (Babeau, 2006).

⁴⁹ Strictly speaking there is not a legal ceiling but in practice it is 28-30%APR.

It has also been suggested that the interest rate ceilings in **Germany** and **France** have led to higher levels of illegal lending than in the UK, where there is no ceiling (Policis, 2005). These conclusions must however be interpreted carefully, since the standard of what is illegal lending is very different in Germany and France compared to the United Kingdom, where the provision of inappropriate credit products can occur within the legal market.

The **United Kingdom** government investigated the desirability of introducing an interest rate ceiling when consumer credit legislation was up-dated in 2006. This involved commissioning research into the impact of such ceilings elsewhere (Policis 2005), and issuing a public consultation document. This aspect of the legislation was also debated extensively as the Bill made its way through Parliament.

However, in the end it was decided not to introduce a ceiling. This decision was reached for a number of reasons but the most important one was a concern that a ceiling would lead to a displacement of costs and a loss of transparency for the consumer. The United Kingdom has a number of home credit lenders specialising in small, short-term loans for low-income people who would not be able to access credit from a bank. Loans from these companies tend to have high APRs (200% or more) but unlike other lenders they do not make default charges if someone is late with a payment – indeed, they reschedule loans so that payments can be missed, without additional charges. They tend, therefore, to have a debt write-off policy rather than arrears recovery that involves court action. They also collect repayments at borrowers' homes to minimise the risk of default. Even so, the majority of their customers are unable to repay their loans to term and they like the certainty of cost involved with this type of credit and the flexibility of payments when they are unable to pay. In contrast, there are other sub-prime lenders targeting the same group of borrowers who advertise much lower interest rates (29.9% APR) but, like prime lenders, have many additional charges that make them considerably more expensive. Indeed, it has been calculated people in their situation would pay far more were they to use a prime lender, need to take out payment protection insurance and incur occasional default payments not covered by the policy (Policis, 2005).

Similar concerns were expressed when the Polish Government also investigated the desirability of an interest rate ceiling. Here such a ceiling was introduced in 2006 but only applies to the interest and default charges and not to the total cost of credit (and therefore the APR). It is interesting, therefore, to see how companies have reacted to its introduction. Because the restriction applies only to interest and default charges, companies have restructured their charges to comply with the new law. A lender specialising in small loans, with repayments collected in the home has, for example, separated the collection charge from the interest on the loan and now sells insurance alongside the loan to cover the rescheduling that was previously covered in the total cost of credit. In other words, the interest rate ceiling has not achieved a price reduction for users – merely a change in the way that these are presented to them. This has resulted in a loss of transparency, as was feared would happen in the United Kingdom.

Loss of transparency and displacement of charges as a consequence of an interest rate ceiling can be avoided when, as in France and Belgium, the ceiling applies to the total cost of credit (the APR). Moreover, in Belgium, the costs and charges related to default payment are also strictly limited by law.

Credit reporting

All the countries covered by this study have national registers of negative information (that is payment default as well as bankruptcies and court judgements). Most of them also have registers of positive information too (that is a record of credit commitments held by the population, including those not in default). In some countries, these registers are run by the central bank – for example, the Bank of **Italy** operates a database covering both positive and negative information. Indeed, supervision rules require the Italian banks to check the ability to repay and to enter the register “Central Credit Register” with bad loans and insolvency. Furthermore, for consumer credit there is CRIF: Eurisc (the CRIF Credit Protection Bureau) is a private credit bureau, founded in 1989, which collects data on payment behaviour and on all credit requests of consumers and small businesses.

In others, such as **Spain** and the **United Kingdom**, there are several credit reference agencies that are run by private companies. In these instances, access to data is restricted to the companies that supply information. Some databases restrict their coverage to credit transactions; others also cover payments to mobile and other telephone companies, utility companies and rent payments.

More significantly, while even negative reporting by creditors is voluntary in some countries, in others it is compulsory. This is the case in **Belgium**, **France**, **Norway** and the **Netherlands**, for example. Moreover, in **Belgium** and the **Netherlands** lenders are required to check the credit register before granting credit.

The length of time that information is retained on databases varies across countries and can even vary within countries. In **Spain**, where there are several credit reporting agencies, retention of default information varies from 30 months to six years. In other countries, default information can be kept for up to ten years. It also differs for negative and positive information – with negative information normally being held for a longer period of time. In **Belgium**, for example, positive information is held for three months and eight days after a commitment has been repaid in full; while default information is retained for ten years if it is not settled. In the **United Kingdom**, default information is retained for six years.

This can mean that someone will retain a bad record for a considerable period of time, with limited positive information to show that they have since managed credit commitments without payment problems. The problem is most acute where lenders are required by law to make checks with credit reference agencies before granting credit.

Most of the country correspondents claimed that credit checks, linked to credit scoring, act to exclude people from accessing consumer credit in their country. In **Germany**, for example, it was reported that this means that people turn to unlicensed lenders to borrow.

At their most benevolent, these are private individuals known to the borrower who will lend money at an agreed rate that is above the one normally paid to a bank. But less scrupulous lenders also exist, and credit brokers, who will arrange credit by circumventing credit checks for a fee, are relatively common. This corroborates research on the situation in Germany that was undertaken for the United Kingdom government (Policis, 2005).

In the **United Kingdom** and **Ireland**, where there are no interest rate ceilings, the situation is somewhat different. In these two countries there are large near- and sub-prime credit markets that apply risk-reflective pricing. At the cheaper end of the near-prime, rates are only slightly above those in the prime market and much of this credit is offered by subsidiaries of the main banks. At the opposite extreme, are the home credit companies (described above) that specialise in small short-term loans to people on low and unstable incomes. These near- and sub-prime companies supplement checks of data held by credit reporting agencies with more detailed information collected from the consumer. Indeed, the home credit companies have claimed that information held by credit reporting agencies is not predictive of default among their customers, for whom the commitment to repaying in future is much more important than the consequences of past financial shocks.

This highlights a particular problem with credit reporting that includes positive information and only covers optional commitments such as consumer credit. Many people have nothing at all recorded about them and this can make lenders wary about lending them money. In contrast, where credit agencies also collect information about utility bills, it enables people to build up a credit rating.

Duty on lenders to check ability to repay

Norway is particularly interesting in that it has neither an interest rate ceiling nor does it compel lenders to consult the credit reporting agency before granting credit. Instead, legislation on financial agreements places a duty on lenders to advise consumers against borrowing when they assess that they will have difficulty repaying the loan. How lenders do this is left entirely to the market, and this has acted as an impetus to the development of credit scoring systems by individual lenders. There are no direct sanctions for failing to comply with this legislation, although lenders do risk losing part or all of their claim should the borrower default. A commission is currently investigating the possibility of strengthening this legislation.

In **Belgium**, the 12 June 1991 law related to consumer credit imposes to the lender to check the financial situation of the client and ensure his solvency and ability to reimburse. To do so, lenders have to check the national credit reporting agency and gather all information considered as to be necessary. The lender and borrower must select among the products usually provided the kind and amount of credit most appropriate according to the candidate situation and aim of credit.

If these obligations are not respected, the following penalties can be applied by courts:

- rejection of all or parts of the late penalties

- diminution of borrower's payment obligation to the borrowed amount only, excluding all interests and fees, and keeping the advantage of the payment instalments
- damages recovery for the borrower

Duty on lenders to contribute to a Compensation Fund

The **Belgian** law dated 5 July 1998 on collective debts payment introduced the Over-indebtedness Treatment Fund. Each lender is to pay to this Fund an annual contribution calculated on the basis of a coefficient applied on total arrears for credit contracts registered in the Centrale des Crédits aux Particuliers managed by the Banque Nationale de Belgique. In other words, the more a credit provider will grant credits injudiciously, the more it should contribute to the Fund. With such earnings, the Fund will repay fees and expenses for debt mediators who could not be paid by debtors.

Impact of direct legislation in the area of responsible lending on financial exclusion

The above analysis suggests that both interest rate ceilings and legislation requiring lenders to consult credit reporting agencies before lending can be blunt tools. While they undoubtedly provide important consumer protection they both carry the risk of excluding people to whom lending might, in fact, be responsible.

There is evidence that interest ceilings can restrict access and can also lead to additional charges which are less transparent, while complete transparency and predictability of charges is important to people on low incomes. Mandatory use of credit reports in lending decisions can prevent people who have previously experienced a change in circumstances from accessing credit long after their financial position has improved.

These legislation measures are an efficient protection to prevent over-indebtedness issues and meet appropriately the objective of addressing use problems, ensuring appropriate credit provision by the market. However, they might be insufficient to guarantee access to credit for some people with a reasoned demand.

Other initiatives, requiring more extensive checking of ability to pay, coupled with legislation that enables credit agreements to be considered by the courts and terminated if inadequate checks were made, seem likely to provide responsive protection for consumers and at the same time to carry a lower risk of exclusion.

It is also important to recognise that people to whom banks and other mainstream lenders will not lend often need to borrow. If they are not to be exploited by commercial lenders they need an alternative source of credit. The funds established in Italy to assist victims and potential victims of exploitative lending, the Irish Money Advice and Budgeting Service, the NVVK in the Netherlands and the steps taken in the United Kingdom to develop not-for-profit lenders provide useful models of how this might be achieved.

9.2.2 *Indirect regulation to remove obstacles reinforcing financial exclusion*

Sometimes, specific obstacles remain that hinder the involvement of some people with the banking system despite the existence of direct legislation and regulation, governmental interventions as facilitator and market initiatives aiming at financial inclusion.

These obstacles can be considered as “side effects” generated by the application of legislations aiming at other purposes than financial inclusion, having as practical consequence to deny people from accessing financial services or to deter them from accessing or using it (called self- exclusion).

Indirect legislation includes provision aimed at removing those specific obstacles.

The following **obstacles reinforcing financial exclusion** have been identified within the countries studied:

- **Legal requirements regarding customer identity and impact of money laundering regulation** as an obstacle to access and use transaction banking and savings services
- **Risk of income seizures** as an obstacle to use transaction banking services.
- **Disproportionate impact of taxes for those on low incomes** as an obstacle to access and use transaction banking services.

Negative consequences of national transposition of EU Anti-Money Laundering Directive

This kind of obstacle has been identified in Ireland, United Kingdom, Belgium and Spain. In **Ireland**, the application of the money laundering Directives are considered to be the greatest barrier for low-income consumer opening bank and credit union accounts (Corr, 2006). As a result of EU Anti-Money Laundering Directive transposed into Irish legislation, financial institutions are required to obtain two separate documents (usually a passport/driving licence and a utility bill) from potential customers to prove their identity and address. Guidance Notes for Credit Institutions published in 2001 and revised in 2003, outlined alternative identification which could be accepted. However, groups working with low-income consumers have found that there are inconsistencies across various financial institutions in applying the guidelines. Research has also found that low-income groups are not always made aware of the alternative options (Corr, 2006). A further problem highlighted by NTMABS (2006) is that the guidelines assume that the non-financial sector (e.g. Garda Síochána, solicitors etc.) will provide proof of identification and that is not necessarily the case.

In the **United Kingdom**, although money laundering rules have always excluded some people, real progress had been made in addressing the problem until the US terrorist attacks on 9/11 2001. The situation then rapidly reversed. Since then there has been sustained pressure to consider the impact of regulation in this area on financial inclusion – with some success. The one area of continuing difficulty is in relation to small remittance companies – used extensively by the United Kingdom ethnic minority communities. The fact that such companies were believed to have been used to supply

small levels of funding to the Madrid bombers has made this a difficult area to tackle as one is being asked to weigh financial inclusion against national security.

In **Belgium**, the transposition of the EU Anti-Money Laundering Directive played an important role in financial exclusion regarding banking and savings.

In **Spain**, preventing the use of the financial system for money laundering and financing of terrorism involves a greater bureaucracy in financial transactions. However, this does not seem to create a serious obstacle for accessing or using banking services, with the exception of the migrants' segment, which has more usage difficulties.

The anti-money laundering regime has just changed again as a result of the Third Anti-Money Laundering Directive, which was published in November 2005. EU member states were required to introduce the provisions of the third directive by 15 December 2007. To avoid as much as possible a reinforcement of financial exclusion due to the national implementation of the European Directive, government can develop, together with the credit sector and the organisations working with low-income consumers and migrants, practical solutions which address the needs of those who do not possess the standard documentation whilst meeting the fairly stringent legislative requirements placed on credit institutions.

In **Norway**, (not concerned by EU Anti-Money Laundering Directive) the concern of facilitating identity checks for immigrants and people staying only temporarily in the country has been addressed. Bank now accepts D-number (dummy number) as identification to open a bank account. To apply for a dummy number, the candidate must contact the local tax office.

Risk of income seizures once paid on a bank account, deterring people from use of transaction banking services

This obstacle has only been identified in **Belgium** so far. In 2005, 25% of Belgian unbanked people did not want to have or use bank account because they were afraid of seizures of their income by creditors (Disneur et al., 2006). At that time, due to a lack of legislative provision on that specific matter, creditors were entitled to proceed to a seizure of the entire amount of money available on their debtor's bank account, despite the fact that Belgian law considered that a part of it should be considered as "guaranteed minimum income" and therefore be protected from seizures.

To solve this self-exclusion problem, Belgian law has been modified in order to specifically protect the income part corresponding to the "non seizable guaranteed minimum income" from creditor seizure for 30 days once it is paid on their transaction bank account.

Disproportionate impact of taxes for those on low-incomes in accessing bank accounts

This last obstacle has been identified in Ireland and Italy.

In **Ireland**, government stamp duty of approximately €10 per annum is normally charged to a bank account for the use of an ATM card or debit. A further €40 government stamp

duty is annually charged for the use of a credit card. This charge is a serious deterrent for those on low incomes in accessing bank accounts.

In **Italy**, duties and taxes on banking services represent also a heavy burden for people on low incomes, reducing the convenience of using banking services.

No governmental intervention has been taken so far in those countries regarding this deterrent effect of high taxes on low-income people.

9.2.3 Positives incentives to promote financial inclusion

The final area of legislative intervention consists of positive incentives aimed at encouraging the use of banking and bank products by people at risk of exclusion. These generally fall within one of the following four categories:

- **Tax relief** (products free of tax or with tax benefits);
- **Guarantees to reduce credit risk** and therefore increase creditworthiness;
- **Occasional monetary incentives** (such as bonuses and premiums under specific circumstances);
- Incentives resulting from **cooperation between public and private bodies**, in which monetary incentives from private organisations (usually not-for-profit institutions) are matched by tax relief from the public body⁵⁰.

Positive incentives have been implemented in several of the European countries studied to promote the use of savings accounts.

In **Belgium**, savings account interest are free of taxes for the holders, while in **Germany**, interest income from savings investments and other unearned income are exempted from taxation up to 750€ in 2007 and in **Spain and France**, a fiscal incentive is granted to persons who save and deposit their savings on a special deposit account with the aim to buy their home.

Finally, in the **United Kingdom** and still in the area of savings, targeted savings account have been implemented for **public matching scheme** pilot experiment. These initiatives are called “Individual Development Accounts” and usually share the following elements: a restricted and dedicated use of the savings (education, housing, business creation) and for each amount saved, it is doubled up by the government.

9.3 Indicators for public actors

General observations

Related to financial exclusion, it is relevant to measure and define what is the problem, what is the extent of it, and also identify appropriate indicators to measure and assess the policies implemented.

Three important remarks are to be mentioned:

⁵⁰ It is easy to understand that, for reasons connected to the image of public policies, it is easier for public bodies to provide incentives in the form of tax relief (i.e., lower revenues) than as direct benefits (i.e., higher expenditure).

- Many data, surveys and statistics are available to measure the extent of use of financial services and products (e.g.: Eurobarometer). It is therefore very important to distinguish the “lack of use” from “exclusion”. Indicators about the extent of use of financial services and products are particularly useful to make comparison between EU members, or between regions from a member state (regional/national);
- “Exclusion” is more complex to measure and refers to different realities according to the service considered:
 - Transaction bank account: this is the financial service commonly considered as necessary to live a “normal life”, nevertheless this concept still differs from one country to another. Therefore, if this hypothesis is accepted, we can consider that a lack of use is a good proxy for banking exclusion. Other questions may come, such as to define the unit (person over XX years old, households,...), the qualities and characteristics of the account,...
 - Credit (unsecured): if overdraft facilities or small revolving credits are almost automatically attached to a bank current account in some part of the EU, this is far from being a reality within all EU countries and there is no general agreement to consider credit access as a right for consumers. The lack of use cannot be interpreted as exclusion, because it can illustrate many other realities: lack of need, lack of creditworthiness... Therefore, measuring credit exclusion would imply to identify:
 - the population which meets the legal requirements and
 - within this population, the ones that have been refused but which should have not (because a refusal can be an adequate response in some circumstances).
 Because this will be impossible to measure, the main issue will be to identify the most adequate proxy. Unfortunately, to go deeper, a simple administrative data collection, qualitative survey targeting consumers may give information about the subjective feeling of being refused for “bad reasons”, but will not reach the “truth”. Another bias exists on the supply side, because the risk analysis operated by providers is not objective.
 - Savings: access or use difficulties about savings products are also quite difficult to deduce from administrative data. Nevertheless, they are much easier to measure via surveys, because consumers' answers are much more consistent. Moreover, the EU-SILC is, on this particular service, quite efficient.

For the entire range of financial services (banking, credit, savings), use difficulties arising because of inappropriate access may request surveys to evaluate them.

Actual indicators for banking, credit and savings exclusion

The following reviews what has been done in terms of indicators in Belgium, Ireland, Italy, the Netherlands, Poland, Spain and the United Kingdom.

In many EU member states, measures and data collection have been implemented. Surveys are sometime even numerous, but often oriented more on “use intensity” than about a precise measure of “exclusion”. Lack of common definitions of some indicators reduces the capacity to compare situations, and it is therefore very difficult to identify best practices. It is currently impossible to compare on a statistical objective basis the pros and cons between the United Kingdom-Ireland and the France-Belgium-the Netherlands models to identified potential lessons learned.

EU Poverty Monitoring Indicators⁵¹

SILC 2008: As shown already, the SILC 2008 module on over-indebtedness and financial exclusion includes six questions focused on the use and reason of non use of a current account at the household level. This EUROSTAT statistical tool has to be considered has the main source of information related to this matter on the EU level, which allows fruitful benchmarking.

Moreover, EU-SILC (the annual questionnaire) covers a large and original range of information related to income and social conditions which allows efficient and adequate cross sectional analysis (education, income, work intensity, social welfare, deprivation...) and helps identify particular “at-risk” population.

EUROBAROMETER 60.2: Some questions included in EUROBAROMETER 60.2 are also related to the use of financial services at the individual level, but the general objective is more oriented on habits and preferences rather than exclusion and the design of the questions is therefore not so appropriate. However, we can use the results as proxy of the average of financial services consumption per country.

Top Ten Indicators

For bank current account:

1. Number and list of the legal and administrative requirements to access a bank current account;
2. Percentage or number of individuals over 18 who are not fulfilling the (legal/administrative) requirements to open bank current account;
3. Percentage or number of individuals over 18 with at least a current bank account.

With those indicators, it is therefore possible to distinguish the exclusion related to the legal frame from the one related to bank behaviour, so governments can target adequately their policies.

For credit:

4. Percentage or number of individuals over 18 who are not fulfilling the (legal/administrative) requirements to access commercial credit (group A);
5. Percentage or number of individuals over 18 with at least one commercial credit;

⁵¹ A number of countries have already used EU SILC and Eurobarometer data to assess banking exclusion (see working paper “Indicators of financial exclusion to be used in EU poverty monitoring” written by Bernard Bayot).

6. Percentage or number of individuals over 18 belonging to group A that would like a commercial credit but did not manage to have one (=subjective feeling of credit exclusion)
7. Percentage or number of individuals over 18 belonging to group A that has applied for credit and been turned down;
8. Percentage or number of individuals over 18 belonging to group A that do not need to borrow at all;
9. Percentage or number of individuals over 18 belonging to group A that will not be able to repay debt or for which banks/providers would refuse to give credit;
10. Percentage or number of individuals over 18 belonging to group A that used to have credit but were withdrawn the facility.

For savings:

Access or use difficulties regarding savings products are quite difficult to deduce from administrative data. Nevertheless, they are much easier to measure via surveys, because consumers' answers are quite consistent.

Unfortunately, those indicators do not bring any information on the adequacy of the credit access or denial. This may be approached by a market analysis: market share of the different types of providers (commercial mainstream, other commercial (subprime), commercial mainstream social-oriented, not-for-profit...), percentage of long term default per credit per type of providers...

10 Recommendations and conclusions

Across the fourteen countries studied, various approaches have been adopted to deal with financial exclusion, reflecting the extent of the national debate, the degree of the governments' commitment to tackle financial exclusion and the financial services market place.

This chapter will draw conclusions and recommendations regarding the national debate on financial exclusion, the way policy responses can address transaction banking services, credit and savings access and use difficulties and will profile overall recommendations to ensure financial inclusion.

10.1 National debate on financial exclusion

Extent of the debate

In half of the countries studied, (UK, IE, FR, BE, AT, IT and DE⁵²) a national debate on financial exclusion has been led by various players (national governments, consumer organisations, academics...), leading to the implementation of various measures by the government.

In the other half of the countries studied, there is only limited debate about financial exclusion or none at all. In three of them, this situation can be explained by either high (ES) or very high (NL & NO) level of financial inclusion.

The four new member states covered (BG, LT, PL and SK) all reported the lack of any national debate on financial exclusion. These countries currently evolve from a situation where a large number of people are not being served by financial service providers, thus minimising the adverse consequences of not being served to a higher financialised society, where the need to tackle the problem of financial exclusion will become more and more acute.

It is worth to underline that banking sector in new member states are controlled by foreign capital and because of that, they are highly profit-oriented in order to increase shareholders' value. Thus, it may be difficult and inefficient to rely only on self-regulatory (market-based) approach.

In new member states credit unions' movement shall be strengthened in order to become more active in dealing with financial exclusion with the support of public authorities. However, the effects of public support shall be strictly monitored in order to avoid any misuse of provided support and commercialization of their activities.

⁵² In order to lighten this last important chapter, the countries mentioned will be abbreviated to their ISO country code, i.e. France=FR, Ireland=IE, Italy=IT, Germany=DE, etc.

Policy recommendations

In order to promote a fruitful debate on financial inclusion, governments have a crucial role to play to ensure contact, dialogues and negotiations between key stakeholders. This can be carried out within specific committees or work groups where the various players are represented. Moreover, independent assessments of the situation financed by the governments are an essential tool to feed and stimulate the debate on the issue.

10.2 Policy responses to transaction banking services, credit and savings access and use difficulties

As a visual tool to better understand the existing responses identified across the fourteen studied countries in Europe, we have developed the below table. This is only a type of “summary table” and does not refer to any type of ranking among countries.

10.2.1 Policy responses to difficulties regarding transaction banking services

Table 17 Summary table of identified existing policy responses to tackle transaction banking exclusion

Response	Actors / measures	Transaction bank account													
		AT	BE	BG	DE	ES	FR	IT	NL	NO	PL	SK	UK	LT	IE
Level	of Financial Exclusion (Eurobarometer 60.2 and 2003.5)	20	5		7	42	4	26	2		58	48	15	65	41
Market	Mainstream commercial profit-oriented providers														
	(Mainstream and Alternative) Commercial social-oriented providers														
	Alternative commercial social-oriented and not-for-profit providers														
	Voluntary charters and codes of practice														
Government	Facilitator - Assessment of policy measures														
	Facilitator - Contributing directly to the provision of financial services														
	Facilitator - Promoting and supporting market initiatives														
	Facilitator - Tackling the reluctance to use financial services														
	Legislator - Compensatory financing system														
	Legislator - Monitoring body and settlement procedure														
	Legislator - Right to an account and definition														

As seen in chapter 5.1, people face access and use of transaction banking services difficulties when banks refuse to open full transaction bank accounts for certain groups of people, or when the accessibility, product design, service deliver and price associated with transaction bank accounts deter people to access and/or use those services.

Existing policy responses

To address both problems of access and use, **financial services providers adopted a wide range of responses** in the fourteen countries studied.

Mainstream commercial profit-oriented providers have developed simple, low cost transaction bank accounts to meet the needs of people on low and unstable income (BE, DE, IT & UK) or implemented partnerships to assist other types of providers to set up their own banking services (BE, UK & NL).

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 such new products and alternative financials services (co-operative and

savings banks in DE, post offices in IE, IT and UK), and sometimes are/used to be the sole providers in their country (savings banks in ES & AT, postal bank in FR & BE).

Among alternative commercial social-oriented and not-for-profit providers, transaction banking services provision has hardly been proposed, except from some credit union initiatives (in the UK where back office is ran by the co-operative bank). This is probably due to strict regulation requirements applied to such services provision as well as informational technology and back office solutions needed which are not adapted to most of the not-for profit structures.

Aside from financial provider's initiatives, the banking sector has developed **voluntary charters and codes of practices to make provision for “basic” bank accounts** in six out of the fourteen countries studied.

The impact of such self-regulation is mixed: effectiveness and compliance problems of voluntary charters are currently questioned (IT & DE) or have paved the way to the introduction of a regulatory system (FR & BE), while other experiences are rather more positive and ensure high levels of transaction banking inclusion (UK & NL).

Governments also play an important role in promoting or regulating transaction bank account provision by the market.

In several countries (FR, DE, BE, NL, IT & UK), pressure from government and public opinion have successfully encouraged the banking sector to adopt voluntary codes of conducts regarding basic bank account provision.

Considering that access to transaction bank accounts is essential, governments have also intervened (in FR, BE & NO) to state a legal requirement that every citizen or resident should have access to transaction banking services and to define “guaranteed” transaction banking and payment services to be provided by the banking sector, as well as pricing criteria and other requirements. Direct legislation is also sometimes used by government to regulate the level of banking charges for specific transaction services like bounced cheques (FR).

Finally, governments sometimes contribute directly to transaction banking services through municipality banks (NL), via partnerships between commercial banks and postal banks (BE) or post offices (UK) for the provision of basic services.

Policy recommendations

When implementing the provision of **basic transaction bank account services or alternative payment mechanism to people who are not entitled** to a chequebook or a credit card by the self-regulation of the banking sector or through legislation, the following key components of success have to be considered:

In general:

1. Identification of the obstacles both in terms of access and use by key stakeholders;
2. Identification of best possible solution taking into account local conditions (legislation vs. self-regulation) in order to avoid one-size-fits-all approach.

To address access difficulties:

3. Statement of the right of all citizens to a transaction bank account, and definition of the conditions under which all providers are required/engaged to ensure the provision of, at least, a defined minimum or basic package of transaction bank services to an individual.
4. Creation of an external supervisory agency in charge of monitoring the implementation of the service provision on a regularly basis;
5. Implementation of an effective complaint procedure, specifically designed to be accessible and appropriate for people at-risk of financial exclusion;
6. Implementation of effective advertising of the service provided towards both targeted to individuals and governmental as well as non governmental organisations dealing with people at-risk of financial and social exclusion.

To address use difficulties:

7. Clear definition of the range of services to be provided and at which price, with specific attention paid to targeted customers profile when considering service delivery and product design (internet or electronic banking etc....);
8. Education campaigns showing the advantages of using banking services and instructing people on how to use them.

10.2.2 Policy responses to difficulties regarding credit

Table 18 Summary table of identified existing policy responses to tackle credit exclusion

Response	Actors / measures	Credit											
		AT	BE	BG	DE	ES	FR	IT	NL	NO	PL	SK	UK
Level	of Financial Exclusion (Eurobarometer 60.2 and 2003.5)	36	37		46	46	14	56	21		73	81	30
Market	Mainstream commercial profit-oriented providers												
	(Mainstream and Alternative) Commercial social-oriented providers												
	Alternative commercial social-oriented and not-for-profit providers												
	Alternative commercial profit-oriented providers												
Government	Facilitator - Assessment of policy measures												
	Facilitator - Contributing directly to the provision of financial services												
	Facilitator - Promoting and supporting market initiatives												
	Facilitator - Tackling the reluctance to use financial services												
	Legislator - Credit reporting												
	Legislator - Duty on lenders to check ability to repay												
	Legislator - Duty on lenders to contribute to a Compensation Fund												
	Legislator - Interest rate ceilings												

As seen in chapter 5.1, people face access and/or use of credit difficulties when banks refuse to grant them a reasonable credit demand (borrowing is both feasible and

financially responsible – not all credit demand are...) or when they are offered inappropriate loans regarding their situation and needs (terms, conditions and charges associated with credit contract can lead them to financial difficulties).

Different types of **market responses to address problems of access and use regarding credit** have been identified in the fourteen countries studied.

The large majority of responses developed by financial services providers are implemented in partnership with another type of financial provider or a public partner providing funding, or both.

Mainstream commercial lenders generally find it unprofitable and risky for their reputation to provide small loans to people on low incomes or at-risk of exclusion because their standardised risk analysis is not appropriate to deal with this kind of customers. On the contrary, not-for-profit lenders have developed their risk analysis including budget schemes and creditworthiness measurements based on this kind of customers. However, the competition in the banking sector in some countries required banks to enter this market segment, which will necessitate an adaptation of their risk analysis criteria and method in order to limit use difficulties.

Some of the mainstream commercial lenders have therefore chosen to enter partnerships with not-for-profit lenders (UK) and the state as third partner providing a loan guarantee fund (FR).

Commercial social-oriented providers (savings banks in ES, building societies in UK, postal bank in BE and co-operative banks in FR) have also developed partnerships with not-for-profit lenders, involving a Region (BE) or the State (FR) as third partner providing a loan guarantee fund.

Finally, alternative commercial social-oriented and not-for-profit providers have implemented consumer credit (not-for-profit organisations in BE, FR and in the UK) or savings and credit schemes (credit unions in UK) targeting people financially excluded, in partnership with the state that provides public funding or a guarantee fund provision.

Aside from partnerships, commercial social-oriented providers or not-for-profit providers have also individually developed responses to address problems of access or use regarding credit: co-operative banks have established special branches serving credit in local areas (ES) or are targeting people with financial difficulties (ES & FR), and some credit unions' current initiatives in countries where their movement is important (IE) or growing (in some new member states) have been identified as having the potential to contribute to financial inclusion.

Governments play a crucial role to address problems of access and use regarding credit.

Two very different government approaches have been identified in terms of government policy responses within the fourteen countries studied.

In order to prevent use difficulties and ensure appropriate credit provision, some countries studied (FR & BE) have developed very strict and preventive legal frameworks (maximum interest rates, compulsory credit reporting), leading to a strongly regulated mainstream market where over-indebtedness and offer of inappropriate credit products are reduced - but still not all reasonable demand is served.

On the other hand, some countries (UK & IE) have favoured governments' actions as a facilitator encouraging self-regulation of the credit market through various incentives, leading to the development of a very diversified market (from mainstream to sub-sub prime) applying risk-reflective pricing, allowing a very wide access to credit products - among which some are provided at very inappropriate terms and conditions or regardless of the borrower's financial situation - and generating use difficulties and a higher risk of over-indebtedness.

The following regulatory measures to prevent use difficulties have been identified in countries studied: interest rate ceiling (AU, BE, FR, IT, DE, NL, PL & SK), compulsory reporting of negative and positive information (BE, FR, NO & NL), duty on lenders to check the credit register (NL & BE) or/and to check ability to repay before granting credit (NO & BE) sanctioned by the termination of credit contract if inadequate checks are made or if the kind or amount of credit is inappropriate (BE) and duty on lenders to contribute to a compensation fund (BE).

Finally, governments sometimes contribute directly to credit provision through public sector pawnbrokers lending with considerably lower interest rates than those charged by pawnbrokers in other countries (BE, FR & DE) or through loan provision by municipal banks (NL).

Policy recommendations

To address access difficulties, more prevalent in countries with a strong preventing approach, (market regulated, providers registered...) the following government responses (acting as a facilitator) can be implemented:

1. Promoting (via incentives or tax relief) Corporate Social Responsibility within mainstream providers, to reduce the loss of profitability implied by the "at-risk of exclusion" population and therefore increase the offer dedicated to this public;
2. Promoting and encouraging the development of commercial social-oriented providers, which in many cases, develop appropriate response, such as cooperative and savings banks and / or credit union;
3. Promoting, developing and supporting consumer credit pilot projects within partnerships (public, private and NGO) to identify best practices and lessons learnt. Nevertheless, the transferability from a small to bigger scale does not seem so easy.

To address use difficulties, more prevalent in countries with a less regulated market, the following measures participate to promote an appropriate credit provision by the market and can be implemented within a regulatory framework:

4. Ceiling on interest rate: ceiling has to be carefully considered in order not to be set too low, and should apply to the total cost of credit (APR). To ensure no displacement of the costs, the total charges related to default also have to be limited;
5. Credit reporting: implement a national register of both negative information (payment default and bankruptcies judgements) and positive information (record of credit commitments held by the population) as well as duty for creditors to report information. Credit reporting increases the quality of the information included in credit risk analysis. Nevertheless, a particular attention has to be paid on the negative effect a negative registration may play in general financial provisions (access to banking services,...).
6. Duty for lenders to consult credit reporting as well as any other relevant information in order to check a borrower's ability to pay before granting credit coupled with legislation that enables credit agreement to be considered by the courts and terminated if inadequate checks are made;
7. Duty on lenders to contribute to compensation fund proportionally to arrears for credit contracts they have registered. This fund could then be used to repay fees and expenses for debts mediators who could not be paid by debtors.

In general:

8. Develop new criteria and credit risk analysis to face the demand of excluded people. If such new processes are implemented in systematized way, the mainstream actors will be able to play a significant role (via CSR, competition on the market, marketing policies,...), but when a individual approach will be necessary to achieve this objective, commercial social-oriented providers and not-for-profit organisations may still play a significant role. This is indeed crucial since the people and the events that increase this population are more and more numerous in our societies and the mainstream providers' current risk analysis is not adapted.
9. Nevertheless, for most excluded people, the mission to maintain an appropriate offer is a political concern, because it may be very difficult to develop any commercial product. Public authorities should therefore ensure that such an offer exists by promoting and entering partnerships involving the different ranges of credit providers active on the country market (commercial mainstream providers, commercial social-oriented banks, credit unions and not-for-profit providers).

10.2.3 Policy responses to difficulties regarding savings

Table 19 Summary table of identified existing policy responses to tackle savings exclusion

		Savings													
Response	Actors / measures	AT	BE	BG	DE	ES	FR	IT	NL	NO	PL	SK	UK	LT	IE
Level	of Financial Exclusion (Eurobarometer 60.2 and 2003.5)	11	13		21	25	39	50	28		60	40	22	61	21
Market	Mainstream commercial profit-oriented providers														
	(Mainstream and Alternative) Commercial social-oriented providers														
	Alternative commercial social-oriented and not-for-profit providers														
Government	Facilitator - Contributing directly to the provision of financial services														
	Facilitator - Tackling the reluctance to use financial services														
	Legislator - Positive incentives														

As mentioned in chapter 5.1, access to a simple savings account globally does not seem to be a big problem. Some social issues have been identified related to use of savings account, but lack of deposit seems to be more a consequence than a cause of social exclusion.

In the countries studied, most policies implemented by both the market and governments aim to provide incentives for people to save.

Matched savings schemes have been implemented by mainstream commercial providers and the government (UK) as well as special savings accounts designed for a specific purpose have also been developed (Christmas savings in the UK, micro-savings account for over-indebted people in DE).

Co-operative, savings and postal banks are also very active in providing savings facilities for people who are likely to be financially excluded as well as credit unions, providing both savings and credit schemes and most of the time linking credit to savings.

Finally, positive tax relief on savings interests are also implemented by governments (BE & DE).

10.3 Overall recommendations to promote financial inclusion

Building on the Commission's strategy for retail financial services outlined in the Green Paper on retail financial services in the single market⁵³, the Commission services have identified the issue of financial inclusion as an area where work should be undertaken in order to improve the competitiveness and efficiency of the European retail financial services market⁵⁴.

To achieve this objective, on top of promoting and supporting appropriate market responses to tackle financial exclusion (through partnerships, actions as facilitator, etc.), we recommend the combined implementation of the following government policies:

1. To develop and to use indicators to measure financial exclusion and assess policy responses
2. To ensure confidence between market actors and remove obstacles reinforcing financial exclusion
3. To develop tools to ensure transparency about CSR initiatives and to cancel out negative consequences of competition for financial services providers developing appropriate responses aiming at financial inclusion (Compensatory system and services of general interest)

10.3.1 Development and use of indicators

The adequacy and efficiency of a certain type of policy response depends highly on national particularities, market structure, cultural background and extent of financial exclusion. It is therefore essential to analyse the possible responses to be implemented in the light of the country context and to have clear indicators of the extent of the financial exclusion problem. Moreover, governments should be able to assess the efficiency measures implemented and their impact on financial exclusion.

In many of the countries studied, measures and data collection have been implemented at national or local level. Surveys are sometimes even numerous, but often oriented more on "use intensity" than about a precise measure of "exclusion". Lack of common definitions of some indicators reduces the capacity to compare situations, and it is therefore very difficult to identify best practices. It is currently impossible to compare objective statistics of the pros and cons between the UK-IE and the FR-BE-NL models to identified potential lessons learned.

Among the possible variables to measure and assess financial exclusion, at least the following indicators should be collected at national and international level:

⁵³ Commission of the European communities, green paper on retail financial services in the single market, Brussels, 30.4.2007, com(2007) 226 final.

⁵⁴ Commission of the European communities, commission staff working document, initiatives in the area of retail financial services, accompanying document to the 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, Brussels, 20.11.2007, sec(2007) 1520.

For transaction bank accounts:

1. Number and list of the legal and administrative requirements to access a bank current account;
2. Percentage or number of individuals over 18 who are not fulfilling the (legal/administrative) requirements to open bank current account;
3. Percentage or number of individuals over 18 with at least a current bank account.

Those indicators help to distinguish the exclusion related to the legal framework from the one related to bank behaviours, in order for governments to target adequately their policies.

For credit:

4. Percentage or number of individuals over 18 who are not fulfilling the (legal/administrative) requirements to access commercial credit (group A);
5. Percentage or number of individuals over 18 with at least one commercial credit;
6. Percentage or number of individuals over 18 belonging to group A that would like a commercial credit but did not manage to have one (=subjective feeling of credit exclusion)
7. Percentage or number of individuals over 18 belonging to group A that has applied for credit and been turned down;
8. Percentage or number of individuals over 18 belonging to group A that do not need to borrow at all;
9. Percentage or number of individuals over 18 belonging to group A that will not be able to repay debt or for which banks/providers would refuse to give credit;
10. Percentage or number of individuals over 18 belonging to group A that used to have credit but were withdrawn the facility.

For savings:

Access or use difficulties regarding savings products are quite difficult to deduce from administrative data. Nevertheless, they are much easier to measure via surveys, because consumers' answers are quite consistent.

The above-mentioned indicators do not bring information on the adequacy of the credit access or denial decision. This may be approached by a market analysis: market share of the different types of providers (commercial mainstream, other commercial (sub-prime), mainstream commercial social-oriented and not-for-profit...), percentage of long-term default per credit per type of providers...

The data collected within the EU-SILC 2008 module on over-indebtedness and financial exclusion and the EU-SILC (the annual questionnaire) will cover a broader range of information than the previous ones. Although, it will have to be considered as the main source of information related to this matter in Europe, it should still be considered as a tool to improve along the years, in order to allow for fruitful benchmarking.

To maximise all survey results and improve future rounds of data collection, it is recommended to ensure a deep analysis and assessment of the results, with an evaluation

of each question as well as suggestions of rewriting, if necessary. Moreover, there should be a broad dissemination of results and their analysis (through research centres, NGOs, the administration,...) in order for the civil to be re-appropriate the data.

We recommend to organise a task force which would include stakeholder representatives (NGO institutions and EU networks, research institutes,...) to implement an assessment process which may lead to improvements of the EU-SILC Eurostat survey and push forward the idea to implement, on a regular basis, this particular module.

10.3.2 Ensuring confidence between market actors and removing obstacles reinforcing financial exclusion

Aside from ensuring access and use of appropriate financial services, government policies to ensure confidence between market actors and fair attitudes will also contribute to ensure financial inclusion.

To ensure such confidence between financial services market actors, the following objectives should be addressed through governmental policies:

1. Ensuring banking institution financial capability
2. Ensuring consumer protection and therefore increasing trust in the market (improvement of general relationships between banks and customers, implementation of independent mediation for disputes settling,...)
3. Ensuring transparency and information about products and costs and generating effective competition among providers
4. Dealing with over-indebtedness and implementing curative measures
5. Promoting financial education, training, financial literacy and advice (supporting market or not-for-profit organisation initiatives – see www.fes.twoday.net).

Governments should also identify and remove obstacles reinforcing financial exclusion generated by the application of legislation aiming to other purposes than financial inclusion.

Once identified in collaboration with organisations dealing with people at-risk of financial exclusion, it is up to the governments' appreciation to decide how to best address financial exclusion problems, while still meeting the purposes of the legislation generating it (i.e. Money laundering policy).

Moreover, other obstacles than the ones identified in the countries studied (proof of customer identity, risk of seizures and disproportionate impact of taxes for those on low incomes) can arise in the future due to the implementation or application of a new legislation. We therefore recommend the legislator to be careful when adopting new legislation in general and to proceed to a “financial inclusion” compliance test of the new rules and procedures to be adopted.

10.3.3 Ensuring transparency about Corporate Social Responsibility policies and cancelling out their negative consequences of in terms of competition

We have seen above a diversity of initiatives taken by financial institutions alone or the financial sector as a whole to combat financial exclusion.

Public authorities can also play a crucial role to encourage the development of such initiatives.

First of all, national and international authorities can encourage the debate on CSR practices and appropriate financial products to reach the financially excluded among financial services providers and promote the adoption of tools like self-regulation. Specific information should be provided to the relevant stakeholders on the various impacts of CSR practices.

Secondly, authorities can ensure transparency by implementing indicators that can lead to the evaluation of the CSR practices in the different financial services sectors. This system would be a way to encourage pro-active financial institutions.

In order to do so, the inspiration based on the American experiences, such as the CRA (Community Reinvestment Act) is, without any doubt, a direction worth exploring. As a result the banking institutions in the United States are assessed according to their involvement in community reinvestment. Community banks play the role of an intermediary between the big banking networks and the clients with modest revenues. This allows providing the latter with quality access to financial services. It also favours discovering new profitable markets which have been ignored up till now, improving the knowledge about the clients' needs and about evaluating the real level of risk associated with them, as well as performing evaluations of the banks, which should make the data relative to their banking practices publicly known.

The development of such tool in Europe should follow the following four stages:

1. determining appropriate quantitative and qualitative indicators to assess the services
2. periodical supply of information by all operators
3. information audit by an independent organisation according to clear procedures
4. periodical assessment of the sector's action and each operator separately

Such a development seems to fall in line with the wish expressed by the European Parliament to prepare a list of criteria for enterprises to comply with if they claim to be responsible, and to shift emphasis from 'processes' to 'outcome', leading to a measurable and transparent contribution from the business in the fight against social exclusion (European Parliament, 2007). Moreover, this system would also be a way to encourage pro-active financial institutions.

Finally, governments can implement a compensatory financing system to ensure that financial institutions doing Corporate Social Responsibility to combat financial exclusion are not disadvantaged compared to the others institutions who do not get involved.

In such a system, CSR policies could be remunerated depending on the assessment of the way each financial institution has assumed its social responsibility (assessments being carried out through the use of indicators described above).

Such compensation system can be implemented by governments in the context of services of general economic interest, on which public authorities are allowed to impose specific public-service obligations (Article 86 of the EC Treaty, formerly Article 90).

Considering that access to a certain type of financial services (transaction banking) at affordable prices for everyone is of general economic interest, some banks may be commissioned by governments to provide 'general interest economic services' and thus a compensation could be paid to them to remunerate this service.

Positive decisions have been adopted by the Commission in the past relating to compensations aimed at encouraging banking inclusion for people from an extremely modest background and thereby fighting banking exclusion. These decisions concerned the United Kingdom in particular. Services of general economic interest to ensure geographic accessibility to banking counters in rural areas, for example, were also accepted, in particular for postal banks in the United Kingdom (Colson J.-L., 2006).

In doing so, enhanced social responsibility assumed by certain operators would be economically cancelled out, which would avoid distorting competition among operators and would be an opportunity for development for those who made this choice.

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11.4.10 Tackling financial exclusion in Europe: The market response

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11.4.11 Survey in Poland, *Małgorzata Iwanicz-Drozdowska and Piotr Błędowski*